



Faiveley Group consolidated financial statements as of 31st March 2005

CONTENTS

Board of Directors' report	33
Chairman's report on the internal control procedures	53
Statutory Auditors' report on the report of the Chairman of the Board of Directors	60
Consolidated financial statements of the Faiveley S.A. Group	61
Consolidated balance sheet	62
Consolidated income statement	64
Consolidated cash flow table	65
Movement in consolidated equity capital and minority interests	66
Breakdown of share capital	67
Notes on the consolidated accounts	68
Statutory Auditors' report on the consolidated financial statements	85
Corporate financial statement of Faiveley S.A. as of 31st March 2005	87
Balance sheet	88
Income statement	90
Cash flow statement	91
Notes on the corporate financial statements	92
Faiveley S.A. 5 year financial summary	100
Statutory Auditors' report on the corporate financial statements	101
Board of Director's special report on stock options	103
Special report on regulated agreements	104
Draft resolutions	106

BOARD OF DIRECTORS' REPORT TO THE COMBINED GENERAL MEETING OF SHAREHOLDERS, 27TH SEPTEMBER 2005

Ladies and Gentlemen,

We have convened this Combined General Meeting to report to you on the management of our company for the financial year ending 31st March 2005 and submit for your approval the annual and consolidated accounts as of 31st March 2005 and the resolutions set out in the Notes.

BUSINESS REPORT AND PRESENTATION OF CONSOLIDATED ACCOUNTS TO 31ST MARCH 2005

As required by law, the accounts of the companies under the direct or indirect control of Faiveley S.A. were consolidated as of 31st March 2005 with the parent company's accounts. The principles and conditions of this consolidation for the financial

year 2004-2005, the related consolidated Group and the restatements undertaken in accordance with the accounting and legal techniques of consolidation are presented in the Notes to the consolidated accounts.

33

Board of Directors' Report

RAILWAY BUSINESS: FAIVELEY TRANSPORT S.A. AND ITS SUBSIDIARIES

I. Key figures for Faiveley Transport S.A.

(€millions)	2004/2005	2003/2004
Sales	130.6	117.8
Operating income	4.0	4.8
Net profit	5.9	11.2
Staff at end of financial year	570	588

The company enjoyed a successful year. However, the results were affected by the costs incurred in the takeover of the Sab-Wabco Group which specialises in braking systems, couplers and train wheels.

2. Key figures for the Faiveley Transport S.A. Group

(€millions)	2004/2005	2003/2004
Sales	391.2	253.2
Operating income	45.2	23.3
Net profit	23,8	14.9
Net profit (Group Share)	23.1	13.7
Staff at end of financial year	3,412	1,651

Consolidated sales of the railway business during the financial year 2004/2005 increased by 54.5% to €391.2 m (million).

Consolidated business in the railways' division achieved a net profit of €23.8 m compared to a net profit of €14.9 m in the previous year.

The figures were affected by the takeover of Sab-Wabco on 16th November 2004, the date at which Sab-Wabco joined the Faiveley Transport S.A. Group.

3. Sab-Wabco takeover

3.1 Equity contribution

Faiveley Transport S.A. funded the takeover of Sab-Wabco by bank financing of €230 m and by increasing its capital by €100.4 m. The increase in capital was provided thus: €93.5 m by Sagard and up to €6.0 m by the new Group's management team (including the management of Faiveley Transport S.A. and Sab-Wabco) through a dedicated investment structure (Faiveley Management S.A.S.). Some Sab-Wabco managers also made a direct contribution of €0.9 m to Faiveley Transport S.A. equity and granted the company a shareholders' loan to the value of €2.7 m.

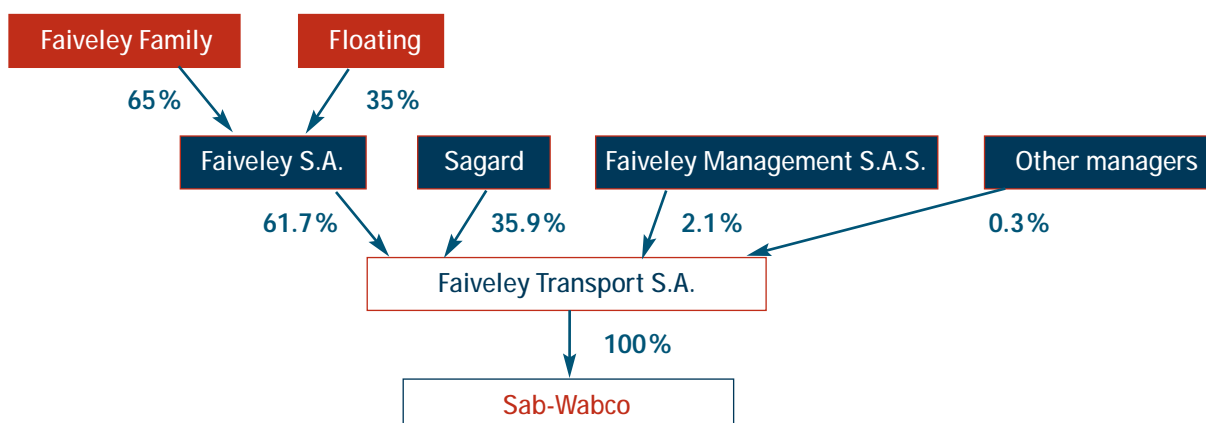
Before this increase in capital, Faiveley Transport S.A. proceeded with an exceptional distribution of dividends to the value of €7 m paid to Faiveley S.A..

Finally, Sagard purchased Faiveley Transport S.A. shares directly from Faiveley S.A. at a cost of €8 m.

Further to these various operations, Faiveley Transport S.A.'s equity rose from €27,499,950 to €42,628,185. Faiveley Transport S.A. voting rights are now as follows:

- Faiveley S.A.: 61.7%,
- Sagard: 35.9%
- Management: 2.4%.

SIMPLIFIED OWNERSHIP AND SHAREHOLDER STRUCTURE FOLLOWING TO THE TAKEOVER



Faiveley Management S.A.S. subscribed to the issue of Faiveley Transport S.A. stock options to the value of €0.6 m. The conditions under which these options can be exercised are described in paragraph 3.4.2 below.

3.2 Contributions as long-term loans

3.2.1 Funding from banks

To fund the takeover of the Sab-Wabco Group, Faiveley Transport S.A. took out a bank loan from a pool put together by BNP Paribas and Société Générale, to the value of €230 m drawn on completion of the transaction and €50 m as a revolving credit, which was available but not used at this time.

This debt is covered by a number of "Covenants", of which the two most important relate to the Group's financial structure and profitability:

- Gearing ratio "Consolidated net debt/pro forma consolidated EBITDA": the Group would be in default with a ratio greater than 3.5 (threshold valid to 30th September 2005 and decreasing thereafter). Upon completion of the transaction, it stood at 2.9; on 31st March 2005, it had decreased to 2.08,
- Debt/equity ratio: the Group would be in default with a ratio greater than 1.9 (threshold valid to 30th September 2005 and decreasing thereafter). Upon completion of the transaction, it stood at 1.5; on 31st March 2005, it had fallen to 1.02.

The bank debt carries interest at a rate equal to Euribor 3 months plus a margin that varies depending on the gearing ratio:

Gearing ratio	Margin
Greater than, or equal to, 3.00	1.25%
Greater than, or equal to, 2.25 and less than 3.00	1.15%
Greater than, or equal to, 2.00 and less than 2.25	0.95%
Greater than, or equal to, 1.75 and less than 2.00	0.80%
Less than, or equal to, 1.75	0.65%

Given the ratio on completion of the transaction, the applicable rate is Euribor 3 months plus 1.15%.

In accordance with the funding agreements, the Group put in place an interest rate hedging, i.e. a 2.70% cap (excl. the banking margin) on 70% of the original debt (€230 m). The mean rate of the debt over the period between 16th November 2004 and 31st March 2005 was 3.29%.

3.2.2 Conditional funding from managers

In addition to their equity contribution, some of the managers made a contribution in the form of a long-term loan of €2.7 m. Repayment of this loan is subject to the repayment of the bank loan. Remuneration for the loan stands as 10% p.a. capitalisable.

3.3 Analysis of debt

In the light of existing and new funding, the main ratios are as follows:

	31 st MARCH 2005	31 st MARCH 2004
Net liabilities/Equity	108.5%	N/A
Net liabilities/Sales	43.9%	N/A

3.4 Creation of Class "A" shares, Class "B" shares and stock options within Faiveley Transport S.A., and related conditions

3.4.1 Classes of share

The shares in the capital of Faiveley Transport S.A., issued (or, in the case of Faiveley S.A., converted) at a unit price of €298.81, are divided into two classes:

- Class "A" shares held by Faiveley S.A. and Sagard, and
- Class "B" shares held by Faiveley Management S.A.S., the company set up by managers, and by managers who made a direct investment.

Class "A" shares give their holders preferential rights to dividends up to the value of their contribution and a cumulative annual preferential dividend of 10% of capital invested. If and when the preferential rights accruing to Class "A" shares are totally satisfied, the shares will be converted into Class "B" shares on the basis of 5,796 Class "A" shares for 1 Class "B" share (all shares will then become ordinary shares in the company further to the conversion).

Faiveley Management S.A.S. and the managers who made a direct investment will hold 11% of Faiveley Transport S.A. capital after this conversion i.e. after repayment to Faiveley S.A. and Sagard of their full contribution and payment of their cumulative preferential dividend during the period until full reimbursement of their contribution.

3.4.2 Stock options

Faiveley Management S.A.S. has also subscribed to stock options which entitle the company to subscribe to a maximum of 20,080 Class "B" shares at a strike price of €400 per new share. If performance enables Faiveley S.A. and Sagard to reach an internal yield higher than 30%, the exercise of these options will cover 8.8% of company capital on a fully diluted basis. The exercise of the options is subject to a liquidation of Faiveley S.A.'s or Sagard's shareholding (through an Initial Public Offering on the Stock Exchange, or the exchange of Faiveley S.A. shares for Faiveley Transport S.A. shares, or the change of control of Faiveley Transport S.A., or the sale of Sagard's shareholding).

4. Sales and subsidiaries results

4.1 Basis of consolidation

The Sab-Wabco Group has been consolidated since the take-over date i.e. 16th November 2004. The reports now present the following:

- Sales from subsidiaries within the former Faiveley Transport S.A. Group to 31st March 2005,
- Sales from subsidiaries within the former Sab-Wabco Group to 31st March 2005 to a period of 4 1/2 months.
- Statutory consolidated accounts of Faiveley Transport S.A. to 31st March 2005, integrating 12 months of the former Faiveley Transport S.A. Group and 4 1/2 months of the former Sab-Wabco Group.
- Pro forma accounts of the new Group for the period 1st April 2004 – 31st March 2005.

4.2 Subsidiaries results within the former Faiveley Transport S.A. Group

Sales contribution	31 st MARCH 2005	31 st MARCH 2004
(in €000's)		
Faiveley Transport S.A.(F)	113,749	99,487
Faiveley Transport Tarragona S.A. (S)	15,299	12,106
Faiveley Transport Verona S.p.A. (I)	10,719	15,642
Faiveley Transport Leipzig GmbH (D)	70,097	65,217
Faiveley Transport Tamworth Ltd. (GB)	6,460	6,260
Lekov a.s. (CZ)	7,950	6,861
Sofaport S.A.R.L. (F)	-	(4)
Europe	224,273	205,569
Faiveley Rail Inc. (USA)	12,037	16,847
Faiveley do Brasil (BR)	6,005	2,535
America	18,042	19,382
Shanghai Faiveley Railway Technologie	18,881	19,039
Faiveley Far East	9,420	9,187
Asia / Pacific	28,301	28,226
TOTAL	270,616	253,177

36

Board of Directors' report

The subsidiaries enjoyed good growth and satisfactory profitability with the exception of Faiveley Rail Inc. which has faced more difficult market and contractual conditions.

4.3 Subsidiaries results within the former Sab-Wabco Group from 16th November 2004 to 31st March 2005

Sales contribution	31 st MARCH 2005
(in €000's)	
Faiveley Transport Amiens S.A. (F)	12,116
Faiveley Transport Belgium NV (B)	1,703
Faiveley Transport Tremosnice (CZ)	2,561
Faiveley Transport Remscheid (D)	18,294
Faiveley Transport GHH (D)	16,951
Faiveley Transport Madrid (S)	4,794
Sab-Wabco Iberica (S)	2,931
Faiveley Transport Birkenhead (GB)	11,760
Faiveley Transport Piosasco (IT)	25,033
Faiveley Transport Polska (PL)	1,009
Faiveley Transport Nordic (SW)	10,258
Europe	107,410
Faiveley Transport Sao Paolo (BR)	2,925
America	2,925
Faiveley Transport Australia (AU)	4,467
Faiveley Transport India (IN)	5,778
Faiveley Transport Korea (KR)	33
Asia / Pacific	10,279
TOTAL	120,613

The subsidiaries achieved a satisfactory level of business with the exception of Faiveley Transport Sao Paolo and the following subsidiaries which anticipated lower workload and launched restructuring programmes.

- The profound changes made to the Faiveley Transport Birkenhead business model as a result of the almost disappearance of OEM business in UK led to a need for a major restructuring plan. Full provision was made for this in the accounts when the company joined the new Group.
- Amiens introduced a redundancy plan to offset the foreseeable drop in business. This involves the closure of the Roissy-en-France site.
- Landskrona laid off some of its work force in the last quarter of 2004.

d) To a lesser extent, other subsidiaries have been affected by redundancies as a result of lower business (Remscheid).

Provision was made for all these costs when Sab-Wabco joined the Group.

5. Faiveley Transport S.A. statutory consolidated accounts

5.1 Income Statement

N.B.: These accounts include 12 months' business for the former Faiveley Transport Group and 4 1/2 months' business for the former Sab-Wabco Group.

(in €000's)	2004/2005	2003/2004
Sales	391,229	253,178
EBITDA (*)	55,820	30,012
<i>% of sales</i>	<i>14.3%</i>	<i>11.9%</i>
Operating income	45,178	23,303
<i>% of sales</i>	<i>11.5%</i>	<i>9.2%</i>
Financial result	(2,452)	(2,120)
Exceptional result	(46)	(2,433)
Tax	(14,190)	(3,723)
Net profit before goodwill amortisation and associates	28,490	15,026
<i>% of sales</i>	<i>7.3%</i>	<i>5.9%</i>
Net profit after goodwill amortisation and associates	23,773	14,922
Net profit/(loss) (Group share)	23,075	13,715

(*) : Operating income plus depreciation and before goodwill amortisation.

5.2 Balance Sheet

(in €000's)	2004/2005	2003/2004
ASSETS		
Goodwill	254,204	1,433
Non current assets	94,459	33,473
Deferred taxation (assets)	27,221	3,839
Current assets	286,009	128,070
Cash	80,372	33,722
TOTAL ASSETS	742,265	200,537
EQUITY AND LIABILITIES		
Equity	158,406	43,905
Provisions	131,799	36,099
Deferred taxation (liabilities)	12,989	1,925
Financial debts	252,195	19,328
Current liabilities	186,875	99,280
TOTAL EQUITY AND LIABILITIES	742,265	200,537

5.3 Cash flow Statement

(in €000's)	2004/2005	2003/2004
Net profit	23,773	14,922
+ Movement deprec./ prov. and others	15,790	12,428
Self-financing capacity	39,563	27,350
+ Movement in working capital requirements	13,121	16,157
Operating cash flow	52,684	43,507
Investments (excl. Sab-Wabco shares)	(9,700)	(5,437)
Purchase of Sab-Wabco shares	(159,547)	-
Investment cash flow	(169,247)	(5,437)
Increase in capital	100,388	-
Movement in loans	68,993	(25,007)
Dividends	(8,182)	(3,076)
Funding-related cash flow	161,199	(28,083)
Effect of exchange rates	(744)	(826)
Cash and cash equivalents (start of financial year)	31,628	22,467
CASH AND CASH EQUIVALENTS (END OF FINANCIAL YEAR)	75,520	31,628

5.4 Economic comments

Continuing the strong recovery observed since 2000, the former Faiveley Transport S.A. Group showed a 6.9% increase in sales during the financial year and a sharp rise in profitability levels. The former Sab-Wabco Group maintained a high level of performance.

Taking a constant exchange rate compared to the previous financial year, sales would have been €394.1 m.

