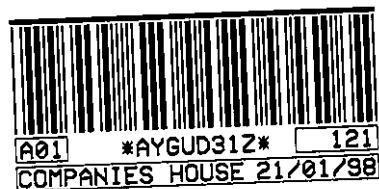


REGISTERED IN ENGLAND & WALES NO 778482

GEC ALSTHOM LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 1997



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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr. K.A. Bray, Chairman	
M. J.P.H. Bilger	
Mr. J.B. Cronin	
Mr. M.F. Barrett	
Mr. D.R. Edwards	(Resigned 27 June 1997)
Dr. M.R. Lloyd	(Appointed 7 July 1997)
Mr. C.J. Murray	
Dr. C.A. Palmer	(Appointed 1 September 1997)
Dr. H.J. Perkins	(Appointed 7 July 1997)
Mr. D. Thomas	
Mr. C.D. Tilston	(Appointed 7 July 1997)

SECRETARY

Mr. C.J. Murray

REGISTERED OFFICE

Mill Road
RUGBY
Warwickshire
CV21 1TB

BANKERS

Lloyds Bank Plc
Midland Bank plc
National Westminster Bank PLC

AUDITORS

Deloitte & Touche
Colmore Gate
2 Colmore Row
BIRMINGHAM B3 2BN

GEC ALSTHOM LIMITED DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 March 1997.

REVIEW OF THE GROUP AND ITS ACTIVITIES

The principal activity of the Group (comprising the Company and its subsidiaries) is electrical and mechanical engineering for the power generation, power transmission and distribution and rail transportation industries.

Orders won during the year included CCGT (combined cycle gas turbine) power plants in the UK, Belgium and China, as well as the first power plant in China to be built on a BOT (build, operate, transfer) basis. Power plant inaugurations in the UK included the 700MW and 1400MW gas fired stations at Little Barford and Connah's Quay respectively. Overseas, the 1700MW gas fired CCGT plant at Eems in the Netherlands; Phase One of the 2500MW gas fired CCGT plant in Hong Kong and the 2000MW coal fired plant at Shajiao in China were also inaugurated. Project management, design and engineering activities for the 2000MW nuclear plant at Ling Ao in China proceeded with major elements of manufacture scheduled to commence in China in 1998.

In rail transportation, the Group as a member of a consortium, was awarded a contract for the conceptual design work associated with the upgrade of the signalling systems for the West Coast Main Line route. A contract for the supply of 8 luxury trains for the Gatwick Express is expected to be signed in the near future. Just after the year end the Group won an order for the supply of 30 of its new Juniper trains for the South West Trains franchise. The Group is currently tendering for a number of major contracts to supply new trains in the UK and overseas and indications are promising.

In power transmission and distribution, Pole One of the 2 x 500MW HVDC station at Chandrapur in India was handed over, with Pole Two scheduled for hand over in 1998. Shipments for the 500MW HVDC station at Vizag, also in India, commenced during the year with completion scheduled for 1998. A new range of protection and control products was developed which will be launched throughout 1998.

Other major orders for the Group included the automated baggage handling system for the British Airways Cargo Terminal at Heathrow and diesel engines for the Australian Navy.

The Group is continuing to expand its activities in plant and equipment maintenance and refurbishment and this will play an increasingly important aspect of our strategy, whether by way of further acquisitions in this field or otherwise.

Sales by the Group to customers outside the GEC ALSTHOM Group in the year ended 31 March 1997 were £1,237,870,000. The consolidated loss for the year on ordinary activities after taxation and minority interests was £10,065,000 (1996 Profit £23,981,000). A final dividend of £20,000,000 in respect of the financial year ended 31 March 1996 was paid on 28 February 1997. The Board do not recommend the payment of a dividend in respect of the current year (1996 Total £20,000,000). Retained loss of £10,065,000 has been transferred to reserves.

As reported last year, the Company acquired a 51% interest in April 1996 in Central Infrastructure Maintenance Company Ltd, (now renamed GT Railway Maintenance Ltd) ("GTRM") a former subsidiary of British Rail undertaking track and trackside equipment maintenance in the central region of the UK. The Company's interest in GTRM is held through a holding company, GT Railway Maintenance Company Holdings Ltd, in which the Company and Tarmac plc hold 51% and 49% interests respectively.

The total value of unexecuted orders outstanding at 31 March 1997 was £2,085,080,000 (1996 £2,493,505,000).

POST BALANCE SHEET EVENT - ACQUISITION

On 9 May 1997 the Company acquired from BTR plc the business of Mirrlees Blackstone Limited and overseas subsidiaries in Australia, Canada, Singapore and the USA. The business in the UK consists of a diesel engine facility in Stockport and an iron foundry in Stamford.

This was an important acquisition in the context of the diesel engine business of the GEC ALSTHOM Group and the range of diesel engines acquired complements those manufactured by GEC ALSTHOM Diesels Ltd and its subsidiaries. The diesel engine business now forms the core of the newly created Industrial Corporate Group of GEC ALSTHOM under its managing director Dr H J Perkins.

RESEARCH AND DEVELOPMENT

During the financial year, some £35,008,000 was invested in research and development activities by the Group utilising both 'in-house' and external facilities. The Group's developments in this area are co-ordinated with those of other members of the GEC ALSTHOM NV Group throughout the world. Members of the UK Group benefit from the technical developments of non-UK GEC ALSTHOM Group companies and vice versa. Particular developments during the year included :

- A new 'controlled-flow' steam turbine blade has been developed using advanced computational fluid dynamics analyses and laboratory testing. One stage of an existing steam turbine has been retro-fitted with the blade, and site measurements have shown the new design has reduced stage losses by 50%, a major advance in the technology.
- A new power electronics topology has been proven which will be used for future static VAR compensators on electricity networks. Known as a chain-link module it uses distributed energy storage devices to create series-connectable modules. It will enable standard thyristors to be replaced by GTO thyristors for such applications, which was not previously possible.
- To respond particularly to the demands of the newly-privatised UK rail system, a new electric multiple unit train, JUNIPER, has been launched. It is of a modularised standard design, enabling easy modification to meet specific needs of different parts of the network. This leads to quicker delivery, lower costs, and potentially reduced maintenance costs.

