UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re ALSTOM SA SECURITIES LITIGATION	Master File No. 03-CV-6595(VM)
	<u>CLASS ACTION</u>
This Document Relates To: ALL ACTIONS.	CONSOLIDATED AMENDED COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

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I. NATURE OF THE ACTION

1. Lead Plaintiffs State Universities Retirement System of Illinois, the San Diego City Employees' Retirement System, Louisiana State Employees' Retirement System, West Virginia Investment Management Board, and the International Brotherhood of Electrical Workers, Local 269, ("Lead Plaintiffs") bring this action on behalf of themselves and all other persons or entities who purchased or otherwise acquired the publicly-traded stock, ADSs or other shares (the "Class") of Alstom SA ("Alstom" or the "Company") between and including August 3, 1999 and August 6, 2003, inclusive (the "Class Period"). Excluded from the Class are defendants and certain related persons and entities further defined below.

2. By and through the undersigned attorneys, Lead Plaintiffs allege the following upon information and belief, except as to those allegations concerning Lead Plaintiffs, which are alleged upon personal knowledge. Lead Plaintiffs' information and belief are based upon, among other things, their investigation into Alstom, including without limitation: (a) review and analysis of filings made by Alstom with the United States Securities and Exchange Commission ("SEC"); (b) review and analysis of press releases, public statements, news articles and other publications disseminated by or concerning Alstom; (c) review and analysis of Alstom's analyst conference calls; (d) review and analysis of securities analysts' reports concerning Alstom; (e) review and analysis of documents produced by New Jersey Transit ("NJT"); (f) review and analysis of internal Alstom documents; and (g) other publicly available information disseminated by or concerning Alstom, Alstom USA, Inc. ("Alstom USA"), Alstom Transportation Inc. ("ATI"), ABB Ltd. ("ABB"), ABB Alstom, Marconi plc ("Marconi"), Alcatel SA ("Alcatel"), and others. Lead Plaintiffs' investigation also included interviews or consultations with numerous individuals in the United States and abroad, including former Alstom employees, former ABB employees, and former ABB Alstom employees

who are knowledgeable about the business and operations of Alstom, Alstom USA, ATI, ABB Alstom as well as the industry and markets in which the aforementioned operate.

3. Lead Plaintiffs believe that further substantial evidentiary support will exist for the allegations in this Consolidated Amended Complaint after a reasonable opportunity for discovery. Most of the facts supporting the allegations contained herein are known only to the defendants or are exclusively within their custody or control.

II. SUMMARY OF CLAIMS

4. Marconi and Alcatel, which each owned fifty percent of Alstom, took the Company public in 1998, selling, in a global public offering, approximately 52% of their combined holdings for more than $3.2 billion. However, prior to the initial public offering ("IPO"), Marconi and Alcatel forced Alstom to pay them a €1.2 billion "special dividend" that, unbeknownst to investors, severely hindered Alstom's ability to compete in the marketplace. (During the Class Period, the euro to dollar exchange rate fluctuated between €.827/$1 and €1.19/$1.) As reported in "New cases in Economics, Politics and Business," *European Case Clearing House* (February 2004), "[the pre-IPO dividend] severely diminished [Alstom's] available cash flow and hence its capability to innovate and destroying its core competence."

5. After the IPO, Marconi and Alcatel wanted to sell the rest of their Alstom shares, but having emptied the Company's coffers with the special dividend, they sought to keep Alstom looking prosperous so they could sell their stock at a premium. Thus, when the Company lost the technology license it used to produce power generating turbines, Marconi and Alcatel forced Alstom to protect the valuable revenue stream the turbines generated by quickly entering into a joint venture with Swiss-Swedish conglomerate ABB, a company with readily-available replacement technology, even though Alstom knew that technology was deeply flawed. Once part of the joint venture, Alstom concealed the huge costs of repairing the ABB turbines, ultimately purchasing the joint

venture in order to control the disclosure of those costs to the public. Similarly, in order to create the false impression that demand for Alstom's cruise ships was strong, Marconi and Alcatel caused Alstom to secretly guarantee loans the Company's customers used to purchase ships from Alstom, despite the fact that these customers were so financially unstable that they could not obtain financing on their own.

6. Alstom maintained this appearance of prosperity long enough for Marconi and Alcatel to sell all of their Alstom stock. After that, Alstom gradually admitted the extent and costs of the ABB turbine defects and took over €4 billion in reserves over a period of three years. When Renaissance Cruises International ("Renaissance"), one of Alstom's cruise-ship customers, went bankrupt, the Company was forced to admit that it had guaranteed hundreds of millions of euros in loans to Renaissance that it now had to repay. These terrible revelations, one after another, had a devastating effect upon Alstom's stock price.

7. In order to help keep the Company afloat in the wake of these scandals, Alstom engaged in yet another accounting fraud, this time at its Transport Division in the United States. As the Company has now admitted, Alstom artificially inflated net income at the Transport Division by approximately €167 million by "understat[ing] actual costs incurred" in fiscal 2003. This fraud was eventually uncovered and led to the firing of defendants Stephan Rambaud-Measson ("Rambaud-Measson") and Joe Janovec ("Janovec"), as well as to investigations by the SEC and the FBI. Eventually, the Chairman and CEO of Alstom himself, defendant Pierre Bilger ("Bilger"), was removed and is now under investigation for corruption in France and is currently free on bail.

8. Among all of the specific facts and figures Lead Plaintiffs have set forth in this complaint detailing defendants' fraud, one fact must be emphasized: from the date Alcatel and Marconi dumped the last of their Alstom stock to the last trading day during the Class Period, the

closing price of Alstom shares traded on the New York Stock Exchange ("NYSE") plummeted from $27.64 to $3.21. Similarly, Alstom lost approximately 93% of its value during the Class Period, going from a market-capitalization high of $8.6 million and plummeting to a low of $647 million. This decline was not caused by business reversals, but rather by the revelation of adverse facts that were concealed while Marconi and Alcatel still owned stock. As a result, Marconi and Alcatel reaped billions of euros in profits, while unsuspecting investors, unaware of the rampant fraud at Alstom, suffered massive losses.

III. JURISDICTION AND VENUE

9. This Court has jurisdiction over the subject matter of this action pursuant to Section 22 of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §77v, and Section 27 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §78aa. This Court also has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and 1337. The claims asserted herein arise under Sections 11, 12(a)(2) and 15 of the Securities Act, 15 U.S.C. §§77k, 77(l)(a)(2) and 77o, and Sections 10(b), 18 and 20(a) of the Exchange Act, 15 U.S.C. §§78j(b), 78(r), and 78t(a), and the rules and regulations promulgated thereunder, including SEC Rule 10b-5, 17 C.F.R. §240.10b-5.

10. Venue is proper in this District pursuant to Section 22 of the Securities Act, Section 27 of the Exchange Act, and 28 U.S.C. §1391(b) and (c). Many of the acts and transactions giving rise to the violations of law complained of herein, including the offer and sale of American Depository Shares ("ADSs") and the preparation and dissemination to the public of materially false and misleading public filings, occurred in this District. ATI maintains an office in this district at 353 Lexington Avenue, Suite 800, New York, NY.

11. Pursuant to the "effect test" of extraterritorial jurisdiction, this Court may properly exercise subject matter jurisdiction over the claims of (a) all investors who purchased or acquired

Alstom securities traded on U.S. markets, and (b) investors based in the United States who purchased or acquired Alstom securities regardless of where those securities traded.

12. There was but a single worldwide market for Alstom shares and Alstom ADSs, which traded in tandem. That worldwide market was defrauded by defendants' conduct, causing extensive effects both domestically and abroad.

13. This Court may also properly exercise subject matter jurisdiction over the claims of foreign class members who purchased or acquired Alstom securities traded on foreign markets under the "conduct test," which provides that a federal court has subject matter jurisdiction if (1) the defendants' activities in the United States were more than "merely preparatory" to a securities fraud conducted elsewhere, and (2) these activities or culpable failures to act within the United States caused the claimed losses.

14. Defendants engaged in extensive fraud-related conduct in the United States by, *inter alia*, (i) artificially inflating earnings and shareholders' equity through the omission of huge expenses from its financial statements at its U.S. railroad construction unit – ATI; (ii) failing to disclose that billions of euros in liabilities would result from defects in the gas turbines sold throughout the world, including the United States; (iii) secretly guaranteeing loans to Renaissance, a United States company headquartered in Fort Lauderdale, Florida; and (iv) filing a false and misleading registration statement in the United States and selling artificially inflated stock to U.S. investors pursuant to that registration statement.

15. Even before entering into the joint venture with ABB, Alstom was committed to entering the U.S. market and using the United States as a base to export its fraud. As stated in a prospectus dated July 23, 1999, which was signed by defendant Newey and filed with the Paris Bourse, Alstom stated:

> The creation of ABB ALSTOM POWER enables the Issuer to significantly reinforce its position in the energy market .... It also ***enables it to acquire its own heavy duty gas turbine technology and to enter the American heavy duty gas turbine market which previously was de facto prohibited because of its agreement with GE***.

16. Alstom actively marketed, procured orders for and sold its defective turbines in the United States. According to a commissioning engineer with ABB Alstom, the joint venture procured a $1.2 billion order in early 2000 by Panda Energy in Arkansas for eight combined cycle GT24B turbines, which it later cancelled. A design and repair engineer separately reported that ABB Alstom procured a $1.2 billion order for the sale of eight GT24B turbines to a facility in Harris, Texas, which was eventually cancelled as well. According to a vice president for marketing for Alstom's U.S. Corporate Offices, between 1997 and 1999 at least ten ABB GT24 turbines were sold in the United States.

17. Alstom manufactured parts in its United States facility that were used in its defective GT24/26 turbines. A design and repair engineer stated that he worked in ABB's Richmond, Virginia facility from 1993 to 2002, and that in 1998 and 1999, he worked at that Virginia facility on the installation of GT24 turbine blades. An Alstom engineering consultant, during the time of Alstom's joint venture with ABB and after, reported that Alstom manufactured parts for its defective GT24/26 turbines in Richmond, Virginia.

18. When Alstom purchased ABB's 50 percent share of the ABB Alstom joint venture, Alstom assumed all of the liabilities associated with the GT24/26 turbines previously sold by ABB in the United States and elsewhere. In fact, Alstom knew of its exposure in the United States due to ABB's defective turbines even before it entered into the joint venture. Alstom's knowledge of the defects is documented in an internal marketing report dated January 13, 1999. In that report, Alstom noted that numerous turbines sold to various parties were defective, including a GT24 turbine sold to Jersey Central Power & Light (Gilbert Station) that was "nearly never operating." Thus, Alstom had

expressly assumed responsibility for all the defective turbines sold by ABB – including turbines sold in the United States.

19. During the Class Period, Alstom sold at least eight cruise ships to Renaissance for approximately $148 million apiece. Alstom secretly guaranteed the loans this U.S. company used to purchase Alstom's ships in order to create a false impression that demand for those ships was strong.

20. The Alstom defendants' fraudulent conduct in the United States also included pervasive and deliberate improper accounting regarding the ATI railway cars, which were largely built in the United States. The ATI agreements were negotiated and entered into primarily with United States companies. The fraudulent activity at ATI is now the subject of investigations by the United States Department of Justice and the SEC.

21. As discussed in more detail below, the accounting fraud at ATI involved, in part, understating costs incurred in connection with a $280 million contract to build railcars for NJT. At the inception of the NJT contract, ATI created a "Project Management Plan" ("PMP") that was intended to "deal[] with the management of the overall project from its very beginning up to its completion." According to the PMP, Alstom participated in the performance of the NJT contract through its wholly-owned subsidiary, Alstom Transportation SA, located in Villeurbanne, France. The PMP specifically stated that "[t]here are three participating units within the ALSTOM Transport Division ... that are contributing to the NJT effort," and it identified these three participating units as ATI, an Alstom facility located in Sao Paulo, Brazil, and Alstom's facility in Villeurbanne, France. The PMP stated that the operations in Villeurbanne, France will "provide design and manufacturing services for the NJT Program." The PMP also said that "ALSTOM's Villeurbanne Facility may be utilized for design or consultation of the vehicle[s.]"

22. The PMP also indicated that Board of Directors of Alstom SA had oversight responsibilities for the performance of the contract and that the Program Director for the NJT contract "shall ... [r]eport project progress to ALSTOM's Board of Directors."

23. In addition, a NJT memorandum dated June 27, 2000 indicates that Jean Pierre Froideuaux, Thierry Guinard, David Fontaine, Isabelle Cornelus and Emmanuel Henry, each of whom were then employed by Alstom in France, traveled to the United States to meet with persons from ATI and NJT in connection with the performance of the NJT contract.

24. Further supporting this Court's subject matter jurisdiction, a significant number of defendants' false and misleading statements were initially made in the United States, and all were disseminated within the United States through the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of a national securities exchange. During the Class Period, Alstom regularly filed false and misleading reports and financial statements with the SEC in the United States, including Form 20-F Annual Reports and periodic reports on Form 6-K. On or around February 8, 2001, Alstom, Alcatel and Marconi conducted a secondary offering of Alstom stock ("Secondary Offering") in the United States, among other locations, pursuant to registration statements and prospectuses filed with the SEC. The proceeds from that offering exceeded €2 billion.

25. In addition to the substantial conduct in the United States in furtherance of the fraud, Alstom has a vast presence in the United States that justifies the exercise of subject matter jurisdiction of the claims of all plaintiffs who, relying on the health and value of Alstom's substantial businesses in the United States, acquired Alstom securities traded in foreign markets and were defrauded by defendants' misrepresentations. Alstom currently maintains numerous offices in the United States, including offices at the following locations:

(a) ALSTOM's Power Sector (Hydro); located at 7921 South Park Plaza, Suite 208, Littleton, CO. Alstom boasts that this plant's capabilities include, "[t]urnkey projects, complete plant modernization, turbines, generators, excitation systems, governors, hydro-mechanical, controls, protection, balance of plant, small hydro systems."

(b) Industrial Turbines; 10730 Telge Road, Houston, TX. This location is marketed as dealing with "[g]as turbines under 50MW for the power generation industry in baseload, peaking, standby power, cogeneration and combined cycle applications and for the oil & gas industry in power generation and mechanical drive. Steam turbines under 100MW for power station and industrial use in power generation, combined cycle, cogeneration, mechanical drive and geothermal applications." It includes "[a] complete range of flexible products including condensing and back pressure, reheat and non-reheat, multiple extractions and/or secondary steam admissions and single or double casing configurations."

(c) ALSTOM Transportation Inc.; 650 Warrenville Road, Suite 200, Lisle, IL. This location deals with "Business Development, Sales and Marketing, Parts Management."

(d) ALSTOM Power Inc. (Performance Projects); 911 West Main Street, Chattanooga, TN. Here, Alstom engages in the "[m]anufacture of pressure parts for utility, industrial, marine, resource recovery and heat recovery steam generators, reactor vessels, steam generators, pressure vessels, piping, gas turbine products, special heavy machining."

(e) Marine U.S. Headquarters; 3303 Biscayne Blvd., Suite 804, Miami, FL. Here, Alstom "[s]upports cruise ships operating out of North American ports from a base in Miami, as well as the building of luxury cruise liners, liquefied natural gas tankers, naval vessels and high-speed ferries."

(f) ALSTOM's Power Rentals; 13901 Sutton Park Drive South, Suite 330, Jacksonville, FL.

(g) ALSTOM's Power Sector (Environmental Services); 10539 Lexington Drive, Knoxville, TN. Alstom states that this location is:

> For plant owners who need to re-evaluate their life continuation strategies in light of issues such as tightening emission standards, fuel switching, concerns over opacity and emission credits, we offer the most cost-effective way to maintain, repair or upgrade the air pollution control (APC) systems already in place. With virtually unparalleled expertise in fuels, pulverizers, ash constituents, boiler combustion processes and gas conditions, we take a[] systems approach rather than a hardware approach to solving air pollution control problems. In other words, we offer much more than the ability to simply repair, replace or rebuild existing equipment or components. We offer the experience and resources needed to develop and maintain an AC equipment retrofit strategy that reduces overall operating costs while meeting more stringent emissions control requirements.

(h) ALSTOM's Power Sector (Turbine Services); 2800 Waterford Lake Drive, Midlothian, VA. In promoting this location, Alstom states:

> Whether you need a reconditioned rotor or a major upgrade we can offer you a solution that optimizes your operating costs while maintaining maximum availability, reliability and efficiency of your gas, hydro or steam turbine. We can provide extensive monitoring and diagnostics services give you an accurate assessment of the health of your turbine and generator. We repair and rebuild gas and steam turbines, generators and components and assemble new gas turbines. Our reconditioning services for gas turbine blades and heat shields can save you 50 - 70% over new component.

(i) ALSTOM Power Inc. (Heat Exchange); 1550 Lehigh Drive, Easton, PA.

(j) ALSTOM Transport; 1025 John Street, West Henrietta, NY, boasts that "[r]ecent major contracts have included Grand Central Station in New York City, as well as the Shanghai Metro in the People's Republic of China."

(k) ALSTOM Power Air Preheater Co.; 3020 Truax Road, Wellsville, NY.

(l) ALSTOM Transportation Inc.; 1 Transit Drive, Hornell, NY, is a central player in Alstom's fraud.

(m) Alstom's U.S. Headquarters is located at 2000 Day Hill Road, Windsor, CT.

(n) ALSTOM Transportation Inc.; 353 Lexington Ave, Suite 800, New York, NY. This location states that it provides "[c]ommunication, sales and marketing, business development, and legal counsel."

26. Further, Alstom is no stranger to litigating in the United States. In a suit brought by Intergen N.V. in the United States District Court for the District of Massachusetts against Alstom for the sale of defective GT turbines, Intergen N.V. named as defendants Alstom and "Eric Grina, a Massachusetts resident who allegedly acted as ALSTOM Power's agent for many of the relevant negotiations." *Intergen N.V. v. Grina*, 344 F.3d 134, 139 (1st Cir. 2003). Thus, Alstom is already subject to the jurisdiction of U.S. courts.

IV. THE PARTIES

A. Plaintiffs

27. The San Diego City Employees' Retirement System ("San Diego") is a public pension system located in San Diego and organized for the benefit of the current and retired municipal employees of the City of San Diego. San Diego currently has total assets of approximately $2.6 billion. San Diego purchased Alstom shares during the Class Period at artificially inflated prices and was damaged thereby. San Diego also purchased Alstom ADSs in the Secondary Offering. Specifically, pursuant to an underwriting agreement, Alstom and the selling shareholders (Alcatel and Marconi) agreed to sell to the Underwriter Defendants (defined below), and the Underwriter Defendants agreed to purchase 71,077,860 shares (or ADSs) of Alstom stock pursuant to a registration statement filed with the SEC on Form F-3 on January 17, 2001, as amended on Forms F-3/A filed with the SEC on January 24, 2001 and February 7, 2001 (the "Registration Statement"). On February 9, 2001, San Diego purchased 106,960 ADSs in the Secondary Offering at the Secondary Offering price of €26.25. Said shares were purchased from the

shares that the Underwriter Defendants underwrote and sold to customers. San Diego paid no commission on said purchases.

28. The Louisiana State Employees' Retirement System ("Louisiana") is a public pension system organized for the benefit of current and retired public employees of the State of Louisiana. Louisiana is located in Baton Rouge, Louisiana, and has total assets of approximately $5.6 billion. Louisiana purchased Alstom shares on the Paris Exchange during the Class Period at artificially inflated prices and was damaged thereby.

29. The State Universities Retirement System of Illinois ("SURS") is a public pension system organized for the benefit of current and retired employees of the Illinois state universities. SURS is a retirement system created and operating under the provisions of Article 15 of the Illinois Pension Code, 40 ILCS 5/15-101ff, and whose purpose is to provide retirement annuities and other benefits for employees of public higher education institutions in the State of Illinois and other governmental entities described in 40 ILCS 5/15-106. SURS purchased Alstom shares on the Paris Exchange during the Class Period at artificially inflated prices and was damaged thereby. SURS also purchased Alstom shares in the Secondary Offering.

30. The West Virginia Investment Management Board ("West Virginia") is a public pension system organized to be the principal investment management organization of all West Virginia's defined benefit retirement plans, the Workers Compensation and Pneumoconiosis plans, general revenue, special revenue, municipal bond moneys, certain local government moneys, state bond proceeds and various other moneys held by the state. West Virginia purchased Alstom shares on the Paris Exchange during the Class Period at artificially inflated prices and was damaged thereby.

31. The International Brotherhood of Electrical Workers, Local 269 Pension Fund ("IBEW") is a pension fund operated by its trustees and organized for the benefit of its well over a thousand participants. IBEW purchased Alstom's ADSs on the NYSE during the Class Period at artificially inflated prices and was damaged thereby.

32. Bay Beav Fonds ("BBF") is a fund managed by Activist Investmentgesellschaft GmbH ("Activist"), a fund management company located in Munich, Germany. Activist manages and directs a number of mutual and designated interest funds that invest in various security instruments, including securities publicly traded in the United States. During the Class Period, BBF purchased Alstom stock on the Paris Exchange at artificially inflated prices and was damaged thereby.

33. By Order of the Court dated January 7, 2004, San Diego, Louisiana, SURS, West Virginia and IBEW were appointed Co-Lead Plaintiffs in this action in accordance with §27(a)(3) of the Securities Act, 15 U.S.C. §77z-1(a)(3), and §21D(a)(3)(B) of the Exchange Act, 15 U.S.C. §78u-4(a)(3)(B).

B. Defendants

34. **Alstom SA**: Defendant Alstom is a provider of power and transportation equipment throughout the world. The Company is incorporated under the laws of the Republic of France and serves the energy market through its activities in the fields of power generation, power transmission and distribution, power conversion and electrical contracting. The Company is also active in rail and marine transportation. Alstom designs, supplies and services a complete range of technologically advanced products and systems for its customers, and offers systems integration and life maintenance and service. The principal executive offices of the Company are located at 25, Avenue Kléber, 75116 Paris, France.

35. During the Class Period, Alstom operated through its various wholly-owned subsidiaries located throughout the world, including the United States, and the Company reported its financial results on a consolidated basis, operating on a fiscal year that ends March 31.

36. During the Class Period, Alstom's ADSs were traded on the NYSE under the symbol "ALS" and the Company filed annual reports on Form 20-F ("20-F") and periodic reports on Form 6-K ("6-K") with the SEC. Alstom stock, in the form of United Kingdom Depository Shares ("UKDSs"), is listed on the London Stock Exchange under the symbol "ALSA," and the Company's stock is also listed on the premier marché of Euronext Paris ("Paris Exchange") under the symbol "ALS." As of September 30, 2003, there were 281,660,523 shares of Alstom outstanding.

37. **Alstom USA, Inc.**: Defendant Alstom USA is a wholly-owned subsidiary of Alstom and is the holding company of Alstom's subsidiaries in the United States, including ATI. Alstom USA is located at 2000 Day Hill Road, Windsor, Connecticut.

38. **Alstom Transportation Inc.**: Defendant ATI is located at 353 Lexington Avenue, Suite 800, New York, New York 10016 and at 1 Transit Drive, Hornell, New York 14843, and is a wholly-owned subsidiary of Alstom USA. ATI manufactures railway cars.

39. **Pierre Bilger**: Defendant Bilger was appointed CFO of Alstom's predecessor company in 1987, then known as Alsthom, and in 1989 became the Managing Director. In 1991, he was appointed CEO, and on May 14, 1998, Bilger was appointed as Alstom's CEO and Chairman of the Board. In that capacity, Bilger (through Attorney-in-Fact Francois Newey) signed the Registration Statement on February 7, 2001. Bilger served as CEO until January 1, 2003, and as Chairman of the Board until March 11, 2003. During the Class Period, Bilger was a member of Alstom's "Executive Central Management" and also served on the Company's Executive Committee. In addition, during the Class Period and at the time of the Secondary Offering, Bilger

served on the Nominations and Remuneration Committee of the Board. According to the Company, the Nominations and Remuneration Committee is responsible for reviewing and making recommendations to the Board on issues including the nomination and revocation of the Chairman of the Board and the CEO; the nomination of new Directors; the nomination and revocation, upon proposal of the CEO, of any other mandataires sociaux and members of the Executive Committee; the Company's corporate governance practice and the composition and functioning of the Board and its Committees; the Company's policies relating to stock option plans and employee share purchase schemes; and Directors' fees. Bilger also served as a member of the Supervisory Board of Alstom Power. On May 13, 2003, Bilger was placed under judicial investigation in France for bribery and corruption.

40. **Patrick Kron**: Defendant Patrick Kron ("Kron") replaced Bilger as the Company's CEO on January 1, 2003, and was appointed Chairman of the Board on March 11, 2003. Kron was appointed to the Board on July 24, 2001. During the Class Period, Kron served on the Audit Committee of the Board. According to the Company, the purpose of the Audit Committee is to assist the Board in its oversight of the quality and accuracy of the Company's financial statements and other financial information provided to shareholders; the Company's compliance with legal and regulatory requirements; the performance of the Company's internal audit function; and the Company's system of internal controls and accounting and financial reporting processes generally. Kron is also a member of the Company's Executive Committee.

41. **Philippe Jaffre**: Defendant Philippe Jaffre ("Jaffre") joined the Company in February 2002 as Advisor to the Chairman and CEO and was appointed Chief Financial Officer in July 2002. Jaffre is a member of the Company's Executive Committee.

42. **Francois Newey**: Defendant Francois Newey ("Newey") was Senior Executive Vice President and Chief Financial Officer of Alstom from July 1998 to July 3, 2002. In that capacity, Newey signed the Registration Statement on February 7, 2001. During the Class Period, Newey also served as a member of Alstom's Executive Committee. Newey joined the Company in March 1998 as Corporate Director, Finance.

43. **James Milner**: Defendant James Milner ("Milner") was the Chief Accounting Officer of Alstom at the time of the Secondary Offering. In that capacity, Milner (through Attorney-in-Fact Francois Newey) signed the Registration Statement on February 7, 2001.

44. **Stephan Rambaud-Measson**: Defendant Rambaud-Measson was Senior Vice-President of ATI until June 30, 2003, when he was suspended pending completion of the Company's investigation into the accounting improprieties alleged herein.

45. **Joe Janovec**: Defendant Janovec was Vice-President of Finance at ATI until June 30, 2003, when he was suspended pending completion of the Company's investigation into the accounting improprieties alleged herein.

46. Defendants Bilger, Kron, Jaffre, Newey, Milner, Rambaud-Measson and Janovec are collectively referred to herein as the "Officer Defendants." Because of the Officer Defendants' positions, each knew adverse non-public information about Alstom during the Class Period, including its financial results and business and financial prospects, and had access to non-public internal documents.