5.5 Comments on the conditions under which Sab-Wabco joined the Group

a. Accounting methods

The Faiveley Transport S.A. Group published its accounts to 31st March 2005 in accordance with French standard CNC 99-02. The accounts of the entities within the former Sab-Wabco Group were brought into line with French GAAP at the opening of the period, by using IFRS (International Financial Reporting Standards) methods whenever possible.

Accounting procedures, methods and reporting were standardised throughout the Group (provisions on long-term contracts, current assets, accounts formats etc.).

b. Initial consolidation recognition

Acquisition goodwill was €278 m. Of this amount, €20 m were allocated to the Sab-Wabco trade mark, €1 m to development costs and €257 m as non-allocated goodwill.

There is no amortisation of the trade mark. Development costs and goodwill are amortised over 3 and 20 years respectively.

c. Long-term contracts

The Group applies the IAS 11 method with regard to long-term contracts i.e. calculation of margin using the percentage of completion method.

Sab-Wabco entities have adopted this method since the takeover. Over one hundred contracts representing more than 80% of the Group's sales were re-assessed using this method. The introduction of the new method revealed €4.5 m of work in progress on long-term contracts when Sab-Wabco joined the Group and €5.6 m of provisions for losses at completion.

d. Provisions for guarantees and risks on long-term contracts

Since Sab-Wabco used a different method compared to Faiveley Transport S.A. for recording these provisions, it was not possible to translate them directly into the method used by Faiveley Transport S.A..

These provisions were assessed as accurately as possible as of 31st March 2005. The provisions corresponding to Sab-Wabco's entry in the Group were calculated by difference, using the variations in provisions of the period since these variations are representative of their economic impact. This led to an increase of €17.3 m in the opening balance sheet, which was retreated in the acquisition goodwill of Sab-Wabco.

e. Provision for employee benefits

Employee benefits were assessed in accordance with IAS 19 and gave rise to a provision of €44.5 m in the opening balance sheet.

f. Long-term financial debt

As of 31st March 2005, this consisted of:

- €230 m in the form of funding for the Sab-Wabco takeover,
- €4.8 m in the form of funding within Faiveley Transport Sao Paolo and Faiveley Piossasco subsidiaries.

6. Pro forma accounts for the new group for the period 1st April 2004 – 31st March 2005

N.B.: The accounts were prepared as if the takeover and its funding had been completed as of 31st March 2004.

6.1 Income Statement

(in €000's)	2004/2005
Sales	587,254
EBITDA (*)	83,930
	<i>% of sales</i>
Operating income	68,970
	<i>11.7%</i>
Financial result	(10,824)
Exceptional result	(47)
Tax	(19,960)
Net profit before goodwill amortisation and associates	38,139
	<i>% of sales</i>
Net profit after goodwill amortisation and associates	25,659
Net profit/(loss) (Group share)	24,659

(*) Operating income plus depreciation and before goodwill amortisation.

6.2 Cash flow statement

(in €000's)	2004/2005
Pro forma operating income	68,970
Depreciation included in EBIT	14,960
Self-financing capacity	83,930
Movement in working capital requirements	503
Net investments	(15,515)
Cash flow from operations	68,918
Tax paid	(19,960)
Dividends	(1,147)
Net interest paid	(10,824)
Cash flow before debt repayment	36,987
Debt repayment	(644)
Net cash flow	36,343
Cash and cash equivalents (start of financial year)	46,127
CASH AND CASH EQUIVALENTS (END OF FINANCIAL YEAR)	82,470

6.3 Economic comments

The new Group achieves:

- 74.6% of its sales in the Euro zone,
- 4.7% of its sales in Pounds Sterling,
- 3.1% of its sales in American Dollars,
- 17.7% of its sales in other currencies.

Throughout the Group, macro-hedging is used for tenders and each contract is hedged against exchange-related risks whenever necessary.

Collateral as of 31st March 2005 amounted to €84 m and was mainly linked to the guarantees required for the execution of long-term contracts.

6.4 Changes in long-term debt

No repayments were made on the debt incurred for the takeover of Sab-Wabco in this period.

6.5 Research & Development

Most of the R&D in the Railway division consists of engineering included in contracts, which means that it is sold to customers (Faiveley keeps the intellectual property rights). As a consequence, the value of R&D capitalised is very low.

6.6 Progress and Difficulties encountered

The integration of the Sab-Wabco Group is progressing well, commercial synergies are taking shape, among former customers of the respective Groups and through the extended products and services offered by the new Group. A number of sites are currently being regrouped and the head office in Malmö will close this summer. Joint procurement platforms are currently being set up. Work has started on the standardisation of computer systems.

Since the consolidation and controlling harmonisation software used by each of the former Groups did not meet the requirements of the new Group, it was decided to introduce a new unified computer system for consolidation and reporting. The Group encountered difficulties as a result of the services provided by its supplier and this has affected the timetable for the overall deployment of the system.

7. Staff information and wages policy

7.1 Staffing levels

Staffing levels practically doubled with the integration of the Sab-Wabco Group, to 3,412 people as of 31st March 2005.

GEOGRAPHICAL BREAKDOWN OF STAFF

Subsidiaries of the former Faiveley Transport	31 st MARCH 2005			31 st MARCH 2004
	Permanent	Temporary	Total	Total
Faiveley Transport S.A. Sofaport	564	6	570	588
Total France	564	6	570	588
Germany	269	3	272	291
Brazil	64	-	64	50
China	257	56	313	281
Spain	145	4	149	154
USA	59	-	59	53
UK	25	-	25	22
Italy	26	2	28	25
Czech Republic	197	-	197	187
Total (foreign countries)	1,042	65	1,107	1,063
Total former Faiveley Transport S.A.	1,606	71	1,677	1,651

Subsidiaries of the former Sab-Wabco	31 st MARCH 2005			Total
	Permanent	Temporary	Total	Total
Germany	500	-	500	
Australia	29	-	29	
Belgium	4	-	4	
Brazil	50	1	51	
Spain	59	10	69	
France	285	-	285	
UK	88	54	142	
India	171	42	213	
Italy	254	32	286	
Poland	3	-	3	
Czech Republic	6	-	6	
Sweden	128	-	128	
Sweden (SW head office)	18	1	19	
Total former Sab-Wabco	1,595	140	1,735	
TOTAL FAIVELEY TRANSPORT GROUP	3,201	211	3,412	1,651

7.2 Wages and salaries policy

7.2.1 Organisation of working hours

French companies are subject to the agreement on the reduction of working hours signed with unions as of 31st January 2002 as a result of the reduction of the statutory working week to 35 hours under the so-called "Aubry" Laws.

After the introduction of the "Solidarity Day" in accordance with Law No. 2004-624 of 30th June 2004 by which workers show solidarity with the independence of the elderly and the disabled, all staff have been required to work one additional day.

In the subsidiaries of the former Sab-Wabco Group, collective bargaining agreements were negotiated in 2004 in accordance with current legislation (Faiveley Transport GHH Oberhausen).

7.2.2 Wages and salaries and changes

Generally speaking, wage and salary increases within the Group are negotiated annually for all staff.

An annual bonus payment is made to executives and managers depending on the Group's objectives. This applies in the French companies and in companies that were formerly part of the Sab-Wabco Group.

During the last financial year, a profit-sharing scheme was negotiated with the trade unions within Faiveley Transport S.A. and the staff will now be able to take advantage of a corporate savings scheme.

7.3 Health & safety conditions

Safety is a priority issue in the Faiveley Transport S.A. Group and all the companies make an effort to improve it.

The Health & Safety Committees set up within the Group meet at regular intervals, usually monthly or four to five times a year.

During these meetings, critical situations are discussed and priorities defined. The cost of any requisite action is also reviewed. It is not unusual that further meetings be organised after the implementation of any corrective or preventive action (once or twice a year) to assess the results.

Not only does the Group hold these meetings in accordance with applicable local legislation, it ensures that staff have an updated brochure containing information on health and safety measures within the company. The brochure also specifies staff behaviour and contains a plan for the evacuation of relevant sites.

In addition to the actions implemented by the various committees, progress groups are continuing to work within the Group, focussing on various areas of interest in order to improve risk prevention and pursue the safety training policy.

The proactive development of an in-house First Aid training policy has also continued, with one-day training courses provided within the subsidiaries of the former Sab-Wabco Group and given to production staff on Faiveley Transport S.A. sites in Tours (France).

Again with the aim of improving safety, the presence of portable first aid equipment was extended in certain sites e.g. Faiveley Transport Piossasco, and individual training in the use of safety machinery and equipment is provided throughout the year within certain subsidiaries such as Faiveley Transport GHH Oberhausen.

Encouraging results have been recorded in terms of staff safety in our sites of Tours. This was achieved through strong involvement from the General Management.

It has to be said, however, that a fatal work accident occurred in the GHH Oberhausen subsidiary.

It should also be noted that, at the beginning of the year, a decision was taken to create a new job position for health, safety and environment in the sites of Tours.

7.4 Training

The budget for training reached its highest-ever level in financial year 2004-2005.

Changes in this item correspond partly to the Group's wish to reduce the number of work accidents. In this respect, the Faiveley Group can be proud of having recorded a very low frequency of work accidents during last financial year.

In addition to increasing awareness of safety measures, especially among new staff, numerous courses were provided for staff on a range of topics (time management, project management, training for production staff etc.). Training requirements are defined by heads of departments.

The training policy is designed to meet the needs of each subsidiary.

French lessons have also been arranged in some of the former Sab-Wabco subsidiaries.

7.5 Employment and integration of disabled workers

To meet legal requirements, almost all subsidiaries in the Group employ disabled staff. Their jobs depend on their disability and their skills.

Faiveley Transport S.A. uses disabled workers for temporary work and an agreement has been signed with temporary agencies to encourage the integration of disabled people in the workplace.

7.6 Outsourcing

For the railway division as a whole, outsourcing for the financial year was valued at approximately €19 m compared to €13.4 m in the previous year.

7.7 Human resources management

Further to the takeover of the Sab-Wabco Group, the Group created the position of Human Resources Director with a view to standardising the human resources policy across the new Group as a whole, highlighting and extending the existing best practices within the former two Groups, encouraging staff mobility and maximising career management.

7.8 Accounting for employee benefits within the former Faiveley Transport S.A. Group

Faiveley Transport S.A. did not choose the preferential method for these benefits. They are accounted for using the method implemented to date the entities of former Faiveley Transport S.A. Group. This has led to a provision of €1.1 m in the balance sheet and an off-balance sheet commitment of €2.4 m as of 31st March 2005.

8. Environmental protection

8.1 Consumption

In the Railways' division, raw materials most commonly used by the three main French sites are steel, aluminium and sheet metal (stainless steel and aluminium). The use of these raw materials complies strictly with the regulations, and with the aim of using natural resources with the lowest possible pollution.

The same compliance with regulations can be seen with regard to dangerous products used in the paint shops.

8.2 Environmental nuisance

The Group's management has made a very strong commitment to set up and improve the environmental management system, in accordance with ISO 14004 regulations. This has led the subsidiaries to take a number of measures in this area over the past financial year.

Production sites have been regularly monitored for noise pollution and specific measures have been taken to counter this (expert assessment of noise pollution carried out in Germany at Faiveley Transport GHH Oberhausen). Sustained efforts have been made within the Group to reduce this type of pollution (use of more silent machinery, project to build a sound barrier wall in one of the German subsidiaries).

8.3 Measures taken to limit damage to the biological environment

Faiveley Group's industrial business generates very little waste in the environment. Such waste is mainly caused by the surface treatment plant within the main production plant in France or consists of emissions into the atmosphere.

The regulations relating to the characteristics of residual water after treatment and before outflow are complied with and the results of the annual measurements of emissions into the atmosphere do not exceed the authorised thresholds.

Nevertheless, the maximisation of environmental protection remains one of the priorities for all our companies, including those that were formerly part of the Sab-Wabco Group.

Due to this objective, the Group's companies have integrated environmental aspects into the management system, decision-making structures and action. In 2004, a number of procedures were created to improve the management of legal requirements, objectives and regulations in the area of environmental issues.

Some subsidiaries have been inspected and, over the last financial year, have introduced measures such as the measurement of environmental parameters, the creation of separate areas for the separation and sorting of waste, the installation of a heat exchanger or the appropriate storage of polluting fluids.

8.4 Corporate assessments and certifications

The Group is aware that its future depends on its ability to meet the needs of its customers and obtain ISO 14 001 certification for all its plants. Because of this, Management has continued its efforts in 2004. Most of the former Sab-Wabco subsidiaries in India, Germany, Sweden and Brazil already hold ISO 14 001 certification.

During the financial year, our main subsidiary, Faiveley Transport S.A., continued to implement procedures that will be incorporated into the environmental management system with a view to obtaining ISO 14 001 certification.

8.5 Measures taken to ensure compliance with legal requirements

A programme of generalised plant surveillance is already in place and records are updated.

The plants in France, which have been classified for environmental protection with an operating licence from the Prefecture, comply with current regulations.

9. Subsequent events

9.1 Events occurring after 31st March 2005

No significant event has occurred since the end of the financial year.

9.2 Prospects for 2005-2006

9.2.1 Order backlog as of 31st March 2005

The order backlog was €695 m, compared to €726 m on 31st March 2004 within a comparable Group.

The slow down in business in certain countries (Germany, UK) should be offset for by the rise in business in Southern Europe, Asia and Brazil.

The Group is maintaining its objective of increased sales, within a comparable Group, for the 2005-2006 financial year.

9.2.2 Synergies

Even before the takeover, Management in both Groups had begun to work on possible synergies between the Groups.

A number of concrete steps were taken in the areas of sales, production, procurement and computer systems. The head office in Malmö will close at the end of the summer 2005.

On a legal level, a number of plants are currently merging to optimise operations and local costs.

Mergers between intermediate legal structures are also underway to simplify the Group's structure. Provision was made for the corresponding costs of synergies in accordance with French standards when Sab-Wabco joined the Group.

9.2.3 Budget

Despite a slowdown in business in some European countries (Germany, UK), the Group is maintaining its objective of increased sales and greater profitability.

BUSINESS IN THE PLASTICS' DIVISION

1. Key figures for Faiveley Plasturgie

1.1 Economic activity

(€ millions)	2004/2005	2003/2004
Sales	60.0	58.4
Operating income	0.6	1.0
Net loss	(20.3)	(0.8)
Net loss (Group share)	(20.2)	(0.6)
Staff at end of financial year	505	458

At the end of December 2004, Faiveley Plasturgie took over the Eudica company which specialises in the injection of plastic parts in a sterile environment. The company was integrated into the accounts as of 1st January 2005.

Within a comparable Group, sales would have been €58.7 m.

The results for the financial year were significantly affected by the increased cost of raw materials since this increase cannot be passed on to customers in "real time". The cosmetics business was particularly badly affected and some customers decided to use other types of packaging (cardboard).

This led to a need for restructuring in the Falaise plant. Provision was made for the cost of this restructuring exercise in the financial year.

1.2 Income Statement

(in €000's)	2004/2005	2003/2004
Sales	60,022	58,409
EBITDA (*)	4,257	4,560
<i>% of sales</i>	<i>7.1%</i>	<i>7.8%</i>
Operating income	575	1,046
<i>% of sales</i>	<i>1.0%</i>	<i>1.8%</i>
Financial result	(261)	(178)
Exceptional result	(12,812)	(126)
Taxation	(624)	(730)
Net loss before goodwill amortisation and associates	(13,122)	12
<i>% of sales</i>	<i>(21.9%)</i>	<i>0%</i>
Net loss before goodwill amortisation and associates	(20,307)	(782)
Net profit/(loss) (Group share)	(20,245)	(638)

(*) Operating income plus depreciation and before goodwill amortisation.

1.4 Cash flow Statement

(in €000's)	2004/2005
Net loss	(20,307)
+ Movement deprec./prov. and others	23,374
Self-financing capacity	3,067
+ Movement in working capital requirements	1,802
Operating cash flow	4,869
Investments	(3,391)
Shares purchase	(3,326)
Investment cash flow	(6,717)
Increase in capital	
Movement in loans	3,640
Dividends	
Funding-related cash flow	3,640
Effect of exchange rates	4
Cash and cash equivalents (start of financial year)	2,381
CASH AND CASH EQUIVALENTS (END OF FINANCIAL YEAR)	4,177

1.3 Balance Sheet

(in €000's)	2004/2005	2003/2004
ASSETS		
Goodwill	1,365	7,088
Non current assets	6,672	17,767
Deferred taxation (assets)	627	208
Current assets	31,104	28,407
Cash	5,504	3,023
TOTAL ASSETS	45,272	56,494
EQUITY AND LIABILITIES		
Equity	14,469	34,732
Provisions	759	458
Deferred taxation (liabilities)	804	766
Financial debts	12,412	7,278
Miscellaneous liabilities	16,827	13,259
TOTAL EQUITY AND LIABILITIES	45,272	56,494

1.5 Prospects for 2005/2006

The Group sold the business in Falaise on 30th June 2005.