FIXED ASSETS

The Group spent £311,000 on freehold and leasehold property and £45,512,000 on other tangible fixed assets. Fixed assets with a book value of £2,351,000 were disposed of at a profit of £2,262,000.

DIRECTORS

The directors who held office during the year are noted on page 1. Mr D R Edwards resigned on 27 June 1997. Dr M R Lloyd, Dr H J Perkins and Mr C D Tilston were appointed as directors on 7 July 1997. Dr C A Palmer was appointed as director on 1 September 1997.

DIRECTORS' INTERESTS

According to the register, kept by the Company in accordance with Section 325 of the Companies Act 1985, none of the directors had any disclosable interests in the shares or debentures of the Company or its ultimate parent company.

HEALTH & SAFETY AT WORK,

ENVIRONMENTAL PROTECTION AND EMPLOYMENT OF DISABLED PERSONS

GEC ALSTHOM Limited recognises the importance and implications of the Health & Safety at Work etc Act 1974, the Environmental Protection Legislation, and all new Health & Safety legislation especially that being promulgated through EU Directives. In conjunction with its insurance brokers the Group has introduced a series of Health & Safety and risk management programmes to ensure compliance throughout the Group with the increasing complexities of Health & Safety legislation and to reduce the incidence of hazardous circumstances that might affect the health and safety of employees.

The Group works closely with The General Electric Company, p.l.c. in connection with both environmental and health and safety issues and this includes implementation of regular environmental audits at UK locations.

It is the practice of GEC ALSTHOM Limited to encourage and assist the employment of disabled persons and to ensure equal opportunities regarding their recruitment, training, career development and promotion.

EMPLOYEE PARTICIPATION

It is the policy of the Group to provide information to employees and their trade union representatives. Annual reports to employees are made through National Joint Consultative Council meetings. Topics covered in the last year included Group performance, current and future business prospects. Additionally, throughout the Group's units and subsidiaries, regular meetings take place with employees and employee representatives to provide information about the business performance.

CHARITABLE DONATIONS

The Company and its subsidiaries made charitable donations during the year of £64,850.

AUDITORS

It is proposed that Messrs Deloitte & Touche and Arthur Andersen will be appointed as joint auditors to the Company and the Group for the current financial year and a resolution to this effect will be proposed at the forthcoming Annual General Meeting of the Company.

Approved by the Board of Directors and signed on behalf of the board.



GEC ALSTHOM Limited
C J Murray, Secretary
Mill Road, RUGBY
Warwickshire, CV21 1TB

15th January

1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS
OF GEC ALSTHOM LIMITED

We have audited the financial statements on pages 7 to 31 which have been prepared under the accounting policies set out on pages 13 and 14.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 5 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

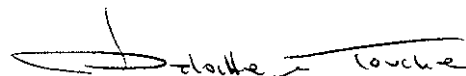
BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 1997 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Colmore Gate
2 Colmore Row
BIRMINGHAM B3 2BN

26 January 1998

GEC ALSTHOM LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1997

	Notes	Continuing £000	Acquisitions £000	1997 Total £000	1996 Total £000
Sales to customers outside the Group	(2)	1,065,559	172,311	1,237,870	1,305,812
Cost of sales		(953,128)	(137,464)	(1,090,592)	(1,170,410)
Gross profit		112,431	34,847	147,278	135,402
Distribution costs		(52,991)	---	(52,991)	(54,519)
Administrative costs		(84,245)	(20,575)	(104,820)	(69,621)
Other operating income		2,277	---	2,277	3,823
Operating (loss)/profit		(22,528)	14,272	(8,256)	15,085
Share of profits of associated companies				2,131	383
Interest receivable	(3)			11,795	31,155
Interest payable	(3)			(2,557)	(12)
Profit on ordinary activities before taxation	(3)			3,113	46,611
Tax on profit on ordinary activities	(4)			(6,938)	(21,878)
(Loss)/profit on ordinary activities after taxation				(3,825)	24,733
Equity minority interests				(6,240)	(752)
(Loss)/profit for the financial year				(10,065)	23,981
Dividends	(6)			---	(20,000)
Retained (loss)/profit for the financial year				(10,065)	3,981

GEC ALSTHOM LIMITED
 STATEMENTS OF MOVEMENTS ON RESERVES
 FOR THE YEAR ENDED 31 MARCH 1997

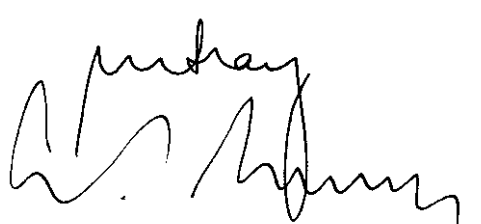
	Share Premium £000	Revaluation Reserve £000	Profit & Loss Account £000	Total £000
THE GROUP				
Balance at 1 April 1996	90,617	39,293	37,843	167,753
Exchange rate movements	---	---	(1,254)	(1,254)
Loss retained for the year	---	---	(10,065)	(10,065)
Transfer of amount equivalent to additional depreciation on revalued assets	---	(303)	303	---
<u>Balance at 31 March 1997</u>	<u>90,617</u>	<u>38,990</u>	<u>26,827</u>	<u>156,434</u>
THE COMPANY				
Balance at 1 April 1996	90,617	36,285	58,887	185,789
Loss retained for the year	---	---	(31,299)	(31,299)
Transfer of amount equivalent to additional depreciation on revalued assets	---	(303)	303	---
<u>Balance at 31 March 1997</u>	<u>90,617</u>	<u>35,982</u>	<u>27,891</u>	<u>154,490</u>