47. **William Purves**: Defendant William Purves ("Purves") was appointed to the Board of Directors on June 17, 1998, with effect from June 25, 1998. Purves served as Vice Chairman of the Board and, during the Class Period and at the time of the Secondary Offering, was Chairman of the Nominations and Remuneration Committee of the Board, until his retirement from the Board

effective July 28, 2003. Purves was the Director of Alstom at the time the Company filed the Registration Statement on February 7, 2001, and he was listed as a signatory on the Registration Statement.

48. **Klaus Esser**: Defendant Klaus Esser ("Esser") was appointed to the Board on June 17, 1998, with effect as of June 25, 1998. In his capacity as a Director of the Board, Esser (through Attorney-in-Fact Francois Newey) signed the Registration Statement on February 7, 2001. During the Class Period and at the time of the Secondary Offering, Esser served as Chairman of the Audit Committee of the Board.

49. **Jean-Pierre Halbron**: Defendant Jean-Pierre Halbron ("Halbron") was appointed to the Board on May 14, 1998. In his capacity as a Director of the Board, Halbron (through Attorney-in-Fact Francois Newey) signed the Registration Statement on February 7, 2001. During the Class Period and at the time of the Secondary Offering, Halbron served on the Audit Committee of the Board. Halbron is also a Director of the Board of Alcatel.

50. **John Mayo**: Defendant John Mayo ("Mayo") was appointed to the Board of Directors on May 14, 1998. In his capacity as a Director of the Board, Mayo (through Attorney-in-Fact Francois Newey) signed the Registration Statement on February 7, 2001. During the Class Period and at the time of the Secondary Offering, Mayo served on the Audit Committee of the Board. In addition, during the Class Period, Mayo was Finance Director and a Director of Marconi.

51. **Lord George Simpson**: Defendant Lord George Simpson ("Simpson") was appointed to the Board of Directors on May 14, 1998. In his capacity as a Director of the Board, Simpson (through Attorney-in-Fact Francois Newey) signed the Registration Statement on February 7, 2001. During the Class Period and at the time of the Secondary Offering, Simpson was a member

of the Nominations and Remuneration Committee of the Board. Until 2001, Simpson was Chief Executive and a Director of Marconi.

52. **Serge Tchuruk**: Defendant Serge Tchuruk ("Tchuruk") was appointed to the Board on May 14, 1998. During the Class Period and at the time of the Secondary Offering, Tchuruk was a member of the Nominations and Remuneration Committee of the Board. In addition, Tchuruk is the CEO and Chairman of the Board of Alcatel and, during the Class Period, Tchuruk served as President Directeur General of Alcatel and Chairman of the Board of Directors of Alcatel USA Holdings Corp. Tchuruk was a Director of Alstom at the time the Company filed the Registration Statement on February 7, 2001, and he was listed as a signatory on the Registration Statement.

53. Defendants Bilger, Purves, Esser, Halbron, Mayo, Simpson and Tchuruk (collectively, the "Director Defendants") were Directors of the Company at the time of the Secondary Offering. Alstom, Alstom USA and ATI, the Officer Defendants and the Director Defendants will hereafter be referred to as the "Alstom Defendants."

54. **Alcatel SA**: Defendant Alcatel owned 50% of Alstom in a joint venture with Marconi before the Class Period. In June 1998, Alcatel sold an ownership stake in the Company, representing 26% of Alstom, in a global IPO and received proceeds of approximately $1.65 billion. Alcatel subsequently sold another portion of its ownership in the Company, representing 18% of Alstom, in the Secondary Offering for approximately €800 million, and 6% of the Company in June 2001 for about €390 million. After June 2001, Alcatel no longer owned any shares of Alstom.

55. Alcatel and Marconi ensured Alstom would do their bidding by mandating half of Alstom's board be comprised of their representatives. As stated in Alstom's IPO prospectus (filed with the SEC on June 22, 1998), "following the Global Offering ... the Board of Directors of ALSTOM will initially consist of eight directors ... two of whom will be nominated by GEC

[Marconi] and two of whom will be nominated by Alcatel." Indeed, Alcatel and Marconi exercised their option to dominate Alstom's Board by appointing the following persons between Alstom's IPO and 2001 (when they completely divested their holdings in Alstom):

a. 1998 – Tchuruk (Chairman and CEO of Alcatel); Halbron (Senior Vice-President of Alcatel); Simpson (Managing Director and Board Member of Marconi); and Mayo (Finance Director of Marconi).

b. 1999 – Halbron (*Directeur General Adjoint* of Alcatel); Mayo (Marconi Board Member); Simpson (Chief Executive of Marconi); and Tchuruk (*President-Directeur* of Alcatel).

c. 2000 – Halbron (*Directeur General Adjoint* of Alcatel); Mayo (Finance Director of Marconi); Simpson (Chief Executive of Marconi); and Tchuruk (*President-Directeur* of Alcatel).

56. **Credit Suisse First Boston**: Defendant Credit Suisse First Boston (Europe) Limited, a subsidiary of Credit Suisse Group ("Credit Suisse"), acted as a Joint Lead Manager and Bookrunner of the Secondary Offering. Credit Suisse is a banking association that provides securities underwriting, financial advisory services and equity research services worldwide. In connection with the Secondary Offering, Credit Suisse agreed to purchase from the selling shareholders 17,591,772 ordinary shares (in the form of shares or ADSs).

57. **Société Générale**: Defendant Société Générale acted as a Joint Lead Manager and Bookrunner of the Secondary Offering. Société Générale provides securities and investment banking services to corporate clients and institutional investors. In connection with the Secondary Offering, Société Générale agreed to purchase from the selling shareholders 17,591,772 ordinary shares (in the form of shares or ADSs).

58. **Merrill-Lynch International**: Defendant Merrill Lynch International, a subsidiary of Merrill Lynch & Co. ("Merrill Lynch"), acted as a Joint Lead Manager of the Secondary Offering. Merrill Lynch provides capital markets services, investment banking and advisory services, wealth management, asset management, insurance, banking and related produces and services on a global

basis. In connection with the Secondary Offering, Merrill Lynch agreed to purchase from the selling shareholders 12,794,015 ordinary shares (in the form of shares or ADSs).

59. **ABN AMRO Rothschild**: Defendant ABN AMRO Rothschild ("ABN AMRO") acted as an underwriter of the Secondary Offering. ABN AMRO provides integrated corporate and investment banking services to corporate, institutional and public sector clients worldwide. In connection with the Secondary Offering, ABN AMRO agreed to purchase from the selling shareholders 3,198,503 ordinary shares (in the form of shares or ADSs).

60. **BNP PARIBAS**: Defendant BNP PARIBAS ("BNP") acted as an underwriter of the Secondary Offering. BNP provides advisory services for primary equity market transactions and mergers and acquisitions. In connection with the Secondary Offering, BNP agreed to purchase from the selling shareholders 3,198,503 ordinary shares (in the form of shares or ADSs).

61. **Crédit Agricole Indosuez Lazard Capital Markets**: Defendant Crédit Agricole Indosuez Lazard Capital Markets ("Lazard") acted as an underwriter of the Secondary Offering. Lazard provides investment banking, financial advisory and asset management services worldwide. In connection with the Secondary Offering, Lazard agreed to purchase from the selling shareholders 3,198,503 ordinary shares (in the form of shares or ADSs).

62. **Morgan Stanley & Co. International Limited**: Defendant Morgan Stanley & Co. International Limited, a subsidiary of Morgan Stanley & Co., Inc. ("Morgan Stanley"), acted as an underwriter of the Secondary Offering. Morgan Stanley provides underwriting services worldwide. In connection with the Secondary Offering, Morgan Stanley agreed to purchase from the selling shareholders 3,198,503 ordinary shares (in the form of shares or ADSs).

63. **UBS AG**: Defendant UBS AG, acting through its business group UBS Warburg LLC ("UBS"), acted as an underwriter of the Secondary Offering. UBS is a global securities and

investment banking firm that provides financial products and services to institutional and corporate clients worldwide. In connection with the Secondary Offering, UBS agreed to purchase from the selling shareholders 3,198,503 ordinary shares (in the form of shares or ADSs).

64. Defendants Credit Suisse, Société Générale, Merrill Lynch, ABN AMRO, BNP, Lazard, Morgan Stanley and UBS are collectively referred to herein as the "Underwriter Defendants." In connection with the Secondary Offering, the Underwriter Defendants were granted a 30-day option to purchase on a pro rata basis up to 7,107,786 additional outstanding shares (in the form of shares or ADSs) to cover over-allotments.

65. Alstom, Alstom USA, ATI, Alcatel, the Officer Defendants, the Director Defendants and the Underwriter Defendants will be collectively referred to as "Defendants" herein.

C. Relevant Non-Party

66. **Marconi plc**: Marconi also known as GEC, owned 50% of Alstom in a joint venture with Alcatel before the Class Period. In June 1998, Marconi sold an ownership stake in the Company, representing 26% of Alstom, in a global public offering and received proceeds of approximately $1.65 billion. Marconi subsequently sold another portion of its ownership in the Company, representing 18% of Alstom, in February 2001 in a public offering for approximately €800 million, and 6% of the Company in June 2001 for about €390 million. After June 2001, Marconi no longer owned any shares of Alstom. On May 14, 2003, in connection with Marconi's petition for bankruptcy protection, the United States Bankruptcy Court for the Southern District of New York entered a Permanent Injunction and Order Pursuant to Section 304 of the Bankruptcy Code Granting the Relief Requested in the Petition and Giving Full Force and Effect to the Scheme of Arrangement. For this reason, Marconi was voluntarily dismissed from this Action on November 20, 2003.

V. DEFENDANTS' WRONGFUL COURSE OF CONDUCT

A. Marconi and Alcatel Render Alstom Financially Unstable

67. The corporate predecessor to Alstom, GEC Alsthom N.V. ("GECA"), was established in 1989 by The General Electric Company of the United Kingdom (now known as Marconi), which owned 50 percent, and by Alcatel of France, which owned the remaining 50 percent. On June 22, 1998, all the activities previously carried out by GECA were transferred to Alstom. On the same date, Marconi and Alcatel conducted an IPO of Alstom on the Paris, New York and London stock exchanges, selling approximately 52 percent of their holdings and receiving more than $3.2 billion.

68. Just prior to the IPO, Marconi and Alcatel forced Alstom to pay them a €1.2 billion "special dividend" that severely hindered Alstom's ability to compete in the marketplace. According to *The Wall Street Journal*:

> Alstom's troubles began in June 1998. In one of Europe's largest initial public offerings, the company's two corporate parents, France's Alcatel SA and Britain's Marconi PLC (then known as GEC), sold stock in their joint engineering unit....
>
> Just before the IPO, Alcatel and Marconi had drained Alstom's coffers. Eager to fund expansion into the then-booming telecommunications sector, they made the company pay them a 1.2 billion euro special dividend. That left the newly independent Alstom, a heavy-engineering company that must make costly investments in big projects before reaping profits from them years later, with a fragile balance sheet.

John Carreyrou, *Rescue Mission: Saving a Company, Paris Sets Pattern of Flouting the EU*, Wall St. J., Aug. 19, 2003.

69. In forcing the IPO dividend, Marconi and Alcatel left Alstom strapped for cash. According to *The Wall Street Journal* (Aug. 19, 2003), while Bilger was publicly supporting the dividend, in meetings within the Company he was strongly opposed to the payment. As reported in "New cases in Economics, Politics and Business," *European Case Clearing House* (February 2004), "[the pre-IPO dividend] severely diminished [Alstom's] available cash flow and hence its capability

to innovate and destroying its core competence." One year later, in July 1999, Alstom sold €500 million of corporate bonds to recover.

70. But €500 million was not enough, and the Company initiated a pattern of deceit at its Power, Marine and Transport Divisions in an attempt to shore up its financial condition and its stock price, and in some instances merely to allow its owners, Marconi and Alcatel, to divest themselves of their Alstom stock at an artificially inflated price. These transactions were: (1) entering into a 50/50 joint venture with Swiss-Swedish conglomerate ABB and subsequent purchase of the remaining 50 percent interest, despite knowing of huge liabilities associated with ABB turbine defects; (2) participating in a vendor-financing scheme whereby the Company guaranteed loans that its financially unsound customers used to purchase Alstom cruise ships from Alstom; and (3) understating losses in connection with railcar contracts undertaken by ATI. In the end, each of these schemes proved to be disastrous to Alstom's financial health, resulting in enormous losses and finally in one of the largest corporate bailouts in the French history.

B. Alstom Conceals a Vendor-Financing Scheme

71. Alstom attempted to conceal the effects from the devastating IPO dividend by engaging in a perilous vendor-financing scheme in its Marine Division. Alstom's Marine Division, which included cruise ship sales, was a relatively small segment but was extremely important to Alstom and its investors because it was the fastest growing. In FY2000, marine sales grew from €830 million to €1.3 billion and marine operating income nearly tripled to €70 million from €25 million in FY1999.

72. It was important to Alstom for its Marine Division to be perceived favorably and to minimize the risks associated with its liquidity so that it could raise the necessary financing to fund its business. Alstom's bank borrowings increased from €839 million at March 31, 1999 to €2.7 billion at March 31, 2000 to €4.5 billion at March 31, 2001. Thus, the off-balance-sheet risk

associated with guarantees on debt incurred by customers making purchases from Alstom's fastest growing segment were concealed.

73. For example, in 1996, Alstom announced that Renaissance had ordered six identical, 350-cabin cruise ships to be built by Alstom over several years. This order was later expanded to eight ships. As Renaissance was to pay Alstom approximately $148 million for each ship, the announcement of these orders assured investors that Alstom could count on significant revenue from Renaissance for several years. Indeed, between June 29, 1998, when the first ship was delivered, to the last delivery on February 10, 2001, Alstom recognized revenue on each of the eight ships. This revenue boosted Alstom's results and was crucial to the Company's profitability for over three years. Alstom failed to disclose, however, that it had guaranteed the loans Renaissance used to purchase all eight ships. Alstom's sales to Renaissance did not reflect strong demand for Alstom ships as Alstom represented. Rather, Alstom had facilitated financing to a customer too financially unsound to obtain it any other way. Accordingly, the Renaissance deal artificially inflated Alstom's stock price until Marconi and Alcatel could cash out at a profit.

C. Alstom Rushes into a Joint Venture with Turbine Maker ABB to Save Itself as Well as Alcatel's and Marconi's Investment, but Fails to Disclose Huge Costs Associated with Turbine Defects

74. Alstom's Heavy Duty Gas Turbines business, which was a part of the Company's Energy sector, was its most important business unit. It directly accounted for approximately 6% of the Company's combined net sales for the fiscal year ended March 31, 1998 and for approximately 8% of the Company's combined net sales on average for each of the three fiscal years ended March 31, 1996, 1997 and 1998. In addition, the Company sold heavy duty gas turbines in combination with the products and services of the other Energy businesses, which accounted for an additional 2.5% of the Company's combined net sales for the fiscal year ended March 31, 1998. These indirect sales of related products and services combined with direct sales of heavy duty gas

turbines produced, according to Alstom in its IPO prospectus, on average approximately 12% of the Company's combined net sales and operating profit for each of the three fiscal years ended March 31, 1996, 1997 and 1998. For the fiscal year ended March 31, 1998, the sales of heavy duty gas turbines alone accounted for approximately 13.5% of the Company's operating profit. Thus, the Heavy Duty Gas Turbines business was an extremely significant business to Alstom, one that Alstom could not afford to lose.

75. The core technology underlying the Company's heavy duty gas turbines was licensed from General Electric ("GE") in a series of agreements entered into in 1989 and 1990 and amended in 1995. The significance of these GE licenses to Alstom cannot be overstated. In fact, Alstom listed in its IPO prospectus the following Risk Factor: "Importance of GE Agreements; Risk of Modification or Termination." In this Risk Factor, Alstom stated that the IPO involved transactions that would result in a change in its holding structure and that "GE has stated that it is concerned that the proposed transactions would appear to breach certain of the GE Agreements." Alstom's loss of the GE licenses "could have a material adverse effect on the Company's position in the market for heavy duty gas turbines and related businesses and on its results of operations and financial condition generally." The threat of the loss of the GE licenses was real and potentially devastating.

76. The threat became a reality when, in early March 1999, Alstom's long-time arrangement with GE to license GE's turbine technology ended. Alstom had no doubt predicted this, because immediately thereafter, on March 23, 1999, it announced in a press release that it was entering into a 50/50 joint venture with Swiss-Swedish conglomerate ABB, which had developed its own proprietary gas turbine technology.

77. According to a former vice president in Alstom's U.S. corporate offices, the impetus for Alstom's joint venture with ABB was its desire, after the loss of its GE license, to continue to be

a player in the market for gas turbines, which was a "very hot" market between 1997 and 2000. According to Alstom's prospectus for its July 23, 1999 €500 million bond offering:

> The creation of ABB ALSTOM POWER enables the Issuer to significantly reinforce its position in the energy market .... It also enables it to acquire its own heavy duty gas turbine technology and to enter the American heavy duty gas turbine market which previously was *de facto* prohibited because of its agreements with GE.

In fact, if Alstom had not continued in the heavy duty gas turbine business, its overall value would have been ravaged, to the detriment of its owners Alcatel and Marconi. With the demise of the GE license, Alcatel and Marconi were under great pressure to maintain Alstom's heavy duty gas turbine business so they could protect their investment in Alstom until they could sell out. The pressure was so great and the alternatives so scarce that Alstom rushed into a joint venture with a company that it knew had a proprietary heavy duty gas turbine technology that was severely flawed.

78. Prior to the joint venture, ABB manufactured heavy duty gas turbines under the name "GT24/26" turbines. GT24/26 turbines are heavy duty natural gas powered turbines that are used by power plants to generate electricity. As described by Alstom:

> GT 24/26 heavy-duty gas turbines are at the top end of our extensive range of gas turbines, with respective outputs of 179 MW and 262 MW. They are among the largest individual products we sell and are typically sold as part of a larger power project involving other Power products. The GT24/26 turbines are based upon technology developed by ABB.

Annual Report for the fiscal year ended March 31, 2002 ("2002 Annual Report") at 4. ABB had initiated the development and marketing of the GT24/26 turbines in 1995, and entered into contracts for sales of these turbines shortly thereafter.

79. ABB's GT24/26 turbines had severe technical problems and Alstom knew about them. In an internal analysis of its competitors dated January 13, 1999, Alstom's marketing department analyzed the status of 23 GT24 units and 13 GT26 units sold by ABB as far back as 1993. According to the report, nine of the 23 GT24s sold had been delivered as of the date of the

report. Of those nine delivered, seven were declared defective and operation of the remaining two was placed on hold. The report references a "compressor blade rubbing issue," "performance degradation," "vibrations," and "difficulties in balancing the rotor."

80. This internal analysis also points to problems with the GT26 units sold by ABB. According to the report, five of the 13 GT26s sold had been delivered as of the date of the report and had become operational. Of those five delivered, all were declared defective, including one that had apparently gone to a test center. The report references "[h]uge issues on the compressor section," "severe last stages blades rubbing," "[h]eat shields had to be replaced," and "[o]verfiring." Indeed the report specifically states "ABB personnel on-site consider [ ] the machine [ ] dangerous" and that two GT26 turbine purchasers were already being paid penalties and liquidated damages.

81. Thus, Alstom entered into the joint venture with ABB knowing full well that the technology it desperately needed was flawed, but Alstom was not going to imperil its very existence by losing a major business sector. Alstom was also not about to turn away from a "hot" market where it could run up its revenues, at least until Alcatel and Marconi could sell their Alstom stock.

Alstom Fails to Disclose Known Turbine Problems

82. In a March 23, 1999 press release announcing the joint venture, Alstom stated that "'[t]he joint company will be a strong R&D powerhouse. ABB ALSTOM POWER will benefit from its parent companies' proven capabilities to successfully integrate businesses from different cultures. In return, this move will be a strong accelerator for the performance of both parent companies.'" Thus, Alstom was touting the joint venture from the start without making any reference to problems with ABB's GT24 and GT26 turbines of which it was fully aware.

83. In 1998 and 1999, Alstom and ABB launched more advanced "B" rating gas turbines, called the GT24B and GT26B turbines. The GT24/26 "B" rating gas turbines, like their predecessors, immediately proved to have an engineering problem that caused them to overheat,

preventing them from operating at full capacity. *Asian Wall Street Journal* (May 17, 2001). According to *Power Economics* (January 30, 2001 at 6), the turbines had problems with localized overheating of second-stage blade-tip shrouds. A former design engineer with ABB and later with ABB Alstom said that the joint venture rushed these turbines to market without performing adequate tests, setting itself up for down time on installed turbines and resulting in substantial liquidated damages.

84. As soon as the GT24/26B turbines were commissioned in 1998 and early 1999, the extent of the problems with those turbines became apparent. A former commissioning engineer for ABB Alstom stated that ABB became aware soon after the installation of GT24B turbines in Taiwan and Korea in 1998 that those turbines produced 15 percent less power than they were designed to. According to a former Alstom marketing director, ABB knew prior to the joint venture, and Alstom knew upon entering into the joint venture, of the GT24/26B turbine defects, and a test facility was set up in Baden, Switzerland in 1999 to diagnose the problems. The public was unaware of the extent of these defects and Alstom kept the full extent of the problems well-guarded until after its majority owners, Alcatel and Marconi, sold all of their shares in Alstom.

85. In total, eighty defective GT24/26 turbines had been sold. Alstom knew what the defects were and knew who each affected customer was. According to a former design engineer with ABB and later with ABB Alstom, the joint venture maintained a Lotus Notes file called the "Smokers Database" (a play on the expression "where there's smoke, there's fire") beginning in 1999, which listed each turbine client and project, open issues/problems, the estimated minimum and maximum costs to resolve them, and the likely costs to resolve them. Based on this information, Alstom easily could have accurately calculated and timely revealed to the public the true extent of the liabilities caused by the turbine defects. Indeed, Alstom spoke to its customers and developed a

plan that included standardized procedures to deal with the problem. According to the Annual Report on Form 20-F for the year ended March 31, 2003 ("2003 20-F") filed with the SEC on October 16, 2003:

> 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 costs and agreed on contractual amendments, including revised financial conditions, with each customer.

2003 20-F at 75. Given the full knowledge of Alstom regarding the technical problems, the costs necessary to resolve those problems, and the exact number and contractual status of each turbine unit, such a plan allowed Alstom to accurately estimate from the outset the full extent of the turbine liabilities.

Alstom Continues to Sell GT24/26 Turbines Despite the Overwhelming Defects

86. Notwithstanding its knowledge of the defects in the turbines, according to an Alstom marketing director, Alstom continued to sell turbines in the last half of 1999 and first half of 2000, knowing it would have to pay liquidated damages. According to *Power Economics* (Jan. 30, 2001 at 6), despite the problems, Alstom sold 10 units of GT24/26 turbines in the last few months of 2000 alone. In an effort to continue to generate revenue and maintain the stock price until Marconi and Alcatel closed their positions, the joint venture did not cancel these sales. In fact, according to a former Alstom manager, the joint venture sold the problematic turbines knowing that the cost to remedy the defects could potentially wipe out the entire net value of these sales.

87. Further, Alstom was unable to get insurance to guarantee the performance of the GT24/26 gas turbines. Because of this, Alstom, according to an Alstom manager, was obligated to

set up reserves sufficient to remedy the failures of the turbines to meet contractual performance specifications. Alstom knowingly set up deficient reserves so as not to alarm the public and to protect its stock price.

In a Short Time, Alstom Buys Out the ABB Joint Venture to Hide the Costs of the Turbine Problem

88. On May 11, 2000, less than one year after the joint venture was established, Alstom purchased ABB's remaining 50% interest for €1.25 billion, giving Alstom 100% ownership of the venture. After the buyout, Alstom recorded €3.953 billion in goodwill and renamed the entity Alstom Power. The main asset Alstom received in the buyout was ABB's gas turbines.

89. Alstom's buyout of ABB's 50 percent interest in the joint venture on May 11, 2000 was motivated in part by its desire to prevent, under French GAAP, the already known costs (repair costs and any penalties owed) necessary to correct the turbine defects from becoming expenses on its income statement, which would significantly reduce its net income and ultimately decrease its stock price. Under French GAAP, if Alstom remained a partner in the joint venture, its share of turbine defect reserves would have had to have been expensed on Alstom's income statement. This would have reduced Alstom's net income and impacted its stock price. Instead, when Alstom purchased the remaining 50 percent of the joint venture from ABB, the provision for the costs to correct the turbine defects were, under French GAAP, simply booked as an increase to the provisions in the liability section of the balance sheet and as a corresponding increase to the goodwill generated by the joint venture purchase that was recorded as an intangible asset. Since the goodwill was amortized over a period of 20 years, there would be a much smaller current charge against net income and less of an impact on Alstom's stock price. Under French GAAP, the allocation of the purchase price of the remaining 50 percent of the joint venture between goodwill and the fair value of the respective assets and liabilities could be finalized up until the end of the fiscal year following the purchase date.

This allowed Alstom to increase goodwill each time it set up a turbine reserve (instead of expensing it on the income statement) until March 31, 2002.

90. Thus, it is clear that Alstom knew of the existence and extent of the GT24/26 turbine defects at the time it purchased the remaining 50 percent interest in the ABB joint venture, and purchased the joint venture precisely to prevent the reserves it knew would be required from impacting its net income. This allowed Alstom to protect its net income until its two owners, Marconi and Alcatel, could completely divest themselves of Alstom stock. Had it not purchased the joint venture, under French GAAP, Alstom's net income would have been reduced by an amount equal to 50 percent of the turbine reserves.

Alstom Publicly Admits for the First Time Problems with the Turbines

91. Less than three months after Alstom bought out ABB's share of the joint venture, Alstom issued a vague press release, dated July 31, 2000, announcing that the Company was experiencing what it described as relatively routine technical difficulties with the introduction of its turbines. Alstom stated:

> In the past months, technical issues have arisen which are not unusual in the commissioning of new high-tech complex products of this type, and for which modifications have been identified and are being implemented. Recent inspections have revealed a further localised deficiency, which will require component modification on all 'B' rating machines.... The impact of these issues may involve material additional costs. Any such costs will be included in the purchase accounting treatment of the acquisition of ABB ALSTOM Power, which will be reported in the 30 September 2000 interim accounts. On this basis, the Company does not believe that these issues will affect significantly the operating margin target of 6% for 2002/03 previously disclosed.