In accordance with the demands of its main customers, Faiveley Plasturgie Slovakia will build a new production plant in Slovakia, close to the plant in Nitra in which Faiveley already has a 60% shareholding in the form of a joint venture with Vusalp.

Finally, the Sepal production plant doubled in size, increasing from 3,900 to 7,700 square meters. This will allow for greater use of automation.

The fall in sales during the first quarter of 2005/2006 means that greater attention must be paid to the trend of the business and it might be necessary to envisage further resources adjustments.

2. Staff information and wages and salaries policy

2.1 Staffing levels

The total number of staff as of 31st March 2005 was 505 compared to 458 in the previous year. The movement was due to the takeover of Eudica (41 new jobs) and to new recruitments in the financial year to strengthen the Group's technical capacity. It is also worth mentioning 71 temporary workers employed by the company on 31st March 2005. The staff gender breakdown was 60% men and 40% women.

2.2 Wages and salaries policy

2.2.1 Organisation of working hours

All the companies in the Plastics' division apply an agreement on a reduction in working hours that complies with the Aubry Law on a 35-hour working week. These agreements were signed in 1999 and 2000 and take into account the various categories of staff.

2.2.2 Wages and salaries and changes in wages

There are two types of wage increase i.e. general wage rises granted after negotiation and individual rises given to staff in accordance with objectives reached during the financial year.

2.2.3 Health & safety conditions

A certain number of steps were taken in the field of health and safety. As regards noise in our production plants, information on the risks incurred was given to staff. Protective gear was also made available to staff.

If trichloroethylene was used, the wearing of a P2 mask and gloves was mandatory. With regard to dust-related nuisance (cleaning of hoppers), recommendations were given to ensure that an aspiration device was used at all times.

2.2.4 Training

The training budget in the Grand-Perret and V.P.I. companies represents almost 1% of the wages bill.

The main subjects of training courses were office technology, robotics, electrical certification, driving of fork lifts, first aid and quality.

2.2.5 Employment and integration of disabled staff

Almost all the plastics' companies such as SEPAL and V.P.I. employ disabled people.

2.2.6 Outsourcing

The cost of outsourcing amounted to €000's 3,165 for financial year 2004/2005, compared to €000's 2,503 in the previous year.

2.3 Environmental protection

V.P.I. launched an "environmental" scheme based on the application of the ISO 14001 standard. To ensure a successful outcome, V.P.I. has recruited an engineer with expertise in this particular area.

2.3.1 Consumption

All the plastics' companies use plastic granules. However, because Grand-Perret works in the automotive division, the granules used by all companies within the Group meet the standards set by automobile manufacturers (no heavy metals or chlorine).

2.3.2 Nuisance

Grand-Perret and V.P.I. have implemented a policy to monitor and decrease nuisance. As far as noise is concerned, the presses are now electric and are, therefore, more silent.

2.3.3 Limits on damage to biological balance

All plants have separate sewer systems or even closed cooling systems. Packaging waste is sorted and optimised. Plastic waste resulting from production is crushed, recycled or sold. The management of special industrial waste is provided by external companies.

2.3.4 Corporate assessment or certification

All the companies within the Plastics' division have implemented a management approach based on the ISO 14001 standard for environmental protection and Sepal already holds ISO 14001 certification.

2.3.5 Compliance with division regulations

Grand-Perret, V.P.I. and Sepal are classified companies operating in accordance with the standards currently applicable to this type of plant.

CONSOLIDATED STATUTORY ACCOUNTS OF FAIVELEY S.A.

3.1 Published accounts

3.1.1 Income Statement

(in €000's)	2004/2005	2003/2004
Sales	451,376	311,785
EBITDA (*)	59,698	34,593
<i>% of sales</i>	<i>13.2%</i>	<i>11.1%</i>
Operating income	45,363	24,358
<i>% of sales</i>	<i>10.0%</i>	<i>7.8%</i>
Financial result	(3,002)	(2,681)
Exceptional result	40,562	41
Taxation	(15,091)	(8,396)
Net profit before goodwill amortisation and associates	67,831	13,322
<i>% of sales</i>	<i>15.0%</i>	<i>4.3%</i>
Net profit after goodwill amortisation and associates	54,021	12,423
Net profit/(loss) (Group share)	50,219	11,361

(*) Operating income plus depreciation and before goodwill amortisation.

Consolidated sales has increased by 44.8%, with the Railways' division increasing by 54.5% and the Plastics' division by 2.8%. As of 31st March 2004, the Group had no financial debts.

3.1.2 Balance Sheet

(in €000's)	2004/2005	2003/2004
ASSETS		
Goodwill	255,734	10,593
Non current assets	101,432	50,041
Deferred taxation (assets)	27,860	2,789
Current assets	317,016	156,019
Cash	97,716	37,231
TOTAL ASSETS	799,758	256,673
EQUITY AND LIABILITIES		
Equity	182,209	76,830
Provisions	132,831	36,604
Deferred taxation liabilities	13,793	1,413
Financial debt	264,729	25,114
Miscellaneous liabilities	206,196	116,712
TOTAL EQUITY AND LIABILITIES	799,758	256,673

3.1.3 Cash flow Statement

(in €000's)	2004/2005	2003/2004
Net profit	54,021	12,423
+ Movement deprec./ prov. and others	(12,066)	17,088
Self-financing capacity	41,955	29,511
+ Movement in working capital requirements	11,946	17,631
Operating cash flow	53,901	47,142
Investments (excl. Sab-Wabco shares)	(11,715)	(9,176)
Purchase of Sab-Wabco shares	(154,926)	-
Investment cash flow	(166,641)	(9,176)
Increase in capital	100,388	7
Movement in loans	71,861	(26,958)
Dividends	(2,119)	(3,573)
Funding-related cash flow	170,130	(30,524)
Effect of exchange rates	(740)	(931)
Cash and cash equivalents (start of financial year)	34,870	28,359
CASH AND CASH EQUIVALENTS (END OF FINANCIAL YEAR)	91,520	34,870

3.2 Pro forma accounts

The pro forma accounts were drawn up as if the takeover had become effective as of 31st March 2004.

3.2.1 Income Statement

(in €000's)		2004/2005
Sales		651,961
EBITDA (*)		88,257
	<i>% of sales</i>	<i>13.5%</i>
Operating income		69,455
	<i>% of sales</i>	<i>10.7%</i>
Financial result		(11,376)
Exceptional result		(12,858)
Taxation		(20,861)
Net profit before goodwill amortisation and associates		24,360
	<i>% of sales</i>	<i>3.7%</i>
Net profit after goodwill amortisation and associates		2,811
Net profit/(loss) (Group share)		(7,557)

(*) Operating income plus depreciation and before goodwill amortisation.

3.2.2 Cash flow Statement

(in €000's)		2004/2005
Pro forma EBIT		69,455
Depreciation included in operating income		18,802
Self-financing capacity		88,257
Movement in working capital requirements		(225)
Net investments		(22,232)
Cash flow from operations		65,800
Tax paid		(20,861)
Dividends		(2,142)
Net interest paid		(11,376)
Cash flow before debt repayment		31,421
New debt		5,277
Debt repayment		(3,856)
Net cash flow		32,842
Cash and cash equivalents (start of financial year)		58,677
CASH AND CASH EQUIVALENTS (END OF FINANCIAL YEAR)		91,519

3.3 Exceptional items

3.3.1 Dilution profit on Faiveley Transport S.A.

Sagard and Faiveley Management S.A.S. contributed €100.4 m to Faiveley Transport S.A.'s reserved increase in share capital including a share premium of €85.9 m. The percentage of your Group within Faiveley Transport S.A. has dropped from 100% to 64.5%, a reduction of 35.49% in its interest. The dilution profit, i.e. €49.5 m, corresponds to the increase of the stake in Faiveley Transport S.A. equity which has risen from €44 m to €93.6 m.

3.3.2 Provision for the Plastics' division

Given the poor performance and the risks observed in the Plastics' division, it appeared necessary to write down goodwill in the accounts with a value of €8.2 m (excluding Eudica) and part of the assets for a value of €12.8 m. This was recorded in the consolidated accounts as an exceptional expense.

3.3.3 Capital gains from the sale of shares

When Faiveley Transport S.A. took over Sagard, Faiveley S.A. assigned 26,592 Faiveley Transport S.A. shares to Sagard and, in doing so, realised a consolidated capital gain of €3.9 m.

3.4 Faiveley S.A.'s legal and economic rights in Faiveley Transport S.A.

Faiveley S.A. has a 61.7% shareholding in Faiveley Transport S.A.. Ownership of Faiveley Transport S.A. is split between Class "A" preferred shares held by Faiveley S.A. and Sagard and Class "B" shares held by Faiveley Management S.A.S. and directly by Faiveley Transport S.A.'s certain managers.

Class "A" shares have been valued at €276 m and bear a 10% preferential remuneration. The analyses carried out in accordance with French standards and IFRS confirm that these preferred shares are considered as equity. Given the unlikely nature of any payment of dividends to Class "B" shareholders in the medium term, they are not granted any economic rights over the results achieved by Faiveley Transport S.A.. The corresponding minority interest (2.44%) is therefore divided between Faiveley S.A. and Sagard in proportion to their current shareholding i.e. 1.54% and 0.9% respectively. Their economic rights over the results are, therefore, 63.25% and 36.75% respectively. This point will be reconsidered on an annual basis.

3.5 Changes in long-term debt

The Group contracted new loans during the financial year:

- €230 m by Faiveley Transport S.A. from a banking pool for the takeover of Sab-Wabco,

- €2,7 m by Faiveley Transport S.A. in the form of a subordinated loan from some of the managers,
- €4,4 m by Faiveley Plasturgie for the takeover of Eudica.

€6,5 m was repaid to banks during the financial year out of existing loans.

As of 31st March 2005, gross debt amounted to €264.7 m, an increase of €239.6 m compared to the previous financial year.

3.6 Analysis of debt

Given the existing funding, the main ratios are as follows:

	31 st MARCH 2005	31 st MARCH 2004
Net liabilities/ equity	91.7%	N/A
Net liabilities/ sales	37.0%	N/A

FAIVELEY S.A. BUSINESS AND CORPORATE ACCOUNTS AS OF 31ST MARCH 2005

1. Corporate accounts

Faiveley S.A. continues to provide services for the Group. It achieved a sale of €2.0 m, producing an operating loss of €1.4 m, caused mainly by the cost of the Sab-Wabco takeover operation.

The financial income was €6.8 m, including €7.1 m of dividends received from subsidiaries.

The net loss for the period is €7.9 m. This includes €6.7 m in capital gains from the sale of Faiveley Transport S.A. shares to Sagard and €20.0 m expenses as provision for Faiveley Plasturgie shares.

2. Shareholders

	% in capital	% in voting rights ⁽²⁾
François Faiveley Group and the Faiveley family	62.5%	75.6%
Registered securities	3.4%	3.7%
Public ⁽¹⁾	34.1%	20.7%

(1) No declared shareholder holds more than 5% of capital or voting rights.
 (2) Figures as of 25th July 2005.

- Staff shareholdings in equity on the last day of the financial year: not significant.
- Stock options
 As of 31st March 2005, no stock options were exercised.

3. Subsequent events

No significant event has occurred since the end of the financial year.

4. Allocation of loss

- Proposed allocation of loss

We would ask you to approve the annual accounts (balance sheet, Income Statement and Notes) as presented to you, showing a loss of €(7,980,592.18).

We would also ask you to approve the allocation of this loss to the "Carried Forward" reserve i.e. €(7,980,592.18).

Despite this loss, and given the company's distributable earnings, the General Meeting is asked to approve the proposal to distribute the following sum to shareholders in the form of a dividend: €2,985,500.40, i.e. €1.20 per share. This distribution will be taken from retained earnings.

Dividends will be paid as of 28th September 2005.

Given this allocation, the company's equity will be €47,358,101.67.

We remind you that, over the last three financial years, the following sums were paid in dividends: €995,166.80 for financial year 2003/2004 and €497,463.40 for financial year 2002/2003.

- Table of results for Faiveley S.A. over the last five financial years

In accordance with Article 148 of the Decree of 23rd March 1967, enclosed with the present Report, is a table showing the company's 5-year financial summary.

5. General management and Board of Directors

The company's Board of Directors has the following members:

Name	Function	Date of appointment or renewal of mandate	Other functions and main mandates
François FAIVELEY	Chairman of the Board	12 th Sept. 2002	<p>Chairman of the Board of Directors:</p> <ul style="list-style-type: none"> • Faiveley Transport Tarragona S.A. • Transequipos S.A. • Faiveley Transport Verona SpA. • Financière Faiveley S.A. <p>Board member:</p> <ul style="list-style-type: none"> • Grand-Perret S.A.S. • V.P.I. S.A. • Faiveley Transport S.A. <p>Manager:</p> <ul style="list-style-type: none"> • Faiveley Frères S.A.R.L. • Faiveley Beteiligungs GmbH
Erwan FAIVELEY	Board member and Managing Director	15 th Dec. 2004	<p>Board member and Managing Director:</p> <ul style="list-style-type: none"> • Financière Faiveley <p>Chairman of the S.A.S.:</p> <ul style="list-style-type: none"> • Consortium Vinicole et Viticole de Bourgogne S.A.S.
Philippe ALFROID	Board member	9 th July 2004	<p>Managing Director Delegate</p> <ul style="list-style-type: none"> • Essilor International S.A. <p>Board member:</p> <ul style="list-style-type: none"> • Faiveley Transport S.A. • Bacou-Dalloz S.A. • Gentex Optics, Inc. (USA) • Visionweb, Inc. (USA) • EOA Holding Co, Inc. (USA) • EOA Investment, Inc. (USA) • Omega Optical Holding, Inc. (USA) • Shanghai Essilor Optical Company Ltd. (China) • Essilor Canada LTEE/Ltd. (Canada) • Pro-Optic Canada Inc. (Canada) • Bacou-Dalloz USA., Inc. (USA) • Essilor of America, Inc. (USA)
Edmond BALLERIN	Board member	11 th Sept. 2003	
Claude COMPAIN	Board member	11 th Sept. 2003	<p>Board member:</p> <ul style="list-style-type: none"> • François Faiveley Participation S.A.S.
Christian GERMA	Board member	9 th July 2004	<p>Board member:</p> <ul style="list-style-type: none"> • Faiveley Transport S.A.
Denis GRAND-PERRET	Board member	11 th Sept. 2003	<p>Chairman of the Board:</p> <ul style="list-style-type: none"> • Eudica <p>Chairman:</p> <ul style="list-style-type: none"> • Grand-Perret S.A.S. <p>Board member:</p> <ul style="list-style-type: none"> • Grand-Perret S.A.S.