GEC ALSTHOM LIMITED
CONSOLIDATED BALANCE SHEET
31 MARCH 1997

	Notes	1997 £000	1996 £000
<u>FIXED ASSETS</u>			
Intangible assets	(8)	46,122	40,477
Tangible assets	(9)	177,260	177,540
Investments	(10)	2,998	3,941
		226,380	221,958
<u>CURRENT ASSETS</u>			
Stocks and contracts in progress	(11)	311,316	206,372
Debtors	(12)	579,416	610,066
Cash at bank and in hand		302,716	409,503
		1,193,448	1,225,941
<u>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</u>			
	(13)	790,759	835,309
<u>NET CURRENT ASSETS</u>			
		402,689	390,632
<u>TOTAL ASSETS LESS CURRENT LIABILITIES</u>			
		629,069	612,590
<u>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</u>			
	(14)	(31,101)	(23,889)
<u>PROVISIONS FOR LIABILITIES AND CHARGES</u>			
	(15)	(317,976)	(303,610)
<u>EQUITY MINORITY INTERESTS</u>			
		(8,581)	(2,361)
		271,411	282,730
<u>CAPITAL AND RESERVES</u>			
Called up share capital	(16)	114,977	114,977
Share premium account		90,617	90,617
Revaluation reserve		38,990	39,293
Profit and loss account		26,827	37,843
<u>EQUITY SHAREHOLDERS' FUNDS</u>			
		271,411	282,730

These financial statements were approved by the Board of Directors on 19th January 1998.

Signed on behalf of the Board of Directors


) Directors



BALANCE SHEET OF GEC ALSTHOM LIMITED
31 MARCH 1997

	Notes	1997 £000	1996 £000
FIXED ASSETS			
Intangible assets	(8)	2,390	2,321
Tangible assets	(9)	153,364	156,212
Investments	(10)	144,556	138,372
		300,310	296,905
CURRENT ASSETS			
Stocks and contracts in progress	(11)	267,522	177,330
Debtors	(12)	772,022	909,070
Cash at bank and in hand		262,443	269,540
		1,301,987	1,355,940
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(13)	1,015,439	1,050,894
NET CURRENT ASSETS		286,548	305,046
TOTAL ASSETS LESS CURRENT LIABILITIES		586,858	601,951
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(14)	(19,221)	(23,755)
PROVISIONS FOR LIABILITIES AND CHARGES	(15)	(298,170)	(277,430)
		269,467	300,766
CAPITAL AND RESERVES			
Called up share capital	(16)	114,977	114,977
Share premium account		90,617	90,617
Revaluation reserve		35,982	36,285
Profit and loss account		27,891	58,887
EQUITY SHAREHOLDERS' FUNDS		269,467	300,766

These financial statements were approved by the Board of Directors on

19th January 1998.

Signed on behalf of the Board of Directors



) Directors

GEC ALSTHOM LIMITED
CONSOLIDATED CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 1997

		1997	1996
	Notes	£000	(as restated) £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(7a)	(99,726)	(337,185)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		11,750	37,798
Interest paid		(2,107)	(3)
Interest element of finance lease payments		(204)	(9)
Dividends received from associated undertakings		589	444
Minority dividend		(144)	---
		9,884	38,230
TAXATION			
UK Corporation tax paid		(38,728)	(26,660)
Overseas tax paid		(1,330)	(199)
		(40,058)	(26,859)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(32,366)	(35,635)
Sale of tangible fixed assets		4,613	7,585
		(27,753)	(28,050)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertaking	(7d)	(9,588)	(386)
Net overdraft acquired with subsidiary		(3,069)	(7)
Sale of Other Investments		2,177	---
		(10,480)	(393)
DIVIDENDS			
Dividends paid in the year		(20,000)	(20,000)
FINANCING			
Loans from Group Companies		81,787	---
Capital element of finance lease rental payments		(441)	---
		81,346	----
DECREASE IN CASH	(7b)	(106,787)	(374,257)

GEC ALSTHOM LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 1997

	1997 £000	1996 £000
(Loss)/profit for the financial year	(10,065)	23,981
Currency translation differences on foreign currency net investment	(1,254)	827
<u>Total recognised losses and gains relating to the year</u>	<u>(11,319)</u>	<u>24,808</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 1997

	1997 £000	1996 £000
(Loss)/profit for the financial year	(10,065)	23,981
Dividends	---	(20,000)
	(10,065)	3,981
<u>Exchange rate movements</u>	<u>(1,254)</u>	<u>827</u>
Net addition to shareholders' funds	(11,319)	4,808
<u>Opening shareholders' funds</u>	<u>282,730</u>	<u>277,922</u>
<u>Closing shareholders' funds</u>	<u>271,411</u>	<u>282,730</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 1997

	1997 £000	1996 £000
Profit on ordinary activities before taxation	3,113	46,611
Realisation of property valuation gains of prior years	---	5,000
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	303	423
<u>Historical cost profit on ordinary activities before taxation</u>	<u>3,416</u>	<u>52,034</u>
<u>Historical cost (loss)/profit for the year after taxation, minority interests and dividends</u>	<u>(9,762)</u>	<u>9,404</u>

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The more important GEC ALSTHOM Limited accounting policies are summarised below to facilitate the interpretation of the financial statements and are in addition to the policies explained in the notes to the accounts.