92. The press release did not fully describe the problems with the turbines and provided no estimate of the cost of repairing them, even though Alstom had put in place a settlement protocol and had already entered into settlement negotiations with its customers regarding the costs of repairs and penalty payments. In fact, the Company later admitted that each of the 80 turbines sold to that

date was defective. Moreover, Alstom was liable for the full cost of any defects since, according to a spokesman for ABB: "'Alstom acquired the business from us with all the liabilities. They agreed to indemnify us ....'" Carreyrou, *supra*.

Alstom Downplays the Financial Impact of the Turbine Defects

93. Despite the extent of the turbine problems, Alstom quickly began a publicity campaign to quell public concern. On August 1, 2000, *Les Echos* (the "August 1, 2000 article") published an article discussing Alstom's July 2000 disclosure regarding the defects in its GT24/26 turbines. This article reported: "According to Alstom's management, the financial impact of this setback should be minimal." This, as they knew at the time, could not be further from the truth. The August 1, 2000 article stated in full:

> Alstom initially discovered a combustion problem with its new gas turbines a number of months ago. At the beginning of July, the group's engineers were called in to repair a new defect: a small piece which tended to overheat during the turbine's operation. Alstom will be forced to change the component in question on all of the turbines already produced or currently undergoing production, a total of up to 80 units. Changing the piece on the first two turbines took the group no less than six weeks. According to Alstom's management, the financial impact of this setback should be minimal. The group has forecast an operating margin of between 3 per cent and 4 per cent for the year, rising to 6 per cent for 2002-2003.

The statements in the August 1, 2000 article, which are all attributable to Alstom, were made at a time when Alstom knew the true extent of the turbine defects and the costs necessary to correct them, and were no more than Alstom's attempt to quell public concern and protect its stock price until its owners could sell all of their Alstom holdings.

Alstom Sets Aside Wholly Insufficient Reserves to Correct the Turbine Defects and Attempts to Hide Even Those Insufficient Reserves

94. In the same year in which Alstom entered into the joint venture with ABB (the year ended March 31, 2000), ABB Alstom set aside ***€519 million*** to correct turbine defects. Alstom hid the existence and amount of this reserve in provisions for accrued contract costs of €3.3 billion set

forth in its March 31, 2000 Form 20-F (Note 17, p. F-26). Indeed, this €519 million reserve was not specifically disclosed until June 2, 2003, when it appeared in the Annual Report for the year ended March 31, 2003 ("2003 Annual Report"), filed with the SEC on Form 6-K on that date.

95. Since Alstom knew this reserve was inadequate, it set aside an additional ***€165 million*** as of May 2000, the date of its buyout of ABB's interest in the joint venture. Alstom made sure that this additional reserve was also hidden. It was buried in Alstom's March 31, 2001 Form 20-F in provisions of €1.274 billion recorded against goodwill for the entire Power sector, including the GT24/26 turbines (Note 20, p. F-25). Alstom revealed in its March 31, 2003 20-F that of this €1.274 billion total reserve, €1.068 billion was for turbine defects. Subtracting a €903 million reserve announced in November 2000 (*see infra* ¶97) from the €1.068 billion total reserve for the March 31, 2001 fiscal year is the only way to calculate the additional €165 million reserve taken.

96. In fact, Alstom did not disclose the amount of any reserve related to the turbine defects until November 7, 2000. Four months after making the initial announcement regarding the discovery of "technical issues" with the turbines and close to a year and a half after it entered into the joint venture, Alstom stated in a November 7, 2000 press release that design flaws associated with its GT24/26 gas turbines would require that it set aside an additional ***€903 million***. Alstom did not disclose in this press release that it had previously set aside reserves for turbine defects. It kept the existence of those prior reserves secret until the end of that month and only disclosed them aggregately. On November 30, 2000, Alstom filed its consolidated financial statement for the first half of fiscal 2000 on Form 6-K, which stated that "[t]he estimates of the related costs as currently determined by the management amount to €903 million. ***Provisions and other accruals on GT24/26 gas turbines as of 30 September 2000 including this amount total € 1,625 million***."

97. Thus, the reserves taken for the fiscal year ended March 31, 2001 equaled €1.068 billion (€165 million + €903 million), and the total reserves taken by Alstom since entering into the joint venture equaled €1.587 billion (€1.068 billion + €519 million).

98. Based on interviews with a former Alstom commissioning engineer, marketing director and design engineer, Alstom's internal marketing department analysis of ABB turbines and its Smokers Database, and Alstom's status as a 50 percent owner of the joint venture, Alstom knew the full extent of the turbine problems and that each of the reserves it had established were, at the time they were established, insufficient. Indeed, as Alstom stated in its November 7, 2000 press release, it had conducted a "contract by contract analysis" of the turbine problem. But larger reserves would have indicated to the market the true severity of the turbine defects, which would have threatened the stock price before Alcatel and Marconi could sell out.

99. Alstom entered into the joint venture to take advantage of a technology that, one year later, would prove to be the downfall of its Power division. Alstom knew of the true extent of the defects in the GT24/26 gas turbines and the actual costs necessary to repair those defects when it entered into the joint venture. Even in announcing an additional €903 million reserve, Alstom deliberately underestimated the reserves needed so that it could maintain an artificially high share price until Alcatel and Marconi could sell all of their remaining Alstom shares.

D. Marconi and Alcatel Sell All Their Remaining Alstom Shares

100. In February 2001, with the public still unaware of Alstom's vendor financing scheme or the true extent of the turbine defects, Alstom's two corporate parents together sold over 71 million shares of Alstom common stock (representing 33 percent of Alstom's outstanding shares) for approximately €2 billion. These shares were sold pursuant to a registration statement on Form F-3 filed with the SEC on February 12, 2001. The Underwriter Defendants acted as the underwriters for this offering.

101. Marconi and Alcatel then sold all of their remaining Alstom shares in June 2001. According to Alstom's 2002 Form 20-F ("2002 20-F"), "the public offering on 14 February 2001 [was] carried out jointly between Alcatel and Marconi plc, in the course of which they sold 35,538,930 shares each (representing 16.5% of the share capital of ALSTOM each), Alcatel and Marconi plc each sold their remaining 5.7% shareholding in the capital of ALSTOM in June 2001."

102. Now that Alcatel and Marconi conveniently had no concerns over the fate of Alstom, the public would soon begin to become aware of the true condition of the Company. As it did, Alstom's closing price on the NYSE plummeted from $27.90 on June 29, 2001 to $3.21 on August 6, 2003, the last trading day during the Class Period.

E. The Public Begins to Learn the Truth About Alstom

1. Alstom's Vendor Financing Scheme Finally Comes to Light

103. On September 25, 2001, Renaissance declared bankruptcy. This should have been of little concern to Alstom investors because, although Renaissance had been a good customer, it had no orders pending with Alstom at that time. However, on September 27, 2001, Alstom finally admitted the secret it had concealed from investors since at least 1998: Alstom had guaranteed the loans Renaissance had used to purchase eight ships from Alstom. With Renaissance bankrupt, Alstom was suddenly liable pursuant to those guarantees for €684 million. Even worse, Alstom admitted to another €1.3 billion in outstanding vendor financing.

104. A February 25, 2002 article in *The Wall Street Journal* stated:

> At the bottom of its financial statements, Alstom lists a line item called "commitments and contingencies." At the end of September, the figure next to that line item was 12.8 billion euros ($11.13 billion), not small change for a company with a stock market capitalization of about 3 billion euros.
>
> "Talk about a black hole," says Jay Huck, a London analyst with the Center for Financial Research and Analysis, a boutique research firm that combs through companies' financial statements for institutional investors.

Until recently, Mr. Huck and other investors had no way of knowing what the 12.8 billion euros represented because Alstom neither highlighted nor explained it. Then came the Chapter 11 bankruptcy-court filing in late September of Renaissance Cruises, a Florida cruise line that operated eight cruise ships built by Alstom's French shipyards. After initially saying its exposure to Renaissance was minimal, Alstom said on Oct. 1 that it could lose as much as 684 million euros as a result of the bankruptcy.

What Alstom had neglected to disclose is that among the commitments and contingencies were written guarantees it had given to banks that had lent money to cruise lines so that they could buy ships from Alstom. This is known as vendor financing. When Renaissance defaulted on those loans, they became Alstom's responsibility.

Suddenly, shareholders became nervous that Alstom might be liable for other guarantees. They were right. When the company released its fiscal first-half results in November, Alstom for the first time provided footnotes breaking down the 12.8 billion-euro figure. Turns out that roughly two billion euros are vendor-financing liabilities, including 1.3 billion euros to the cruise industry.

Alstom now promises to put an end to its vendor-financing practices. Nonetheless, it continues not to classify these liabilities as debt, which many analysts say would more accurately reflect what they are, since Alstom is the ultimate guarantor of these loans.

In its first-half results, Alstom disclosed net debt of two billion euros. Adding in the vendor-financing liabilities would have doubled the company's net debt to four billion euros, one billion euros more than the company's market capitalization.

105. Many observers were shocked to discover that Alstom had guaranteed Renaissance's loans. *Reuters* reported that a trader at a Paris-based broker stated: "We didn't know Alstom was involved in credit guarantee for its ships." Peter Reilly, engineering analyst at Deutsche Bank in London, stated: "This appears to have been a contingent liability which was not disclosed in the Alstom report and accounts." *The Financial Times* quoted one analyst stating: "It's like a builder guaranteeing your mortgage even though he's building your house as well."

106. On October 1, 2001, J.P. Morgan Securities, Ltd. issued an analyst report which stated:

> Alstom has lost EUR2.1 billion in market value since it revealed the exposure to Renaissance Group .... [I]nvestor focus has shifted to Alstom-specific problems like the high leverage, low cash generation and concern about other potential risks "hidden" in its off-balance sheet liabilities.
>
> * * *
>
> We believe that a significant part or even all of the profits the Marine business achieved in the last three years (cumulative EBIT of EUR176 million) will ultimately be lost even if the full extent of Alstom's liability to Renaissance Group of EUR684 million is not realised. ***We question the quality of the turnaround of the [Marine] division achieved in the last years, as it seems to have happened on the back of vendor financing. Alstom confirmed that the large order of eight ships from Renaissance Group was instrumental in the turnaround of the division.***

107. Alstom failed to disclose its liability related to the Renaissance guarantees even after Alstom knew Renaissance was in financial trouble. After losses in 1999 and a loss of over $95 million in 2000, Malvern Maritime, of which Alstom is a beneficial owner, bailed out Renaissance in April of 2000 with an investment of $72.5 million in cash. Even after this bail-out, analysts recognized that Renaissance was operating "on the edge" of financial ruin. Alstom's concealment of its vendor financing liabilities not only misled investors, it inflated Alstom's financial results and balance sheet in violation of Generally Accepted Accounting Principles ("GAAP"). To put the numbers in perspective, Alstom's disclosed net debt at the time of its announcement was approximately €2 billion. Had Alstom's vendor financing liabilities been included in this number, as they should have been, Alstom's net debt would have risen to €4 billion, €1 billion more than the Company's market capitalization.

108. When Alstom finally admitted the existence of the previously-undisclosed guarantees, Alstom's stock price on the Paris Exchange plummeted from €18.06, where it had closed on September 26, 2001, to €13.20 on September 27, 2001, and after disclosure of the full extent of the guarantees on October 1, 2001, the stock fell further to close at €9.20 on October 3, 2001. On the

NYSE, Alstom's stock price plummeted from $22.71 on September 26, 2001, to $12.35 on October 3, 2001. The net effect was a total drop of approximately 50% in Alstom's market capitalization.

2. Alstom Finally Discloses the True Costs of Its GT24/26 Turbine Problems

The Fourth Extraordinary Reserve:
Alstom Sets Aside €1.075 billion
in Additional Reserves for Turbine Defects

109. On November 8, 2001, Deutsche Bank issued an analyst report wherein it reported comments from Alstom regarding the defects in the GT24/26 turbines (the "November 8, 2001 analyst report"). The November 8, 2001 analyst report states in relevant part:

> [Alstom's] [m]anagement presented a detailed review of the status of the GT24/26 gas turbine technical problems, which were first discovered last summer. There are 79 affected turbines of which 48 have been delivered and 31 are under construction. Alstom is negotiating with its customers to settle compensation payments for late delivery and below-standard operational performance. These negotiations are apparently proceeding well and management expects the existing provisions to be adequate.

110. Despite Alstom management's assertions, the existing provisions were not, in fact, adequate. In the fiscal year ended March 31, 2002, at the beginning of which Alcatel and Marconi had completely divested themselves of all their ownership interests in Alstom, Alstom set aside an additional €1.075 billion in reserves to correct the turbine defects. This was the fourth large reserve established, and it equaled two-thirds of all of previous reserves. In keeping with its practice of hiding the problems associated with its GT24/26 turbines, Alstom released no separate press release announcing this reserve when it was established, explaining why it was established or indicating why the Company had initially underestimated the necessary reserves. Indeed, this new reserve was hidden in the 2002 20-F. That filing merely discloses in a chart titled "Provisions for Risks and Charges" that the total provisions for that year were €1.9361 billion. It did not specifically break out the portion of those provisions that related to turbine defects. The turbine defect portion, which equaled €1.075 billion, was only revealed in the following year in Alstom's 2003 Annual Report.

111. This additional €1.075 billion reserve brought the total reserves taken by Alstom for turbine defects since entering into the joint venture to €2.662 billion.

The Fifth Extraordinary Reserve:
Alstom Takes an Additional €1.2 billion
Charge for Turbine Defects

112. On March 12, 2003, Alstom revealed even more exposure due to the defects in the GT24/26 turbines than the €2.662 billion it had theretofore disclosed. In a March 12, 2003 press release, Alstom stated that the Company was taking an additional €1.2 billion charge due to defects in the GT24/26 turbines. The Company also forecasted a net loss between €1.3 and €1.4 billion for the fiscal year ended March 31, 2003, as compared to a reported net loss of €139.4 million for the prior year. Further, the Company reported it had reached settlements with 61 of 80 purchasers of defective turbines. Alstom's announcements sent its shares falling by 49% on the NYSE to close at $1.50 on March 12, 2003, down $1.47 from its close the previous day of $2.97.

March 31, 2003 Annual Report: Alstom Finally Discloses the Full Reserves Taken

113. In its 2003 Annual Report, Alstom finally revealed the true state of the reserves it had established for costs associated with resolving the problems in its GT24/26 gas turbines for the years 2001-2002. Alstom described the history of its reserves, disclosing for the first time a €1.075 billion reserve it had taken in fiscal 2002:

> In fiscal year 2000, ABB ALSTOM Power, of which we owned 50% at that time, recorded a total of €519 million of provisions in accrued 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. In fiscal year 2002, we recorded an additional €1,075 million of provisions and accrued contract costs related to the turbines. We retained €1,440 million of provisions and accrued contract costs at 31 March 2002 in respect of these turbines. After application of €1,070 million during fiscal year 2003, the remaining amount of provisions was €370 million. To cover the total revised net exposure, an additional gross provision of €1,160 has been provided during fiscal year 2003.

2003 Annual Report at 58.

114. Alstom's disclosures in its 2003 Annual Report that the additional charge for 2003 was €1.160 billion brought the total charges related to correcting the turbine defects to €3.822 billion.

115. Finally, in its 2003 20-F, filed with the SEC on October 16, 2003, Alstom disclosed still additional reserves it had taken in connection with the turbine problem. Contradicting its Annual Report issued only 4 months earlier, Alstom stated that it had set aside for the year ended March 31, 2003, provisions to cover costs associated with the turbine defects in the amount of €1.637 billion. This amounted to an increase in the 2003 reserve of €477 million and brought the total charges related to correcting the turbine defects to €4.299 billion. Like the revelation of Alstom's vendor financing scheme, the slow disclosure of the costs related to the defective turbines severely depressed Alstom's stock price.

F. Alstom Hides Massive Costs on Railcar Contracts

116. After being badly hurt by the disclosure of its vendor financing scheme and the costs of repairing the defective turbines, Alstom tried to keep the Company afloat by committing yet another accounting fraud, this time in its Transport Division. Accordingly, Alstom failed to recognize millions of dollars in costs incurred in connection with railcar contracts that ATI performed during fiscal year 2003.

117. As the Company has now admitted, this fraudulent accounting inflated the Company's fiscal year 2003 net income by approximately €167 million and caused the Company's Transport Division, which had been one of the few profitable parts of the debt-choked Company, to appear to be operating at an enormous profit when, in reality, it was operating at a staggering loss.

118. The ATI fraud was not disclosed until after ATI received an anonymous letter alleging accounting improprieties. According to *The Wall Street Journal* (July 3, 2003), copies of the anonymous letter were also sent to the SEC and the FBI. Francis Jelensperger, a Company

spokesperson, said that after ATI received the anonymous letter the Company retained the law firm Hughes Hubbard & Reed to perform an internal investigation.

119. On June 30, 2003, the Company revealed the existence of the ATI fraud and disclosed that the Company's previously reported financial results for fiscal year 2003 had been artificially inflated. Specifically, the Company stated that ATI was "conducting an internal review ... following receipt of letters earlier this month alleging accounting improprieties on a railcar contract being executed at the Hornell, New York facility." The Company also admitted that:

> The review has identified that losses have been significantly understated in ATI's accounts, in substantial part due to accounting improprieties by the understatement of actual costs incurred, including by the non-recognition of costs incurred in anticipation of shifting them to other contracts, and by the understatement of forecast costs to completion.

120. The Company also said that it would record a net after tax charge equivalent of €51 million for fiscal year 2003 as a result of the ATI accounting fraud. However, as discussed in more detail below, the Company later revealed that the €51 million charge was woefully inadequate because the fraud had actually inflated Alstom's fiscal 2003 net income by at least €167 million.

121. The Company's June 30, 2003 press release also disclosed that defendants Rambaud-Measson and Janovec had been "suspended pending completion of the review," and that "[t]he Company has been advised of informal inquiries related to ATI, by the United States Securities and Exchange Commission and the United States Federal Bureau of Investigation."

122. The price of Alstom shares dropped after the ATI accounting improprieties were revealed on June 30, 2003. Specifically, the price of Alstom ADSs listed on the NYSE fell from $3.50 to close at $3.41, Alstom shares traded on the Paris Exchange fell from €2.38 to close at €2.28, and Alstom UKDSs listed on the London Stock Exchange fell from 218 pence to close at 206.5 pence.

123. Several financial news services and Wall Street research analysts attributed the drop in the price of Alstom shares to the disclosure of the ATI accounting fraud. On June 30, 2003, a French newswire service, Agence France-Presse, quoted a securities trader who stated that "it's clear that the accounting irregularities explain the fall in the share price this morning." Ben Uglow, a Morgan Stanley research analyst who covers Alstom, wrote in a research report that "[i]n plain vanilla English, this is fraudulent accounting," and that Alstom "cannot give the reassurance that this is an isolated case ... it raises further questions about the lack of discipline at Alstom, which is very worrying for a company on the edge of bankruptcy." On July 1, 2003, Andrew Carter, a research analyst with Deutsche Bank AG London, wrote that "news of accounting problems at what was considered one of Alstom's better businesses came as a blow yesterday. In our view, any semblance of a Bull case is now substantially undermined."

124. Then, on August 6, 2003, the Company revealed that the accounting scandal at ATI was more widespread than the Company had first admitted on June 30, 2003, and that substantial costs had been understated on "certain other contracts." The Company revealed that in addition to €51 million after tax charge against fiscal 2003 earnings, the Company would also reduce the first half of fiscal 2004 earnings by an additional €100 million. Specifically, the Company admitted that:

> [f]ollowing the discovery of accounting irregularities on one contract at the Hornell, USA Transport Unit, announced on 30 June 2003, a review of all projects managed by this unit has now been undertaken. This has identified the need for additional provisions on certain other contracts, which is expected to reduce first half 2003/04 operating income by around €100 million.

125. Following the August 6, 2003 press release, the price of Alstom's shares fell even further. Specifically, the price of Alstom ADSs listed on the NYSE fell from $2.34 to close at $2.19, and then to $1.75 on August 7th. Alstom shares traded on the Paris Exchange fell from €3.58 to close at €3.21 on August 6th, and then to €2.78 on August 7th. Alstom UKDSs listed on the London

Stock Exchange fell from 225 pence to close at 220 pence on August 6th, and then to 175 pence on August 8th.

126. On August 11, 2003, the Company revealed that the SEC had upgraded its investigation from an informal inquiry to a "formal order of investigation in connection with its inquiry relating to ATI."

127. On October 15, 2003, the Company filed its 2003 20-F with the SEC for the fiscal year ended March 31, 2003, and gave further details about the ATI fraud. The Company revealed that the fraud had eliminated more than €167 million from the Company's operating income and, as a result, the Transport Division had suffered a substantial net loss in fiscal 2003. Specifically, the Company announced:

> Transport's operating loss amounted to €118 million in fiscal year 2003, compared to operating income of €101 million in fiscal year 2002 on an actual basis and €83 million [euros] on a comparable basis. Operating margin declined to -2.3% in fiscal year 2003 as compared with 2.1% in fiscal year 2002....
>
> The operating loss in fiscal year 2003 includes an additional charge of €73 million [euros], following contract losses at ALSTOM Transportation Inc. ....
>
> In addition, following the discovery of accounting improprieties at ATI, we conducted reviews of other ATI contracts and, as a result, we recorded €94 million of charges 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, where we recorded significant provisions in respect of expected contract losses relating to a number of performance related issues....

(*See* 2003 20-F at 80-81.)

128. On November 13, 2003, defendants Kron and Jaffre participated in an investors' conference call with over 50 participants, including numerous Wall Street research analysts who covered Alstom. According to a CCBN StreetEvents transcription of the call, Defendant Kron stated that:

> In the US, you also know that just a day or 2 before [the] last general assembly in July, ***we had to take into account a fraud (ph) that was discovered in***

> ***our unit [in] New York***, which resulted in an additional provision a 73m [euros] and deteriorated our net income by 51m [euros] which is the equivalent after tax amount....
>
> Since July, we have conducted a complete reorganization of our transport operations in the US including an indepth-project review .... This led us, unfortunately, to put an additional provision that we already mentioned during the summer, indicating that it was around 100m but 102m, which impact the first-half numbers that we had presented a while ago. ***We have a new team in place who can take this business forward with confidence, and we have strongly improved our internal controls***.

129. As a result of the massive fraud that was perpetrated at ATI, and the resulting demise of the Company's stock price, Alstom's Transport Division – which had reportedly been one of Alstom's few profit centers in fiscal 2003 – became yet another disappointment for the Company as €167 million from the Company's net income was obliterated in one stroke.

VI. ALSTOM'S CLASS PERIOD FINANCIAL RESULTS VIOLATED GAAP

130. Generally Accepted Accounting Principles ("GAAP") are those principles recognized by the accounting profession as the conventions, rules, and procedures necessary to define accepted accounting practice. Those principles are the official standards adopted by the American Institute of Certified Public Accountants (the "AICPA"), a private professional association, through three successor groups it established: the Committee on Accounting Procedure, the Accounting Principles Board (the "APB"), and the Financial Accounting Standards Board (the "FASB"). GAAP includes the following authoritative literature and pronouncements: Statements of Financial Accounting Standards ("FAS"), APB Opinions, FASB Interpretations ("FIN"), AICPA Accounting Research Bulletins ("ARB"), AICPA Statements of Position ("SOP"), FASB Technical Bulletins ("FTB"), Consensus Positions of the FASB Emerging Issues Task Force ("EITF"), Statement of Financial Accounting Concepts ("CON") and Staff Accounting Bulletins ("SAB").

131. The SEC allows foreign private issuers to file annual reports under Section 13(a) of the Exchange Act on Form 20-F. Pursuant to Item 17 of Form 20-F, the financial statements

required to be included in Form 20-F may be prepared according to a comprehensive body of accounting principles other than those generally accepted in the United States if those financial statements are reconciled to the accounting principles, methods and practices generally accepted in the United States and in Regulation S-X. As set forth in SEC Rule 4-01(a) of SEC Regulation S-X, "[f]inancial statements filed with the [SEC] which are not prepared in accordance with [GAAP] will be presumed to be misleading or inaccurate." 17 C.F.R. §210.4-01(a)(1).

132. Management is responsible for preparing financial statements that conform to GAAP. As noted by the AICPA Auditing Standards ("AU"), §110.03:

> Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management.... Thus, the fair presentation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility.

133. In Securities Act Release No. 6349 (Sept. 28, 1981), the SEC stated:

> [I]t is the responsibility of management to identify and address those key variables and other qualitative and quantitative factors which are peculiar to and necessary for an understanding and evaluation of the individual company.

134. In Securities Exchange Act Accounting Series Release No. 173 (July 2, 1975), the SEC reiterated the duty of management to present a true representation of a company's operations:

> [I]t is important that the overall impression created by the financial statements be consistent with the business realities of the company's financial position and operations.

135. Under Item 303 of Regulation S-K, promulgated by the SEC under the Exchange Act, there is a duty to disclose in periodic reports filed with the SEC "known trends or any known demands, commitments, events or uncertainties" that are reasonably likely to have a material impact on a company's sales revenues, income or liquidity, or cause previously reported financial

information not to be indicative of future operating results. 17 C.F.R. §229.303(a)(l)-(3) and Instruction 3.

136. Alstom's financial statements for the fiscal years 1999 through 2003 (including the related quarterly periods) violated SEC Regulations and GAAP in that they failed to (i) disclose facts necessary to present a fair and truthful representation of the Company's financial position and operations, (ii) provide those disclosures which were required by GAAP, and (iii) identify and address those key variables and other qualitative and quantitative factors which were peculiar to and necessary for an understanding and evaluation of the Company. Consequently, the overall impression created by the financial statements was not consistent with the business realities of the Company's reported financial position and operations.

137. The financial statements that were issued by Alstom during the Class Period under French GAAP and reconciled with U.S. GAAP did not fairly and accurately represent the Company's financial position and operations.

A. The Undisclosed Loan Guarantees Violated GAAP

138. Alstom's obligations arising from the Renaissance guarantees were contingent liabilities that Alstom was required to disclose in amount and nature in Alstom's financial statements on a timely basis, *i.e.*, when the obligations were first committed to at the time the sales were made. Yet, in the footnotes to Alstom's consolidated financial statement's Commitments and Contingencies section, these obligations were neither identified nor described for investors.

139. Alstom represented that its financial statements were reconciled to U.S. GAAP which, as set forth in FAS No. 5, *Accounting for Contingencies*, states that a guarantee of the indebtedness of others is a contingent liability. SAS No. 5, ¶4. FAS No. 5, ¶10 requires that:

> If no accrual is made for a loss contingency because one or both of the conditions in paragraph 8 are not met, or if an exposure to loss exists in excess of the amount accrued pursuant to the provisions of paragraph 8, disclosure of the

> contingency shall be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. ***The disclosure shall indicate the nature of the contingency*** and shall give an estimate of the possible loss or range of loss or state that such an estimate cannot be made.