Name	Function	Date of appointment or renewal of mandate	Other functions and main mandates
Robert JOYEUX	Board member	11 th Sept. 2003	<p>Chairman of the Board and Managing Director:</p> <ul style="list-style-type: none"> • Faiveley Transport S.A. <p>Chairman of the Board:</p> <ul style="list-style-type: none"> • Faiveley Rail Inc. (USA) • Faiveley Transport Acquisition AB • V Management AB • Faiveley Transport Malmö AB • Faiveley Transport Nordic AB <p>Board member:</p> <ul style="list-style-type: none"> • Faiveley Transport Verona SpA. • Faiveley Transport Tarragona S.A. • Transequipos S.A. • Faiveley Transport Tamworth Ltd. • Faiveley Transport Amiens • Sab-Wabco Italia s.r.l. • Faiveley Transport Piosasco • Sab-Wabco UK Ltd. • Sab-Wabco Sales Ltd. • Sab-Wabco Investment Ltd. • Sab-Wabco D&M Ltd. • Sab-Wabco Products Ltd. • Sab-Wabco D&M Products Ltd. • Faiveley Transport Birkenhead Ltd. • Faiveley Transport Madrid • Faiveley Transport Belgium N.V. • Faiveley Transport Polska Sp. Z.o.o. • Faiveley Transport Korea Ltd. <p>Chairman:</p> <ul style="list-style-type: none"> • Faiveley Management S.A.S. <p>Co-Director:</p> <ul style="list-style-type: none"> • Faiveley Far East Ltd. (Hong Kong) <p>Manager:</p> <ul style="list-style-type: none"> • Sofaport S.A.R.L. • Faiveley Transport KG Holding GmbH <p>Co-Manager:</p> <ul style="list-style-type: none"> • Faiveley Transport Beteiligungs GmbH • Faiveley Transport Verwaltungs GmbH <p>Vice-Chairman:</p> <ul style="list-style-type: none"> • Shanghai Faiveley Railway Technology Co. Ltd.
Paul KLEIN	Board member	12 th Sept. 2002	<p>Board member:</p> <ul style="list-style-type: none"> • Société d'Exploitation du Circuit de Dijon-Prenois • Clinique Drevon

6. Directors' remuneration

For the financial year 2004/2005, all types of direct and indirect remuneration of whatever nature received by the members of the company's Board of Directors was €526,881.

In accordance with Article L. 225-102-1 of the Commercial Code (Code de Commerce), we have indicated below the value of the remunerations and entitlements of all kinds received by each of the aforesaid Directors from the companies deemed as being controlled under the terms of Article L. 233-16 of the Commercial Code (Code de Commerce):

Name	Function	Total Remuneration (in €)	Other benefits (in €)
François FAIVELEY	Chairman of the Board of Management	0	1,500
Philippe ALFROID	Board member	0	1,500
Edmond BALLERIN	Board member	51,184	1,500
Claude COMPAIN	Board member	0	1,500
Erwan FAIVELEY	Board member	0	0
Christian GERMA	Board member	0	1,500
Denis GRAND-PERRET	Board member Faiveley S.A. Chairman & Managing Director, Faiveley Plasturgie	134,111	1,500
Robert JOYEUX	Board member Faiveley S.A. Chairman & Managing Director, Faiveley Transport S.A.	329,586	1,500
Paul KLEIN	Board member	0	1,500

50

Board of Directors' report

7. Agreements relating to current operations undertaken in normal conditions

- A cash-pooling agreement was signed by Faiveley S.A. ("Agent") on the one hand and Grand-Perret, V.P.I., Sepal, R.M.I., and Faiveley Plasturgie on the other,
- A tax grouping agreement exists between Faiveley S.A. (parent company) and the companies operating within the Plastics' division.

8. Renewal of the mandate of two Board members

We inform you that the mandates of Messrs. François Faiveley and Paul Klein as Board members will expire at the end of the present meeting. We propose you renew these mandates for a period of 3 years, to expire at the end of the General Meeting convened to approve the accounts for the financial year ending 31st March 2008.

9. Ratification of the appointment of a Board member

We would inform you that, on 10th November 2004 and 15th December 2004, the Board of Directors of Faiveley S.A. decided to appoint Mr. Erwan Faiveley as Board member and Managing Director. Therefore we suggest that you proceed with the ratification of this appointment which 3-year mandate will expire at the end of the General Meeting convened to approve the accounts for the financial year ending 31st March 2008.

10. Changes of methods during the financial year

N/A.

11. Information on non tax-deductible charges

None in the Faiveley S.A. corporate accounts.

12. Significant purchases of shares

N/A.

13. Ownership of Faiveley S.A. equity capital

Financière François Faiveley and the Faiveley family: 62.9%

Registered securities: 3.5%

Floating: 33.6%

14. Treasury shares

N/A.

15. Staff interest in the company's capital

FCPE Faiveley Actions holds 5,000 shares (0.2%) in the company.

One Faiveley S.A. staff member holds 5,685 shares (0.2% of capital).

16. Information relating to operations undertaken as part of the programme of share buyback authorised by the General Meeting on 9th July 2004

During the past financial year, the company has not bought back or sold any shares.

This means that the percentage of treasury shares self-held directly or indirectly is 0%.

The sole aim of the share buyback programme is to stabilise the price on the Stock Exchange.

17. Director's fees

You are asked to determine the overall value of the Director's fees allocated to the Board of Directors for the current financial year and each of the forthcoming years. We suggest €1,600 per Board member.

18. Options for stock purchase or subscription

No stock options were exercised during the present financial year.

19. Proposal for the setting up of a share purchase scheme

Within the framework of the Sab-Wabco Group takeover, the main shareholders of Faiveley Transport S.A., i.e. Faiveley S.A. and Sagard, agreed on the importance of involving the management to ensure the Group's success. To this end, the

following was decided:

- "Top Managers" could invest in Faiveley Transport S.A. at the time of the takeover through Faiveley Management S.A.S. and, in some cases, in the form of direct investment for a total initial holding of 2.4% of Faiveley Transport S.A. shares,
- Investment in Faiveley Transport S.A. by second tier managers: Managing Directors of subsidiaries, and Directors of sales, technical and operational departments. Some fifty people could be involved in this offer.

In order to motivate and ensure the loyalty of certain staff and managers in the Faiveley Transport S.A. Group who were unable to contribute to the increase in equity carried out at the time of the Sab-Wabco takeover, the Faiveley S.A. Board will put forward a project for the allocation of Faiveley S.A. stock options for consideration by the Extraordinary General Meeting. In this case, Faiveley Transport S.A. would bear all the costs incurred for Faiveley S.A.. Given the legal complexity of the system of preferred shares, industrial agreements and Faiveley Transport S.A. shareholders' agreement, Faiveley S.A. and Sagard have agreed that the planned allocation of stock options would apply to shares in Faiveley S.A. rather than in Faiveley Transport S.A.. Faiveley S.A. will set up the mechanism for Tier 2 Managers profit-sharing on behalf of Faiveley Transport S.A.. This mechanism will be funded through a loan from Faiveley Transport S.A. to Faiveley S.A.. Faiveley S.A. will be entitled to make block purchases of shares. An ad hoc agreement between Faiveley S.A. and Faiveley Transport S.A. must be signed before such a scheme can be launched.

20. Transfer of amounts recorded as special long-term capital gains reserves to an ordinary reserve account

In accordance with new legislation, we propose to allocate the sums indicated as sums placed in the special long-term capital gains reserve, for a value of €7,568,031.56 (after application of a 2.5% extraordinary tax: €181,232), to an ordinary reserve account.

INVESTMENT AGREEMENT AND SHAREHOLDERS' AGREEMENT WITH SAGARD IN FAIVELEY TRANSPORT S.A.

The conditions, under which the Sab-Wabco Group was taken over and funded by Faiveley Transport S.A., have been presented to you above. Agreements have also been signed between Faiveley S.A., Sagard and Faiveley Management S.A.S. relating to their joint investment in Faiveley Transport S.A..

Conditions relating to the transfers of shares and the sale of Faiveley Transport S.A.

After a 3-year period applicable to all shareholders during which shares may not be assigned (a period which would be reduced to 1 year as of the date of death of Mr. François Faiveley if this occurred within 2 years) unless otherwise mutually agreed by Faiveley S.A. and Sagard, a certain number of conditions have been agreed between Faiveley S.A. and Sagard:

- (a). Firstly, Faiveley S.A. and Sagard shall consult with each other and agree on the joint liquidity strategy most likely to serve their common interests and enable Sagard to gain liquidity from its investment. Faiveley Transport S.A.'s entry on the Stock Exchange or its merger with Faiveley S.A. have been envisaged, with the proviso that Sagard should, in these cases, dispose of liquidity equal to at least 75% of its shareholding and enjoy an attractive internal rate of return;
- (b). Secondly, after a period of 5 years and 6 months, Faiveley S.A. shall have the right of first refusal which shall take priority over all other liquidity measures, to enable it to offer to buy Sagard's stake in the equity of Faiveley Transport S.A. before the launch of any operation on the entire value of Faiveley Transport S.A. equity;

- (c). Thirdly, after a period of 5 years and 6 months, Faiveley S.A. may cause the sale of the entire equity of Faiveley Transport S.A.. Likewise, if Sagard so wishes and Faiveley S.A. decides not to present a first offer, or if the offer tabled by Faiveley S.A. for the buyback of Sagard's contribution to the capital of Faiveley Transport S.A. appears to be less attractive than the launch of an operation covering the company's entire equity, Sagard may instigate an operation aimed at achieving liquidity of the company's entire equity. These conditions may, however, be implemented immediately by Sagard if there is a change in the control of Faiveley S.A.;
- (d). The aforesaid liquidity measures will be undertaken jointly by Faiveley S.A. and Sagard, and, in all cases, under the control of the A.M.F. (Autorité des Marchés Financiers) and in accordance with the General Regulations;
- (e). The agreement, which has been signed for a period of 20 years, includes a provision making the conditions relating to sale of shares null and void if Faiveley Transport S.A. is floated on the Stock Exchange or if the controlling interests in the company are transferred. After 7 years and 6 months, the shareholders shall be free to assign their shares and, at that moment, a right of pre-emption will come into force to the benefit of Faiveley S.A. and Sagard.

The Report presented by your Statutory Auditors on this subject having been read, the Board of Directors invites you to adopt the resolutions submitted to you for a vote.

Board of Directors

APPENDICES

- 1/ 5-year financial summary (p. 100)
- 2/ Chairman's Report on the operation of the Board of Directors and the internal control within the Faiveley Group (p. 53)
- 3/ Table of Delegations for increases in capital: N/A

CHAIRMAN'S REPORT ON THE OPERATION OF THE BOARD OF DIRECTORS AND ON INTERNAL CONTROL WITHIN FAIVELEY S.A.

Ladies and Gentlemen Shareholders,

In accordance with Article L.225-37, paragraph 6, of the Commercial Code (Code de Commerce), I hereby inform you by the present Report:

- of conditions of preparation and organisation of the work of your Board of Directors during the financial year ended 31st March 2005,
- of the internal control procedures implemented by the company,
- of the scope of the Managing Director's powers.

1. Preparation and organisation of the work of the Board of Directors

1.1 Members of the Board

The Board of Directors has 9 members. The Company's Board Members, including their positions in other companies, is as follows:

Mr. François FAIVELEY
Chairman of the Board of Directors

Other positions held:

Chairman of the Board of Directors:

- Faiveley Transport Tarragona S.A.
- Transequipos S.A.
- Faiveley Transport Verona SpA.
- Financière Faiveley S.A.

Board Member:

- Grand-Perret S.A.S.
- V.P.I. S.A.
- Faiveley Transport S.A.

Manager:

- Faiveley Frères S.A.R.L.
- Faiveley Beteiligungs GmbH

Mr. Erwan FAIVELEY
Board Member and Managing Director

Other positions held:

Board Member and Managing Director:

- Financière Faiveley S.A.

Chairman of the S.A.S.:

- Consortium Vinicole et Viticole de Bourgogne S.A.S.

Mr. Philippe ALFROID
Board Member

Other positions held:

Managing Director Delegate:

- Essilor International S.A.

Board Member:

- Faiveley Transport S.A.
- Bacou-Dalloz S.A.
- Gentex Optics, Inc. (USA)
- Visionweb, Inc. (USA)
- EOA Holding Co, Inc. (USA)
- EOA Investment, Inc. (USA)
- Omega Optical Holding, Inc. (USA)
- Shanghai Essilor Optical Company Ltd. (China)
- ESSILOR Canada LTEE/Ltd. (Canada)
- PRO-OPTIC Canada Inc. (Canada)
- Bacou-Dalloz USA., Inc. (USA)
- Essilor of America, Inc. (USA)

Mr. Edmond BALLERIN
Board Member

Other positions held:

None.

Mr. Claude COMPAIN
Board Member

Other positions held:

Board Member:

- François Faiveley Participations S.A.S.

Mr. Christian GERMA
Board Member

Other positions held:

Board Member:

- Faiveley Transport S.A.

Mr. Denis GRAND-PERRET
Board Member

Other positions held:

Chairman of the Board:

- Eudica

Chairman:

- Grand-Perret S.A.S.

Mr. Robert JOYEUX
Board Member

Other positions held:

Chairman of the Board and Managing Director:

- Faiveley Transport S.A.

Chairman of the Board:

- Faiveley Rail Inc. (USA)
- Faiveley Transport Acquisition AB
- V Management AB
- Faiveley Transport Malmö AB
- Faiveley Transport Nordic AB

Vice-Chairman:

- Shanghai Faiveley Railway Technology Co. Ltd.

Board Member:

- Faiveley Transport Amiens
- Faiveley Transport Verona SpA.
- Faiveley Transport Tarragona S.A.
- Transequipos S.A.
- Faiveley Transport Tamworth Ltd.
- Sab-Wabco Italia s.r.l.
- Faiveley Transport Piossasco
- Sab-Wabco UK Ltd.
- Sab-Wabco Sales Ltd.
- Sab-Wabco Investment Ltd.
- Sab-Wabco D & M Ltd.
- Sab-Wabco Products Ltd.
- Sab-Wabco D & M Products Ltd.
- Faiveley Transport Birkenhead Ltd.
- Faiveley Transport Madrid
- Faiveley Transport Belgium N.V.
- Faiveley Transport Polska Sp. Z.o.o.
- Faiveley Transport Korea Ltd.

Chairman:

- Faiveley Management

Manager:

- Sofaport S.A.R.L.
- Faiveley Transport KG Holding GmbH

Co-Manager:

- Faiveley Transport Beteiligungs GmbH
- Faiveley Transport Verwaltungs GmbH

Co-Director:

- Faiveley Far East Ltd. (Hong Kong)

Mr. Paul KLEIN
Board Member

Other positions held:

Board Member:

- Société d'Exploitation du Circuit de Dijon-Prenois
- Clinique Drevon

1.2 Frequency of meetings

During the past financial year, your Board of Directors met six times.

The Agendas of the Board meetings were as follows:

28th May 2004, with the following Agenda:

- Approval of the Minutes of the previous meeting,
- Examination and closure of company's accounts for the financial year ended 31st March 2004,
- Examination and closure of the Group's consolidated accounts as of 31st March 2004,
- Letter convening the Combined General Meeting and Agenda,
- Approval of the draft texts of the resolutions, the Chairman's Report on the operating of the Board of Directors and the internal control, to be submitted to the Combined General Meeting on 9th July 2004,
- Regulated agreements during the financial year and during previous financial years,
- Service agreements signed in accordance with the usual conditions for financial year 2004-2005,
- Exercise of stock options during the financial year ending 31st March 2004,
- Current situation with regard to the share buyback scheme authorised by the General Meeting of 11th September 2003,
- Other.

09th July 2004, with the following Agenda:

- Situation as at end of May 2004,
- Detail of business activity,
- Distribution of Director's fees,
- Other.

08th September 2004, with the following Agenda:

- Approval of the Minutes of the previous meeting,
- Presentation of the proposed takeover of the Sab-Wabco Group,
- Other.

10th November 2004, with the following Agenda:

- Approval of the Minutes of the previous meeting,
- Regulated agreements,
- Other,
- Instruments of proxy for formalities.

15th November 2004, with the following Agenda:

- Approval of the Minutes of the previous meeting,
- Examination of the services provided between Faiveley Transport S.A. and Faiveley S.A.,
- Instruments of proxy for formalities.

15th December 2004, with the following Agenda:

- Approval of the Minutes of the previous meeting,
- Closure of the Group's consolidated accounts as of 30th September 2004,
- Examination of the accounts of the companies in the Plastics' division,
- Forecast of consolidated results at the end of March 2005,
- Takeover of Eudica,
- Appointment of Mr. Erwan Faiveley as Managing Director,
- Other.

1.3 Convening meetings of Board Members

In accordance with Article 16 of the Memorandum and Articles of Association, the meetings of the Board of Directors were convened, and the Directors informed of the dates, sufficiently in advance to enable them to attend.

In accordance with Article L.225-238 of the Commercial Code (Code de Commerce), the Statutory Auditors were requested to attend the Board meetings at which the interim and annual accounts were examined and closed.

1.4 Information for Board Members

All documents, technical files and information required to enable Board Members to fulfil their tasks were forwarded to them a few days before the meetings.

1.5 Location of meetings

Meetings of the Board of Directors always take place at the registered office.

1.6 Decisions adopted

During the past financial year, the Board of Directors took the following significant decisions:

- Takeover of the Sab-Wabco Group through Faiveley Transport S.A.,
- Appointment of Erwan Faiveley as Managing Director,
- Takeover of Eudica.