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below:

- a. Accounting convention. The financial statements are prepared under the historical cost convention as modified by the revaluation of freehold properties. The Group has adopted FRS1 (revised) on Cash Flow Statements and the 1996 comparative cash flows have been restated accordingly.
- b. Basis of consolidation. The financial statements consolidate the accounts of the Company and all of its subsidiaries. All accounts are made up to 31 March. The results of subsidiaries acquired during the period are included in the consolidated profit and loss account from the effective date of their acquisition.
- c. Turnover. Turnover is shown net of V.A.T. and comprises sales to customers outside the GEC ALSTHOM NV Group. The Company records transactions as sales when the delivery of products or performance of services takes place in accordance with the terms of sale.
- d. Currency Translation.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

The financial statements of overseas subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves.

- e. Tangible fixed assets. Property, plant, machinery, fixtures, fittings, tools and equipment are recorded at historical cost or valuation and depreciated on a straight-line basis over their estimated useful lives. Freehold land does not bear depreciation where the original cost of purchase was separately identified.

Depreciation Rates:

Freehold buildings - 4% per annum

Leasehold property - over period of lease or 50 years for long leases;

Plant, machinery, fixtures, fittings and other equipment - on average, in excess of 10% per annum;

Industrial tools - 33.33% per annum.

ACCOUNTING POLICIES (continued)

Government grants received against the purchase of tangible fixed assets are added to other creditors and released to profit and loss account as other income over the life of the asset to which they relate.

- f. Research and development. Expenditure incurred in the year is charged against profit unless specifically chargeable to and recoverable from customers under agreed contract terms.
- g. Stocks and contracts in progress. Stocks are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and appropriate production overheads. Provisions are made for any losses incurred or expected to be incurred on uncompleted contracts. Profit on long-term contracts in progress is taken when a sale is recorded on part-delivery of products or part-performance of services, provided that the outcome of the contract can be assessed with reasonable certainty. Advance payments received from customers are shown as prepayments on account of contracts until there is a right of set-off against the value of work undertaken. Progress payments received are deducted from the value of work carried out, any excess being included within prepayments on account of contracts.
- h. Taxation. Taxation on profit on ordinary activities is that which has become or becomes payable in respect of the profits of the year. Deferred taxation is provided at the rate of corporation tax expected to arise in the year of assessment on timing differences arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.
- i. Investments. Investments in associated companies are stated at the amount of the Group's share of net assets at 31 March derived from audited or management accounts made up to that date. Profit before taxation includes the Group's share of the earnings of associated companies. Other fixed asset investments and the Company's investment in shares in Group Companies are stated at cost less provision for permanent diminution in value.
- j. Provisions for liabilities and charges. Provisions for liabilities are normally charged against profits. These mainly comprise expected cost of maintenance under guarantees and other work in respect of products delivered and invoiced and losses on contract work in progress.
- k. Pension schemes. Based on recommendations by independent actuaries, the rates of employee and Company contributions to United Kingdom and overseas pension funds are intended, in respect of each year, to provide sufficient funds to meet future benefits relating to that year's service. It is the policy of the Company to avoid the creation of deficits relating to past service. Contributions, the Company's share of which is charged against profits for the year, are held in trustee-administered Funds independent of the Company's finances.
- l. Operating Leases. Rental costs under operating leases are charged to profit and loss account in equal annual amounts over the period of the leases.

2. TURNOVER

The geographical analysis of turnover by destination is as follows :

	1997 £000	1996 £000
United Kingdom	852,162	838,614
Europe	47,394	32,940
The Americas	16,625	6,775
Australasia	866	2,406
Asia	294,428	397,695
Africa	26,395	27,382
	<u>1,237,870</u>	<u>1,305,812</u>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £000	1996 £000
--	--------------	--------------

Profit on ordinary activities before
taxation is after charging/(crediting):

Rentals under operating leases		
Hire of plant and machinery	1,405	1,834
Other operating leases	2,521	494
Depreciation and other adjustments	31,755	30,116
Amortisation of goodwill	3,815	2,935
Staff costs	398,345	292,748
Research and development	35,008	31,814
Auditors' remuneration		
Audit Services - Parent	427	510
- Group	184	128
Other	44	31
Interest payable on bank loans, overdraft and other loans, repayable within five years - Group	2,308	---
- Other	249	12
Interest receivable - Group	(723)	(1,461)
- Other	<u>(11,072)</u>	<u>(29,694)</u>

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

a)	1997 £000	1996 £000
United Kingdom Corporation Tax 33% (1996 - 33%) based on the profit for the year	6,513	38,432
Less relief for overseas taxation	(203)	(125)
	6,310	38,307
Deferred taxation	(509)	(16,542)
Overseas taxation	533	236
	6,334	22,001
Adjustment to prior year's tax provisions		
- Current taxation	217	(2,519)
- Deferred taxation	387	2,396
	6,938	21,878

The overall rate of taxation for the year is high in relation to the consolidated profit on ordinary activities before taxation, due to the impact of the change in the corporation tax rate on deferred taxation provided (£4,500,000) and the incidence of expenditure not allowable for taxation, including the amortisation of goodwill, which has increased the taxation charge by £1,259,000.

b) Deferred Taxation	The Group £000	The Company £000
At 1 April 1996	(47,960)	(48,511)
Credited to profit & loss account	(4,622)	(4,733)
Change in rate of tax	4,500	4,200
Arising from acquisition accounting adjustments	(538)	---
At 31 March 1997	(48,620)	(49,044)