140. According to International Accounting Standards ("AC"), contingent liabilities must be disclosed on the balance sheet and include a brief description of the nature of the contingent liability, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any out-flow and the possibility of any reimbursement. AC §9037.86. International Accounting Standards defines a contingent liability as

> a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the enterprise.

AC §9037.10

141. Alstom's 1999-2001 Annual Reports did have a provision for Commitments and Contingencies, but this provision failed to disclose the nature of the contingent liabilities represented by the vendor financing guarantees, as required by accounting standards. Alstom's 1999-2001 Annual Reports also included a footnote to the consolidated financial statements dealing with summary of differences between accounting principles followed by Alstom and U.S. GAAP. Notwithstanding the above requirements, the obligations for vendor financing guarantees were not disclosed in this footnote either.

142. Ultimately, Alstom's 2002 20-F included a disclosure in its Commitments and Contingencies section relating to €237 million "committed in connection with cruise-ships initially delivered to Renaissance Cruises. These guarantees given are to financial institutions in connection with the sale of the cruise-ships." Alstom's belated disclosure did not cure its failure to advise investors of the risks and obligations associated with revenue it had recognized.

143. As a result of Alstom's failure to disclose its obligations related to the indebtedness of Renaissance for which there was a reasonable possibility of loss, Alstom's financial statements were misleading in violation of accounting standards including International Accounting Standards and U.S. GAAP.

B. Alstom Violated GAAP When It Recognized Revenues from the Sale of GT24/26 Gas Turbines

144. According to the Alstom Form 20-F filed on July 14, 2000 ("2000 20-F"), the Company recognized revenue on contracts which were of less than one year duration upon delivery to the customer. CON No. 5, ¶83(b) states that:

> An entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues.

145. Additionally, according to SAB No. 101, Topic 13, ¶3:

> When applying the substantially complete notion, the staff believes that only inconsequential or perfunctory actions may remain incomplete such that the failure to complete the actions would not result in the customer receiving a refund or rejecting the delivered products or services performed to date. In addition, the seller should have demonstrated history of completing the remaining tasks in a timely manner and reliably estimating the remaining costs. If revenue is recognized upon substantial completion of the arrangement, all remaining costs of performance or delivery should be accrued.

146. The defects with the GT24/26 turbines were anything but inconsequential. In fact, the joint venture, ABB Alstom, established significant provisions for contract costs related to the defects in the GT24/26 turbines of €519 million even before Alstom purchased the other 50% of the entity from ABB. The Company's own press releases disclosed that the defects were present in all 80 of the turbines originally sold, that the Company entered negotiations with customers about repairs and compensation, and disclosed it might take up to 18 months to sort out the problems. Each of these facts supports that Alstom was far from substantially accomplishing its full responsibilities under its

contracts for the GT24/26 turbines. As a result, Alstom prematurely recognized revenues related to the turbines.

Specific Violations

Form 20-F for the Year Ended March 31, 2000

147. The U.S. GAAP net income of $408 million is materially misstated as the reconciliation omits a reduction in revenue for Alstom's 50% of ABB Alstom's revenue related to the GT24/26 turbine sales improperly recognized in revenue, even though ABB Alstom did not substantially complete their requirements under the contracts.

Form 20-F for the Year Ended March 31, 2001

148. The U.S. GAAP net loss of $1,121 million is materially misstated as item (a) in the reconciliation, business combinations of $(1,262) million fails to include a reduction in revenue related to the GT24/26 turbine sales improperly recognized in even though ABB Alstom and Alstom did not substantially complete their requirements under the contracts.

Form 20-F for the Year Ended March 31, 2002

149. The U.S. GAAP net loss of $258 million is materially misstated as item (a) in the reconciliation, business combinations of $(229) million fails to include a reduction in revenue related to the GT24/26 turbine sales improperly recognized in revenue even though Alstom did not substantially complete their requirements under the contracts.

Form 20-F for the Year Ended March 31, 2003

150. The U.S. GAAP net loss of $1.244 billion is materially misstated as item (a) in the reconciliation, business combinations fails to include a reduction in revenue related to the GT24/26 turbine sales improperly recognized in revenue even though Alstom did not substantially complete their requirements under the contracts.

C. Alstom Also Violated U.S. GAAP by Repeatedly Understating the Amounts of Provisions for Warranties and Contract Losses Associated with the Defects in the GT24/26 Turbines

151. FAS No. 5, *Accounting for Contingencies*, ¶8 states:

> An estimated loss from a loss contingency ... shall be accrued by a charge to income if ***both*** the following conditions are met: (a) Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements [and] (b) [t]he amount of the loss can be reasonably estimated.

152. The initial provision of €519 million on the GT24/26 turbine contracts was recorded during the year ended March 31, 2000, the year in which Alstom became a 50% joint venture partner in ABB Alstom. At this point in time, it was clear to the Company that significant defects existed with the turbines sold to date and those currently being manufactured. A few months later, in the July 31, 2000 press release, the Company admitted that every turbine sold to date was defective and that the turbine projects were delayed and Alstom was liable for penalties. Still, the Company tried to mitigate the disclosure by stating that the direct costs of the repairs would not be very large. From May of 2000 when Alstom purchased the remaining 50% interest in ABB Alstom until the end of fiscal year 2003, the Company charged in total an additional €3.8 billion for provisions for contract costs on the defective turbines. These charges were known earlier and should have been taken earlier, and the failure to do was a violation of U.S. GAAP. At every step in the process the Company recorded estimates significantly lower than the actual costs of the defects it knew existed. This allowed Alstom to avoid an earlier and more significant charge against income for the estimated costs to cure the defects.

Specific Violations

Form 20-F for the Year Ended March 31, 2000

153. The U.S. GAAP net income of $408 million is materially misstated as the reconciliation omits an increase in provision for contract costs relating to the unrecorded contract losses and warranty costs associated with curing the defects in the GT24/26 turbines.

Form 20-F for the Year Ended March 31, 2001

154. The U.S. GAAP net loss of $1,121 million is also materially misstated as item (a) in the reconciliation, business combinations of $(1,262) million fails to include an increase in provision for contract costs relating to the unrecorded contract losses and warranty costs associated with curing the defects in the GT24/26 turbines.

Form 20-F for the Year Ended March 31, 2002

155. The U.S. GAAP net loss of $258 million is also materially misstated as item (a) in the reconciliation, business combinations of $(229) million fails to include an increase in provision for contract costs relating to the unrecorded contract losses and warranty costs associated with curing the defects in the GT24/26 turbines.

Form 20-F for the Year-Ended March 31, 2003

156. The U.S. GAAP net loss of $1.244 billion is also materially misstated as item (a) in the reconciliation, business combinations fails to include an increase in provision for contract costs relating to the unrecorded contract losses and warranty costs associated with curing the defects in the GT24/26 turbines.

D. Unrecognized ATI Costs Violated GAAP

157. On November 13, 2002, Alstom reported its interim financial statements for the six months ended September 30, 2002, which it filed with the SEC on Form 6-K (the "November 13, 2002 Form 6-K").

158. APB No. 28, entitled *Interim Financial Reporting*, provides the guidance on the preparation and presentation of interim financial statements. It states in relevant part that:

> Interim financial information is essential to provide investors and others with timely information as to the progress of the enterprise. The usefulness of such information rests on the relationship that it has to the annual results of operations. Accordingly, the Board has concluded that each interim period should be viewed primarily as an integral part of an annual period.

APB No. 28, ¶9.

159. Further, APB No. 28, ¶9, states that the "results for each interim period should be based on the accounting principles and practices used by an enterprise in the preparation of its latest annual financial statements."

160. The November 13, 2002 Form 6-K was materially untrue insofar as Alstom's financial results were materially overstated and not prepared in conformity with GAAP. Specifically, the November 13, 2002 Form 6-K represented that for the 2003 half-year ended September 30, 2002, Alstom's net income was €11.3 million and its shareholders' equity was €2.1 billion. These representations were materially false and misleading and violated fundamental GAAP provisions in that they failed to include in millions of dollars in costs that ATI understated in fiscal year 2003.

161. As such, these representations violated, among others, the following fundamental GAAP precepts:

(a) The principle of completeness, which means that nothing is left out that may be necessary to ensure that financial results represent underlying events and conditions (FASB Statement of Concepts No. 2, ¶¶79,80);

(b) The principle that revenues and earnings should not be recognized until earned and that expenses should be recognized in the period incurred (FASB Statement of Concepts No. 5 and No. 6);

(c) The principle that revenues are earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues (FASB Statement of Concepts No. 5); and

(d) The principle that financial reporting should provide information about an enterprise's financial performance during a given period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future performance, those expectations are commonly based at least in partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶42).

VII. DEFENDANTS' MATERIALLY FALSE AND MISLEADING STATEMENTS

162. On August 3, 1999, Alstom filed with the SEC its 1999 20-F. The 1999 20-F was signed by defendant Newey. In the 1999 20-F, Alstom discussed its joint venture with ABB stating:

> The creation of ABB ALSTOM POWER enables ALSTOM to significantly reinforce its position in the energy market by becoming a world leader and to continue to benefit from the steady growth of this market. Through ABB ALSTOM POWER, ALSTOM also acquires joint ownership of a heavy duty gas turbine technology and enters the heavy duty gas turbine market in the United States, a market previously inaccessible to ALSTOM within the framework of its license agreement with GE.
>
> Bringing together the energy activities of the two entities will facilitate the rationalization of their industrial units, particularly in businesses where there is overcapacity. Improvements in productivity and synergy effects are expected to result in cost savings estimated at between Euro 500 million and Euro 600 million in the fourth year.

163. The August 3, 1999 20-F, also stated:

> Marine had net sales in 1998/99 of Euro 830 million (5.9% of ALSTOM's total net sales) and ... had [approximately 4500] employees ... at March 31, 1999.
>
> * * *
>
> The demand for large cruise liners has experienced the most substantial growth in the specialty ship market over the last 5 years. Nearly all of this demand

has been generated by the North American cruise business. However, the cruise business represents only 2% of American vacation spendings and only 9% of Americans have been on a cruise, while 67% have expressed the wish to go on a cruise. Moreover, 90% of those who have been on a cruise have also been on a second one. Finally, the European market is beginning to emerge.

* * *

During 1998, firm orders were received worldwide for 17 cruise ships and 12 ships were delivered .... While the three principle groups of cruise ship operators, Carnival, Royal Caribbean and P&O/Princess, continue to dominate the market with very large ships, recent orders of medium-size ships have noticeably expanded the luxury market, which until recently was underdeveloped. ***The best example of this growth is the increase in fleet development by [Renaissance] Cruises Inc.*** and by Radisson Seven Seas.

* * *

Alstom has focused on cruise ships and ranks third in that industry worldwide, based upon its delivery of 14 cruise ships since 1987.

Recent cruise ship deliveries include the *R.One* and *R.Two* for Renaissance Cruises, delivered in June 1998 and November 1998, respectively.

164. Alstom's 1999 20-F also contained a list of the "Current Significant Orders" of Chantiers de l'Atlantique, Alstom's largest shipyard, as follows:

Date of Order	Shipowner	Order
December 1998	***Renaissance Cruises***	*R.Three*
December 1998	***Renaissance Cruises***	*R.Four*
April 1998	***Renaissance Cruises***	*R.Five*
April 1998	***Renaissance Cruises***	*R.Six* 4 Cruise ships, 351 cabins - length 181 m, 30,000 GT diesel electric power.
March 1997	Auxiliaire Maritime/Festival	*Mistral* Cruise ship, 598 cabins - length 216 m, 48,000 GT diesel electric power.
December 1998	Radisson Seven Seas France	*K31* Cruise ship, 366 cabins - length 216 m, 46,000 GT diesel electric power.
March 1998 (2 Ships) February 1999 (2 Ships)	Royal Caribbean Cruise Ltd/Celebrity Cruises	4 Millennium cruise ships, 1,025 cabins - length 294 m, 91,000 GT gas/electric turbine power.
February 1999	Festival	1 cruise ship (plus one on option) 598

Date of Order	Shipowner	Order
		cabins - length 216 m, 48,000 GT diesel electric power.
March 1999	***Renaissance Cruises***	*R.Seven*
	Renaissance Cruises	*R.Eight* Cruise ships, 351 cabins - length 181 m, 30,000 GT diesel electric power.

165. The statements in the 1999 20-F were materially false and misleading because: (i) Alstom knew prior to entering into the joint venture with ABB that ABB's technology was riddled with defects and would saddle Alstom with billions of euros of liability; (ii) the Company knew, but failed to disclose, that correcting the defects in the turbines would cost approximately €4 billion; (iii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover the costs associated with the defective GT24/26 turbines; and (iv) Alstom knew the defects in the turbines would prevent it from saving €500 to €600 million in the fourth year of the joint venture. Also, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, as opposed to strong demand for Alstom's ships. Finally, Alstom's financial results in the 1999 20-F were false and misleading as a result of the GAAP violations set forth in Section VI.

166. On November 23, 1999, Alstom announced its financial results for the six months ended September 30, 1999. The Company reported net income after goodwill of €227 million and stated: "Orders received in Marine continue to grow with an increase of 12% in the First Half compared to the same period last year.... [Marine] sales have increased by 119% as a result of the

successful delivery or completion of three cruise ships during the period, two for Renaissance and one for Festival."

167. Alstom's statements set forth in the preceding paragraph were materially false and misleading because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, as opposed to strong demand for Alstom's ships. Alstom's financial results in the November 23, 1999 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

168. On December 13, 1999, J.P. Morgan Securities, Ltd. issued an analyst report, stating: "Following an update with the company, we are raising our EPS estimates for 2001 and 2002 by 4% each. The revisions relate primarily to the Marine division where we have increased our forecasts for sales and operating margins owing to the recent strong order intake for cruise ships."

169. On January 18, 2000 Alstom issued a press release announcing its orders and sales for the first nine months ending December 31, 1999. Alstom reported overall orders were up 22% (+8% excluding Energy) and sales were up 16% (+7% excluding Energy). In commenting on the results, Defendant Bilger stated:

> "We are reporting today a very strong performance in terms of overall orders and sales for the First Nine Months 99/00 with significant growth in Energy, Transport and Marine more than off-setting the exceptionally low level of activity registered by Transmission & Distribution, particularly in the 3rd Quarter.
>
> For the full year 1999/00, including Energy, we expect to record an overall strengthening of orders and sales, primarily due to the consolidation of ABB ALSTOM POWER."

In reporting on the Energy Sector's performance, the press release stated,

> [t]he significant increase in Energy orders and sales primarily reflects the consolidation of ABB Alstom Power since 1 July 1999.

170. The January 18, 2000 press release also stated: "Orders received in Marine increased by 77% compared to the First Nine Months 98/99. Order intake in the 3rd Quarter alone reached an exceptional level of over €850 million ... [a]t 31 December 1999, Marine's order book contained 13 cruise ships for delivery before 2003/04.... [Marine] sales increased by 67% as a result of the successful delivery of three complete cruise ships, two for Renaissance and one for Festival as well as part completion of the Millennium cruise ship for RCCL and a further cruise ship for Renaissance."

171. The statements in the January 18, 2000 press release relating to Energy's orders and sales were materially false and misleading because: (i) Alstom misrepresented Energy's orders and sales figures as the Company failed to disclose that it was improperly accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) the Company knew, but failed to disclose, that correcting the defects in the turbines would cost Alstom approximately €4 billion; (iii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines; and (iv) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines. Alstom's statements in the January 18, 2000 press release regarding the Marine Division were materially false and misleading because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, as opposed to strong demand for Alstom's ships. Alstom's financial results set

forth in the January 18, 2000 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

172. On February 4, 2000, Alstom issued a press release announcing ABB Alstom Power's fiscal year 1999 results. In the February 4, 2000 press release, Alstom reported ABB Alstom Power's orders "rose by more than 14 percent," and that its operating earnings (July to December) amounted to €26 million. In commenting on the joint venture's "success," Claude Darmon, President and CEO of ABB Alstom Power, was quoted in the February 4, 2000 press release, as saying:

> "The significant rise in orders demonstrates our customers' continued confidence in our products and services, and we see clear opportunities to restore and grow margins significantly." ... Orders received rose more than 14 percent to euro 11.44 billion for the full year 1999, based on a pro forma comparison with the combined 1998 results of the former ALSTOM Energy Sector and ABB Power Generation Segment. Revenues of euro 9.85 billion for the year were flat compared to the previous year (also on a pro forma basis), as ***higher revenues in the gas turbine sector*** were offset by a decline in steam turbine-related revenues. For the six months July to December, order intake was euro 5.9 billion and revenues euro 5.4 billion.

173. The February 4, 2000 press release also stated:

> ABB ALSTOM POWER is benefiting from the increasing number of privately-financed merchant plant projects in the U.S. and the corresponding demand for high-efficiency, cost-effective gas turbine technology. During the company's first six months of operation, gas turbine orders in the U.S. totaled euro 1.5 billion, comprising over 3,500 megawatts (MW) of combined-cycle gas-fired plants. Major turnkey orders were awarded in the U.K., Japan, Australia and Singapore. In Spain, ABB ALSTOM POWER won a major power generation order (euro 600 million) to build two 800 MW combined-cycle plants.

174. The statements in the February 4, 2000 press release relating to the success of the joint venture's gas turbines were materially false and misleading because: (i) Alstom misrepresented ABB Alstom Power's orders and operating earnings as the Company failed to disclose that it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom failed to

disclose that it inherited billions of euros in liability from the sale of defective GT24/26 turbines, which plagued ABB even before the ABB Alstom joint venture was created; (iii) Alstom knew of the defects as early as January 1999 when an internal investigation revealed ABB's GT24/26 turbines suffered from massive defects; (iv) the Company knew, but failed to disclose, that correcting the defects in the turbines would cost approximately €4 billion; and (v) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines. Alstom's financial results in the February 4, 2000 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

175. On February 25, 2000, Alstom issued a press release to dispel investors' concerns that the Company would be issuing a profit warning. The February 25, 2000 press release states:

> In the face of wide-spread market rumours of a profit-warning concerning ALSTOM, ALSTOM's management confirms the full year 1999/00 outlook announced at the time of the publication of the Company's First Half Results on 23 November 1999 and re-confirmed at the time of the Company's 9 Months Orders and Sales announcement on 18 January 2000.
>
> * * *
>
> Alstom confirms its 6% operating margin target for 2001/02.

176. The statements in the February 25, 2000 press release confirming Alstom's financial stability were materially false and misleading because: (i) Alstom misrepresented ABB Alstom Power's orders and earnings as the Company failed to disclose it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom failed to disclose that it inherited billions of euros in liability from the sale of defective GT24/26 turbines, which plagued ABB even before the ABB Alstom joint venture was created; (iii) Alstom knew of the defects as early as January 1999 when an internal investigation revealed ABB's GT24/26 turbines suffered from massive defects; (iv)

the Company knew, but failed to disclose, that correcting the defects in the turbines would cost approximately €4 billion, thus preventing it from reaching a 6% margin in 2001/2002; and (v) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines.

177. On March 31, 2000, Alstom issued a press release announcing it would acquire ABB's interest in ABB Alstom Power (Alstom's acquisition was completed on May 11, 2000). The March 31, 2000 press release, quotes defendant Bilger as stating:

> "The timing of this transaction could not be better: we stand today at the eve of a turnaround both in the context of renewed economic growth worldwide and also in terms of the power company's on-going initiatives to significantly improve operating performance. With this move, ALSTOM stands to benefit one hundred percent from the new growth prospects and the full synergy effects."

178. The statements in the March 31, 2000 press release, relating to the benefits Alstom would acquire by buying out ABB's interest in the joint venture, were materially false and misleading because: (i) Alstom failed to disclose that it inherited billions of euros in liability from the sale of defective GT24/26 turbines, which plagued ABB even before the ABB Alstom joint venture was created; (ii) Alstom knew of the defects as early as January 1999 when an internal investigation revealed ABB's GT24/26 turbines suffered from massive defects; (iii) contrary to Bilger's comments regarding the timing of the transaction, less than four months after this announcement Alstom made its first public statement regarding defects in the GT24/26 turbines; (iv) the Company knew correcting the defects in the turbines would cost approximately €4 billion; (v) Alstom failed to disclose the full extent and costs of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines; and (vi) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines.

179. On May 22, 2000 Alstom issued a press release announcing its annual results for 1999/2000. In the May 22, 2000 press release, Alstom reported its backlog at €23.701 billion, orders of €17.259 billion, sales of €16.229 billion, net income of €349 million and an operating margin of 4.5%. In commenting on the results, defendant Bilger stated:

> "1999/2000 has been a transforming year for ALSTOM during which great progress has been made to realize our vision to position the Company as the global specialist in energy and transport infrastructures.
>
> In recent weeks, we have completed both the refocusing of industry and the strategic repositioning of Energy with ALSTOM's acquisition of the outstanding 50% shares in former joint company, ABB ALSTOM POWER, now renamed ALSTOM Power.
>
> The Company has recorded a sound performance marked by a further strengthening of the order book and double digit growth in sales, partly the effect of the inclusion of 50% of the enlarged power activity.
>
> * * *
>
> As a result of the complete integration of ALSTOM Power which will be fully accounted for in 2000/01, ***ALSTOM will benefit one hundred percent from the turnaround and synergy potential of this activity***. In the new configuration, we expect to achieve the overall 6% operating margin target in 2002/03 and clearly believe our longer-term financial prospects to have been strengthened."

180. With respect to Alstom's Energy unit, the May 22, 2000 press release, reported its orders at €5.569 billion and sales at €4.471 billion. Alstom also stated:

> The strong increases in orders received (+48%) and sales (+42%) in Energy are mainly due to the change in scope during the period, making direct comparisons difficult.
>
> Significant growth in orders was recorded in the gas segment, ***particularly heavy duty gas turbines*** and combined cycle power plants with major orders in the United States, Mexico and Spain.
>
> * * *
>
> In the first quarter, ALSTOM's former Energy sector (including heavy duty gas turbines) recorded an operating income of €42 million. During the second and third quarters, the 50% consolidation of ABB ALSTOM POWER contributed only marginally to ALSTOM's operating performance at €31 million. In the fourth quarter, an operating income of €44 million was recorded in ALSTOM's results

representing an operating margin of 3.8% compared to the average 2.6% of the full year and reflecting profitability improvement with this Sector.

181. The May 22, 2000 press release also stated:

> The 25% decrease in orders received in Marine is due to the exceptionally high level or order intake during the previous year and does not reflect a slowdown in demand in the cruise-ship market which continues, on the contrary, to boom.
>
> * * *
>
> 1999/2000 saw the successful delivery of four cruise ships, which two other vessels, including the 2000 passenger Millennium cruise-ship reaching the stage of sea-trials. The resulting 59% in increase in sales is due to the high level of orders received since 1998 ....

182. The statements in the May 22, 2000 press release, relating to the benefits Alstom would acquire in buying out ABB's interest in the joint venture, Alstom's financial figures, and Energy's figures were each materially false and misleading because: (i) Alstom failed to disclose that it inherited billions of euros in liability from the sale of defective GT24/26 turbines, which plagued ABB even before the ABB Alstom joint venture was created; (ii) Alstom knew of the defects as early as January 1999 when an internal investigation revealed ABB's GT24/26 turbines suffered from massive defects; (iii) the Company knew correcting the defects in the turbines would cost Alstom approximately €4 billion; (iv) Alstom failed to disclose the full extent of the costs of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines; and (v) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines. The statements in the May 22, 2000 press release regarding the Marine Division were materially false and misleading because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable

customers, as opposed to strong demand for Alstom's ships. Alstom's financial results in the May 22, 2000 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

183. On July 14, 2000, Alstom filed its 2000 20-F with the SEC which contained the Company's Annual Report for 2000, including its financial statement for the year ended March 31, 2000. The 2000 20-F was signed by defendant Newey. In the 2000 20-F, Alstom reiterated the Company's sales, net income, orders, backlog and operating margin; and the orders and sales of its Energy unit, as reported in the May 22, 2000 press release. Additionally, Alstom reconciled its figures with U.S. GAAP and reported net income of $408 million. These financial statements represented that Alstom had commitments and contingencies of €7,290.8 million for 2000, but did not disclose the existence of customer financing guarantees for Renaissance or any other customer. That report further states:

> Orders received from Marine in 1999/2000 amounted to €1.623 million as compared to €2.151 million in 1998/1999, which was exceptionally high. Orders received in 1999/2000 are 23% above net sales. The cruise market is very active and prospects are good for Marine.
>
> * * *
>
> Net sales for Marine amounted to €1,318 million as it compared with €830 million in 1998/1999. This increase is 59% as compared with 1998/1999, as the direct consequence of the high flow orders obtained since the beginning of 1998, the first sign of success of the Cap 21 Strategic programme. Main deliveries included to be 350-cabin cruise ships R III, R IV, and RV for Renaissance Cruise, ... Marine net sales in 1998/1999 had increased by 7% as compared with 1997/1998 ...
>
> * * *
>
> Operating income from Marine amounted to €71 million in 1999/2000 as compared with €25 million in 1998/1999 and €12 million in 1997/1998. The operating income has almost tripled between 1998/1999 and 1999/2000 and the operating margin increase from 3% to 5.4%...
>
> * * *

Also during the year, Marine completed and delivered four cruise ships, Mistral (operated by Festival), R Three and R Four (operated by Renaissance in French Polynesia) and R Five (also operated by R. cruises) as well as reaching the stage of first sea trials for the 2,000 passenger *millennium* cruise ship and the 700 passenger R Six, both of which are to be delivered at the end of May 2000.

By taking full control of ABB ALSTOM POWER, ALSTOM stands to benefit one hundred per cent from the new growth prospects in the power generation market and from increased synergies.