1.7 Minutes of meetings

Minutes of Board of Directors meetings are drafted at the end of each meeting and immediately forwarded to all Board Members.

2. Internal control procedures

Our company has developed internal control procedures to ensure, as far as possible, rigorous financial management and control of the risks associated with its business activities. The procedures also aim to ensure the drafting of reliable information on the company's financial situation and accounts for transmission to shareholders.

Given the Group's new configuration after the takeover of the Sab-Wabco Group by Faiveley Transport S.A., specific internal control procedures to the railway business have been implemented within Faiveley Transport S.A.. This division of business, which now represents more than 90% of the Group's sales, has been given specific responsibility, through the Faiveley Transport S.A. subsidiary, to implement control procedures within the Group.

The procedures are described below.

2.1 Railways' activity

The purposes of the internal control procedures implemented within the Faiveley Transport S.A. Group are as follows:

- To establish accurate, reliable information on the company's accounts and financial situation,
- To ensure that the information forwarded to the Board of Directors and General Meetings is reliable and is a true picture of your company's business,
- To ensure that the operations carried out within the company comply with current legislation and regulations and with the objectives laid down by General Management.

One of the main objectives of our internal control system is to anticipate and control the risks inherent to the company's area of business and the risks of errors or fraud, particularly in the area of accounting and finance.

2.1.1 Corporate governance

On the takeover of the Sab-Wabco Group, Sagard and Faiveley S.A. signed a shareholders' agreement in which certain conditions refer more specifically to the internal control of the company.

The members of the Board of Directors now meet informally in the form of a Steering Committee to monitor the conditions for the integration of the Sab-Wabco Group and the operational and financial performance of the railway business in a more detailed, more regular manner.

Within the takeover framework of the Sab-Wabco Group, the main two shareholders in Faiveley Transport S.A. made an undertaking to set up ad hoc committees without delay, to supervise key areas for the control of the company i.e.:

- A Strategy Committee responsible for laying down the main strategic guidelines and supervising the preparation of the annual budget on a yearly basis,
- An Audit Committee, mainly responsible for examining the interim and annual accounts of the Faiveley Transport S.A. Group and the internal control procedures,
- A Remuneration Committee.

The Remuneration Committee has already been set up and has met three times. It is chaired by an independent Board Member and has, as its members, a representative from Faiveley S.A., a representative from Sagard and the Chairman and Managing Director of Faiveley Transport S.A.. Its task is to determine the remuneration of the Managing Director and senior executives in the Faiveley Transport S.A. Group. The Remuneration Committee has recently determined the remuneration of the Chairman and Managing Director.

The Strategy and Audit Committees are currently being set up.

In accordance with the conditions laid down in the shareholders' agreement, a censor has been appointed for a three-year period by the Board of Directors. The Articles of Association have been amended to integrate the corresponding Article 17.6. The censor is mainly responsible for examining the annual accounts and ensuring compliance with statutory requirements. He has only a consultative role within the Board of Directors and is entitled to present any relevant observations at shareholders' meetings.

2.1.2 Procedural changes within the new Faiveley Transport S.A. Group

2.1.2.1 Operational procedures

With the takeover of Sab-Wabco, the main operational procedures have been redesigned and standardised. They are summarised in the Group's "Corporate" manual. The main components of the procedures are as follows:

- Management organisation and the roles and responsibilities of the main business leaders,
- Key steering indicators,
- Key processes: management reviews and project reviews,
- Sales-related procedures,
- Financial procedures,
- Quality management,
- Health, safety and environmental procedures,
- Human resources procedures.

2.1.2.2 Accounting and financial procedures

Further to the takeover of the Sab-Wabco Group, major work was undertaken to rethink processes, procedures and accounting practices and standardise the principles currently in use in the former two groups. In most cases, when the principles were dissimilar, standardisation tended to be based on the principles in effect within the former Faiveley Transport S.A. Group.

In the provisional phase leading up to the standardisation of these principles, a specific system was introduced to monitor the figures and information provided within the former Sab-Wabco Group, to ensure their reliability.

The first stage of standardisation, covering accounting methods and the release of the consolidated accounts as of 31st March 2005, was successfully completed. Standardisation, and the corresponding controls, are continuing with a view to unify management control within an integrated information system.

2.1.3 Environment and general organisation of the internal control

The takeover of the Sab-Wabco Group led Faiveley Transport S.A. to rethink the reference documents. They now consist of the following:

- "Corporate" manual containing the rules of good practice as regards management, submission of tenders, quality procedures, human resources management and finance,
- "Quality Instructions" describing a number of operating processes that are common to the entire Group,
- "Financial & Accounting Policies", a new standardised benchmark document for the Group as a whole, covering accounting standards, accounting rules and practices, and consolidation and reporting procedures,
- "Insurance" manual, which was redrafted following the placement of all the Group's policies with a single Broker.

2.1.4 Responsibility for internal control

In addition to the aforesaid Steering Committee, a corporate Executive Committee has been set up with members consisting of managers for each product range, the Financial Director and the members of General Management. It deals with all matters relating to the operation of the company and meets once a month.

Depending on the Agenda drawn up at the previous meeting, people external to the Committee are invited to attend meetings to discuss topics for which they have responsibility.

Head of Departments Committee: Chaired by the Managing Director of each industrial subsidiary, it highlights Group indicators and deals with problems raised at previous meetings, looking at the solutions implemented to overcome them. It meets once a month.

Quality Department: The Quality System is managed by a Quality Department in each industrial subsidiary. It receives support from the managers of each plant and subsidiary. It is covered by a structured benchmark document containing a description of Quality processes and procedures.

The Quality system is monitored through a Steering Committee responsible for action aimed at on-going improvements.

Finance Division: it covers controlling, in particular control of the budget and cash monitoring.

Management control is undertaken by a team of Controllers at head office and in each plant and subsidiary. The Finance Division organises periodical reviews to monitor industrial activities and business (projects). Every month, it issues a report for General Management and Product Line Directors.

The Finance Division has been enlarged to cope with the standardisation of the accounting rules and practices and the significantly increased number of subsidiaries under its control.

Moreover, despite the planned closure of the former Sab-Wabco head office in Sweden, the key people from the former Finance Department have been retained in order to ensure continuity of information and assistance with the introduction of new rules and procedures within the Sab-Wabco Group.

2.1.5 Monitoring of subsidiaries

Faiveley Transport S.A. has a majority shareholding in each of its subsidiaries. Therefore, it is strongly present in the Board of Directors and managerial structures within each of these subsidiaries.

A monthly management report (D+3 then D+7) is provided for the parent company by each subsidiary. The parent company then decides on the launch of any appropriate action depending on the information provided.

2.1.6 External control

The Company, and most of its subsidiaries, have ISO 9001-2000 certification and the Faiveley Transport S.A. Group's Quality Management system is controlled regularly by an external agency.

Within its former Group, Faiveley Transport S.A. has begun working towards ISO 14001 certification for its plants in France. All the plants in the former Sab-Wabco Group already have ISO 14001 certification.

Note that an Environmental Quality and Safety Department head will soon be joining Faiveley Transport S.A..

Moreover, given our company's railway business, our company is subject to a specific external control such as the regular calculation of cost prices for its business activities.

2.1.7 Internal accounting and financial audit procedures

The following paragraphs describe the internal control procedures implemented within Faiveley Transport S.A..

2.1.7.1 Organisation of the accounting and finance function

This function, which is described in the "Quality" manual, is provided by the Finance Division for the parent company, subsidiaries and each plant.

The Department is also responsible for the following:

- Supplying General Management with the relevant documents and indicators required to manage the company's business activity at any time,
- Providing on-going forecasts and helping to define action plans, introducing action plans and monitoring them with the company's General Management,
- Ensuring reliability of the information supplied from the company's accounting and financial information system.

2.1.7.2 General reference

Financial statements are drawn up in accordance with the following:

- Accounting standards applicable to French companies and groups:
 - Decree of 22nd June 1999 ratifying regulations 99-03 and 99-02 of 29th April 1999 from the Comité de la Réglementation Comptable,
 - Further opinions and recommendations from the Conseil National de la Comptabilité.
- Rules laid down by Faiveley Transport S.A. regarding the drafting of monthly, quarterly and annual accounts for the parent company, subsidiaries and plants.

It should be noted that these processes are subject to regular audits by our Statutory Auditors during the financial year. These audits also include the computer applications used by the accounts and finance departments.

As part of the changeover to IFRS throughout the Group, the Finance Direction has already introduced a number of accounting procedures and rules which are part of the internal control and are covered by the audits carried out by Group and local auditors.

2.1.7.3 Accounting and financial information

Within the Finance Direction, the Accounts Department summarises the accounting data and draws up the company's financial statements.

It forwards to plants and subsidiaries a timetable of tasks and checks to be carried out for the end of each closing. The timetable also schedules the work of Statutory Auditors to ensure certification and the closing of the books by the Board of Directors.

2.1.7.4 Implementation of management control

Working under the direction of the Group's Head of Controlling, the "regional" Controllers supervise the controlling and reporting of the subsidiaries in their area. They have the power to investigate and take action with Finance Managers and Controllers in the subsidiaries.

Their work results in reports which give a clear view of the accounting and finance situation within subsidiaries, compliance with Group procedures and improvements required.

2.2 Plastics' activity

2.2.1 General organisation of the internal control

The internal control in the Plastics' division is carried out by the Faiveley S.A. Group's Controller who supervises the management of Faiveley Plasturgie and its subsidiaries through a service contract.

Each subsidiary has its own accounting team, responsible for drawing up its accounts and drafting a monthly D+5 and D+10 management report which is summarised by the Group Controlling Department.

A Management Committee meeting is held quarterly. At the meeting, results are presented and any changes made to the budget of each entity within the Plastics' division.

Extraordinary Committee meetings are held to deal with specific topics on an ad hoc basis, under the direction of the Chairman of Faiveley Plasturgie.

2.2.2 Implementation of internal control

The aim of the Plastics' division control is to:

- manage and check the budget and quarterly review processes,
- draw up a precise, reliable set of accounting and financial information for subsidiaries and the holding company,
- supply plant managers with the relevant documents and indicators enabling them to manage the business activities,
- help to define, implement and monitor action plans with General Management of the holding company.

2.2.3 Drafting and monitoring of accounting and financial information for shareholders.

Faiveley Plasturgie's consolidated accounts are drawn up by the Faiveley Transport S.A.'s consolidation department under the terms of a service contract.

The accounts are reviewed by the Finance Management of Faiveley S.A., working with the Statutory Auditors.

The Controlling function within Faiveley S.A.'s Plastics' division is responsible for ensuring compliance with the procedures specific to this division.

Correct implementation of procedures is monitored by General Management and the Finance Division within Faiveley S.A..

2.3 Faiveley S.A. internal control

2.3.1 General organisation of the internal control

Since Faiveley S.A. is the Group's parent company, a financial holding company providing only services for the two divisions (railways' and plastics'), the internal control is carried out directly by the Board of Directors with the assistance of the Statutory Auditors.

2.3.2 Drafting of accounting and financial information for shareholders

Faiveley S.A. has its own accounts department which is responsible for the company accounts.

Faiveley Group's consolidated accounts are drawn up by the Faiveley Transport S.A. consolidation department under the terms of a service contract.

The accounts are reviewed by the General Management and the Finance Direction within Faiveley S.A., working with the Statutory Auditors.

3. Action plan for the forthcoming financial year

Operational and Finance Management are continuing to introduce the new corporate procedures and rules within the Group.

An internal control management position will be created once the standardisation process is well-advanced.

In the meantime, operational and functional management teams will monitor the efficient deployment of the new policies.

4. Managing Director's powers

Finally, I would inform you that a Managing Director, Mr. Erwan Faiveley, was appointed with unrestricted powers during the financial year.

Chairman of the Board of Directors

STATUTORY AUDITORS' REPORT,

drawn up in accordance with the final paragraph of Article L.225-235 of the Commercial Code (Code de Commerce), on the Report from the Chairman of the Board of Directors of Faiveley S.A. regarding the internal control procedures used to draw up and process accounting and financial data

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Faiveley S.A. and in accordance with the conditions laid down in the final paragraph of Article L.225-235 of the Commercial Code (Code de Commerce), we are hereby presenting our analysis of your Company Chairman's Report for the financial year ending 31st March 2005 as required under Article L.225-37 of the Commercial Code (Code de Commerce).

Under the responsibility of the Board of Directors, the management defines and implements adequate and efficient internal control procedures. It is the Chairman's responsibility, in his Report, to review the conditions under which the work of the Board of Directors and the internal control procedures implemented within the company are prepared and organised.

It is our responsibility to give you our observations on the information contained in the Chairman's Report concerning the internal control procedures used to draw up and process accounting and financial data.

We have carried out our work in accordance with the professional practices applicable in France, which require us to use all due diligence in our appreciation of the sincerity of the information given in the Chairman's Report regarding the internal control procedures used to draw up and process accounting and financial data.

In particular, our brief requires us to:

- obtain information on the objectives and general organisation of the internal control itself and the procedures used to draw up and process accounting and financial data as presented in the Chairman's Report,
- obtain information about the work on which the information given in the Report is based.

Given the information in the Chairman's Report regarding the internal control procedures used to draw up and process accounting and financial data, we make the following observations:

The company has undertaken major work to standardise the working procedures and methods within the group with a view to drawing up the consolidated accounts as of 31st March 2005.

However, since some of the procedures used by the company do not yet have a formal structure, we were unable to assess their contents and were led to carry out a number of substantive checks. These checks did not reveal any significant anomaly.

We would draw your attention to Paragraph 3 of the Chairman's Report regarding the implementation of the new corporate procedures and rules within the group. This is to be continued during the forthcoming financial year.

Given in Paris and Dijon on the 20th of July 2005
Statutory Auditors

BDO MARQUE ET GENDROT
represented by **Pierre MARQUE**

Statutory Auditor
Member of the Compagnie
Régionale de Paris

EXPERTISE COMPTABLE ET AUDIT
represented by **Patrick COLLOMB**

Statutory Auditor
Member of the Compagnie
Régionale de Dijon

**Faiveley S.A. Group
Consolidated Financial Statements
as of 31st March 2005**

CONSOLIDATED BALANCE SHEET AS OF 31ST MARCH 2005

ASSETS

(In €000's)	31 st March 2005			31 st March 2004 Net	31 st March 2003 Net
	Gross	depreciation and provisions	Net		
NON CURRENT ASSETS					
Goodwill	283,074	27,340	255,734	10,593	11,586
Intangible assets					
Miscellaneous intangible assets	49,364	24,405	24,958	1,922	2,548
Property, plant and equipment					
Land	9,633	186	9,448	4,867	5,676
Buildings	81,470	51,295	30,175	20,004	21,111
Plant & equipment	129,483	110,551	18,933	15,340	13,441
Miscellaneous property, plant and equipment	41,181	28,338	12,843	5,308	6,034
Financial investments					
Equity investments/non-consolidated companies	854	651	203	3	3
Associate companies	1,429		1,429	0	0
Miscellaneous financial investments	4,043	599	3,443	2,597	1,431
TOTAL (I)	600,529	243,364	357,165	60,634	61,830
CURRENT ASSETS					
Inventory and work in progress	135,425	16,235	119,189	61,633	68,096
Advances and related accounts	1,768		1,768	1,008	1,285
Trade and related accounts receivable	169,571	5,510	164,061	77,786	85,304
Miscellaneous receivables and adjustment accounts	32,012	14	31,998	10,282	13,011
Deferred taxation (assets)	27,860		27,860	2,789	2,379
Marketable securities	28,290		28,290	5,519	2,197
Cash	69,426		69,426	37,021	29,431
TOTAL (II)	464,352	21,759	442,593	196,038	201,703
TOTAL ASSETS (I + II)	1,064,881	265,123	799,758	256,673	263,533