The amounts provided for deferred taxation at 31% (1996 - 33%) and the full potential liability at 31% (1996 - 33%) are set out below:

	THE GROUP		THE COMPANY	
	Amount provided/(recognised)		Amount provided/(recognised)	
	1997	1996	1997	1996
	£000	£000	£000	£000
Accelerated capital allowances	3,754	5,175	2,135	3,434
Other timing differences	(52,374)	(53,135)	(51,179)	(51,945)
	(48,620)	(47,960)	(49,044)	(48,511)
	Full potential liability/(asset)		Full potential liability/(asset)	
	1997	1996	1997	1996
	£000	£000	£000	£000
Accelerated capital allowances	3,703	5,171	2,135	3,434
Other timing differences	(66,833)	(67,694)	(65,189)	(66,131)
	(63,130)	(62,523)	(63,054)	(62,697)

5. PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company itself is not presented as part of these accounts. The Company's loss for the financial year amounted to £31,299,000 (1996 Profit £38,304,000).

6. DIVIDENDS

A final dividend of £20,000,000 in respect of the financial year end 31 March 1996 was paid during the year. The Directors do not recommend the payment of a dividend in respect of the current year (1996 Total £20,000,000).

7. CASH FLOW STATEMENT

a) NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1997 £000	1996 £000
<u>OPERATING ACTIVITIES</u>		
Operating (loss)/profit	(8,256)	15,085
Depreciation and other adjustments	31,755	30,116
Amortisation of goodwill	3,815	2,935
Profit on sale of fixed assets	(2,262)	(1,377)
Increase in net provisions	2,878	41,058
Increase in stocks	(102,590)	(40,562)
Decrease/(increase) in debtors	81,119	(131,383)
Decrease in creditors	(105,282)	(253,876)
Exchange variation	(903)	819
<u>Net cash outflow from operating activities</u>	<u>(99,726)</u>	<u>(337,185)</u>

b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1997 £000	1996 £000
Decrease in cash in period	(106,787)	(374,257)
<u>Cash inflow from increase in debt and lease financing</u>	<u>(81,346)</u>	<u>---</u>
Change in net debt resulting from cash flows	(188,133)	(374,257)
<u>Finance leases acquired with subsidiary</u>	<u>(1,970)</u>	<u>---</u>
Increase in net debt in period	(190,103)	(374,257)
<u>Net debt at 1 April 1996</u>	<u>409,367</u>	<u>783,624</u>
<u>Net debt at 31 March 1997</u>	<u>219,264</u>	<u>409,367</u>

c) ANALYSIS OF NET DEBT

	At 1 April 1996 £000	Cash Flow £000	Acquisitions £000	At 31 March 1997 £000
Cash at bank and in hand	409,503	(106,787)	---	302,716
Debt due within one year	---	(81,787)	---	(81,787)
<u>Finance leases</u>	<u>(136)</u>	<u>441</u>	<u>(1,970)</u>	<u>(1,665)</u>
<u>Total</u>	<u>409,367</u>	<u>(188,133)</u>	<u>(1,970)</u>	<u>219,264</u>

7. CASH FLOW STATEMENT (continued)

d) PURCHASE OF SUBSIDIARY UNDERTAKING

On 19 April 1996, the Company acquired a 51% interest in Central Infrastructure Maintenance Company Limited (now renamed GT Railway Maintenance Limited ("GTRM")), a former subsidiary of British Rail, for a cash consideration of £9,588,000. The Company's interest in GTRM is held through a holding company, GT Railway Maintenance Company Holdings Limited, in which the Company and Tarmac plc hold 51% and 49% interests respectively.

The acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition is £9,460,000. This has been carried forward within intangible fixed assets.

The following table explains the adjustments made to the book value of the major category of assets and liabilities acquired to arrive at the fair values included in the consolidated financial statements at the date of acquisition. The cash flow effects of the acquisition are given below :

Book value at 31 March 1996	Book amount £000	Fair value adjustments £000	Alignment of accounting policies £000	Fair value to the Group £000
Tangible fixed assets	2,317	---	(814)	1,503
Stocks and Work in Progress	2,354	---	---	2,354
Debtors	30,959	18,600	---	49,559
Overdraft (net)	(3,069)	---	---	(3,069)
Creditors	(23,649)	(11,645)	---	(35,294)
Taxation	---	(2,284)	---	(2,284)
Hire purchase and lease obligations	(1,970)	---	---	(1,970)
Provisions	(6,913)	(4,575)	---	(11,488)
Deferred taxation	---	(2,345)	2,883	538
	29	(2,249)	2,069	(151)
Net profit from 1 April 1996 to 19 April 1996				402
Net assets at 19 April 1996				251
Minority interest				(123)
				128
Goodwill				9,460
Cash consideration				9,588

Adjustments to the book value of assets and liabilities were made as follows :

- The accounting adjustments represent accounting policy alignments in respect of depreciation, and an adjustment to account for final payments in respect of the sales and purchase agreement.
- The fair value adjustment to other provisions represents provisions in respect of RT1A contracts, dilapidation on properties and warranties and the adjustment to debtors represents the recognition of the pension scheme surplus.

The above fair values are provisional.

The profits after taxation of GTRM and the amount attributable to the minority interest, were as follows :

	Profit after tax £000	Minority interest £000
Results prior to acquisition		
16 months ended 31 March 1996	2,046	1,003
<u>1 April 1996 to date of acquisition</u>	<u>402</u>	<u>197</u>

ANALYSIS OF THE NET OUTFLOW OF CASH

	£000
Cash consideration	9,588
<u>Bank overdraft of acquired subsidiary</u>	<u>3,069</u>
<u>Net outflow of cash</u>	<u>12,657</u>

The subsidiary acquired during the year contributed £17,665,000 to the Group's net operating cash flows, received £69,000 in respect of net returns on investment and servicing of finance and utilised £940,000 in capital expenditure.