184. Alstom's Annual Report also contained a list of the "current significant orders" of Chantiers de l'Atlantique, Alstom's largest shipyard, as follows:

Date of Order	Shipowner	Order
December 1998	Radisson Seven Seas France	*K31 Seven Seas Manner* 366-cabin cruise ship - length 216 m, 16.6 MW diesel/electric propulsion
April 1998	***Renaissance Cruises***	*Q31 R. Six* 351-cabin cruise ship - length 181 m, 19.4 MW diesel/electric propulsion
March 1998	Royal Caribbean Cruises Ltd.	*R31 Millennium* 1,025-cabin cruise ship - length 294 m, 65 MW (gas and steam turbines) electric propulsion by pod
December 1999	P&O/Princess Cruises	*C32 996* cabin cruise ship - length 294 m, 5 MW (gas turbine and diesel) electrical propulsion
December 1999	P&O/Princess Cruises	*D32 996* cabin cruise ship - length 294 m, sister ship to *C32*
March 1998	Royal Caribbean Cruises Ltd.	*S31 Infinity*, 1,025-cabin cruise ship, sister ship to *R31*
February 1999	Royal Caribbean Cruises Ltd.	*T31* 1,025-cabin cruise ship, sister ship to *R31*
February 1999	Royal Caribbean Cruises Ltd.	*U31* 1,025-cabin cruise ship, sister ship to *R31*
March 1999	Festival Cruises	*V31 European Vision* 753-cabin cruise ship - length 251 m, 20 MW diesel/electric propulsion
October 1999	Festival Cruises	*X31 European Dream* 753-cabin cruise ship, sister ship to *V31*

Date of Order	Shipowner	Order
March 1999	***Renaissance Cruises***	*Y31 R. Seven* 351-cabin cruise-ship, sister ship to *Q31*
March 1999	***Renaissance Cruises***	*R. Eight* 351-cabin cruise ship, sister ship to *Q31*
July 1999	Department of Defense of the Kingdom of Morocco	*A32* and *B32* – Floreal-type surveillance frigate - length 94 m, diesel propulsion

185. The statements in the 2000 20-F were materially false and misleading because: (i) Alstom misrepresented Alstom Power's orders and sales figures as the Company failed to disclose that it was improperly inflating its sales figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom failed to disclose that it inherited billions of euros in liability from the sale of defective GT24/26 turbines, which plagued ABB even before the ABB Alstom joint venture was created; (iii) Alstom knew of the defects as early as January 1999 when an internal investigation revealed ABB's GT24/26 turbines suffered from massive defects; (iv) the Company knew, but failed to disclose, that correcting the defects in the turbines would cost Alstom approximately €4 billion; (v) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with the defective GT24/26 turbines; (vi) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; (vii) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated; (viii) Alstom's U.S. GAAP net income of $408 million was materially misstated because sales of GT24/26 turbines, 50% of which were recognized by Alstom as 50% owner of the joint venture, were improperly recognized in the Company's reconciled revenue figure since ABB Alstom Power did not meet the requirements for revenue recognition under those contracts; and (ix) Alstom's U.S. GAAP net income of $408 million was also materially misstated since Alstom failed

to expense known contract losses and warranty costs associated with curing the defects in the GT24/26 turbines. The statements in Alstom's 2000 20-F regarding the Marine Division were materially false and misleading because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, as opposed to strong demand for Alstom's ships. Alstom's financial results in the 2000 20-F were also false and misleading as a result of the GAAP violations set forth in Section VI.

186. On July 21, 2000, Alstom issued a press release announcing its orders and sales for the three months ended June 30, 2000, stating: "Sales ... rose by a significant 59% as a result of the past high level of orders received translating into sales. 2 cruise ships were completed and delivered during the period: the 350-cabin cruise-ship R Six to Renaissance Cruises and the 1,019 cabin Millennium to Royal Caribbean for Celebrity Cruises." The July 21, 2000 press release also reported Power's "Orders Received" for the quarter as €1.7 billion and its "Net Sales" as €2.252 billion, respectively. In commenting on the results, Defendant Bilger stated, "'ALSTOM's strategic repositioning, completed during this quarter, is now reflected in our reported figures and fully operational in the field. Moving forward in our new configuration, orders received increased by 24% and sales by 46% as compared to the same period last year.'"

187. The July 21, 2000 press release also discussed the Power Division, stating:

> €1 700 million in orders received and €2 252 million in sales – reflect the 50% consolidation of this Sector from 1 April - 10 May 2000 and full consolidation from 11 May 2000 onwards following ALSTOM's acquisition of ABB's 50% share in the hitherto jointly owned power company. On a pro forma basis, including 100% of the power activity from 1 April 2000, total orders amounted to €2 268 million whilst sales amounted to €2 803 million.

*   *   *

> Major orders received during the First Quarter included 8 gas turbines for power projects in North America, and another 4 gas turbines in the Middle East.

188. The statements in the July 21, 2000 press release, relating to Alstom's overall orders and sales, as well as Power's individual orders and sales, were materially false and misleading because: (i) Alstom misrepresented Power's orders and sales figures as the Company failed to disclose that it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) the Company knew, but failed to disclose, that correcting the defects in the turbines would cost Alstom approximately €4 billion; (iii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines; (iv) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (v) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated. The statements in the July 21, 2000 press release regarding the Marine Division were materially false and misleading because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, not strong demand for Alstom's ships.

189. On July 24, 2000, J.P. Morgan Securities, Ltd. issued an analyst report stating: "We have raised our forecasts for the Marine division as Alstom confirmed the exceptional nature of this year during which it intends to deliver six cruise ships."

190. On July 31, 2000 Alstom issued a press release announcing its annual results for 1999/2000. In the July 31, 2000 press release, Alstom stated:

> The first 'B' rating versions of the Company's GT24/26 gas turbines are currently being introduced to service. In the past months, technical issues have arisen which ***are not unusual*** in the commissioning of new high-tech complex products of this type, and for which modifications have been identified and are being implemented. Recent inspections have revealed a further localized deficiency, which will require component modification on all 'B' rating machines. The first modified machines will re-start in August 2000. As a result, some GT24B and GT26B projects will experience some start-up and commercial operation delays. ALSTOM is working with each customer to manage their specific issues.
>
> The impact of these issues may involve material additional costs. Any such costs will be included in the purchase accounting treatment of the acquisition of ABB ALSTOM Power, which will be reported in the 30 September 2000 interim accounts. On this basis, the ***Company does not believe that these issues will affect significantly the operating margin target of 6% for 2002/03 previously disclosed***.

191. The statements in the July 31, 2000 press release, relating to the GT24/26 turbines and the Company's operating margin were materially false and misleading because: (i) Alstom failed to disclose that the defects were in fact highly unusual and that correcting the defects would cost the Company approximately €4 billion; (ii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced a final €1.2 billion charge to cover costs associated with its GT24/26 turbines; (iii) Alstom knew the costs associated with its GT24/26 turbines would prevent it from reaching its operating margin target of 6% for 2002/2003; and (iv) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines. Alstom's financial results in the July 31, 2000 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

192. *Les Echos*, published the August 1, 2000 article discussing Alstom's recent disclosure regarding the defects in its GT24/26 turbines. The August 1, 2000 article reported:

> Alstom initially discovered a combustion problem with its new gas turbines a number of months ago. At the beginning of July, the group's engineers were called in to repair a new defect: a small piece which tended to overheat during the turbine's

operation. Alstom will be forced to change the component in question on all of the turbines already produced or currently undergoing production, a total of up to 80 units. Changing the piece on the first two turbines took the group no less than six weeks. ***According to Alstom's management, the financial impact of this setback should be minimal***. The group has forecast an operating margin of between 3 per cent and 4 per cent for the year, rising to 6 per cent for 2002-2003.

193. The statements in the August 1, 2000 article are all attributed to Alstom and were materially false and misleading because: (i) Alstom failed to disclose the full cost of the defects in the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (ii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (iii) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders thus, the Company's highly-publicized "backlog" figure was grossly inflated.

194. On November 7, 2000 Alstom issued a press release announcing its annual results for the first half of 2000/2001. This press release was attached to a Form 6-K that Newey signed and filed with the SEC on November 16, 2000. In the November 7, 2000 press release, Alstom reported orders of €10.814 billion and sales of €10.651 billion. In commenting on the results defendant Bilger stated:

"Alstom has continued to deliver progress during the First Half 2000/01. The actions to remedy the difficulties encountered with the introduction of the GT24/GT26 gas turbines are proceeding actively and the corresponding provision [was] established. In line with the First Half, the full year 2000/01 is expected to show new progress in orders and operating margin compared to last year. This gives credit to our 6% operating margin target for 2002/03 which I confirm."

195. Alstom further stated:

On 31 July 2000, Alstom announced that it had experienced significant technical difficulties in the introduction of its new heavy duty GT24/26 gas turbines previously developed and marketed by ABB.

The most advanced techniques are being applied to resolve the problems. Modifications are being designed and implemented. These modifications are causing delays in scheduled deliveries and start-ups of such turbines and are resulting in lower performance and efficiency output committed to customers. Discussions with individual customers have been initiated and are on-going in order to reach appropriate settlements.

An additional €903 million provision corresponding to this issue is included in the First Half accounts through the purchase accounting method applied to the integration of Power. €53 million of this provision was spent in the First Half. The Company expects to spend the remaining additional costs over a period of at least 3 years.

The additional provision was established following a contract by contract analysis and is based on the Company's current assessment of the probable additional costs associated with the implementation and consequences of the modification to the GT24/26 gas turbines delivered or included in the order book. In estimating the additional provision, the Company principally took into account potential costs relating to the design and manufacture of replacement parts, the opening and repairing of the affected turbines, the amounts which may become due to customers for delivery delays or under availability and performance guarantees and the terms of each individual contract.

196. The November 7, 2000 press release also announced net income during the period of €103 million, stating:

Sales ... rose almost 29% from € 722,000,000 to € 933,000,000 as a direct result of Marine's high order backlog and productivity improvements. At the shipyard leading to shorter construction time and increased ship deliveries. During the first half, three cruise ships were delivered: 2x 350-cabin cruise-ships R Six and R Seven to Renaissance Cruises and the 1,019 cabin Millennium cruise-ship to Royal Caribbean for Celebrity Cruises.

197. The statements in the November 7, 2000 press release were materially false and misleading because: (i) Alstom misrepresented Power's orders and sales figures by failing to disclose that it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines while knowing that every turbine sold or in production was defective; (ii) despite Alstom's assurances that the improvements were proceeding actively, Alstom failed to disclose the full cost of the defects in the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the

total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders. The statements in the November 7, 2000 press release regarding the Marine division were materially false and misleading because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, as opposed to strong demand for Alstom's ships. Alstom's financial results in the November 7, 2000 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

198. On November 15, 2000 Alstom issued a press release titled, "Alstom wins GT24/GT26 gas turbine orders worldwide," where Alstom announced orders for GT24/GT26 turbines from companies in Australia, Thailand, Mexico, Brazil and Ireland with a combined total value of €1.355 billion. This press release was issued one week after Alstom announced that it was taking an additional provision of €903 million due to defects in the GT24/26 gas turbines.

199. The statements in the November 15, 2000 press release were materially false and misleading because: (i) Alstom misrepresented the Power's orders and sales figures as the Company failed to disclose that it was improperly inflating its sales figures by accounting for "sales" or "orders" of defective GT24/26 turbines while knowing that every turbine sold or in production was defective; (ii) the Company knew, but failed to disclose, that correcting the defects in the turbines would cost Alstom approximately €4 billion; (iii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion

charge to cover costs associated with the defective GT24/26 turbines; (iv) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (v) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated.

200. On November 30, 2000, Alstom filed on Form 6-K its half-year results for the half-year ended September 30, 2000, in which it disclosed that it had commitments and contingencies of €13,244.7 million at September 30, 2000, but did not disclose the existence of customer financing guarantees for Renaissance or any other customer. In the November 30, 2000 6-K, which Newey signed, Alstom also stated:

> management has undertaken a ***thorough analysis*** of ... [the] issues [surrounding the defects in the GT24/26 turbines] and has estimated, on the basis of a set of assumptions, taking into account potential costs relating to the design and manufacture of replacement parts, the opening and repair of the affected turbines, amounts which may become due to customers for delivery delays or under availability and performance guarantees, and the specific terms of each individual contract. The estimates of the related costs as currently determined by the management amount to €903 million. Provisions and other accruals on GT 24/26 gas turbines as of 30 September 2000 including this amount total €1,625 million. The amount provided reflects the expected outcome of the management defined negotiation strategy on a contract by contract basis. The negotiations in process and the technical solutions under development and implementation provide, so far, substantiation of the appropriateness of management approach and assumptions.

201. The statements in the November 30, 2000 6-K were materially false and misleading because: (i) the Company knew correcting the defects in the turbines would cost Alstom approximately €4 billion rather than the €1.6 billion reported in the November 30, 2000 6-K; (ii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced an additional €1.2 billion charge to cover costs associated with the defective GT24/26 turbines; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines, rather, the Company suggested with each announcement that increased funds for the defective turbines would be sufficient to correct the

defects; and (iv) Alstom's order and sales figures were inflated because the Company recorded sales of turbines knowing that the turbines were defective and would require large sums to rectify the defects, its orders were inflated because the defects in the turbines caused customers to withdraw previously-placed orders. Alstom's financial results in the November 30, 2000 6-K were also false and misleading as a result of the GAAP violations set forth in Section VI.

202. On January 9, 2001, Alstom issued a press release wherein Alstom announced its orders and sales for the first nine months ending December 31, 2000. This press release was attached to a Form 6-K that Newey signed and filed with the SEC on January 10, 2001. The January 9, 2001 press release reported Power received €8.573 billion in orders and made €8.943 billion in sales. In commenting on the results, defendant Bilger stated:

> "For the first nine months, ALSTOM reports significant progress in orders and sales across the board. This results both from the confirmed sustained growth in the energy and transport infrastructure markets and from the Company's new dimension following the full integration of Power.
>
> ***The record order backlog now over €39 billion***, coupled with ALSTOM's solid strategic foundations built up over the past 2 years since its initial public offering, provide a strong basis for the Company's future profitable growth."

In reporting on the Power's performance the January 9, 2001 press release stated:

> Orders received [by Power] increased by 111% and sales by 171%.
>
> * * *
>
> In the field of heavy duty gas turbines, following the technical issues encountered during the launch of the GT24/26 machines, stabilization modifications are progressing as planned whilst the Company continues its negotiations with customers.

203. The statements in the January 9, 2001 press release were materially false and misleading because: (i) Alstom misrepresented the Power's orders and sales figures as the Company failed to disclose that it was improperly inflating its sales figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was

defective; (ii) the Company knew, but failed to disclose, that correcting the defects in the turbines would cost approximately €4 billion; (iii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with the defects GT24/26 turbines; (iv) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (v) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "record backlog" figure was grossly inflated.

204. In February 2001, Alcatel and Marconi sold over 71 million Alstom shares in the Secondary Offering, raising approximately $2.03 billion. In connection with the Secondary Offering, Alstom filed a Registration Statement on Form F-3, with the SEC on January 17, 2001 (amended January 24, 2001 and February 7, 2001) (the "2001 F-3") and the related prospectus on February 12, 2001 (the "2001 prospectus"). The 2001 F-3 was signed by defendant Bilger and by defendant Newey on his own behalf and as attorney-in-fact for Milner, Purves, Esser, Halbron, Mayo and Simpson. The 2001 prospectus contained unaudited consolidated balance sheets which represented that Alstom had commitments and contingencies of €13,244.7 million at September 30, 2000, but did not disclose the existence of customer financing guarantees for Renaissance or any other customer.

205. In connection with the Company's cruise line construction business, the Registration Statement stated as follows:

> During the third quarter of 2000/01, Marine was awarded orders for three major cruise ships…. This brought orders received to €1.509 million for the first nine months of 2000/01.
>
> Consequently, ***the order backlog stands at a record level of €3.9 billion and comprises 12 cruise ships***, two high-speed ferries and two surveillance frigates. This does not include options for three further cruise ships.

* * *

> Marine. Net sales increased by 29% from € 722 million to € 933 million as a direct result of Marine's high order backlog and productivity improvements at the shipyard leading to shorter construction times and increased ship deliveries.

206. In the 2001 F-3, Alstom reported that Power's pro forma net sales accounted for 48% of Alstom's sales for 1999/2000. As for Alstom's overall performance for the first nine months of 2000/2001, the 2001 F-3 stated that Alstom received €19.411 billion in orders (compared to €13.086 billion in the first nine months of 1999/2000). The Company attributed the increase "mainly ... [to the] full integration of Power...." Alstom further represented net sales of €16.229 billion for the year ended March 31, 2000 and stated that this figure would be unaffected if accounted for under U.S. GAAP.

207. Specifically, with respect to Power and the defective turbines, the 2001 F-3 stated, "we believe our Power sector is positioned for further volume growth. Despite technical problems encountered during the introduction of the GT24/26 gas turbines, we aim to maintain volumes in our gas business by reinforcing commercial efforts on machines with proven operating track records...." Alstom further stated, "[o]n a comparable basis, [Power's] sales increased by 23%. This is a result of Power's significant backlog built over the past few years...." Additionally, the 2001 F-3 stated that Power's net sales for nine months of 2000/2001 were €5.091 billion (compared to €1.834 billion for the same period in 1999/2000). Alstom also stated:

> The modification that we are making to the GT 24/26 turbines and the related settlement agreements that we are negotiating will be costly. In order to account for these costs, we have recorded an additional provision of €903 million for losses on the GT 24/26 contracts in our unaudited interim consolidated financial statements for the six months ended September 30, 2000. This brings the total amount of provisions and other accounts related to the GT 24/26 gas turbines recorded on our balance sheet at September 30, 2000 to €1,625 million. The €903 million provision was established following a contract-by-contract analysis and is based on our current estimate of the probable costs associated with the implementation and consequences of the modifications to the GT 24/26 gas turbines that have already been delivered or are included in our order book. In estimating this provision, we principally took into account potential costs relating to the design and manufacture of replacement parts, the repair of the turbines, amounts which may become due to customers for delivery

delays or under availability and performance guarantees, and other specific terms of individual contracts.

208. The 2001 Prospectus reiterated statements in the 2001 F-3, with respect to Power accounting for 48% of Alstom's total sales, Alstom's net sales of €16.229 billion, the preceding paragraph regarding GT24/26 turbines, and that €1.625 billion was set aside for the defective turbines as of September 30, 2000.

209. The 2001 Prospectus repeated the statement made in the 2001 F-3 stating that the total provision set aside for the GT24/26 turbine defects was "established following a contract-by-contract analysis and is based on our estimate of the probable cost associated with the implementation and consequences of the modifications to the GT24/26 gas turbines that have already been delivered or are included in our book."

210. The statements in the 2001 F-3 and the 2001 Prospectus were materially false and misleading because: (i) Alstom misrepresented the extent of the Alstom Defendants' knowledge regarding defects in the GT24/26 turbines; (ii) the Company knew, but failed to disclose, that correcting the defects in the turbines would cost Alstom approximately €4 billion; (iii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines; (iv) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; (v) Alstom failed to disclose that its "contract by contract" analysis in establishing the €903 million reserve was completely inaccurate and Alstom knew correcting the defects would cost the Company approximately €4 billion or 146% more than the €1.625 billion stated in the offering documents; and (vi) Alstom failed to disclose its reported backlog was grossly inflated as customers were withdrawing previously-placed orders. The statements in the Registration Statement and Prospectus regarding the Marine division were materially false and misleading

because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, as opposed to strong demand for Alstom's ships. Alstom's financial results in the Registration Statement and Prospectus were also false and misleading as a result of the GAAP violations set forth in Section VI.

211. On May 15, 2001, the Company issued a press release announcing its financial results for fiscal year ended March 31, 2001. It reported operating income of €1.51 billion and net income of €204 million. It also reported that sales rose 15% on a comparable basis to €24.6 billion. Defendant Bilger commented on the Company's performance, stating in pertinent part, as follows:

> This year has been a year of significant change and continuing progress towards our strategic goals. We are now the recognised specialist in energy and transport infrastructure. Our actions this year have translated into an excellent order book, a new shareholder base and a more focused portfolio of activities.
>
> Despite short-term world-wide economic uncertainties, we continue to benefit from strong medium to long term infrastructure demand and good market positions for most of our products and services. Although our operating income rose, we still feel that we can significantly improve the profitability of our businesses.
>
> For the coming years, we will be building the foundations for future profitable growth by concentrating on operational efficiency, continued focusing of our activities and growth in higher value added products and services. The current lack of visibility of the world economy invites caution. Nevertheless, our performance during fiscal year 2002 should show again some progress and we see no reason today not to maintain our 6% operating margin target for fiscal year 2003.
>
> * * *
>
> ***During fiscal year 2001, we established asset-backed financing programs which generated additional cash of approximately €531 million during fiscal year 2001, principally for Marine.***
>
> * * *

Specifically with respect to Power and the GT24/26 turbines, the May 15, 2001 press release stated:

> On a comparable basis, sales increased by 15%. This is mainly due to the strong increase in sales recorded by Power following the high level of orders for steam products and gas turbines, received by this sector in previous years.
>
> *　　*　　*
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> Goodwill amortization amounted to €360 million in fiscal year 2001 versus €244 million in fiscal year 2000. This significant increase was mainly attributable to our acquisition of ABB's 50% shares in ABB ALSTOM Power and its corresponding purchase accounting ....
>
> *　　*　　*
>
> On 31 July 2000, we announced that we had experienced significant technical difficulties in the introduction of the new GT 24/26 heavy-duty gas turbines. In response to these technical problems, we continue to design and progressively implement modifications across the fleet of GT 24/26 turbines and we continue to negotiate settlement agreements with our customers. In order to account for these costs, we have recorded an additional provision of € 903 million for losses on the GT 24/26 contracts in our consolidated financial statements for the fiscal year 2001....
>
> Operating income amounted to €448 million in fiscal year 2001, versus €117 million in fiscal year 2000. The operating margin was 3.7% in fiscal year 2001, versus 2.6% in fiscal year 2000.
>
> The 100% integration of ABB ALSTOM Power into the Company was the major reason for the substantial increase in operating income for Power.
>
> *　　*　　*
>
> In the heavy duty gas segment, the technical difficulties encountered with the introduction of the GT24/26 gas turbines have resulted in the need to set aside additional accruals for costs to complete and provisions for contract losses.... Large gas turbines represented approximately 17% of Power sales during fiscal year 2001.

As for Power's future prospects, the May 15, 2001 press release stated: "Given its broad product and service base, we believe Power is positioned for medium to long-term growth."

Regarding Marine, the May 15, 2001 press release stated:

> Orders received in fiscal year 2001 amounted to €1,835 million, versus €1,623 million in fiscal year 2000, an increase of 13%, mainly due to the active cruise-ships markets. In October 2000, Marine won the exceptional order of the Queen Mary 2, a 2,800-passenger transatlantic cruise-liner for Carnival/Cunard. The Marine order book has reached the record level of Euro 3.7 billion and comprises ten cruise-ships,

two high-speed ferries, two surveillance frigates and one naval research vessel "BHO."

Sales amounted to €1,841 million in fiscal year 2001 versus €1,318 million in fiscal year 2000. The 40% increase over last year was a result of the previous year's order-book and was also due to improvements in shipbuilding organization and productivity, leading to shorter construction time and increased deliveries. Marine delivered six cruise-ships in fiscal year 2001. The target of the CAP 21 strategic plan, launched in 1997 to double the level of sales, was more than exceeded.

212. The statements in the May 15, 2001 press release were materially false and misleading because: (i) Alstom misrepresented the Power's orders and sales figures failing to disclose that it was improperly inflating its sales figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated. Alstom's financial results in the May 15, 2001 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

213. On May 15, 2001, *Dow Jones Int'l News* reported on Alstom's press releases in which the Company released its figures for fiscal year 2001 (the "May 15, 2001 article"). The May 15, 2001 article stated in relevant part:

Alstom (ALS) Chairman and Chief Executive Pierre Bilger said Tuesday that it is business as usual for the Anglo-French power engineering group, despite protracted negotiations related to solving costly problems with gas turbines that the company has supplied.

"***This isn't a crisis situation***," Bilger told reporters at a press conference.

* * *

> Bilger said Alstom had no significant news to report on developments compared with six months ago. At that time, Alstom said it had set aside a provision of EUR903 million to repair faulty gas turbines inherited from a joint venture with ABB Ltd. (Z.ABB). That came on top of EUR670 million set aside in accounts for the year through March 2000.
>
> * * *
>
> Bilger said that ***growth*** in the rest of Alstom's business is compensating for any drain on the company's resources related to the turbines in the fiscal year to March 31, 2001, with the company's cashflow considerably improved in the past six months.

214. Defendant Bilger's statements in the May 15, 2001 article, were materially false and misleading because: (i) Bilger knew that the defects in the turbines and the ensuing negotiations with customers represented a crisis situation for Alstom to the tune of €4 billion; (ii) Bilger misrepresented Alstom's other business units' abilities to compensate for Alstom's exposure to the defects in the turbines given that other units such as ATI were themselves engaging in improper accounting practices and inflating figures; and (iii) Bilger knew Alstom's €930 million and €670 million reserves to address the liabilities associated with the defects in the GT24/26 were woefully inadequate.

215. On July 2, 2001, Alstom filed its 2001 20-F with the SEC which contained the Company's Annual Report for 2001, including its financial statement for the year ended March 31, 2001. The 2000 20-F was signed by defendant Newey. In the 2000 20-F, Alstom reiterated the Company's sales, backlog and net income and the operating income of its Power unit, as reported in the May 15, 2001 press release. These financial statements represented that Alstom had commitments and contingencies of €15,560.6 million for 2001, but did not disclose the existence of customer financing guarantees for Renaissance or any other customer. That report also stated:

Marine – Orders received in fiscal year 2001 amounted to € 1,835 million, versus € 1,623 million in fiscal year 2000, an increase of 13%, mainly due to the active cruise ships market.

* * *

The Marine order-book comprises ten cruise-ships, two high-speed ferries, two surveillance frigates and one BHO.

* * *

Marine – Operating income amounted to € 80 million in fiscal year 2001 (corresponding to an operating margin of 4.3%) against € 71 million in fiscal year 2000 (5.4% of sales) and € 25 million in fiscal year 1999 (3.0% of sales). Operating income almost tripled in two years, while sales more than doubled. This significant growth has been due to a rise in cruise-ship orders. Marine operating margin dropped to 4.3% from 5.4% in the previous fiscal year due to minor delivery difficulties encountered as a result of a significant volume increase and ship complexity.

* * *

Marine constructs predominately cruise-ships and has based its past and future growth on this market.

The US is the most important cruise-ship market with two thirds of the industry's passengers originating from there. The demand for cruises continued its growth in 2000 with an exceptional 18% progression for the number of cruise ship passengers on the American market (nearly seven million passengers, according to the statistics compiled by the Cruise Lines International Association) and with the European market exceeding 2.2 million passengers. Based on other independent surveys on the growth in the overall leisure industry, which indicate a strong upturn in demand for cruises as a preferred type of vacation, particularly in the US and increasingly also in Europe, ***we believe the long-term prospects for the cruise-ship market are strong***.

* * *

A record number of cruise-ships were delivered in fiscal year 2001:

- ***R. Six, R. Seven and R. Eight, three 700-passenger cruise-ships to Renaissance Cruises***[.]