EQUITY AND LIABILITIES

(In €000's)	31 st March 2005	31 st March 2004	31 st March 2003
EQUITY			
Share capital	12,440	12,440	12,437
Premium	17,364	17,364	17,360
Conversion adjustment	(3,183)	(2,647)	(1,815)
Consolidated reserves	41,883	31,727	20,726
Profit for the financial year	50,219	11,361	11,497
TOTAL OF GROUP EQUITY CAPITAL (i)	118,722	70,244	60,205
MINORITY INTERESTS			
Equity	59,684	5,524	6,352
Profit for the year	3,803	1,062	2,717
TOTAL (ii)	63,487	6,586	9,069
TOTAL EQUITY CAPITAL INCLUDING MINORITY INTERESTS	182,209	76,830	69,274
PROVISIONS FOR LIABILITIES AND CHARGES			
Provisions for liabilities and charges	132,831	36,604	31,664
Provision for deferred taxation	13,793	1,413	1,513
TOTAL (iii)	146,624	38,017	33,177
LIABILITIES			
Borrowings and financial liabilities	264,729	25,114	53,556
Advances and deposits received on current orders	46,148	31,252	20,560
Trade and related accounts payable	99,234	51,532	56,923
Tax and contributions payable	46,109	24,517	19,143
Payable on non current assets and related accounts	1,861	959	1,150
Other accounts payable	12,844	8,453	9,751
TOTAL (iv)	470,926	141,827	161,083
TOTAL EQUITY AND LIABILITIES (i + ii + iii + iv)	799,758	256,673	263,533

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH 2005

(In €000's)	31 st March 2005	31 st March 2004	31 st March 2003 ⁽¹⁾
Sales excluding VAT	451,376	311,785	298,738
Cost of sales	(335,138)	(240,099)	(228,535)
GROSS PROFIT	116,239	71,686	70,203
Non productive overheads	(69,751)	(47,169)	(45,677)
Miscellaneous income / expenditure	1,304	(52)	1,466
Restructuring costs	(2,429)	(106)	182
OPERATING INCOME	45,363	24,359	26,174
Depreciation included in operating profit/(loss)	14,335	10,234	9,555
Operating income + depreciation	59,698	34,593	35,729
Financial expense	(3,002)	(2,681)	(5,442)
PROFIT ON ORDINARY ACTIVITIES	42,360	21,677	20,732
Extraordinary income/(expense)	40,562	41	(42)
Tax on profits	(15,091)	(8,396)	(5,629)
NET PROFIT AFTER TAX	67,831	13,322	15,061
Share of profit of associates	208	0	0
Goodwill amortisation	(14,017)	(898)	(847)
NET CONSOLIDATED INCOME STATEMENT	54,021	12,424	14,214
Minority interests	3,803	1,062	2,717
NET PROFIT	50,219	11,361	11,497
Earnings per share	20.19	4.57	4.62
Diluted earnings per share	20.04	4.53	4.59

(1) : Given the scope of the changes resulting from a destination-based presentation in place of the previous type-based presentation, the figures for financial year 2002-2003 could not be reconstituted in detail. The above figures are the best possible estimate that could be achieved.

CONSOLIDATED CASH FLOW STATEMENT

(In €000's)	31 st March 2005	31 st March 2004	31 st March 2003 ¹⁾
Movement in operating cash flow			
Net profit	50,219	11,361	11,497
Minority interests in the results	3,803	1,062	2,717
Adjustments from profit to movement in net operating cash flow:			
• Depreciation of intangible and property, plant and equipment	41,174	11,132	9,555
• Movement in provision for liabilities and charges	(3,848)	6,535	5,511
• Deferred taxation	4,239	(599)	1,677
• Net capital gains (losses) on assignment of assets	(3,861)	69	(31)
• Grants	(6)	(49)	(2)
• Share of profit of associates	(208)		
• Profit from dilution	(49,556)		
Self-financing ability	41,955	29,511	30,924
• Movement in current assets and liabilities	11,946	17,631	(6,024)
* Decrease (+) or increase (-) in inventory	251	5,129	(4,295)
* Decrease (+) or increase (-) in receivables	(2,803)	5,289	(8,960)
* Increase (+) or decrease (-) in liabilities and expenses payable	14,498	7,212	7,231
Cash flow from operations	53,901	47,142	24,900
Investments			
Payout/purchase of property, plant and equipment and intangible assets	(11,710)	(8,020)	(9,506)
Investment grants received			
Receipt/assignment of property, plant and equipment and intangible assets	52	68	118
Payout/purchase of financial investments	(1,717)	(1,233)	(110)
Receipt/assignment of financial investments	1,660	9	8
Net cash flow from purchase and assignment of subsidiaries	(154,926)	0	(3,008)
Cash flow from investment	(166,641)	(9,176)	(12,498)
Increase in capital or contributions	100,388	7	84
Dividends paid to shareholders in parent company	(995)	(497)	
Dividends paid to minority shareholders	(1,124)	(3,076)	(2,918)
New loans	240,954	9,718	14,374
Reimbursement of loans	(169,093)	(36,676)	(18,013)
Cash flow from finance	170,130	(30,524)	(6,472)
Effect of exchange rate movements	(740)	(931)	(2,537)
Net increase (decrease) in cash	56,650	6,510	3,393
Cash and cash equivalents at opening of financial year	34,870	28,360	24,967
Cash and cash equivalents at end of financial year	91,520	34,870	28,360

Since financial year 1999/2000, the factoring of receivables has been part of the Group's financing policy. The resulting improvements in cash come therefore from the variations in working capital requirements. Paragraph D.14 in the Notes shows the figures and effects for the last two financial years.

MOVEMENT IN CONSOLIDATED EQUITY CAPITAL AND MINORITY INTERESTS

1 EQUITY AS OF 31ST MARCH 2004

(In €000's)	Share capital and premium	Consolidated reserves	Conversion adjustment	Results for the financial year	TOTAL
Equity as of 31st march 2003	29,797	20,726	(1,815)	11,497	60,205
Movement in the capital of the consolidating company	7	-	-	-	7
Allocation of results	-	11,000	-	(11,497)	(497)
Movement in conversion adjustments	-	-	(832)	-	(832)
Results as of 31 st March 2004	-	-	-	11,361	11,361
Equity as of 31st march 2004	29,804	31,726	(2,647)	11,361	70,244

2 EQUITY AS OF 31ST MARCH 2005

(In €000's)	Share capital and premium	Consolidated reserves	Conversion adjustment	Results for the financial year	TOTAL
Equity as of 31st march 2004	29,804	31,726	(2,647)	11,361	70,244
Movement in the capital of the consolidating company	-	-	-	-	-
Allocation of results	-	10,366	-	(11,361)	(995)
Other variations	-	(210)	-	-	(210)
Movement in conversion adjustments	-	-	(536)	-	(536)
Results as of 31 st March 2005	-	-	-	50,219	50,219
Equity as of 31st march 2005	29,804	41,882	(3,183)	50,219	118,722

3 MINORITY INTERESTS AS OF 31ST MARCH 2004

(In €000's)	In equity	In results	TOTAL
Position as of 31st march 2003	6,352	2,717	9,068
Allocation of results	(359)	(2,717)	(3,076) ⁽¹⁾
Results as of 31 st March 2004		1,062	1,062
Conversion adjustments	(568)		(568)
Movement in the group structure	100		100
Position as of 31st march 2004	5,524	1,062	6,586

4 MINORITY INTERESTS AS OF 31ST MARCH 2005

(In €000's)	In equity	In results	TOTAL
Position as of 31st march 2004	5,524	1,062	6,586
Allocation of results	(62)	(1,062)	(1,124) ⁽¹⁾
Results as of 31 st March 2005		3,803	3,803
Increase in capital	51,499		51,499
Movement in the group structure	3,226		3,226
Conversion adjustments	(503)		(503)
Position as of 31st march 2005	59,684	3,803	63,487

(1) dividends distributed by integrated companies

BREAKDOWN OF SHARE CAPITAL

	2004 (31 st March)	Creation	Reimbursement	2004 (31 st March)	Nominal Value	Incl. to be fully paid up
SHARES						
. Ordinary	750,813	-	-	750,813	5	-
. Written down	-	-	-	-	-	-
. Preferred	-	-	-	-	-	-
. Special	1,737,104	-	-	1,737,104	5	-
TOTAL	2,487,917	-	-	2,487,917	5	-

NOTES TO THE CONSOLIDATED ACCOUNTS

A. Significant events

On 16th November 2004, Faiveley Transport S.A. took over the Sab-Wabco Group which specialises in braking systems, couplers and wheels for the Railway division. The corporate value was €310 m. In 2004/2005, the company achieved pro forma sales of €317 m. The unallocated goodwill amounted to €257 m (cf. Note B.6). The takeover was funded by a €100.4 m increase in the capital of Faiveley Transport S.A. and by a bank loan of €230 m. The contribution made to the equity capital by Sagard and Faiveley Management S.A.S. amounting to €100.4 m and the sale of 26,592 Faiveley Transport S.A. shares to Sagard generated an overall profit of €53.4 m in the Group's consolidated accounts (dilution profit: €49.6 m, capital gain from sale: €3.8 m, cf. § E.17).

At the end of 2004, Faiveley Plastics' division took over the Eudica company (plastics injection in a sterile environment) which achieved a pro forma sales of €6 m. Business in the Plastics' division is difficult and future prospects are poor. Given this context, the Group used the method based on discounted future cash flows to assess the fair value of the Plastics' division. This led to an exceptional write down of €21 m (cf. § E.4).

B. Consolidation principles and methods

The Faiveley Group's consolidated financial statements were drawn up in accordance with the accounting standards and principles applicable in France, in particular CRC Rule No. 99.02 ratified by a ministerial order-in-council on 22nd June 1999 and published in the Official Journal as of 31st July 1999.

Prior to consolidation, the financial statements of consolidated companies, which were drawn up in accordance with the accounting standards applicable in their respective countries, are subject to the appropriate restatements to standardise the accounting methods used by the Group as a whole.

In closing the consolidated accounts for this financial year, Faiveley Group has applied the same accounting methods as the ones used to close its accounts as of 31st March 2004.

1. Group structure and consolidation methods

The financial statements of the companies over which Faiveley Group has exclusive direct or indirect control are fully consolidated.

The companies in which Faiveley Group exercises significant influence over financial and operating policies but which it does not control are consolidated using the equity method.

The results from companies taken over or sold during the financial year are retained in the Income Statement for the period after the date of takeover or before the date of sale.

Consolidated Faiveley Group companies are listed in Note G.1. Note G.2 details the companies that are not consolidated because of their insignificance as regards Faiveley Group accounts.

2. Conversion of financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries have been converted into Euros using the following rates:

- end-of-year rate for all the items in the balance sheet,
- average rate of the financial year for the income statement.

The resultant conversion differences are taken to the consolidated reserves and into minority interests (third party share).

EXCHANGE RATES RETAINED FOR CONSOLIDATION

	End-of-year rate			Average rate		
	31 st March 2005	31 st March 2004	31 st March 2003	2004/2005	2003/2004	2002/2003
Slovak Koruna	€0.025859	€0.024928	-	€0.025380	€0.024288	-
Swedish Krona	€0.109373	-	-	€0.109930	-	-
Czech Koruna	€0.033383	€0.030457	€0.031302	€0.032110	€0.031112	€0.031473
US Dollar	€0.771367	€0.818063	€0.917852	€0.795610	€0.852825	€0.997990
Australian Dollar	€0.596552	-	-	€0.588110	-	-
Hong-Kong Dollar	€0.098902	€0.105011	€0.117682	€0.102080	€0.109585	€0.127957
Pound Sterling	€1.452433	€1.501727	€1.450116	€1.467770	€1.440296	€1.549571
Brazilian Real	€0.288563	€0.280752	€0.273785	€0.277940	€0.290812	€0.314740
Chinese Ren Min Bi Yuan	€0.093275	€0.098697	€0.110887	€0.096250	€0.102599	€0.120573
Indian Rupee	€0.017638	-	-	€0.017750	-	-
Korean Won	€0.000760	-	-	€0.000720	-	-
Polish Zloty	€0.245056	-	-	€0.231070	-	-

3. Date of balance sheet

All the companies are consolidated on the basis of accounts as of 31st March 2005.

4. Internal operations

Transactions between consolidated companies and internal results of consolidated entities are not included.

5. Revenue recognition and cost of sales

The sales from contracts valid for less than one year, most of which relate to the sale of manufactured products ("Customer Services") are recorded upon transfer of title i.e. usually upon delivery to the customer and/or completion of the services.

The sales from contracts valid for more than one year are recorded using the percentage of completion method i.e. either by calculating the sales invoiced (delivered) compared to the total sales of the contract or by calculating the costs incurred (services completed) compared to the total cost estimated for the contract, in accordance with French and international rules (IAS 11).

The forecast cost at completion of contract include direct costs (e.g. raw materials, labour and engineering). This includes costs already incurred and future costs, including warranty costs and specific costs relating to risks considered as likely. Provisions for losses at completion and other provisions on contracts are recorded in the consolidated income statement, under "Cost of Sales" if the relevant costs are considered as likely when the contracts are reviewed.

Any changes in the conditions of contracts delivery and changes to margins at completion are recorded in the income statement under cost of sales for the financial year in which they were identified.

6. Intangible assets

6.1 Goodwill

For each takeover, the Group identifies and assesses at their fair value all assets and liabilities acquired, in particular property, plant and equipment and intangible assets, trade marks, inventories, work in progress and all provisions for liabilities and charges. The difference between the full cost of the acquired shares in consolidated companies and the fair value of assets and liabilities calculated in this manner is indicated under the heading "Goodwill".

The portion allocated to real estate and movable assets is amortised over the same period as assets of the same type.

Unallocated goodwill is amortised over a maximum period of 20 years, in accordance with a plan that reflects as reasonably as possible the objectives and perspectives envisaged at the time of the takeover.

When major changes occur in the structure or business activity of subsidiaries taken over and are likely to affect the amount of the net goodwill indicated on the balance sheet, extraordinary amortisation is included in the Income Statement.

6.2 Other intangible assets

The other intangible assets purchased by Faiveley Group are recorded at their purchase cost or at their fair market value when assessed following the purchase of shares in a consolidated company. These "fair market value" assessments are carried out by independent valuers if they are significant.

There is no amortisation for trade marks having undefined lifetime. The periods of amortisation for the other intangible elements are calculated depending on the estimated life of the asset i.e.:

- Software: straight line method over 1 to 3 years,
- Patents: straight line method over 9 to 15 years,
- Development costs: straight line method over 3 years when they are assessed at their fair market value during takeover. The costs generated internally in companies that were already consolidated on 1st April 2004 are recorded as expenses as soon as they are incurred,
- Goodwill ("business assets") is amortised over 10 years.

7. Property, plant and equipment

Property, plant and equipment are assessed at their purchase price or at their fair market value when assessed further to the purchase of shares in a consolidated company. Depreciation periods are as follows:

• Buildings	15 to 25 years
• Fixtures and improvement	10 years
• Industrial machinery & equipment	5 to 10 years
• Tooling	3 to 5 years
• Transport equipment	3 to 4 years
• Office furniture & equipment	3 to 10 years

In order to achieve a figure as close as possible to economic depreciation, the straight line method was applied. Accelerated depreciation indicated in the accounts of companies within the Group were therefore restated and the effect of taxation taken into account.

Assets financed through financial leases or operating leases which effectively transfer to Faiveley Group the benefits and risks inherent to ownership were restated as if they had been purchased by the company outright. They are included under the heading "property, plant and equipment" in the balance sheet assets and are depreciated using the method and duration indicated above. The corresponding financial debt is indicated in the liabilities, under the heading "financial loans and debts".

8. Financial investments

The gross value is the cost of purchase. Where appropriate, provision is made when the realisable value is less than the value at which the investment was originally recorded.

9. Inventory

Inventories include raw materials, works in progress and finished goods.

Raw materials are valued at the weighted average purchase price.

Works in progress and finished goods are valued at their cost price.

A write down is calculated to take account of the risks of obsolescence. The calculations are based on inventories rotation during the financial year and the prospects for sales.

Unrealised profits included in the inventories of companies within the Group are eliminated and the corresponding tax effect is recognised.

10. Receivables/Accounts payable

They are recorded at their nominal value. Provision is made for doubtful risk receivables or accounts receivable subject to litigation depending on the likelihood of recovery by the end of the financial year.

Receivables and accounts payable in foreign currency are converted into Euros at the end-of-year rate. Any conversion rate adjustments are indicated in the consolidated results for the period.

11. Marketable securities

Treasury investments are recorded at their purchase price and are written down when their realisable value is less than their book value, with no compensation to take account of latent capital gains.

The realisable value is equal to the likely sell value.

12. Cash

Cash in the bank or in hand has been assessed at its nominal value.