8. INTANGIBLE FIXED ASSETS

THE GROUP

Goodwill arising on acquisitions of companies from:

	Other Group Companies £000	Third Parties £000	Total £000
Cost			
Balance at 1 April 1996	25,582	37,908	63,490
Addition	---	9,460	9,460
Balance at 31 March 1997	25,582	47,368	72,950
Amortisation			
Balance at 1 April 1996	7,674	15,339	23,013
Amortisation	1,278	2,537	3,815
Balance at 31 March 1997	8,952	17,876	26,828
Net book value			
31 March 1997	16,630	29,492	46,122
31 March 1996	17,908	22,569	40,477

THE COMPANY

	Third Parties £000
Balance at 1 April 1996	2,321
Transferred from subsidiary company	232
Amortisation	(163)
Balance at 31 March 1997	2,390

Goodwill is amortised over 20 years or a lesser period where economic prospects or contract terms dictate.

9. TANGIBLE FIXED ASSETS

a) THE GROUP	Total £000	Freehold Property £000	Long Leasehold Property £000	Plant & Machinery £000	Fixtures Fittings Tools & Equipment £000	Payments on Account & Assets Under Construction £000
Cost or valuation as at 1 April 1996	463,646	73,829	777	257,101	124,726	7,213
Subsidiary acquired	13,457	---	226	13,231	---	---
Additions	32,366	85	---	8,570	14,512	9,199
Disposals	(16,786)	(846)	---	(5,195)	(10,745)	---
Other Adjustments	(43)	16	1	8,629	1,720	(10,409)
at 31 March 1997	492,640	73,084	1,004	282,336	130,213	6,003
at valuation	73,084	73,084	---	---	---	---
at cost	419,556	---	1,004	282,336	130,213	6,003
Accumulated Depreciation as at 1 April 1996	286,106	9,751	417	191,650	84,288	---
Subsidiary acquired	11,954	---	12	11,942	---	---
Charge to Profit and Loss Account	31,860	1,312	36	15,039	15,473	---
Disposals	(14,435)	(294)	---	(4,894)	(9,247)	---
Other Adjustments	(105)	(91)	1	(23)	8	---
at 31 March 1997	315,380	10,678	466	213,714	90,522	---
Net Book Value at						
31 March 1997	177,260	62,406	538	68,622	39,691	6,003
31 March 1996	177,540	64,078	360	65,451	40,438	7,213

9. TANGIBLE FIXED ASSETS (continued)

b) THE COMPANY	Total £000	Freehold Property £000	Long Leasehold Property £000	Plant & Machinery £000	Fixtures Fittings Tools & Equipment £000	Payments on Account & Assets Under Construction £000
Cost or valuation as at 1 April 1996	412,938	63,926	777	226,601	114,840	6,794
Additions	27,336	---	---	6,256	13,210	7,870
Disposals	(13,684)	(815)	---	(3,480)	(9,389)	---
Other Adjustments	(7)	32	1	7,721	1,561	(9,322)
at 31 March 1997	426,583	63,143	778	237,098	120,222	5,342
at valuation	63,143	63,143	---	---	---	---
at cost	363,440	---	778	237,098	120,222	5,342
Accumulated Depreciation as at 1 April 1996	256,726	8,795	417	169,112	78,402	---
Charge to Profit and Loss Account	27,919	1,165	21	12,813	13,920	---
Disposals	(11,426)	(342)	---	(3,196)	(7,888)	---
Other Adjustments	---	---	1	(11)	10	---
at 31 March 1997	273,219	9,618	439	178,718	84,444	---
Net Book Value at						
31 March 1997	153,364	53,525	339	58,380	35,778	5,342
31 March 1996	156,212	55,131	360	57,489	36,438	6,794

9. TANGIBLE FIXED ASSETS (Continued)

Notes

- c) During 1991 the freehold properties of the Company and its subsidiaries were revalued as at 1 April 1989 consistent with the accounting policies of its parent, GEC ALSTHOM NV. The properties are reflected in the balance sheet net of additional depreciation resulting from the revaluation.

The valuation was based on an open market existing use with vacant possession and was carried out by the Group Property Director of The General Electric Company, p.l.c. If the properties had been realised at this valuation, no liability to taxation would have arisen for the Group.

- d) For the freehold land and buildings included at valuation, the historical cost and accumulated depreciation is as follows:

	The Group £000	The Company £000
Historical cost:		
At 1 April 1996	51,557	42,254
At 31 March 1997	50,812	41,471
Depreciation based on cost:		
At 1 April 1996	31,770	28,408
At 31 March 1997	32,394	28,928

- e) Tangible fixed assets acquired under capital leases are not significant compared to gross value.
- f) Included in freehold and long leasehold property is the following amount in respect of land which is not depreciated:

	£000
The Group	37,238
The Company	31,170

10. INVESTMENTS HELD AS FIXED ASSETS

	THE GROUP		THE COMPANY	
	1997 £000	1996 £000	1997 £000	1996 £000
Shares in group companies				
Subsidiaries	---	---	144,459	136,125
Others	---	---	97	2,247
Investments in associated companies:				
At valuation	735	735	---	---
Addition at cost	57	2,234	---	---
Share of undistributed profit	1,676	487	---	---
Other investments	530	485	---	---
	<u>2,998</u>	<u>3,941</u>	<u>144,556</u>	<u>138,372</u>

All of the above investments are unlisted.