216. The statements in the 2001 20-F were materially false and misleading because: (i) Alstom misrepresented the Power's orders and sales figures by failing to disclose that it was improperly inflating its sales figures by accounting for "sales" or "orders" of defective GT24/26

turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated; (v) Alstom's reported U.S. GAAP net loss of $1.121 billion was materially misstated because ABB Alstom and Alstom did not meet the requirements for revenue recognition under the GT24/26 turbine sales contracts, therefore, line item (a) in the reconciliation, business combinations contains a figure of $(1.262) billion which should have been reduced by the amount of sales improperly recognized; and (vi) Alstom's reported U.S. GAAP net loss of $1.121 billion was because materially misstated because item (a) in the reconciliation, business combinations of $(1.262) billion which should have been increased by an amount equal to the necessary provisions for unrecorded contract costs associated with curing the defects in the GT24/26 turbines. The Alstom Defendants' statements set forth in the 2001 20-F concerning the Marine Division were materially false and misleading because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, as opposed to strong demand for Alstom's ships. Alstom's financial results were also false and misleading as a result of the GAAP violations set forth in Section VI.

217. The 2001 Annual Report, which was signed by defendant Newey, reiterated the "record" backlog, sales and net income figures reported in the May 15, 2001 press release. The Annual Report was also signed by Defendant Bilger under the heading "Persons assuming responsibility of the document," where Bilger states, "to our knowledge the information contained in this *Document de Reference* is accurate; it contains all information necessary to an investor to evaluate the properties, the activities, the financial situation, the results of operations and the prospects of ALSTOM. There is no other information the omission of which would alter the scope thereof." These financial statements represented that Alstom had commitments and contingencies of €15,560.6 million for 2001, but did not disclose the existence of customer financing guarantees for Renaissance or any other customer.

218. In commenting on the issues associated with the GT24/26 turbines, defendant Bilger told shareholders, "[w]e have identified the issues, provided for the resulting expenses and progressively implementing the technical solutions."

219. In assuring the public about Alstom's prospects, Bilger stated (in a signed letter to shareholders), "we see no reason today not to maintain our 6% operating margin target for fiscal year 2003."

220. With respect to correcting the defects in the GT24/26 turbines the 2001 Annual Report states, "[r]emedial actions [are] on track...."

221. The statements in the 2001 Annual Report were materially false and misleading because: (i) Alstom misrepresented the Power's orders and sales figures by failing to disclose that it was improperly inflating its sales figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when

it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated; (v) contrary to Bilger's comments, he knew that the remedial measures to correct the defects in the turbines were not on track and would require in total €4 billion to correct the defects in the GT24/26 turbines; and (vi) Bilger knew the defects in the GT24/26 turbines would prevent Alstom from reaching a 6% operating margin for fiscal year 2003 (Alstom's operating margin for 2003 as reported in its 2003 20-F filed with the SEC on October 15, 2003, was (2.8)%). The statements in the 2001 Annual Report regarding the Marine Division were materially false and misleading because, unbeknownst to the investing public, Alstom had artificially inflated demand for its cruise ships by secretly guaranteeing hundreds of millions of euros in loans third parties made to Renaissance and other Alstom customers for the purchase of Alstom ships. Thus, the orders and backlog for Alstom cruise ships reflected financing offered to financially unstable customers, as opposed to strong demand for Alstom's ships. Alstom's financial results in the 2001 Annual Report were also false and misleading as a result of the GAAP violations set forth in Section VI.

222. On July 13, 2001, Alstom issued a press release, in which Alstom announced its orders and sales for the first quarter ended June 30, 2001. The July 13, 2001 press release reported Power's "Orders Received" for the quarter were €2.599 billion and "Sales" were €3.29 billion, respectively. In commenting on the results, Defendant Bilger stated:

> "For the first quarter, we continue to see sound order growth. In Power, orders were mainly focused on steam turbines, boiler products, services and industrial-size gas turbines.... Overall, our order book of €39.5 billion remains at a record level, which will be progressively reflected in sales over the years to come."

223. The July 13, 2001 press release continued, stating:

> Sales recorded in the first quarter of fiscal year 2002 amounted to €6.0 billion versus €5.1 billion recorded during the same period last year.
>
> On a comparable basis, sales rose by 5%. This was mainly due to the increase in sales recorded by Power and Transport offset by a decrease in Marine, due to the phasing of cruise-ship delivery schedules.
>
> Order backlog was approximately €39.5 billion (including approximately €6.4 billion of long-term operation and maintenance contracts).

224. In reporting Power's performance the July 13, 2001 press release stated:

> Orders received during the first quarter of fiscal year 2002 in Power grew 53% on an as reported basis to €2.6 billion and 15% on a comparable basis versus the first quarter of fiscal year 2001. Orders growth was high due to a relatively low base in the corresponding quarter in fiscal year 2001.
>
> Demand was strong for steam turbines, boiler products, services and industrial-size gas turbines, particularly in the U.S. This more than offset a drop in turnkey steam, hydro and as expected, in large gas turbines [which include GT24/26 turbines].

225. The statements in the July 13, 2001 press release were materially false and misleading because: (i) Alstom misrepresented the Power's orders and sales figures by failing to disclose that it was improperly inflating its sales figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated.

226. On September 6, 2001, *Bloomberg* published an article titled "Alstom CEO Bilger on Outlook, Asset Sales, Coal Demand: Comment," (the "September 6, 2001 article") wherein defendant Bilger stated, "I confirm our outlook for a 6% operating margin for fiscal 2003."

227. The September 6, 2001 article continued to report that Bilger stated he "will increase margins because of operating improvements, especially at the power unit, which accounts for about half of sales."

228. The statements in the September 6, 2001 article were materially false and misleading because: (i) Alstom knew that given the costs associated with the GT24/26 turbines it could not reach its projected operating margin target of 6% for 2002/2003; (ii) Alstom failed to disclose that the true costs associated with the defects in the GT24/26 turbines would prevent it from reaching its operating margin target of 6% for 2002/2003; and (iii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines, and thus the full impact on operating margin, until March 2003 when it announced it required a €1.2 billion charge to cover costs associated with its GT24/26 turbines.

229. On September 13, 2001, J.P. Morgan Securities Ltd. issued an analyst report regarding Alstom stating:

> We've had an opportunity for an update with Mr. Bilger, a CEO, and Mr. Newey, CFO, on the company's prospects. ***Overall there is no change in the outlook regarding sales and earnings for the current and next year***, but following the situation in New York, Alstom is slightly more cautious on order intake in its 2002/03 fiscal year.
>
> *   *   *
>
> The company is comfortable on the order intake in the current year but thinks that Tuesday's events in New York could result in some delays on some projects thus affecting the order intake in fiscal 2002/03.

230. On September 25, 2001, Renaissance filed for Chapter 11 bankruptcy. On September 27, 2001, Alstom disclosed that the Company had guaranteed the loans with which

Renaissance purchased eight ships from Alstom. In response to the Renaissance bankruptcy, Alstom issued a press release which stated:

> Renaissance Cruises was operating eight cruise-ships built by ALSTOM. These cruise-ships are owned by a number of companies in which ALSTOM has no shares but Alstom has retained an interest in some of the risks and rewards associated with such cruise ships. In this context, ***ALSTOM has, in general, ultimate liability for part of the long-term loans of the financial institutions which have financed the purchase of these cruise-ships.*** The long term loans are secured through first mortgages on all the cruise-ships concerned, ... ALSTOM believes that it is adequately covered against the possible risks associated with this matter which, however, remains uncertain today.

231. Despite Alstom's repeated statements touting the Renaissance orders and sales, it had never disclosed the guarantees. Many observers were shocked to discover that Alstom had guaranteed Renaissance's loans. *Reuters* reported that a trader at a Paris-based broker stated: "We didn't know Alstom was involved in credit guarantee for its ships." Peter Reilly, engineering analyst at Deutsche Bank in London, stated: "This appears to have been a contingent liability which was not disclosed in the Alstom report and accounts." *The Financial Times* quoted one analyst stating: "It's like a builder guaranteeing your mortgage even though he's building your house as well." Investors were shocked as well, sending Alstom's share price plummeting from €18.06 on September 26, 2001 to €13.20 at the end of the next day, a drop of more than 25%.

232. On October 1, 2001, J.P. Morgan Securities, Ltd. issued an analyst report which stated:

> Alstom has lost EUR2.1 billion in market value since it revealed the exposure to Renaissance Group ... the investor communication of this event has, in our view, been poor – it took Alstom three days to address the market concerns. Investor confidence in the group took a significant hit and investor focus has shifted to Alstom-specific problems like the high leverage, low cash generation and concern about other potential risks "hidden" in its off balance sheet liabilities.
>
> * * *
>
> We believe that a significant part or even all of the profits the Marine business achieved in the last three years (cumulative EBIT of EUR176 million) will

ultimately be lost even if the full extent of Alstom's liability to Renaissance Group of EUR684 million is not realised. ***We question the quality of the turnaround of the [Marine] division achieved in the last years, as it seems to have happened on the back of vendor financing. Alstom confirmed that the large order of eight ships from Renaissance Group was instrumental in the turnaround of the division.***

233. On October 1, 2001, Alstom issued a press release stating:

> The theoretical maximum exposure of Alstom with respect to Renaissance Cruises (based on the hypothetical assumption that the cruise ships are worth zero), is €684 million arising under commitments given by ALSTOM to financial institutions in connection with the funding of the cruise ships....
>
> * * *
>
> Separately ALSTOM has current commitments for €589 million in respect of other cruise ships already delivered to other shipowners, which are backed by mortgages on the relevant cruise ships. Of this €422 million existed at 31 March 2001.

234. However, on October 11, 2001, defendant Bilger assured the *Les Echos* newspaper that the real risk to Alstom from the collapse of Renaissance was "a few tens of millions of euros at most."

235. Defendant Bilger's statement sets forth in the preceding paragraph were materially false and misleading because Alstom's exposure was €684 million. In the wake of September 11, 2001, and the subsequent decline in tourism, Alstom would and did find it extremely difficult to resell Renaissance ships.

236. On November 6, 2001, Alstom issued a press release in which Alstom reported its results for the first half of fiscal 2002 (April 1, 2001 to September 30, 2001). In the November 6, 2001 press release, Alstom reported that for the six months ending September 30, 2001 it received orders of €13.193 billion, its sales were €11.942 billion and its net income was €92 million. In commenting on the results defendant Bilger stated:

> Three specific factors significantly affected cash flow in the First Half: commercial settlements and costs of remedial works as we progress on the GT24/26 recovery strategy as anticipated; execution of four major long-term projects in Power

> and Transport, for which we received substantial up-front payments in earlier years, produced cash outflows as the projects progressed; quality issues affecting some UK Transport projects which delayed delivery and payments.
>
> * * *
>
> We are confident that the sustained long term growth of the global energy and transport infrastructure markets, the strength and the visibility of our orderbook and the increasing quality of our operations, will lead to improved performance in the years to come.

237. The statements in the November 6, 2001 press release were materially false and misleading because: (i) Alstom knew commercial settlements and remedial measures would cost the Company €4 billion thus it could not believe on November 6, 2001, that Alstom would see improved performance in the years to come; (ii) Alstom failed to disclose that the true costs associated with the defects in the GT24/26 turbines would prevent it from reaching its operating margin target in 2002/2003; (iii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines, and thus the full impact on operating margin, until March 2003 when it announced an additional €1.2 billion charge to cover costs associated with its GT24/26 turbines; and (iv) Alstom knew but failed to disclose that its other divisions such as ATI were engaging in improper accounting practices, therefore Alstom could not rely on other units to provide improved performance in the years to come. Alstom's financial results in the November 6, 2001 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

238. On November 8, 2001, Deutsche Bank issued an analyst report wherein it reported comments from Alstom regarding the defects in the GT24/26 turbines (the "November 8, 2001 analyst report"). The November 8, 2001 analyst report states in relevant part:

> [Alstom's] [m]anagement presented a detailed review of the status of the GT24/26 gas turbine technical problems, which were first discovered last summer. There are 79 affected turbines of which 48 have been delivered and 31 are under construction. Alstom is negotiating with its customers to settle compensation payments for late delivery and below-standard operational performance. ***These negotiations are***

apparently proceeding well and management expects the existing provisions to be adequate.

239. The statements in the November 8, 2001 analyst report which are attributable to Alstom are false and misleading because contrary to the assertions that the present reserve of €1.6 billion was adequate to correct the defects, the Company knew that correcting the defects in the GT24/26 turbines would cost Alstom approximately €4 billion. Alstom also failed to disclose the full cost of the defects in the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines.

240. The November 13, 2001 6-K, signed by defendant Newey, reiterated the orders received, sales and net income figures stated in the November 6, 2001 press release. The November 13, 2001 6-K also reported that Alstom's half fiscal year 2002 backlog stood at €36.672 billion.

241. With respect to Power, the November 13, 2001 6-K reported Power received €6.598 billion in orders, made €6.671 billion in sales and had an order backlog of €16.808 billion. Alstom attributed the 31% increase in Power's sales (versus the first half of 2001) to "a strong order backlog in most products built up over the last year translating into sales, particularly in customer service, steam power plants and ***heavy duty gas turbines***."

242. The statements in the November 13, 2001 6-K were materially false and misleading because: (i) Alstom misrepresented the Company's and Power's orders and sales figures by failing to disclose that it was improperly inflating its sales figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to

approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated. Alstom's financial results in the November 13, 2001 6-K were also false and misleading as a result of the GAAP violations set forth in Section VI.

243. On January 15, 2002, Alstom issued a press release announcing Alstom's orders and sales for the third fiscal quarter ending December 31, 2001, in which Alstom reported Power received orders of €9.152 billion and made sales of €9.771 billion. Also, the January 15, 2002 press release reported that overall Alstom had a "[s]trong order backlog at €37 billion, equivalent to 20 months of sales." In commenting on the results, Defendant Bilger stated:

> "Orders in the first nine months stabilised at a high level and the full year will reflect a similar pattern. As a consequence, the order backlog was up at €37bn equivalent to a very healthy 20 months of sales. While global market conditions remain uncertain, we expect order intake to be stable next year.
>
> Operating performance has continued in line with management expectations as detailed in November. Our continued target is to sustain the first half margins for the full year and we expect to deliver a significant improvement in 2003.
>
> ***Progress continues on GT24/26 gas turbine recovery***, the Renaissance situation and the UK regional train orders."

244. On January 18, 2002, Alstom repeated the figures and comments stated in the January 15, 2002 press release in a Form 6-K filed with the SEC (the "January 18, 2002 6-K") which was signed by defendant Newey.

245. The statements in the January 15, 2002 press release and the January 18, 2002 6-K were materially false and misleading because: (i) Alstom misrepresented Power's orders and sales figures by failing to disclose that it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the

GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated.

246. On January 15, 2002, Alstom issued a press release (the "Senoko Power press release") announcing that Alstom was awarded a €280 million contract by Senoko Power Ltd. (owned by TEMASEK Holdings (Pte) Ltd., Singapore). Under the contract, Alstom would supply two GT26 gas powered turbines to Senoko Power Ltd., which would become operational in 2004 and 2005. In commenting on the contract Alexis Fries, President of Alstom Power, stated:

> "This order is one more confirmation that the GT26 has gained the confidence of customers who know it best. Now that the GT24 and GT26 fleet has achieved more than 200,000 operating hours, its reliability and performance is proving to be competitive and of significant value to power generators who seek to further their own competitiveness in deregulated markets."

247. The Senoko Power press release continued to promote the performance of the GT26 turbine, stating:

> The GT26 gas turbine offers an optimal solution for this repowering project. Its sequential combustion provides excellent fuel efficiency and high power density combined with high exhaust gas energy for the combined-cycle process, which is of importance in cases like Senoko where site space is at a premium.

248. On February 6, 2002 Alstom repeated the comments stated in the Senoko Power press release in a Form 6-K filed with the SEC (the "Senoko Power 6-K") which was signed by defendant Newey.

249. The statements in the Senoko Power press release and the Senoko Power 6-K were materially false and misleading because: (i) Alstom knew it was misleading the market on the status

of the GT24/26 turbines as it was promoting the success and the commercial acceptance of the turbines knowing that they required €4 billion to correct the defects; thus, Alstom knew when releasing the Senoko Power press release and the Senoko Power 6-K that its turbines were not repaired nor were they gaining acceptance by customers; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; and (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines.

250. A February 25, 2002 article in *The Wall Street Journal* stated :

> At the bottom of its financial statements Alstom lists a line item called "commitments and contingencies." At the end of September, the figure next to that line item was 12.8 billion euros ($11.13 billion), not small change for a company with a stock-market capitalization of about three billion euros.
>
> "Talk about a black hole," says Jay Huck, a London analyst with the Center for Financial Research and Analysis, a boutique research firm that combs through companies' financial statements for institutional investors.
>
> Until recently, Mr. Huck and other investors had no way of knowing what the 12.8 billion euros represented because Alstom neither highlighted nor explained it. Then came the Chapter 11 bankruptcy-court filing in late September of Renaissance Cruises, a Florida cruise line that operated eight cruise ships built by Alstom's French shipyards. After initially saying its exposure to Renaissance was minimal, Alstom said on Oct. 1 that it could lose as much as 684 million euros as a result of the bankruptcy.
>
> ***What Alstom had neglected to disclose is that among the commitments and contingencies were written guarantees it had given to banks that had lent money to cruise lines so that they could buy ships from Alstom.*** This is known as vendor financing. When Renaissance defaulted on those loans, they became Alstom's responsibility.
>
> Suddenly, shareholders became nervous that Alstom might be liable for other guarantees. They were right. When the company released its fiscal first-half results in November, Alstom for the first time provided footnotes breaking down the 12.8

billion-euro figure. Turns out that roughly two billion euros are vendor-financing liabilities, including 1.3 billion euros to the cruise industry.

Alstom now promises to put an end to its vendor-financing practices. Nonetheless, it continues not to classify these liabilities as debt, which many analysts say would more accurately reflect what they are, since Alstom is the ultimate guarantor of these loans.

In its first-half results, Alstom disclosed net debt of two billion euros. Adding in the vendor-financing liabilities would have doubled the company's net debt to four billion euros, one billion euros more than the company's market capitalization.

251. Moreover, the Alstom Defendants purposefully downplayed the possible effect of the Renaissance loans to the market. According to defendant Bilger during Alstom's Q4 2002 Alstom SA Earnings Conference Call, "[w]e never considered vendor financing to be a normal tool to generate business. The exceptions in Marine were part of the turnaround of the business; we needed it to create profitable orders at the beginning of the turnaround, but even with low margins we're offsetting the loss of EU subsidies. We achieved our target and now we're stopping these exceptions."

252. On March 14, 2002, Alstom issued a press release announcing its "Restore Value" plan. The March 14, 2002 press release was subsequently filed on April 5, 2002 with the SEC on Form 6-K (the "April 5, 2002 6-K") which was signed by Newey. In discussing the GT24/26 turbines the April 5, 2002 6-K stated, "[o]n a technical and commercial level, the recovery programme is on track and the installed machines are registering generally good operational availability. Customer settlements are progressing well. The recently announced long-term co-operation agreement with Rolls Royce will contribute significantly to improving the Company's competitive position in the medium term."

253. Alstom also stated in the April 5, 2002 6-K that "[i]n fiscal year 2003 management expects ALSTOM to deliver an overall operating margin of 5 percent...."

254. The statements in the March 14, 2002 press release and April 5, 2002 6-K were materially false and misleading because: (i) Alstom knew it was misleading the market on the status of the GT24/26 turbines' recovery as it was falsely asserting the recovery program was on track knowing that the Company required €4 billion to correct the defects; thus, Alstom knew when releasing the April 5, 2002 6-K that the recovery program was not on track; (ii) Alstom failed to disclose the full extent of the defects in the GT24/26 turbines until March 2003 when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines; and (iii) Alstom knew when filing the April 5, 2002 6-K that the Company would need to take charges associated with the defective turbines in fiscal year 2003 and that such charges would prevent Alstom from delivering a 5% operating margin.

255. On May 7, 2002, Alstom issued a press release in which Alstom announced its figures for fiscal year 2002 (which ended March 31, 2002). In the May 7, 2002 press release, Alstom reported sales of €23.453 billion, order backlog of €35.815 billion, and an operating margin of 4%. The May 7, 2002 press release quotes defendant Bilger as stating:

> "Our results and our share price performance in fiscal year 2002 were unsatisfactory. Operating income and cashflow were negatively impacted primarily by difficulties encountered in the introduction of some of our heavy-duty gas turbines, in deliveries of regional trains in the UK, and by the bankruptcy of the US cruise-ship operator, Renaissance Cruises....
>
> We have taken steps to address these issues, launching a detailed action plan, Restore Value, to strengthen our balance sheet, reduce our debt and significantly improve cash generation and operating margins....
>
> We have already made progress towards achieving our objectives....
>
> * * *
>
> Over the next three years our efforts will be focused on achieving operational excellence. ALSTOM will rightly be judged on its success in meeting the goals of *Restore Value*: an operating margin of 6 per cent, cashflow equal to EBIT and a gearing [sic] of 20 per cent by March 2005. I am absolutely confident that our plan is achievable, that these goals will be met and that value will be restored.

256. On May 9, 2002, Alstom filed a Form 6-K with the SEC (the "May 9, 2002 6-K") which was signed by defendant Newey. The May 9, 2002 6-K contained the May 7, 2002 press release and Alstom's Annual Report for 2002 as filed with the Commission des Operations de Bourse on May 7, 2002 (the "2002 COB Annual Report").

257. In the 2002 COB Annual Report, which was signed by defendant Bilger, Alstom stated:

> To date the cumulative operating hours of the installed turbines had reached in excess of 250,000 hours. The improvement programme is on schedule and settlements have been agreed or are not required for 56 turbines. Of the remaining 23 turbines, settlement negotiations are under way on 16 machines (including five that are subject to litigation) with seven still to be started. The settlements are agreements with our clients for penalties and remedial actions during the agreed interim period, until the implementation of the performance improvement modifications at which time the agreements require the turbines to meet specified performance criteria.
>
> We have established provisions to cover the anticipated costs of making modifications to the turbines and to allow for the additional expenditure not already covered within contract costs that we expect to incur in reaching settlements with our customers, including the costs of fulfilling contractual conditions. We recorded, prior to 30 September 2000, €1.625 million of provisions and accrued contract costs in respect of projects relating to the 79 GT24/26 turbines. We retained €1.440 million of provisions and accrued contract costs at 31 March 2002 in respect of these turbines. *See* Notes 6 and 18 to the Consolidated Financial Statements for fiscal year 2002.
>
> Sales of GT24/26 gas turbines represented approximately 14% of Power's sales during fiscal year 2002 versus 17% of Power's sales during fiscal year 2001.

258. The statements in the May 7, 2002 press release and the May 9, 2002 6-K were materially false and misleading because: (i) Alstom misrepresented Power's orders and sales figures by failing to disclose that it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to

cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; and (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated. Alstom's financial results in the May 7, 2002 press release and May 9, 2002 6-K were also false and misleading as a result of the GAAP violations set forth in Section VI.

259. On May 24, 2002, Alstom filed its 2002 20-F. The 2002 20-F was signed by defendant Bilger. In the 2002 20-F, Alstom reiterated the Company's sales, backlog and operating margin as reported in the May 7, 2002 press release.

260. With respect to Power, the 2002 20-F stated, "[Power's] [o]perating income amounted to € 572 million in fiscal year 2002, versus € 448 million in fiscal year 2001. The operating margin was 4.4% in fiscal year 2002, versus 3.7% in fiscal year 2001."

261. The 2002 20-F also stated, "[i]n fiscal year 2002, our Power Sector reported sales of €12,976 million (equivalent to 55% of ALSTOM sales) [and orders of €11.033 billion] ...." Additionally, Alstom stated that under U.S. GAAP it suffered a net loss of $258 million.

262. In updating the market on the defective GT24/26 turbines, the 2002 20-F stated:

> To date the cumulative operating hours of the installed [GT24/26] turbines had reached in excess of 250,000 hours. The improvement programme is on schedule and settlements have been agreed or are not required for 56 turbines. Of the remaining 23 turbines, settlement negotiations are under way on 16 machines (including five that are subject to litigation) with seven still to be started. The settlements are agreements with our clients for penalties and remedial actions during the agreed interim period, until the implementation of the performance improvement modifications at which time the agreements require the turbines to meet specified performance criteria.
>
> We have established provisions to cover the anticipated costs of making modifications to the turbines and to allow for the additional expenditure not already covered within contract costs that we expect to incur in reaching settlements with our

customers, including the costs of fulfilling contractual conditions. We recorded, prior to 30 September 2000, € 1,625 million of provisions and accrued contract costs in respect of projects relating to the 79 GT 24/26 turbines. We retained € 1,440 million of provisions and accrued contract costs at 31 March 2002 in respect of these turbines....

Sales of GT 24/26 gas turbines represented approximately 14% of Power's sales during fiscal year 2002 versus 17% of Power's sales during fiscal year 2001.

263. With respect to charges taken on account of the turbines, the 2002 20-F stated that €1.9361 billion were additional provisions for "risks and charges." Further, Alstom stated:

In the years ended 31 March 2001 and 2002 provisions relating to the activities of the Power sector acquired from ABB of approximately € 1,646 million in aggregate have been recorded against goodwill, of which € 372 million was recorded in the year ended 31 March 2002.

These provisions include, among other items, those relating to the GT24/26 turbines which have been estimated on the basis of a set of assumptions, taking into account potential costs relating to the design and manufacture of replacement parts, the opening and repair of the affected turbines, amounts which may become due to customers for delivery delays or under availability and performance guarantees and the specific terms of each individual contract....

264. The statements in the 2002 20-F were materially false and misleading because: (i) Alstom misrepresented Power's orders and sales figures by failing to disclose that it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated; (v) Alstom's net loss of $258 million under U.S. GAAP was materially misstated, since Alstom did not meet the

requirements for revenue recognition under the GT24/26 turbine sales contracts, line item (a) in the reconciliation, business combinations, contains a figure of $(229) million that should have been reduced by the amount of sales improperly recognized; (vi) Alstom's net loss of $258 million under U.S. GAAP was materially misstated because item (a) in the reconciliation, business combinations, of $(229) million should have been increased by an amount equal to the necessary provisions for unrecorded contract costs associated with curing the defects in the GT24/26 turbines; and (vii) Alstom's disclosure regarding the additional provisions for risks and charges as related to the turbines failed to disclose that Alstom had taken an additional €1.075 billion charge on account of the turbines in its 2002 fiscal year, in fact this charge was not revealed until Alstom filed its 2003 20-F on October 16, 2003. In the 2003 20-F Alstom revealed for the first time that, "[i]n 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." Alstom's financial results in the 2002 20-F were also false and misleading as a result of the GAAP violations set forth in Section VI.