13. Financial instruments

The Group's policy is to centralise cash management by setting up a European cash pool in the following countries:

- Germany,
- France,
- Sweden,
- UK

Any excess cash is invested in short-term monetary securities. The results achieved from swaps are recorded symmetrically with the results achieved from the items hedged.

13.1 Exchange rate risk

The exchange rate risk is managed in two stages – uncertain risks and certain risks.

- Exchange rate risk management linked to tenders in foreign currency (uncertain risk).

Faiveley responds to calls for tenders in foreign currency.

The main currencies concerned are the US Dollar, the Pound Sterling and the Yen. The company sells these currencies (and purchases Euros). The Group implements macro-hedging for these tenders.

- Exchange rate risk management linked to commercial contracts (certain risks).

Hedging is systematically set up for commercial contracts in foreign currencies (usually successful tenders).

13.2 Interest rate risk

Faiveley Transport S.A. has set up a €280 m syndicated Euro-currency loan of which €230 m has been used. In order to cover the interest rate risk corresponding to this loan, the company has purchased a 2.70% “cap” against Euribor 3 months. Its characteristics are as follows:

- Nominal amount: €160 m,
- Half-yearly amortisation: 8.5%,
- Maturity: 1st March 2008.

Until the maturity date of 1st March 2008, Faiveley Transport S.A. will limit the interest on debt to 2.70% (excluding bank margin).

Faiveley S.A. uses a structured financial instrument to limit its exposure to interest rate risk. The notional value of the structured interest rate swap amounted to €12.9 m as of 31st March 2005.

The main characteristics of the swap are as follows:

- Amortisable amount,
- Period: 3rd October 2002 to 30th April 2007,
- Interest rate received is Euribor 3 months,
- Interest rate paid is revised quarterly and varies depending on the Euribor 1 year. This rate, paid by the company, changes as follows,
 - 3.47% if the Euribor 1 year is less than, or equal to, 5.25%,
 - Euribor 1 year if Euribor 1 year is greater than 5.25% and less than, or equal to, 6.25%,
 - 6.25% if Euribor 1 year is greater than 6.25%.
- As of 31st March 2005, the fair market value of this instrument was €(180,600).

14. Provisions for liabilities and charges

The Group applies CRC rule No. 2000-06 on liabilities.

14.1 Provisions for pensions and other staff commitments

The Faiveley Group records its pension commitments using

methods that are compatible with the French accounting standards and IAS 19, except in companies for which such commitments are indicated as off-balance sheet commitments (cf. Note F).

If the commitments are recorded, the cost of severance pay, pension and assimilated commitments is recorded as and when the staff acquire these rights. These entitlements are estimated at the end of the financial year, taking account of length of service and the likelihood of a staff member's presence in the company on their date of retirement. The estimates also comply with the legislation in the various countries in which Faiveley Group operates. The calculation is based on actuarial statistics and prospective measurements integrating hypotheses on issues such as mortality, staff sales, changes in salaries, profitability of long-term investments and the economic conditions specific to each country. For retirement indemnities, the calculation projects the charge over the total length of service of the employee within the Faiveley Group. The provisions indicated as liabilities are, where appropriate, net of any payments made to external agencies that manage these commitments.

The main commitments recorded are defined contribution schemes (Germany, UK).

14.2 Other provisions for liabilities and charges

Provisions are recorded when:

- the Group has a legal or implicit obligation resulting from a past event for which there is uncertainty as regards the date or amount,
- it is likely that payment will be required to extinguish the debt,
- this payment can be reliably assessed.

These provisions are determined to the best of the company's knowledge of the risks incurred and their likely character and are allocated to cover specific risks. In particular, they cover the following:

- likely expenditure in after-sales service corresponding to mechanical warranties. The amount of such expenditure is calculated on the basis of historical statistics,
- likely expenditure for industrial risks covered in contractual guarantees. The assessment of the required provision level is based on statistical information, the technical complexity and innovative character of the products, geographical distance etc,
- risks for litigation,
- losses upon completion noted when the provisional result relating to the direct costs of a contract shows a deficit,
- restructuring costs.

15. Deferred taxation

Deferred taxation reflects the time differences between the recognition of earnings and expenses in consolidated results and their inclusion in the fiscal result, and the deferral taxation relating to re-evaluations carried out further to takeovers.

It also reflects the timing differences resulting from certain consolidation restatements carried out with a view to standardising the rules used in the accounts of subsidiaries.

Deferred taxation is calculated using the liability method of tax allocation which takes into account the taxation rules known at the end of the financial year.

Tax assets deferred against losses carried forward are recorded if it is likely that the Group will have taxable profits in the future against which unused tax losses can be offset.

16. Diluted earnings per share

The net earnings per share is based on the weighted average number of shares in circulation during the financial year.

The net consolidated earnings per share after dilution is calculated on the basis of the mean weighted number of shares in circulation during the financial year plus the number of shares that would result from the exercise of stock options.

17. Mechanisms specific to the Sab-Wabco Group takeover

Faiveley S.A. has a 61.7% shareholding in Faiveley Transport S.A.. Ownership of Faiveley Transport S.A. is split between Class "A" preferred shares held by Faiveley S.A. and Sagard and Class "B" shares held by Faiveley Management S.A.S. and Faiveley Transport S.A.'s own managers.

Class "A" shares have been valued at €276 m and bring with them a 10% preferential remuneration. The analyses carried out in accordance with French standards and IFRS confirm that these preferred shares are considered as equity. Moreover, given the unlikely nature of any payment of dividends to Class "B" shareholders in the medium term, they are not granted any economic rights over the results achieved by Faiveley Transport S.A.. The corresponding minority interest (2.44%) is therefore divided between Faiveley S.A. and Sagard in proportion to their current shareholding i.e. 1.54% and 0.9% respectively. Their economic rights over the results are, therefore, 63.25% and 36.75% respectively. This point will be reconsidered on an annual basis.

The mechanisms used to convert Class "A" shares into Class "B" shares and the warrants issued in the name of Faiveley

Management S.A.S. leave open the possibility of diluting Faiveley S.A.'s shareholding in Faiveley Transport S.A. in the long term. The shareholding could then decrease from 61.7% to 49.8% (maximum dilution). Given the hypothetical nature of this dilution at the present time, its effect has not been included in the diluted earnings per share.

18. Extraordinary income/(expense)

Extraordinary earnings consists of operations that are outside the company's normal scope of business.

C. Transition to international accounting standards

In accordance with European regulation No. 1606/2002 and IFRS 1, Faiveley Group's consolidated accounts for the financial year ending 31st March 2006 will be drawn up using the International Financial Reporting Standards (IFRS) in effect as of 31st March 2006, with comparative accounts for the year ending 31st March 2005 drawn up using the same standards. In order to publish this comparative data, the Group will have to prepare opening balance sheet as of 1st April 2004, the starting date for the application of IFRS. It will also have to restate the takeover of Sab-Wabco by Faiveley Transport S.A. on 16th November 2004.

The initial accounts produced using IFRS will cover results to 30th September 2005. They will include a comparison with results to 30th September 2004, again drawn up using International Financial Reporting Standards.

With the acquisition of Sab-Wabco, the Group introduced a new process into all consolidated companies with a view to identifying all estimated impacts of the changeover to international standards. Through this action, it has been possible to see that:

- the evaluation of the initial value of Sab-Wabco assets and liabilities mainly complies with IFRS and it has, therefore, already been included in the accounts to 31st March 2005;
- IFRS restatements that will affect equity capital at the beginning or profit for the 2005/2006 financial year are mainly linked to employees benefits, financial instruments and non-amortisation of goodwill.

D. Changes in the group structure and comparability of accounts

The group has undergone significant change as a result of Sab-Wabco takeover by the Faiveley Transport S.A. subsidiary (cf. § A).

In the statutory consolidated accounts, this Group was consolidated for 4 months, from 15th November 2004 to 31st March 2005.

An income statement and a pro forma cash flow statement have been drawn up as if the takeover had occurred as of 31st March 2004.

Sab-Wabco consolidated the accounts of its subsidiaries as of 31st December and applied different accounting principles, especially with regard to revenue recognition. For the period from 1st April 2004 to 15th November 2004, the Sab-Wabco Group's operating income was calculated on the basis of actual sales and the management ratios observed after the takeover, using the Group's accounting methods. Because of this, it was not possible to make any comparison with the pro forma data mentioned above.

Main pro forma indicators

Income statement

(In €000's)	2004/2005
Sales	651,961
EBITDA (*)	88,257
	<i>% of sales</i>
Operating income	69,455
	<i>% of sales</i>
	10.7%
Financial result	(11,376)
Extraordinary result	(12,858)
Taxation	(20,861)
Net profit before goodwill amortisation and associates	24,360
	<i>% of sales</i>
	3.7%
Net profit after goodwill amortisation and associates	2,811
Net profit/(loss) (Group share)	(7,557)

(*) : Operating income plus depreciation and before goodwill amortisation.

Cash flow statement

(In €000's)	2004/2005
Pro forma operating income	69,455
Depreciation included in operating income	18,802
Cash flow	88,257
Movement in working capital requirements	(225)
Net investments	(22,232)
Operating cash flow	65,800
Tax paid	(20,861)
Dividends	(2,142)
Net interest paid	(11,376)
Cash flow before debt repayment	31,421
New debt	5,277
Repayment debt	(3,856)
Net cash flow	32,842
Cash and cash equivalents (opening of financial year)	58,677
CASH AND CASH EQUIVALENTS (END OF FINANCIAL YEAR)	91,519

E. Additional notes and tables

1 GOODWILL AND OTHER INTANGIBLE ASSETS

(In €000's)	Gross 1 st April 2004	Structure	Takeovers	Sales	Other Movements	Gross 31 st March 2005
Goodwill	23,916	259,158	-	-	-	283,074
Start-up & research costs	15	1,101	341	(10)	-	1,447
Concessions, patents, licences	7,161	25,447	1,344	(881)	(8)	33,063
Goodwill ("business assets")	120	13	-	-	-	133
Other intangible assets	427	14,181	367	(265)	10	14,720
TOTAL	31,639	299,900⁽³⁾	2,052	(1,156)	2⁽¹⁾	332,437⁽²⁾

(1) Including €000's (2) for reclassification. The effect of exchange rate adjustments is €000's 4.

(2) Including Railways' division: €000's 313,917, Plastics' division: €000's 18,404

(3) Including allocated goodwill: i. - Trade marks and patents: €000's 20,000
ii. - Development costs: €000's 962

Changes in the net position:

(In €000's)	Gross	Depreciation	31 st March 2005 net	31 st March 2004 net	31 st March 2003 net
Goodwill	283,074	27,340	255,734	10,593	11,586
Start-up & research costs	1,447	157	1,292	3	
Concessions, patents, licences	33,063	9,995	23,068	1,817	2,345
Goodwill ("business assets")	133	104	29	26	36
Other intangible assets	14,720	14,150	570	77	167
TOTAL	332,437	51,746⁽¹⁾	280,691	12,515	14,134

(1) Including Railways' division: €000's 35,126, Plastics' division: €000's 16,514

2 BREAKDOWN OF NON-ALLOCATED GOODWILL

(In €000's)	Gross value	Amortisation	31 st March 2005 net	31 st March 2004 net	31 st March 2003 net
Railways' division	265,723	11,354	254,369	1,621	1,819
Plastics' division	17,351	15,986	1,365	8,972	9,767
TOTAL	283,074	27,340⁽¹⁾	255,734	10,593	11,586

(1) Including amortisation for the financial year €000's 14,017 (Railways' division: €000's 4,948, Plastics' division: €000's 9,069)

3 PROPERTY, PLANT AND EQUIPMENT

(In €000's)	Gross 1 st April 2004	Structure	Takeovers	Disposals	Other movements	Gross 31 st March 2005
Land	4,992	4,590	46	-	5	9,633
Buildings	47,979	31,160	857	(13)	1,487	81,470
Plant & equipment	68,991	55,510	5,822	(990)	150	129,483
Other property, plant and equipment	14,785	21,390	2,083	(832)	78	37,502
Assets in progress	1,607	1,983	2,391	(235)	(2,067)	3,679
TOTAL	138,355	114,633	11,199	(2,072)	(347)⁽¹⁾	261,767⁽²⁾

(1) Including €000's 261 linked to exchange rate adjustments

(2) Including Railways' division: €000's 207,593, Plastics' division: €000's 53,843

And including valuation adjustments:

Land	1,070
Buildings	2,818
Plant & equipment	1,019
	<u>4,907</u>

Changes in the net position:

(In €000's)	Gross	Depreciation	31 st March 2005 net	31 st March 2004 net	31 st March 2003 net
Land	9,633	186	9,447	4,867	5,676
Buildings	81,470	51,295	30,175	20,004	21,110
Plant & equipment	129,483	110,550	18,933	15,340	13,441
Other property, plant and equipment	37,502	28,338	9,164	3,701	3,680
Assets in progress	3,679		3,679	1,607	2,355
TOTAL	261,767	190,369⁽¹⁾	71,398	45,519	46,262

(1) Including Railways' division: €000's 142,579, Plastics' division: €000's 47,403

Property, plant and equipment purchased through finance leases

The breakdown of property, plant and equipment purchased through finance leases and included in the above property, plant and equipment is as follows:

(In €000's)	Gross	Depreciation	31 st March 2005 net	31 st March 2004 net	31 st March 2003 net
Land	854	-	854	854	854
Buildings	7,830	6,776	1,054	2,414	2,804
Plant & equipment	4,115	2,762	1,353	1,873	309
TOTAL	12,799	9,538⁽¹⁾	3,261⁽²⁾	5,141	3,967

(1) Including charge during the financial year: €000's 3,188

(2) Including Railways' division: €000's 2,831, Plastics' division: €000's 430

4 DEPRECIATION, AMORTISATION AND PROVISIONS

(In €000's)	Amount on 1 st April 2004	Structure	Charge for year	Writebacks	Decrease /Other Movements	Amount as of 31 st March 2005
Goodwill	13,323	-	14,017	-	-	27,340
Start-up and research costs	12	146	9	-	(10)	157
Concession, patents, licence	5,344	4,346	1,218	-	(913)	9,995
Goodwill ("Fonds de commerce")	93	-	10	-	1	104
Other capital investments	351	13,544	484	-	(229)	14,150
Land	125	39	21	-	1	186
Buildings	27,975	15,281	8,058	-	(19)	51,295
Plant & equipment	53,651	44,044	13,618	-	(763)	110,550
Other property, plant and equipment	11,084	14,344	3,739	-	(829)	28,338
TOTAL	111,958	91,744	41,174	-	(2,761)⁽¹⁾	242,114⁽²⁾

(1) Including €000's (2,881) linked to the exit of non current assets and €000's 118 linked to exchange rate adjustments.

(2) Including Railways' division: €000's 177,705, Plastics' division: €000's 63,916.

The Group reviewed balance sheet values as of 31st March 2005 for goodwill and other non current assets. The review was undertaken per group of net assets belonging to the same business division, based on the cash flow expected from these assets as determined within the framework of strategy considerations giving rise mainly to the budget and forward planning.

The value in the balance sheet as of 31st March 2005 for goodwill and other non current assets, taken with the other net

assets per division of activity, was compared to the value in use calculated using the method described above.

Given the unfavourable market and the absence of encouraging prospects, the Group depreciated the assets of the Plastics' division (excluding Eudica) by €000's 21 (€000's 8.2 of extraordinary amortisation of previous goodwill and €000's 12.8 in depreciation of property, plant and equipment).