Additional information in respect of the investments is given below.

	£000	£000
a) Shares in group companies - subsidiaries		
Balance at 1 April 1996		136,125
Additions		9,607
Disposals		(1,273)
Balance at 31 March 1997		<u>144,459</u>
b) Shares in group companies - others		
Balance at 1 April 1996		2,247
Additions		27
Loans repaid		(2,177)
Balance at 31 March 1997		<u>97</u>
c) Investments in associated companies at cost		
Balance at 1 April 1996		2,234
Loans repaid		(2,177)
Balance at 31 March 1997		<u>57</u>
d) Share of undistributed profit		
Balance at 1 April 1996		487
Profits for year	2,131	
Exchange adjustments	(268)	
Dividends received	(589)	
Transfers	(85)	1,189
Balance at 31 March 1997		<u>1,676</u>
e) Other investments		
Balance at 1 April 1996		485
Transfers		85
Additions		46
Disposals		(58)
Exchange adjustments		(28)
Balance at 31 March 1997		<u>530</u>

Details of major group companies are given in note 21.

11. STOCKS AND CONTRACTS IN PROGRESS

	THE GROUP		THE COMPANY	
	1997	1996	1997	1996
	£000	£000	£000	£000
Raw materials and bought out components	44,719	42,278	31,890	32,588
Work in progress	79,308	60,070	62,439	48,702
Payments on account	(11,057)	(6,341)	(6,959)	(3,504)
Long term contract work in progress	604,517	561,795	572,200	537,220
Payments on account	(419,771)	(464,945)	(399,002)	(444,263)
Finished goods	13,600	13,515	6,954	6,587
	311,316	206,372	267,522	177,330

12. DEBTORS

	THE GROUP		THE COMPANY	
	1997	1996	1997	1996
	£000	£000	£000	£000
Amounts due within one year -				
Amounts recoverable from contracts	206,186	128,015	165,083	112,379
Trade debtors	145,830	126,626	88,541	103,823
Owed by group companies	64,503	209,534	386,188	557,358
Other debtors	62,687	59,754	57,232	55,275
Prepayments and accrued income	19,781	18,171	12,241	14,824
Tax recoverable	8,405	3,200	6,602	226
	507,392	545,300	715,887	843,885
Amounts due after one year -				
Amounts recoverable from contracts	6,857	10,811	6,772	10,679
Trade debtors	547	995	319	995
Pensions prepayment	16,000	---	---	---
Advance corporation tax recoverable	---	5,000	---	5,000
	530,796	562,106	722,978	860,559
Deferred tax - current and long term	48,620	47,960	49,044	48,511
	579,416	610,066	772,022	909,070

Of the deferred tax balances included within debtors, due to the long term nature of the Group's business, approximately 2/3rds is considered recoverable after more than one year.

13. CREDITORS: AMOUNTS FALLING DUE
WITHIN ONE YEAR

	THE GROUP		THE COMPANY	
	1997 £000	1996 £000	1997 £000	1996 £000
Obligations under finance leases and hire purchase contracts	684	47	49	47
Payments received on account	287,076	376,445	207,275	248,570
Trade creditors	224,115	222,749	183,406	191,865
Owed to group companies	19,540	36,122	424,082	436,271
Loans from group companies	81,787	---	81,787	---
Other taxation & social security	15,730	9,802	9,345	9,151
Taxation on profit	10,239	36,731	---	30,463
Advance corporation tax on proposed dividend	---	5,000	---	5,000
Other creditors	75,652	63,578	61,182	53,513
Accruals & deferred income	75,936	64,835	48,313	56,014
Proposed dividend	---	20,000	---	20,000
	790,759	835,309	1,015,439	1,050,894

14. CREDITORS : AMOUNTS FALLING DUE
AFTER MORE THAN ONE YEAR

	THE GROUP		THE COMPANY	
	1997 £000	1996 £000	1997 £000	1996 £000
Obligations under finance leases and hire purchase contracts				
1-2 years	531	49	39	49
2-5 years	356	40	2	40
Over 5 years	94	---	---	---
Payments received on account	29,443	22,881	18,667	22,881
Trade creditors	164	134	---	---
Other creditors	513	785	513	785
	31,101	23,889	19,221	23,755

The loans from group companies are unsecured, with no fixed repayment terms and bear interest ranging from 5.98% to 6.61% per annum.

Obligations under finance leases and hire purchase contracts are secured on the related assets.

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Total £000
THE GROUP	
At 1 April 1996	303,610
Subsidiary acquired	11,488
Applied	(111,438)
<u>Charged to Profit and Loss Account</u>	<u>114,316</u>
<u>At 31 March 1997</u>	<u>317,976</u>
THE COMPANY	
At 1 April 1996	277,430
Applied	(97,041)
<u>Charged to Profit and Loss Account</u>	<u>117,781</u>
<u>At 31 March 1997</u>	<u>298,170</u>

16. CALLED UP SHARE CAPITAL

	Authorised £000	Allotted and fully paid £000
Ordinary Shares of £1 each		
<u>At 31 March 1996 and 1997</u>	<u>114,977</u>	<u>114,977</u>

17. OPERATING LEASE COMMITMENTS

At 31 March 1997 the Group was committed to making the following payments during the next financial year in respect of operating leases:

	Land & Buildings £000	Other £000
Leases which expire:		
Within one year	156	446
In one to two years	1,913	420
In two to five years	50	368
After 5 years	592	246
	<u>2,711</u>	<u>1,480</u>

18. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	1997 £000	1996 £000	1997 £000	1996 £000
Contracted for but not provided in the financial statements	15,475	8,254	11,039	7,960