265. On July 16, 2002, Alstom issued a press release announcing its figures for the first quarter of fiscal year 2002/2003. This press release was filed on Form 6-K with the SEC on July 22, 2002, which Newey signed. For the quarter, Alstom reported Power's sales were €2.932 billion, and its orders were €2.879 billion. Overall, the Company reported orders were up 11% and backlog stood at €35 billion (representing 19 months of sales). In commenting on the results, defendant Bilger stated, "'[t]he good level of orders in the first quarter of fiscal year 02/03 compared to the same period last year and to the previous quarter is encouraging. It confirms our customers[']

confidence in our products and we believe that ALSTOM is resisting well to the current, challenging, economic environment.'"

266. Specifically with respect to Power, the July 16, 2002 press release stated:

> In Power, during the first quarter of fiscal year 02/03, orders received grew to €2,879 million, an increase of 53% versus the previous quarter and an increase of 11% versus the first quarter of fiscal year 01/02. This encouraging performance was achieved despite a general slowdown in new equipment investment in the US.

267. The statements in the July 16, 2002 press release were materially false and misleading because: (i) Alstom misrepresented Power's orders and sales figures by failing to disclose that it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the GT24/26 turbines; (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated; and (v) Alstom failed to disclose that it had taken an additional €1.075 billion charge on account of the turbines in its 2002 fiscal year until it filed its 2003 20-F. Alstom's financial results in the July 16, 2002 press release were also false and misleading as a result of the GAAP violations set forth in Section VI.

268. On November 5, 2002 Alstom issued a press release announcing "Solid Progress in First-Half Results 2003." This press release was filed on Form 6-K with the SEC on November 7, 2002, which Jaffre signed. For the period, Alstom reported Power's sales were €5.812 billion, its

orders were €5.031 billion, backlog was €13.599 billion, and an its operating margin stood at 4.7%. With respect to the defective GT24/26 turbines Alstom stated:

> The improvement program is on schedule. We have now satisfied contract requirements or negotiated commercial settlements on over 70% of the units. We have still to conclude settlements in respect of 22 units (including 7 units which are the subject of litigation).
>
> We have established provisions to cover the anticipated costs of making modifications to the turbines and for the additional expenditure not already covered within contract costs that we expect to incur in reaching settlements with our customers, including the costs of fulfilling contractual conditions.
>
> Sales of GT 24/26 gas turbines (€430 million) represented approximately 7% of Power's sales during the first half of fiscal 2003, compared with 14% during the first half of fiscal 2002. Sales of GT 24/26 gas turbines do not contribute to the gross margin, which means that Power's operating margin will automatically improve with the phasing out of these contracts.

269. The November 5, 2002 press release also reported that Alstom's operating income and operating margin for the first-half of fiscal 2003 was €543 million and 5%, respectively. The press release reported that the Transport Division's operating income and operating margin for the first-half of fiscal 2003 was €90 million and 3.9%, respectively.

270. The statements in the November 5, 2002 press release were materially false and misleading because: (i) Alstom misrepresented Power's orders and sales figures by failing to disclose that it was improperly inflating these figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) despite Alstom's assurances that the improvement program was on schedule, the Company knew correcting the defects in the GT24/26 turbines would cost Alstom approximately €4 billion, Alstom failed to disclose the full cost of the defects in the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iii) Alstom failed to disclose it was not reserving sufficient amounts during the Class Period to correct defects in the

GT24/26 turbines; (iv) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated; and (v) Alstom failed to disclose that it had taken an additional €1.075 billion charge on account of the turbines in its 2002 fiscal year until it filed its 2003 20-F. The statements in the November 5, 2002, press release regarding Alstom's financial results and Transport Division were materially false and misleading because the Company's operating income and operating margin had been artificially inflated by approximately €167 million in fiscal 2003 as a result of the accounting fraud at ATI, as detailed in Section V. Similarly, the ATI accounting fraud caused the Company's shareholders' equity to be artificially inflated by a corresponding amount.

271. The November 5, 2002 press release also quoted Bilger as follows:

> "We have made solid progress over the past six months, delivering a healthy improvement in operating income on broadly maintained sales, with a strong recovery in net income.
>
> * * *
>
> The positive dynamics of the transport ... markets should offset less favorable gas turbine, power plant, distribution and marine markets.
>
> I am particularly pleased by the marked turn around in our profitability, with our operating margin up a full one-and-a-half percentage points over the second half of fiscal 2002. This improvement was delivered across all our Sectors and reflects not only the improved margins in our order intake ... but also the benefits that are beginning to flow from restructuring and overhead reduction.

272. These statements were also materially false and misleading because the purported "improvement" in Alstom's operating income, and the "marked turn around" in profitability, stemmed, in large part, from the ATI accounting fraud, which overstated fiscal 2003 operating income by approximately €167 million.

273. On November 11, 2002, defendant Bilger was removed as Chairman and CEO of Alstom and received a €3.8 million severance payment. After a public outcry over this huge bonus

for essentially running Alstom into the ground, Bilger was forced to return this payment, saying he had no wish to be "an object of scandal." This goal was thwarted when, in May 2003, Bilger was placed under judicial investigation in connection with an inquiry into the payment of a commission relating to the construction of GEC-Alstom headquarters in 1994.

274. On January 16, 2003, Alstom issued a press release in which Alstom announced its orders and sales for the first nine months ending December 31, 2002. This press release was filed on Form 6-K with the SEC on January 22, 2003, which Jaffre signed. The January 16, 2003 press release reported Power received orders worth €7.24 billion, while sales reached €8.367 billion.

275. In reporting on Power's performance, the January 16, 2003 press release stated:

> Despite long-term growth fundamentals, the power generation equipment market is currently at a low level following the collapse in US demand after an unprecedented boom.
>
> * * *
>
> Whilst the US market remains difficult, ALSTOM is benefiting from its global coverage, with a stable European utility sector, a steady level of activity in the Middle East and selective opportunities in Asia/Pacific.

276. The statements in the January 16, 2003 press release were materially false and misleading because: (i) Alstom misrepresented Power's long term growth fundamentals because the Company failed to disclose that it was improperly inflating Power's financial figures by accounting for "sales" or "orders" of defective GT24/26 turbines knowing that every turbine sold or in production was defective; (ii) despite Alstom's assurances that Power has long-term growth fundamentals the Company knew correcting the defects in the GT24/26 turbines would cost Alstom approximately €4 billion; (iii) Alstom knew, but failed to disclose, the full cost of the defects associated with the GT24/26 turbines until March 2003, when it announced it required a final €1.2 billion charge to cover costs associated with its GT24/26 turbines, bringing the total reserve to correct the defects to approximately €4 billion; (iv) Alstom failed to disclose it was not reserving

sufficient amounts during the Class Period to correct defects in the GT24/26 turbines thus, Power did not have long-term growth fundamentals; (v) defects in the GT24/26 turbines caused customers to withdraw previously-placed orders, thus, the Company's highly-publicized "backlog" figure was grossly inflated and Power's prospects were not as profitable as Alstom was touting; and (vi) Alstom failed to disclose that it had taken an additional €1.075 billion charge on account of the turbines in its 2002 fiscal year until it filed its 2003 20-F.

277. On March 12, 2003 Alstom issued a press release in which Alstom presented its "new action plan" to reduce debt and improve performance. According to Alstom, the plan was "designed to: improve the Company's operational performance; deal with the impact of past operational issues; and reduce its high level of debt." With respect to the defective GT24/26 turbines, Defendant Kron stated, "'[w]e have thoroughly reviewed the impact of operational problems with our GT24/26 gas turbines and in UK trains: we will put these problems behind us, but we need to make an additional provision estimated at €1.35 billion [(of which €1.2 billion was attributed to the GT24/26 turbines)] to cover the associated costs.'"

278. The March 12, 2003 press release continued, stating:

> Major progress has been made in developing the technical recovery package on the GT24/26 heavy-duty gas turbines, following the announcement in July 2000 that the machines could not meet contractual performance and lifetime obligations.
>
> Commercial settlements have been reached on 61 of the 80 units sold, of which 20 are unconditional (i.e. contracts are in the normal warranty period and ALSTOM has no obligation to upgrade or pay further penalties) and 41 require additional improvements, either to performance or to the lifetime of key components. Of the 19 units on which commercial settlements have not been reached, seven are currently subject to litigation and negotiations are underway on the remainder.
>
> However, since November 2002, as a consequence of delays experienced in finalizing the technical recovery package, coupled with the tougher than expected commercial attitude of customers, ALSTOM is facing extra costs and significantly increased exposure.

> We estimate the remaining exposure in March 2003 to be €1.6 billion. Maximum exposure is estimated at €2.0 billion, on which the Company expects mitigation of €400 million (20 per cent). We therefore expect to take an estimated additional provision of €1.2 billion before tax in the Company's accounts for the current financial year, in addition to an existing estimated provision at end-March 2003 of €400 million.

279. Alstom's attempts to mask the scope of the defects in the GT24/26 turbines during the Class Period misled investors at every stage. Rather than fully disclosing the effect of the defective turbines, Alstom favored trickling out information and burying charges in financials in the hopes it could stem the bleeding caused by the turbines. However, as defects led to increased penalty payments and bled more cash than Alstom could hide, it finally was forced to admit the defective turbines would cost the Company €4 billion.

280. However, the March 12, 2003 press release did not fully reveal the saga of the turbines. Even at this late stage, investors were purposefully kept in the dark about the impact of the defective turbines on Alstom's financial figures. In fact, investors were only presented with a semi-complete picture after the Class Period under the pressures of multiple securities fraud suits filed in 2003 as well as investigations by the SEC, FBI and other governmental agencies when Alstom filed its 2003 20-F.

281. On June 2, 2003 the Company filed its 2003 Annual Report with the SEC on Form 6-K, which Jaffre signed. The 2003 Annual Report reported that Alstom recorded an operating loss of €434 million in fiscal 2003 and a net income loss of more than €1.3 billion. However, the 2003 Annual Report claimed that the Transport Division recorded an operating income of €49 million in fiscal 2003 and operating margin of 1.0%.

282. The statements in the 2003 Annual Report were materially false and misleading because the Company's operating and net income losses were understated by approximately €167 million as a result of the fraudulent accounting at ATI. Further, as the Company now admits in its

2003 20-F, the ATI fraud overstated the Transport Division's operating income by €167 million, and in reality the Transport Division sustained an operating loss of €118 million in fiscal 2003, and its operating margin was, in reality, minus 2.3%.

283. On June 30, 2003, ATI issued a press release that revealed the existence of an accounting fraud at Alstom's Transport Division. ATI admitted that "losses have been significantly understated in ATI's accounts, in substantial part due to accounting improprieties by the understatement of actual costs incurred ..." ATI also revealed that the Department of Justice and the SEC had commenced investigations into the accounting fraud and that Janovec and Rambaud-Measson had been suspended from the Company.

284. On August 6, 2003, Alstom disclosed that the ATI accounting scandal was more pervasive than ATI had first revealed on June 30, 2003, and that "substantial' costs had been understated on "certain other contracts." The Company disclosed the need for additional provisions, which it expected would reduce first half 2003/2004 operating income by around €100 million. As detailed above, following disclosure on August 6, 2003, the price of Alstom shares dropped on the New York, London and Paris stock exchanges.

285. In the 2003 20-F, Alstom stated what it had known all long – that the turbines presented "exceptional problems." Alstom revealed for the first time that: (i) there were four charges during the Class Period to address the turbines issue; (ii) Alstom's customers were unlikely to accept the defective turbines and had a right to return the units; (iii) Alstom's backlog included orders that were suspended and could be terminated; (iv) defects in the turbines were occurring as late as the fourth quarter of 2003; (v) customers were rejecting Alstom's pleas for more time to correct the defects given that the defects persisted for over four years and were invoking penalties

and liquidated damages clauses; and (vi) the defects in the turbines were forcing Alstom to shut down machines.

286. However, while Alstom improved the quality of its disclosures, the 2003 20-F still fell short of fully disclosing Alstom's true financial condition. For example, Alstom reported that for fiscal year 2003 under U.S. GAAP it suffered a net loss of $1.244 billion. However, since Alstom did not meet the requirements for revenue recognition under the GT24/26 turbine sales contracts, line item (a) of the 2003 20-F, in the reconciliation, business combinations, should have been reduced by the amount of sales improperly recognized. If Alstom had correctly accounted for improperly recognized sales its net loss would be significantly higher.

287. Additionally, the net loss figure in the 2003 20-F is materially misstated because item (a) in the reconciliation, business combinations should have been increased by an amount equal to the necessary provisions for unrecorded contract costs associated with curing the defects in the GT24/26 turbines. Once again if Alstom had properly accounted for unrecorded contract costs associated with curing the defects in the GT24/26 turbines it would have reported a substantially larger net loss.

VIII. SCIENTER

288. As alleged herein, the Alstom Defendants acted with scienter in that the Alstom Defendants knew that the public documents and statements, issued or disseminated by or in the name of the Company, were materially false and misleading; knew or recklessly disregarded that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violators of the federal securities laws. As set forth elsewhere herein in detail, the Alstom Defendants, by virtue of their receipt of information reflecting the true facts regarding the Company and its business practices, their control over and/or receipt of the Company's allegedly

materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning the Company, were active and culpable participants in the fraudulent scheme alleged herein.

289. The Alstom Defendants knew and/or recklessly disregarded the false and misleading nature of the information which they caused to be disseminated to the investing public. The deceptions and ongoing fraudulent schemes described in this complaint could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Officer Defendants and Director Defendants.

290. Indeed, as stated above and as confirmed by confidential inside sources at Alstom, Alstom Power, ABB and ABB Alstom Power, the Alstom Defendants knew that the Company was misrepresenting to the public the extent of the problems associated with the GT24/26 turbines, underestimating the costs and liabilities associated with the GT24/26 turbines, and improperly accounting for those costs and liabilities. The Alstom Defendants also knew that the Company was engaged in an undisclosed and precarious vendor-financing scheme. Sources have also confirmed and the Company later revealed that the Company was artificially inflating earnings through the elimination of huge expenses from its financial statements at ATI, its U.S. railroad construction unit. Moreover, as explained above, throughout the Class Period, the Alstom Defendants concealed adverse information about the Company while they completed offerings of Company stock and, with respect to Marconi and Alcatel, sold their own Company stock holdings.

291. As alleged herein, the Officer Defendants and Director Defendants had both the motive and opportunity to commit fraud. Their opportunity to cause the Company to issue false and misleading disclosures to the investing public is obvious and beyond dispute: as the key officers and

directors of the Company, they were the chief spokespersons for the Company in all public statements and dealings with analysts and other market participants, and had control, responsibility, and direct involvement with the contents of press releases and documents filed with the SEC and disseminated to the market. Their motives to commit fraud were many, including the desire to materially misrepresent the Company's financial condition and business practices, and to conceal the adverse facts alleged herein in order to enable the Company to artificially inflate its financial figures and the price of its stock to raise more than €1.8 billion from the Secondary Offering and to allow Marconi and Alcatel, the principal shareholders in the Company, to unload their Company stock in the public marketplace at inflated prices.

A. The Alstom Defendants Knew that the Company Had Guaranteed Loans to Customers and that Renaissance, for One, Was Likely to Default

292. Alstom and its officers knew that the Company was guaranteeing loans to its customers because the Company itself was executing those guarantees. The Alstom Defendants also knew that Renaissance was likely to default because of lost business and poor pricing decisions.

293. In the late 1990's, Renaissance attempted to circumvent travel agents and to market cruises directly to travelers. This alienated travel agents, who stopped booking their clients on Renaissance cruises. Renaissance was unable to make up for the business it lost from travel agents through direct bookings. As a result, Renaissance had to lower its prices far below those of its competitors.

294. As a result of this blunder, Renaissance lost money in 1999, and in 2000 lost $95 million on $580 million in revenue. In April 2000, Malvern Maritime, a London-based investment concern of which Alstom was a beneficial owner, along with CFB, the global private equity arm of Credit Suisse Group, purchased 85% of Renaissance for $72.5 million, $67 million of which came

from Malvern. The investors also restructured $220 million of Renaissance's debt. Even after the influx of new capital, analysts believed Renaissance's long-term debt to be in excess of $1 billion.

295. In June of 2000, Ed Rudder, Renaissance's founder, chairman, and chief executive resigned "following poor financial results in the failure of the line's direct selling strategy." On February 19, 2001, Leisure Travel News published an article which stated:

> There's been considerable discussion in the industry, particularly in Europe, that Renaissance Cruises is in serious financial trouble and that the cruise line must either refinance or sell its fleet within months in order to continue service.
>
> After Renaissance declared bankruptcy, media reaction indicated that it was no surprise. "When you operate that close to the edge, external shock can finish you, and that is what happened," said Scott Berry, leisure analyst with Credit Suisse First Boston. "Under reasonable circumstances they were probably destined to fail. This just accelerated their demise," he said. "They had been losing a tremendous amount of money, and this just convinced their lenders enough is enough: 'We're not going to throw good money after bad.'" The AP Newsgirl stated: "The demise of debt-ridden Renaissance was no surprise to analysts."

296. On September 28, 2001, an analyst report by J.P. Morgan Securities Ltd. stated:

> Renaissance was one of the largest customers of Alstom in the past three years and Alstom is likely to have known about the financial situation of Renaissance Group ahead of yesterday's Chapter 11 filing.

B. The Alstom Defendants Knew of the Existence and Extent of GT24/26 Turbine Defects

297. As stated above and as confirmed by confidential inside sources at Alstom, Alstom Power, ABB and ABB Alstom Power, the Alstom Defendants knew of the existence of the GT24/26 turbine defects. Even prior to entering into the ABB Alstom joint venture, Alstom had prepared an internal analysis of its competitors in January 1999, in which Alstom's marketing department analyzed the status (including the many defects) of 23 GT24 units and 13 GT26 units sold by ABB as far back as 1993. Alstom entered into the joint venture despite the existence of the turbine defects because it desperately needed ABB's turbine technology, and deliberately kept quiet about those defects so as to protect its stock price while its two corporate parents owned a majority of its shares.

298. Upon entering into the ABB Alstom joint venture, Alstom gained even more information regarding the extent of the defects and the existence of defects in all GT24/26B rating turbines previously commissioned. Given Alstom's knowledge regarding the technical problems, Alstom estimated the full costs necessary to resolve them and the exact number and contractual status of each turbine unit, formulating a plan that included standardized procedures to deal with each turbine purchaser.

299. Alstom knew of and misrepresented to the public the extent of the problems associated with the GT24/26 turbines, and intentionally underestimated the costs and liabilities associated with the GT24/26 turbines, until its two owners, Marconi and Alcatel, could completely divest themselves of their Alstom ownership. Alstom also intentionally improperly accounted for the costs and liabilities associated with turbine defects so as to make the full extent of those costs and liabilities difficult to discern. Not until its Annual Report for the year ended March 31, 2003, filed with the SEC on Form 6-K on June 2, 2003, did Alstom finally reveal the true state of the reserves it had established for the problems in the GT24/26 gas turbines over the years.

300. By June 2001, Marconi and Alcatel had received several billion euros for their Alstom shares. After they sold out of their Alstom positions, Alstom took additional charges associated with the turbine defects of over €2 billion. Thus, after Marconi and Alcatel sold the last of their Alstom stock, the closing price of Alstom's shares on the NYSE plummeted from $27.90 on June 29, 2001 to $3.21 on August 6, 2003, the last trading day during the Class Period.

C. The Alstom Defendants, Janovec and Rambaud-Measson, Acted with Scienter in Connection with the ATI Fraud

301. Defendants Janovec and Rambaud-Measson each acted with scienter with respect to the materially false and misleading statements in connection with the ATI fraud, in that they had actual knowledge of the statements' falsity or they acted with reckless disregard for the truth.

Beyond the fact that the Company has now ***admitted*** that ATI engaged in accounting improprieties by understating losses in order to improperly boost operating results, there is circumstantial evidence supporting a strong inference that defendants Janovec and Rambaud-Measson acted with scienter.

302. As an initial matter, the fact that Alstom suspended Janovec and Rambaud-Measson upon disclosure of the ATI fraud – and after receipt of anonymous letters that detailed the fraud – supports a strong inference of their scienter. Further, in July 2003, the Company retained the law firm Hughes Hubbard & Reed to perform an internal investigation into the ATI fraud, and the fact that ATI has not reinstated Janovec and Rambaud-Measson a year later supports a strong inference of their scienter. In addition, the following facts give rise to a strong inference of their scienter.

1. ATI's Preoccupation with Meeting the "Restore Value" Program Supports a Strong Inference of Scienter

303. On March 14, 2002, in the wake of the vendor financing fraud, Alstom unveiled its "Restore Value" plan at a full day presentation before investors and research analysts. (*See* Form 6-K, April 5, 2002.) The objective of the "Restore Value" plan included "strengthening the balance sheet ... increasing cash generation ... and restoring [investor] confidence in the Company." *Id.* Bilger declared that the under the Restore Value plan the Company would cut €250 million in costs by fiscal March 2005 and would lift operating margins to 5% by fiscal 2003.

304. The only way ATI was able to comply with the Restore Value plan was to significantly understate costs in fiscal 2003, thereby giving the artificial appearance of significantly increased margins. Janovec and Rambaud-Measson knew that ATI was losing substantial business in 2002 and that ATI was lagging far behind Alstom's other subsidiaries within the Transport Division. Specifically, the 2002 Annual Report stated that the Transport Division had total sales of €4,413 million in fiscal 2002, a 1% increase over fiscal 2001, and that sales in Europe (excluding the UK) had increased 25% and sales in Asia had increased 72%. (*See* 2002 Annual Report at 18-19.)

Conversely, ATI sales had decreased to €617.8 million or 14% of Transport's total sales in fiscal 2002, compared to €792 million euros or 18% of Transport's total sales in fiscal 2001. (*See* 2003 Annual Report at 21.)

305. Similarly, the 2002 Annual Report indicated that the Transport Division's total orders were €6.15 billion in fiscal year 2002, an increase of 11% over fiscal year 2001, but that ATI's orders had fallen 46% compared to its orders received in fiscal 2001. (*See* 2002 Annual Report at 16.) As a result, ATI's orders in fiscal 2002 amounted to just 11% of the Transport Division's total orders, compared to 23% at the same period in fiscal 2001. *Id.*

306. While ATI's performance continued to slip, Janovec and Rambaud-Measson created the false illusion that ATI's operating margin and cost-cutting strategies had far exceeded the mandate set forth in the Restore Value plan. As Alstom has now admitted, ATI's operating income was artificially inflated by €167 million, amounting to 30% of ATI's sales of €557 million in fiscal 2003. (*See* 2003 20-F at 33, 80-81.)

307. In fact, the ATI fraud improperly boosted the operating income and margins for the entire Transport Division, making it appear as if the Transport Division was operating at a profit and with increasing operating margins when, in reality, it was operating at a massive loss. The Transport Division reported operating income of €49 million and an operating margin of 3.7% in fiscal 2003. (*See* 2003 Annual Report at 63.) When the full scope of the ATI fraud was finally revealed, and the Company admitted that ATI had inflated its operating income by €167 million, the Transport Division recorded an operating loss of €118 million and an operating margin of minus 2.3% in fiscal year 2003, which was far below the targets set forth in the Restore Value plan. (*See* 2003 20-F at 80.)

2. That ATI Intentionally Underbid the NJT Contract and Encountered Massive Cost Overruns Supports a Strong Inference of Scienter

308. The ATI accounting fraud involved, in part, understating costs incurred in connection with a 1999 contract with NJT to build 265 "Comet V" railcars for $280 million ("the NJT Contract"). On June 30, 2003, Francis Jelensperger, an Alstom spokesman, said that the accounting improprieties at ATI were in connection with understating costs related to a $280 million railcar contract that was signed in 1999 with a U.S. customer. Then, on July 3, 2003, *The Wall Street Journal* reported that:

> Mr. Jelensperger said a 1999 rail car contract valued at $280 million is being investigated but declined to give further details. Lynn Bowersox, a spokeswoman for the New Jersey Transit Authority, confirmed that New Jersey Transit has a 1999 contract valued at $280 million with Alstom for delivery of 265 rail cars.
>
> *   *   *
>
> Ms. Bowersox said that officials from [NJT] and Alstom plan to meet today to discuss the investigation.

309. Kenneth Worton, a Deputy Attorney General with NJT, informed Class Counsel's investigator that the accounting improprieties ATI disclosed on June 30, 2003 involved a 1999 contract with NJT. Worton said that in 1999 NJT had contracted with ATI to purchase 230 "Comet V" commuted railcars for $233 million, and that NJT subsequently exercised its right under the contract to increase the order to 265 railcars for $280 million. Worton also confirmed that soon after ATI disclosed the existence of the accounting improprieties, officials from NJT met with officials from ATI to discuss the impact of the fraud and related governmental investigations.

310. In fact, a NJT internal memorandum, dated July 1, 2003, identifies the existence of a meeting between ATI and NJT to discuss "Alstom Corporate Concerns." The memorandum summarized matters discussed during the meeting and stated that "Alstom noted that NJ Transit shouldn't see any impact due to Comet V being a fixed contract." The memorandum also noted that

Rambaud-Measson had been suspended from ATI as a result of the fraud and that Steve Davies had assumed the duties of ATI's Vice President of Finance, a position previously held by Janovec.

311. The fact that ATI intentionally underbid the NJT Contract, which was the locus of the fraud, and had experienced significant cost overruns in the tens of millions of dollars in connection with the NJT Contract, which was widely known throughout ATI, also gives rise to a strong inference that Janovec and Rambaud-Measson knew or were deliberately reckless in not knowing about the accounting fraud at ATI. Indeed, several former ATI employees informed Class Counsel's investigator that ATI had intentionally underbid the NJT Contract to keep its work force employed and its manufacturing facilities operating at Hornell, New York, and, as a result, ATI encountered significant cost overruns.

312. For example, a former project manager who worked at ATI from February 1999 until February 2002 stated that ATI intentionally underbid the NJT Contract in order to "fill in business and keep the workforce running." This former project manager said that had ATI actually placed a realistic bid on the NJT Contract, ATI would not have won the contract. He also noted that as of early 2000 the NJT Contract was already far behind schedule and was exceeding costs and that "everyone" at the Alstom facility in Hornell, including Janovec and Rambaud-Measson, knew about the cost overruns. The former project manager stated that "the signs were on the wall and the wall was pretty big."