19. DIRECTORS AND EMPLOYEES

	1997 No.	1996 No.
a) <u>Average total employees</u>	<u>17,878</u>	<u>13,732</u>
By function:		
Manufacturing and engineering	14,490	10,870
Commercial	1,425	1,037
Management and administration	1,963	1,825
	<u>17,878</u>	<u>13,732</u>
	1997 £000	1996 £000
Employee Costs		
Gross remuneration	350,980	257,718
Social Security Costs	33,369	25,276
Pension Costs	13,996	9,754
	<u>398,345</u>	<u>292,748</u>
	1997 £	1996 £
b) <u>Directors' emoluments</u>		
<u>(excluding pension contributions)</u>	<u>622,930</u>	<u>582,424</u>
	1997 No.	1996 No.
Number of directors who are members of a defined benefit pension scheme	4	5
	1997 £	1996 £
Highest paid director's remuneration		
<u>(excluding pension contributions)</u>	<u>240,716</u>	<u>213,227</u>

The amount of the accrued pension of the highest paid director at 31 March 1997 is £75,783.

20. PENSION SCHEMES

The Company and its subsidiaries are associate companies of The General Electric Company, p.l.c. (GEC) and all their employees, except those of GT Railway Maintenance Ltd, who are members of a pension plan are members of the GEC Plan ("the Plan"), the principal pension plan of the GEC Group. The Plan is funded and is of the "defined benefit" type. Particulars of the most recent actuarial valuation, which was at 5 April 1994, are disclosed in the report and accounts of GEC for the year ended 31 March 1997.

The pensions cost charge of the Company and its subsidiaries in respect of employees who are members of the Plan consists of employers' contributions payable which are similar across the GEC Group as a whole as a percentage of pensionable earnings. Based on the advice of a qualified actuary, contributions amounting to £10,628,000 (1996 £9,754,000) calculated at 6 per cent of members' pensionable pay were made for the year ended 31 March 1997.

Certain employees of GT Railway Maintenance Ltd are members of the GTRM Shared Cost Section ("GTRM Section") of the Railways Pension Scheme established under Order of Parliament in May 1994.

The last full actuarial valuation of the GTRM Section was carried out as at 19 April 1996. The review was carried out by independent qualified actuaries, Watson Wyatt, using the projected unit method. The main assumptions used were that the rate of investment return net of price inflation would be 4% per annum, that future pensionable pay awards would exceed price inflation by 2% per annum and that dividend growth on UK equities would be 0.5% per annum less than the rate of price inflation. The actuarial value of the assets based on the above review, was £145,800,000 and was established to exceed the projected accrued liabilities by approximately 56%.

The ongoing regular service cost of the GTRM Section is 25.9% of Section pay, although the GTRM Section is currently receiving reduced contributions from employees of 5% of Section pay. Contributions amounting to £2,068,000 (1996 Nil) calculated at 7.5% of members pensionable pay were made for the year ended 31 March 1997.

The estimated value of the surplus of the GTRM Section attributable to the Company at the year end of £17,300,000 has been reflected in the balance sheet of the Group within debtors. This surplus will be amortised over the average remaining service lives of the employees.

21. MAJOR COMPANIES INCLUDED IN THE CONSOLIDATION

In addition to the trading activities of the Company itself, which include the activities of its subsidiaries such as GEC ALSTHOM Turbine Generators Limited, GEC ALSTHOM Power Plants Limited, GEC ALSTHOM Traction Limited, GEC ALSTHOM Metro-Cammell Limited, etc., the main trading subsidiary companies consolidated, all of which are registered in England and Wales and 100% owned, except where noted, are:

Company	Activity
GEC ALSTHOM Diesels Ltd	Diesel Engines
Metro-Cammell Hong Kong Ltd	Railway Coaches
GEC ALSTHOM-CEGELEC Substation Projects Ltd (50%)	Substation Project Management
GEC ALSTHOM NL Service Provision Ltd	Train Leasing Services
GT Railway Maintenance Ltd (51%)	Rail Track and Trackside Equipment Maintenance
GEC ALSTHOM Combined Cycles International Ltd)	Contract Services
GEC ALSTHOM Electromechanical Services Ltd)	
GEC ALSTHOM Large Machines Projects Ltd)	
GEC ALSTHOM Power Electronics International Ltd)	
GEC ALSTHOM Signalling International Ltd)	
GEC ALSTHOM Traction International Ltd)	
GEC ALSTHOM Turbine Generators China Ltd)	
GEC ALSTHOM Turbine Generators India Ltd)	
GEC ALSTHOM Turbine Generators Services Ltd)	

All shareholdings in the above are in ordinary shares.

22. POST BALANCE SHEET EVENT - ACQUISITION

The post balance sheet event of the Company is described in the Directors' Report under that heading.

23. ULTIMATE PARENT COMPANY

The ultimate parent company of GEC ALSTHOM Limited is GEC ALSTHOM NV, which is incorporated in the Netherlands, and which heads the largest group in which the GEC ALSTHOM Limited group is consolidated.

24. RELATED PARTY TRANSACTIONS

The General Electric Company, p.l.c. and Alcatel Alsthom are the ultimate shareholders in GEC ALSTHOM NV. During the course of the year ended 31 March 1997, there were sales of £31,108,000 to and purchases of £50,561,000 from their various group companies in the ordinary course of business. At 31 March 1997 there were amounts of £15,441,000 due from and £3,514,000 due to their various group companies.

BACK PAGE

GEC ALSTHOM

GEC ALSTHOM Limited, PO Box 70, Mill Road, Rugby, Warwickshire, CV21 1TB
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