313. Further, a deliverables specialist at ATI for approximately 23 years until his departure in 2003 stated that ATI was "desperate for work" when it bid on the NJT Contract. He stated that the NJT Contract bid was submitted under cost and the bid had left out a number of key elements, such as the cost of the wheel assemblies. He also said that by April 2003, well before the June 30,

2003 revelation of the accounting fraud, ATI announced to its employees that it had losses of $40 million or more on the NJT Contract.

314. A quality assurance manager employed at ATI from October 2000 to July 2002 also said that the NJT Contract cost overruns were widely known throughout ATI as early as 2000. She said "everyone knew that they were doing substantial rework on the cars" that resulted from drawing errors and scaling errors caused by Alstom's manufacturing facility in Brazil.

315. In fact, the former Executive Director of NJT told the *Newark Star Ledger* that ATI's bid for the NJT Contract was roughly $500,000 lower per car than NJT officials had estimated. Further, according to Lynn Bowersox, a NJT spokeswoman, ATI won the NJT Contract by underbidding its nearest competitor by about $60 million.

316. A buyer at ATI from July 2000 until September 2003 described how ATI utilized complex financial management tools, including J.D. Edwards and Crystal Software, to track NJT Contract costs. He said that Chris Connor was responsible for the overall cost accounting at ATI, and reported directly to Janovec. The ATI buyer said that if there was a cost accounting problem in connection with the NJT Contract, "there was no way that Janovec didn't know about it."

317. Additionally, ATI's former director of purchasing from December 2000 until March 2002 said that he had heard from an ATI employee that sometime after March 2002, Janovec had traveled to Paris to inform the Company about the cost overruns in connection with the NJT Contract. The former director also said that it was apparent as early as December 2000 that the costs for the NJT Contract would exceed the original bid and that the budget overrun was going to be "irreversible."

318. Finally, several newswire services and Wall Street research analysts reported that the ATI accounting fraud involved intentional underbidding and improper cost shifting to make ATI

appear to be more liquid than reality. For example, on June 30, 2003, *Reuters* wrote that "[s]ome analysts said the accounting scandal suggested [ATI] ... has been underbidding for rail contracts because it has been so desperate for cash." *Reuters* also reported that Goldman Sachs had issued a research report on June 30, 2003 which stated that "[i]t is possible that Alstom could be underpricing contracts to ... help liquidity at the expense of margins."

IX. CLASS ACTION ALLEGATIONS

319. This is a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of (i) all persons or entities who purchased or otherwise acquired Alstom publicly-traded stock, ADSs or other shares between August 3, 1999 and August 6, 2003; and (ii) all persons or entities who purchased or otherwise acquired Alstom shares or ADSs in the Company's Secondary Offering pursuant to the Registration Statement.

320. Excluded from the Class are, (1) the Company, Alstom USA, ATI, Alcatel, Marconi and the Underwriters and their officers and directors, employees, affiliates, legal representatives, heirs, predecessors, successors and assigns, and any entity in which they have a controlling interest or of which they are a parent; and (2) the Officer and Director Defendants, their immediate families, employees, affiliates, legal representatives, heirs, predecessors, successors and assigns, and any entity in which any of them has a controlling interest.

321. The members of the Class are located in geographically diverse areas and are so numerous that joinder of all members is impracticable. Throughout the Class Period, Alstom ADSs were traded on the NYSE, Alstom UKDSs were traded on the London Stock Exchange, and Alstom common stock was traded on the Paris Exchange. While the exact number of Class members is unknown to plaintiffs at this time and can only be ascertained through appropriate discovery, plaintiffs believe that there are hundreds of thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Alstom or its

transfer agent and may be notified of the pendency of the action by mail, using the form of notice similar to that customarily used in securities class actions.

322. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. The questions of law and fact common to the Class include whether defendants: (i) violated the Exchange Act; (ii) violated the Securities Act; (iii) omitted and/or misrepresented material facts; (iv) knew or recklessly disregarded that their statements were false; and (v) artificially inflated Alstom's stock price, and the extent of and appropriate measure of damages.

323. Plaintiffs' claims are typical of the claims of the members of the Class as plaintiffs and members of the Class sustained damages arising out of defendants' wrongful conduct in violation of federal law as complained of herein.

324. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class actions and securities litigation. Plaintiffs have no interests antagonistic to or in conflict with those of the other class members.

325. A class action is superior to other available methods for the fair and efficient adjudication of the controversy since joinder of all members of the Class is impracticable. Furthermore, because the damages suffered by the individual class members may be relatively small, the expense and burden of individual litigation make it impossible for the class members individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

326. Class members were damaged. In reliance on the integrity of the market, they paid artificially-inflated prices for Alstom stock.

X. NO SAFE HARBOR

327. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the statements pleaded herein were not specifically identified as "forward-looking statements" when made, and many were representations about the Company's present status. To the extent there were any forward-looking statements: (a) there were no meaningful cautionary statements identifying the important then-present factors that could cause actual results to differ materially from those in the purportedly forward-looking statements; and (b) the particular speakers of such forward-looking statements knew that the particular statements were false or misleading, and/or the forward-looking statements were authorized and/or approved by an executive officer of the Company who knew that those statements were false when made.

328. Any purported warnings contained in the press releases and statements quoted herein were generic and unparticularized boilerplate statements of risks, and thus lacked the meaningful cautionary language necessary to insulate any purportedly forward-looking statements.

XI. APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET

329. Solely with respect to plaintiffs' claims brought under the Exchange Act and Rule 10b-5 (Claims IV, V and VI), plaintiffs will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's shares traded in efficient markets;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's shares; and

(e) Plaintiffs and other members of the Class purchased Alstom publicly-traded shares between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

330. At all relevant times, the markets for Alstom publicly-traded shares were efficient for the following reasons, among others:

(a) As a regulated issuer, Alstom filed periodic public reports with the SEC and the French Commission des Opérations de Bourse;

(b) Alstom regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services; and

(c) Alstom's publicly-traded shares were actively traded in an efficient market.

XII. CLAIMS FOR RELIEF

A. Count I for Violations of Section 11 of the Securities Act

Against Alstom, Bilger, Newey, the Director Defendants and the Underwriter Defendants (the "Secondary Offering Defendants")

331. Plaintiffs repeat and reallege each and every allegation contained in Sections I, III, IV, IX, and X above as if fully set forth herein.

332. This count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this count. Plaintiffs do not allege that the Secondary Offering Defendants had scienter or fraudulent intent, which is not an element of a Section 11 claim.

333. This count is asserted against the Secondary Offering Defendants for violations of Section 11 of the Securities Act, 15 U.S.C. §77k, on behalf of all members of the Class who purchased or otherwise acquired securities in connection with the Secondary Offering.

334. The following registration statements and prospectuses filed with the SEC in connection with the Secondary Offering (the "Registration Statements") were inaccurate and misleading, contained untrue statements of material fact and omitted other facts necessary to make the statements made not misleading, and failed to disclose material facts as described above:

- Registration Statement on Form F-3 relating to the public offering and sale of Alstom common stock, dated January 17, 2001;
- Registration Statement on Form F-3/A, amending the 1/17/01 F-3 dated January 24, 2001;
- Registration Statement on Form F-3/A, amending the 1/17/01 F-3 and 1/24/01 F-3/A, dated February 7, 2001;
- Prospectus Supplement relating to the public offering and sale Alstom of common stock, dated February 12, 2001; and
- Prospectus Supplement relating to the public offering and sale of Alstom of common stock, dated March 21, 2001.

335. The Company is the registrant for the Secondary Offering. As issuer of the shares that were registered, the Company is strictly liable to plaintiffs and members of the Class who purchased or otherwise acquired Company securities in connection with the Secondary Offering and pursuant to the Registration Statements for the misstatements and omissions contained therein.

336. Defendants Bilger, Newey and the Director Defendants were principal officers, directors and representatives of the Company who signed and/or were otherwise responsible for the contents and dissemination of the Registration Statements. As such, Defendants Bilger, Newey and the Director Defendants issued, caused to be issued, and participated in the issuance of materially false and misleading written statements that were contained in the Registration Statements, which misrepresented or failed to disclose, among other things, the facts set forth above. By reasons of the conduct alleged herein, each of these defendants violated, or controlled a person who violated, Section 11 of the Securities Act.

337. As underwriters of the Secondary Offering, the Underwriter Defendants owed to the purchasers of the Secondary Offering the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statements at the time they became effective to ensure that said statements were true and that there were no omissions of material fact which rendered the statements therein materially false and misleading. The Underwriter Defendants knew, or in the exercise of reasonable care should have known, of the material misstatements and omissions contained in the Registration Statements. The Underwriter Defendants did not make a reasonable investigation or possess reasonable grounds to believe that the statements contained in the Registration Statements were true and without omissions of any material facts and were not misleading. Accordingly, the Underwriter Defendants are liable to plaintiffs and the other members of the Class who purchased securities in the Secondary Offering pursuant to the Registration Statements.

338. At the time plaintiffs and other members of the Class acquired the securities in the Offering pursuant to the Registration Statements, they did not know of the wrongful conduct alleged herein or of the facts concerning the untrue and misleading statements and omissions alleged herein, and could not have reasonably discovered such facts or wrongful conduct. Less than one year elapsed from the time that plaintiffs discovered or reasonably could have discovered the facts upon which this complaint is based to the time that plaintiffs first filed their first complaint. Less than three years elapsed from the time that the securities upon which this count is brought were bona fide offered to the public to the time plaintiffs first filed their first complaint.

339. Plaintiffs and the other members of the Class have sustained damages. The value of Alstom's shares sold in the Secondary Offering has declined substantially subsequent to and due to defendants' violations.

340. By reason of the foregoing, the defendants named in this count are liable for violations of Section 11 of the Securities Act to plaintiffs and the other members of the Class who purchased Company shares in the Secondary Offering pursuant to the Registration Statements.

B. Count II for Violations of Section 12(a)(2) of the Securities Act Against Alstom, Alcatel and the Underwriter Defendants (the "12(a)(2) Defendants")

341. Plaintiffs repeat and reallege each and every allegation contained in Sections I, II, IV, VI, IX, and X above as if fully set forth herein.

342. This count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this count. Plaintiffs do not allege that the 12(a)(2) Defendants had scienter or fraudulent intent, which is not an element of a Section 12(a)(2) claim.

343. This count is asserted against the 12(a)(2) Defendants for violations of Section 12(a)(2) of the Securities Act, 15 U.S.C. §77l(a)(2), on behalf of all members of the Class who purchased or otherwise acquired securities in connection with the Secondary Offering.

344. The 12(a)(2) Defendants were sellers, offerors, and/or solicitors of sales of securities offered pursuant to the prospectuses that formed a part of the Registration Statements (the "Prospectuses"). The Prospectuses contained untrue statements of material fact and omitted other facts necessary to make the statements made not misleading, and failed to disclose material facts. The 12(a)(2) Defendants' actions and solicitations included participating in the preparation of the materially false and misleading Prospectuses.

345. The 12(a)(2) Defendants used means and instrumentalities of interstate commerce and the U.S. mails.

346. The 12(a)(2) Defendants owed to plaintiffs and all other purchasers or other acquirers of securities in the Secondary Offering the duty to make a reasonable and diligent investigation of the statements contained in the offering materials, including the Prospectuses, to ensure that such statements were true and that there was no omission of material fact necessary to prevent the statements contained therein from being misleading. The 12(a)(2) Defendants knew of, or in the exercise of reasonable care should have known of, the misstatements and omissions contained in the offering materials, including the Prospectuses as set forth above.

347. Plaintiffs and other members of the Class purchased or otherwise acquired securities pursuant to the defective Prospectuses and did not know, or in the exercise of reasonable diligence could not have known, of the untruths and omissions contained in the Prospectuses.

348. Plaintiffs and other members of the Class offer to tender to the 12(a)(2) Defendants those Company securities that plaintiffs and other members of the Class continue to own in return for the consideration paid for those securities, together with interest thereon.

349. By virtue of the conduct alleged herein, the 12(a)(2) Defendants violated, and/or controlled a person who violated, Section 12(a)(2) of the Securities Act. Accordingly, plaintiffs and other members of the Class who purchased in the Secondary Offering pursuant or traceable to the Prospectuses have the right to rescind and recover the consideration paid for their securities, and hereby elect to rescind and tender their securities to the 12(a)(2) Defendants. Plaintiffs and the members of the Class who have sold their securities purchased in the Secondary Offering are entitled to rescissory damages.

350. Less than one year elapsed from the time that plaintiffs discovered or reasonably could have discovered the facts upon which this complaint is based to the time that plaintiffs filed their first complaint. Less than three years elapsed from the time that the securities upon which this

count is brought were bona fide offered to the public to the time plaintiffs first filed their first complaint.

C. Count III for Violations of Section 15 of the Securities Act

Against Alcatel, Bilger, Newey and Milner (the "Section 15 Defendants")

351. Plaintiffs repeat and reallege each and every allegation contained in Sections I, III, IV, VI, IX ,and X above as if fully set forth herein.

352. This count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this count.

353. This count is asserted against the Section 15 Defendants for violations of Section 15 of the Securities Act, 15 U.S.C. §77o, on behalf of all members of the Class who purchased or otherwise acquired securities in connection with the Secondary Offering pursuant to the Registration Statements/Prospectuses.

354. At all relevant times, each of the Section 15 Defendants were controlling persons of the Company within the meaning of Section 15 of the Securities Act. Section 15 Defendant Alcatel was a controlling person by virtue of its stock ownership in the Company. Section 15 Defendants Bilger and Newey were controlling persons by virtue of their positions as directors and/or senior officers of the Company.

355. Each of the Section 15 Defendants was a culpable participant in the violations of Sections 11 and 12(a)(2) of the Securities Act alleged in Counts I and II above, based in their having signed or participated in the preparation and/or dissemination of the Registration Statements/Prospectuses or having otherwise participated in the process that allowed the Secondary Offering to be successfully completed.

356. By reason of the aforementioned wrongful conduct, each of the Section 15 Defendants named in this count are liable under Section 15 of the Securities Act, jointly and severally with, and to the same extent as the Company is liable under Section 11 of the Securities Act, to plaintiffs and the other members of the Class who purchased securities in the Secondary Offering. As a direct and proximate result of the wrongful conduct of each of the Section 15 Defendants named in this count, plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Company stock.

D. Count IV for Violation of Section 10(b) of the Securities Exchange Act and Rule 10b-5 Promulgated Thereunder

Against Alstom,
Alstom USA, ATI, Alcatel and the Officer Defendants
("10(b) Defendants")

357. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

358. This Count is asserted against the 10(b) Defendants by plaintiffs on behalf of themselves and all members of the Class for violations of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder.

359. During the Class Period, the 10(b) Defendants individually and in concert, directly and indirectly, by the use and means of instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct that intended to and did: (i) deceive the investing public, including plaintiffs and the Class; (ii) artificially inflate the earnings reported by the Company and included in the Company's financial statements filed with the SEC; (iii) artificially inflate and maintain the market price of the Company's stock; and (iv) cause plaintiffs and the Class to purchase or otherwise acquire the Company's stock.

360. The 10(b) Defendants: (a) employed devices, schemes, and artifices to defraud while in the possession of material, adverse non-public information; (b) made untrue and/or misleading statements of material fact and/or omitted to state material facts necessary in order to make the statements made not misleading; and (c) engaged in acts, practices and a course of business which operated as a fraud and deceit upon plaintiffs and the other members of the Class in an effort to artificially inflate the price of the Company's securities and maintain such artificially inflated prices, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

361. In addition to the duties of full disclosure imposed on the 10(b) Defendants as a result of their making affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, they had a duty to promptly disseminate truthful information that would be material to investors, in compliance with GAAP and the integrated disclosure provisions of the SEC as embodied in SEC Regulations S-X (17 C.F.R. §210.01, *et seq.*) and S-K (17 C.F.R. §229.10, *et seq.*) and other SEC regulations, including truthful, complete and accurate information with respect to the Company's operations and performance so that the market prices of the Company's publicly-traded securities would be based on truthful, complete and accurate information.

362. The 10(b) Defendants named in this count had access to the non-public information detailed above, by virtue of their receipt of periodic internal reports and other financial information. During the Class Period, Alstom, Alstom USA and ATI acted through the Officer Defendants, whom they portrayed and represented to the press and public as its authorized representatives. The willfulness, motive, knowledge, and/or recklessness of the Officer Defendants is therefore imputed to Alstom, Alstom USA, and ATI which are liable for the securities law violations of the Officer

Defendants while acting in their official capacity as Company representatives, or, in the alternative, which are liable for the acts of the Officer Defendants under the doctrine of *respondeat superior*.

363. Each of the 10(b) Defendants knew or recklessly disregarded the fact that the above acts and practices, misleading statements, and omissions would adversely affect the integrity of the market of Alstom's securities. Had the adverse facts been properly disclosed, Alstom's securities would not have sold at artificially inflated prices during the Class Period.

364. As alleged herein, each 10(b) Defendant acted with scienter during the Class Period, in that each had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth and failed to ascertain and disclose the true facts.

365. The facts, as alleged herein, compel a strong inference that the 10(b) Defendants made materially false and misleading statements to the investing public and acted with scienter in that they knew that the public documents and statements, issued or disseminated by or in the name of the Company were materially false and misleading; knew or recklessly disregarded that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violators of the federal securities laws. Moreover, the 10(b) Defendants caused Alstom to engage in improper accounting practices, and in turn caused Alstom to report artificially inflated financial results.

366. Defendants Bilger, Kron, Jaffre, Newey, Rambaud-Measson and Janovec were senior executives of Alstom or ATI and responsible for all of the day-to-day operations. By virtue of their positions and control, the Officer Defendants were privy to information reflecting the true facts regarding Alstom. The ongoing fraudulent scheme described in this complaint could not have been

perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Officer Defendants.

367. The Officer Defendants participated in the drafting, preparation, and/or approval of the various public reports and other communications complained of herein and knew of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature.

368. As a result of the dissemination of the materially false and misleading information and/or the 10b Defendants' failure to disclose material facts, as set forth herein, the market price of Alstom securities was artificially inflated at all times during the Class Period. In ignorance of the fact that the market price of Alstom's publicly-traded securities was artificially inflated, and relying directly or indirectly on the materially false and misleading statements made by the 10(b) Defendants, or upon the integrity of the market in which the securities trade, plaintiffs and the Class purchased or otherwise acquired for value Alstom securities during the Class Period at artificially high prices and were damaged thereby.

369. At the time of such misstatements and omissions, plaintiffs and the Class were ignorant of their falsity, and believed them to be true. Had plaintiffs, the Class, and the marketplace known of the true financial condition of the Company, which was not disclosed by the 10(b) Defendants, plaintiffs and the Class would not have purchased or otherwise acquired Alstom shares during the Class Period, or, if they had purchased or otherwise acquired such shares during the Class Period, they would not have done so at artificially inflated prices.

370. The price of Alstom securities declined materially upon public disclosure of the true facts that had been misrepresented or concealed, as alleged herein. Plaintiffs and other members of the Class have suffered substantial damages as a result of the wrongs alleged herein.

371. Alstom, Alstom USA, ATI, Alcatel and the Officer Defendants are liable as direct participants in all of the wrongs complained of herein. Through their positions of control and authority, the Officer Defendants were in a position to and did control all of the Company's public filings and press releases as more particularly set forth above. In addition, certain of these false and misleading statements constitute "group published information," which the Officer Defendants were responsible for creating, reviewing and/or approving before they were disseminated to the investing public. Alstom, Alstom USA, ATI and Alcatel are liable for each of the statements of the Officer Defendants through the principles of *respondeat superior*.

372. In addition, the Officer Defendants are liable for the following specific false and misleading statements:

(a) Defendant Bilger is also liable for his own statements as more particularly set forth above in ¶¶194-196, 202, 205-209, 211, 213, 218-219, 222-224, 226-227, 234, 236, 238, 243, 255-257, 260-263, 265-266, and 271;

(b) Defendant Newey is liable for his own statements as more particularly set forth above in ¶¶162-164, 183-184, 194-196, 200, 202, 205-209, 215, 217, 220, 238, 240-241, 244, 246-248, 252-253, 255 and 265-266;

(c) Defendant Jaffre is liable for his own statements as more particularly set forth in ¶¶268-269 and 274-275;

(d) Defendants Milner, Purves, Esser, Halbron, Mayo and Simpson are liable for their own statements as more particularly set forth in ¶¶205-209;

(e) Defendant Kron is liable for his own statements as more particularly set forth in ¶¶277-278.

(f) Defendants Janovec and Rambaud-Measson are liable for the false and misleading statements set forth in ¶¶ 269-271, to the extent that Alstom's consolidated financial statements included ATI's financial results in fiscal 2003.

373. By reason of the foregoing, the 10(b) Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

E. Count V: Violation of Section 18 of the Securities Exchange Act

Against Alstom, Alstom USA, ATI, Bilger, Kron, Jaffre, Newey, Rambaud-Measson, Janovec, and the Director Defendants (the "Section 18 Defendants")

374. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

375. This count is asserted against the Section 18 Defendants by plaintiffs on behalf of themselves and all members of the Class for violation of Section 18 of the Exchange Act.

376. As set forth above, the Section 18 Defendants made or caused to be made statements which were, at the time and in light of the circumstances under which they were made, false or misleading with respect to material facts, in documents filed with the SEC by Alstom, including filings made on Form 20-F, Form 6-K, and F-3.

377. In connection with the purchase of the Company's shares, plaintiffs and all other members of the Class, and/or their respective agents, specifically read and relied upon the Company's SEC filings, including: its Annual Reports on Form 20-F for the years ending March 31,1999 through March 31, 2002 and the financial statements contained therein; its Current Reports on Form 8-K during the Class Period; and its Registration Statements on Form F-3, and corresponding Prospectuses, filed between January and March 2001. Specifically, plaintiffs and all other members of the Class, and/or their respective agents, read and relied on the Company's statements in those filings regarding its financial condition, including its revenue and debt levels.

Plaintiffs and all other members of the Class further relied on the Company's statements in those filings as being materially complete, and as not omitting material information, including information about the Company's financial condition. Plaintiffs and all other members of the Class, and/or their respective agents, relied on these SEC filings not knowing that they were false and misleading.

378. The reliance by plaintiffs and all other members of the Class, and/or their respective agents, was reasonable.

379. When the truth began to emerge about the false and misleading statements and omissions in the Company's documents and reports filed with the SEC, plaintiffs and all other members of the Class were significantly damaged by the resulting drop in the value of the Company's stock

380. As a direct and proximate result of the Section 18 Defendants' wrongful conduct, plaintiffs and all other members of the Class suffered damage in connection with their purchases of the Company's stock.

381. By virtue of the foregoing, the Section 18 Defendants have violated Section 18 of the Exchange Act.

F. Count VI for Violation of Section 20(a) of the Exchange Act

Against Bilger, Kron, Jaffre, Newey, Rambaud-Measson, Janovec, and Alcatel (the "20(a) Defendants")

382. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

383. This count is asserted against the 20(a) Defendants by plaintiffs on behalf of themselves and all members of the Class for violation of Section 20(a) of the Exchange Act.

384. The 10(b) Defendants committed a primary violation of Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder, by making false and misleading statements

of material fact, in connection with the purchase and sale of securities, which were relied upon by plaintiffs and all other members of the Class to their detriment (as described herein). At the time these false and misleading statements were made, the Company knew, or was reckless in not knowing, of their falsity.

385. The Section 18 Defendants committed a primary violation of Section 18 of the Exchange Act by making filings with the SEC pursuant to the Exchange Act which contained false and misleading statements of material fact and omitted material facts. These false and misleading statements and SEC filings, including the financial statements and other parts containing material misstatements or omitting material facts, were specifically read and relied upon by plaintiffs and all other members of the Class to their detriment (as described herein).

386. Each of the 20(a) Defendants had direct control and/or supervisory involvement in the operations of the Company, Alstom USA, and ATI and therefore had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

387. By reason of their status as officers and members of management and/or as senior executives of Alstom and/or ATI, or their ownership of substantial amounts of Alstom common stock during the Class Period, these defendants are "controlling persons" of Alstom within the meaning of Section 20(a) of the Exchange Act because they had the power and influence to cause Alstom to engage in the unlawful conduct complained of herein. Because of their positions of control, the 20(a) Defendants were able to, and did, directly or indirectly, control the conduct of Alstom's business, the information contained in its filings with the SEC, and public statements about its business.

388. Up until June 2001, Alcatel controlled Alstom by virtue of ownership of Alstom stock and by its ability to appoint directors to Alstom's Board, as set forth above in ¶55.

389. During fiscal 2003, Janovec and Rambaud-Measson were control persons of ATI by virtue of, among other things, their positions as senior officers at ATI, and they were in positions to control and did control the false and misleading statements and omissions contained in Alstom's 2003 Annual Report and the November 5, 2002 press release announcing Alstom's fiscal 2003 half-year results, with respect to the ATI accounting fraud.

390. Each of the 20(a) Defendants named in this Count were provided with or had access to copies of the Company's reports, press releases, public filings and other statements alleged by plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

391. As set forth above, each of the 20(a) Defendants controlled persons or entities who violated Section 10(b) of the Exchange Act and Rule l0b-5 promulgated thereunder and/or Section 18 of the Exchange Act by their acts and omissions as alleged in this complaint. By virtue of their positions as controlling persons, the 20(a) Defendants named in this count are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate cause of the 20(a) Defendants' wrongful conduct, plaintiffs and other members of the Class suffered damages in connection with their purchases of the Company's shares during the Class Period.

XIII. PRAYER FOR RELIEF

WHEREFORE, plaintiffs on their own behalf and on behalf of the Class pray for judgment as follows:

A. Declaring this action to be a proper class action maintainable pursuant to Rule 23 of the Federal Rules of Civil Procedure;

B. Certifying plaintiffs as Class Representatives and their counsel as Class Counsel;

C. Declaring and determining that Defendants violated the federal securities laws by reason of their conduct as alleged herein;

D. Awarding plaintiffs and the Class monetary damages, jointly and severally, for all losses and damages suffered as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

E. Awarding plaintiffs and the Class their costs and expenses for this litigation including reasonable attorneys' fees and other disbursements;

F. Compelling the defendants to disgorge all proceeds they realized from their illegal insider trading;

G. Granting restitution of plaintiffs' monies of which they were defrauded;

H. As to §§11, 12(a)(2) and/or §15 claims, awarding rescission or a recessionary measure of damages;

I. Awarding extraordinary, equitable and/or injunctive relief as permitted by law; and

J. Granting such other and further relief as the Court deems to be just and proper.

XIV. JURY DEMAND

Plaintiffs hereby demand a trial by jury.

DATED: June 18, 2004

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