5 FINANCIAL INVESTMENTS

(In €000's)	Gross on 1 st April 2004	Structure	Takeovers	Disposals	Other movements	Gross as of 31 st March 2005
Equity investments in non-consolidated companies	6	865	-	-	(17)	854
Associate companies	0	1,971	-	-	(542)	1,429
Other financial investments	2,628	1,294	1,717	(1,669)	72	4,042
TOTAL	2,634	4,130	1,717	(1,669)	(487)	6,325⁽¹⁾

1) Including Railways' division: €000's 5,804, Plastics' division: €000's 96

Changes in the net position:

(In €000's)	Gross	Write down	31 st March 2005 net	31 st March 2004 net	31 st March 2003 net
Equity investments in non-consolidated companies	854	651	203	6	3
Associate companies ⁽²⁾	1,429	-	1,429	-	-
Other financial investments	4,042	599	3,443	2,593	1,431
TOTAL	6,325	1,250⁽¹⁾	5,075	2,599	1,434

(1) Including Railways' division: €000's 1,250, Plastics' division: N/A

(2) Contribution from Sab-Wabco KP, calculated using the equity method, is €000's 208

6 INVENTORY

(In €000's)	Gross	Write down	31 st March 2005 net	31 st March 2004 net	31 st March 2003 net
Raw materials	74,053	13,531	60,522	36,249	36,841
Projects in progress	15,045	97	14,947	3,426	
Production in progress	22,490	670	21,820	14,632	23,499
End-products	19,168	1,775	17,393	7,258	6,967
Goods	4,669	162	4,507	68	788
TOTAL	135,425	16,235	119,189	61,633	68,097

7 TRADE AND RELATED AMOUNTS RECEIVABLE

(In €000's)	31 st March 2005	31 st March 2004	31 st March 2003
Gross	169,571	78,559	86,155
Provision	5,510	773	851
NET	164,061	77,786	85,304

8 OTHER RECEIVABLE

(In €000's)	Less than 1 year	1 to 5 years	More than 5 years	TOTAL 31 st March 2005	TOTAL 31 st March 2004	TOTAL 31 st March 2003
Suppliers – credit notes	541	-	-	541	1,091	2,399
Receivables (contribs. & tax)	15,553	-	-	15,553	4,599	215
State (Taxation)	3,494	-	-	3,494	1,618	6,035
Down payments and guaranteed deposits	-	-	-	-	849	1,355
Accrued revenues	912	-	-	912	983	228
Misc. receivables	3,614	-	-	3,614	462	1,939
Prepaid expenses	4,395	3,502	-	7,897	691	847
TOTAL	28,509	3,502	-	32,011	10,293	13,018

9 DEFERRED TAXATION

(In €000's)	Deferred taxation ASSETS	Deferred taxation LIABILITIES
Tax losses	5,692	-
Differences in evaluation of non current assets	29	1,300
Restatement of fiscal depreciation and regulated provisions	1,394	2,439
Consolidation restatements (cancellation of margins on inventory and financial leases)	1,007	666
Provisions for retirement benefits	3,404	468
Temporary tax differences	16 334	8,920
TOTAL DEFERRED TAXATION	27,860	13,793

As of 31st March 2005, the deferred taxation (assets) of non-recovery amounted to €17 m, including €16 m corresponding to tax losses not recognised because of the risk connected with companies joining the Group.

10 BREAKDOWN OF PROVISIONS FOR LIABILITIES AND CHARGES

(In €000's)	Amount 31 st March 2003	Amount 31 st March 2004	Structure	Increase	Decrease	Other movements	Amount 31 st March 2005
Provisions for penalties	-	-	847	4,379	(5,982)	7,718	6,962
Prov. aft.-sales service & warr.	23,928	25,568	17,266	14,060	(11,662)	(2,354)	42,878
Provisions losses at completion	3,798	6,384	5,575	6,837	(8,417)	(3,747)	6,632
Employees benefits	1,600	1,603	44,536	656	(1,608)	323	45,510
Provisions for restructuring	514	218	16,307	366	(1,286)	(240)	15,365
Provisions for misc. risks	1,761	2,170	870	2,193	(429)	206	5,010
Provision for charges	62	661	9,717	4,266	(4,933)	762	10,473
TOTAL	31,663	36,604	95,118	32,757	(34,317)	2,668⁽¹⁾	132,830

(1) Including exchange rate adjustments: €000's 189 (amount as of 31st March 2005)

Provisions for pensions

Provisions for pensions are calculated using the projected unit credit method based on the hypotheses indicated above. All the actuarial adjustments generated since the introduction of the scheme and until the date on which Sab-Wabco joined the Group, i.e. 15th November 2004, were retained in the balance sheet at the start of the financial year ("Corridor brought to nil").

Depending on the country, the rates used vary as follows:

- Discount rate: 4.00% to 5.40%,

- Inflation rate: 1.50% to 2.90%,
- Rate of salary increase: 2.00% to 4.40%,
- Profitability of invested funds: 4.75% to 5.70%.

Other movements

The item "Other movements" (€000's 7,718) corresponds mainly to the reclassification of €000's 2,354 of provisions during the financial year for after-sales service and warranties, €000's 3,747 of provisions for losses at completion and €000's 1,749 of provisions for work in progress.

11 BORROWINGS AND FINANCIAL LIABILITIES

Under the new credit agreement, Faiveley Transport S.A. is required to comply with three covenants or financial constraints.

The leverage ratio for financial year 2004/2005 defined by the ratio Net Debt/Ebitda must not exceed 3.5. As of 31st March 2005, this ratio was 2.08.

The structure ratio for financial year 2004/2005 defined by the ratio Net Debt/Equity capital must not exceed 1.90. As of 31st March 2005, this ratio was 1.02.

The total value of bank guarantees must not exceed 15% of consolidated sales. As of 31st March 2005, this ratio was 14.3%.

Failure to comply with any one of these covenants may result in the outstanding debt becoming immediately repayable.

a. Per type

(In €000's)	Less than 1 year	1 to 5 years	More than 5 years	TOTAL 31 st March 2005	TOTAL 31 st March 2004	TOTAL 31 st March 2003
Borrowings	31,921	216,907	762	249,590	16,578	40,560
Financial lease	1,362	2,092	588	4,041	3,785	2,898
Staff profit-sharing	255	674	-	929	1,610	912
Misc. financial debts	405	80	2,780	3,266	705	5,073
Current accounts- creditor	706	-	-	706	77	-
Bank advances	6,197	-	-	6,197	2,359	3,268
TOTAL	40,846	219,753	4,130	264,729	25,114	52,711

b. Per currency

	In €000's	In currency 000's
Euro	257,301	-
US Dollar	12	15
Chinese Ren Min Bi Yuan	3,552	37,308
Pound Sterling	9	6
Czech Koruna	723	13,840
Brazilian Real	2,628	9,107
Slovak Koruna	504	5,917
TOTAL	264,729	-

As of 31st March 05, off-balance sheet commitments linked to Group business can be broken down as follows:

- Interest rate swaps
- Exposure to exchange rate risks

Term sales hedging commercial operations

	In €000's	In currency 000's
US Dollar	17,137	21,901
Pound Sterling	14,935	10,367
Czech Koruna	101	3,000
TOTAL	32,173	-

Term purchase hedging financial and commercial operations

	In €000's	In currency 000's
Swedish Krona	34,213	312,042
TOTAL	34,213	-

Option operations as of 31st March 2004

	Purchase of Put In currency 000's	Purchase of Call In currency 000's	Sale of Call In currency 000's
Japanese Yen	15,000	-	15,000
Counter value in € 000's	110	-	118
US Dollar	4,350	-	5,050
Counter value in € 000's	3,946	-	4,556

Option operations as of 31st March 2005

	Purchase of Put In currency 000's	Purchase of Call In currency 000's	Sale of Call In currency 000's
US Dollar	6,625	-	16,870
Counter value in € 000's	5,000	-	13,250

13 OTHER ACCOUNTS PAYABLE

(In €000's)	Less than 1 year	1 to 5 years	More than 5 years	TOTAL 31 st March 2005	TOTAL 31 st March 2004	TOTAL 31 st March 2003
Customers – Credit notes to be issued	2,454	-	-	2,454	564	483
Grants – cash advances	712	500	-	1,212	1,587	1,493
Interest rate swaps	2,744	-	-	2,744	2,478	1,633
Expenses payable	4,643	-	-	4,643	813	301
Misc. liabilities	1,304	-	-	1,304	2,157	4,497
Deferred income	487	-	-	487	852	1,343
TOTAL	12,344	500	-	12,844	8,451	9,750

14 FACTORING

To fund part of its working capital requirement, Faiveley Transport S.A. mobilises trade accounts receivables through a factor.

The consequence of accounting for this operation is a drop in “trade and related accounts receivable” in the amount of €000's 17,702 (€000's 20,882 as of 31st March 2004), corresponding to the trade and related accounts receivable irrevocably assigned to the factor and not yet payable, and an equivalent increase in net cash less retention guarantee i.e.

€000's 16,849 (€000's 20,033 as of 31st March 2004).

The retention guarantee was recorded under “other receivables” and amounted to €000's 852 (€000's 849 as of 31st March 2004).

Trade and related accounts receivable non-irrevocably assigned were reclassified from “Cash” to “trade and related accounts receivable” as of 31st March 2004 (€000's 5,309) and 31st March 2005 (€000's 6,952).

15 SEGMENT ANALYSIS

a. Sales per business division and geographical area

(In €000's)	2004/2005	2003/2004	2002/2003
Railways' division	391,229	253,178	240,854
Plastics' division	60,021	58,409	57,680
Other	126	197	204
TOTAL	451,376	311,784	298,738
France	185,999	115,446	109,546
Foreign countries	265,377	196,337	189,192
TOTAL	451,376	311,784	298,738

b. Operating income per business segment and geographical area

(In €000's)	2004/2005	2003/2004	2002/2003
Railways' division	45,178	23,304	21,958
Plastics' division	575	1,046	4,026
Other	(390)	9	7
TOTAL	45,363	24,359	25,991

1) Including: staff costs: €000's 116,313, research costs: €000's 10,710

16 BREAKDOWN OF THE FINANCIAL INCOME/(EXPENSE)

a. Financial expense

(In €000's)	2004/2005	2003/2004	2002/2003
Finance charges on borrowings and financial debts	9,075	3,122	3,898
Effect of exchange rate differences	409	1,100	2,690
Expenses on financial instruments	1,477	-	-
Other financial expenses	2,609	93	165
TOTAL	13,569	4,315	6,753

b. Financial income

(In €000's)	2004/2005	2003/2004	2002/2003
Financial interest on borrowings	868	-	-
Effect of exchange rate differences	5,678	1,058	915
Earnings on financial instruments	1,254	-	-
Earnings from sale of Treasury investments	230	22	116
Other financial earnings	2,537	554	281
TOTAL	10,567	1,634	1,311

17 BREAKDOWN OF THE EXTRAORDINARY INCOME/(EXPENSE)

(In €000's)	2004/2005	2003/2004	2002/2003
Dilution gain (cf. A)	49,556	-	-
Capital gains from assignment of consolidated shares (cf. A)	3,868	-	-
Result of assignment of non current assets	-	(69)	31
Allocation to business-related provisions : Plastics' division	(12,822)	-	-
Other provisions for liabilities and charges	-	-	91
Other extraordinary income (charges)	(40)	110	(164)
TOTAL	40,562⁽¹⁾	41	(42)

⁽¹⁾Tax at the ordinary rate is applied to the other extraordinary expenses of €000's 40. Capital gains from €000's 3,868 is taxed at a reduced rate of 19%. The other operations are not taxed.

18 TAX ON PROFITS

(In €000's)	2004/2005	2003/2004	2002/2003
Tax payable	10,852	8,995	3,952
Tax deferred	4,239	(599)	1,677
TOTAL	15,091	8,396	5,629

19 STAFFING LEVELS AS OF 31ST MARCH 2005

	2004/2005	2003/2004	2002/2003
Executive and assimilated grades	772	597	465
Staff	1,413	881	742
Workers	1,741	639	866
TOTAL	3,926	2,117	2,073

20 DIRECTORS' REMUNERATION

During financial year 2004/2005, the direct and indirect remuneration of whatever nature received by the members of the company's Board of Directors amounted to €526,881.

21 SUBSEQUENT EVENTS

N/A.

22 OPERATIONS WITH RELATED COMPANIES

Faiveley S.A. received an invoice of €570,000 from François Faiveley Participations for work completed during the financial year.

23 ENVIRONMENTAL ASPECTS

The Group pays particular importance to the following issues:

- Consumption of raw materials,
- Environmental nuisance,
- Measures aimed at limiting biological damage,
- Environmental assessment and certification,
- Compliance of business activities with legal requirements.

F. Off balance sheet commitments

(in €000's)

Commitments made

- Guarantees – Securities – Bank guarantees given to customers 83,955
- Securities and guarantees (parent companies) given to customers 139,099
- Net commitment to retirement indemnities 2,614

Commitments received

Faiveley S.A. has received from the shareholders in Faiveley Management S.A.S. a conditional promise of assignment of the shares that they hold in Faiveley Management S.A.S..

Debts guarantees by actual securities

- Pledge of shares 327,588
- Pledge of trade receivables 7,699
- Mortgage on buildings 173
- Pledge over equipment 193

G. Consolidation structure and methods

1. List of consolidated companies and consolidation method

Full consolidation is applied to the following companies in which Faiveley S.A. directly or indirectly controls more than 50% of capital.

Full consolidation		%
FAIVELEY PLASTURGIE S.A.S.	France	100.00
GRAND PERRET S.A.S.	France	99.95
VERCHERE PLASTIQUES INDUSTRIELS S.A.S. (V.P.I.)	France	99.97
SOGENA S.A.R.L.	France	94.97
VPI BOURBON LUXE S.A.S. (V.B.L.)	France	49.99
SEPAL S.A.S.	France	100.00
RHONE MOULAGE INDUSTRIE S.A.S.	France	100.00
V.R.V. PLAST	Slovakia	100.00
EUDICA	France	100.00
LES 7 MARCHES	France	100.00
FAIVELEY BETEILIGUNGS GmbH	Germany	61.70
FAIVELEY TRANSPORT LEIPZIG KG	Germany	61.70
FAIVELEY TRANSPORT GHH	Germany	61.70
FAIVELEY TRANSPORT REMSCHEID	Germany	61.70
FAIVELEY TRANSPORT VERWALTUNGS GmbH	Germany	61.70
FAIVELEY TRANSPORT KG HOLDING GmbH	Germany	61.70
FAIVELEY TRANSPORT AUSTRALIA Ltd.	Australia	61.70
FAIVELEY TRANSPORT BELGIUM NV	Belgium	61.70
FAIVELEY TRANSPORT DO BRASIL Ltda.	Brazil	61.70
FAIVELEY TRANSPORT SAO PAOLO	Brazil	61.70
FAIVELEY FAR EAST Ltd.	China	61.70
SHANGHAI FAIVELEY RAILWAY TECHNOLOGY Co. Ltd.	China	31.47
FAIVELEY TRANSPORT KOREA Ltd.	Korea	61.70
FAIVELEY TRANSPORT MADRID S.A.	Spain	61.70
FAIVELEY TRANSPORT TARRAGONA S.A.	Spain	61.70
TRANSEQUIPOS S.A.	Spain	61.70
SAB-WABCO IBERICA	Spain	31.47
FAIVELEY RAIL Inc.	USA	61.70
FAIVELEY TRANSPORT S.A.	France	61.70
FAIVELEY TRANSPORT AMIENS S.A.	France	61.70
SOFAPORT S.A.R.L.	France	36.71
FAIVELEY TRANSPORT BIRKENHEAD Ltd.	UK	61.70
FAIVELEY TRANSPORT TAMWORTH Ltd.	UK	61.70
SAB-WABCO Ltd.	UK	61.70
SAB-WABCO DAVID & METCALF Ltd.	UK	61.70
SAB-WABCO DAVID & METCALF PRODUCTS Ltd.	UK	61.70
SAB-WABCO INVESTMENTS Ltd.	UK	61.70
SAB-WABCO PRODUCTS Ltd.	UK	61.70
SAB-WABCO UK Ltd.	UK	61.70
FAIVELEY TRANSPORT INDIA Ltd.	Italy	61.70
FAIVELEY TRANSPORT PIOSSASCO SpA.	Italy	61.70
FAIVELEY TRANSPORT VERONA SpA.	Italy	61.70
SAB-WABCO ITALIA s.r.l.	Italy	61.70
FAIVELEY TRANSPORT POLSKA z.o.o.	Poland	61.70
FAIVELEY TRANSPORT PILZEN s.r.o.	Czech Rep.	61.70
FAIVELEY TRANSPORT TREMOSNICE s.r.o.	Czech Rep.	61.70
LEKOV a.s	Czech Rep.	46.28
FAIVELEY TRANSPORT ACQUISITION AB	Sweden	61.70
FAIVELEY TRANSPORT INTERNATIONAL AB	Sweden	61.70
FAIVELEY TRANSPORT MALMÖ AB	Sweden	61.70
FAIVELEY TRANSPORT NORDIC AB	Sweden	61.70
V MANAGEMENT AB	Sweden	61.70
Equity method		%
SAB-WABCO KP GmbH	Germany	30.85

2. List of non-consolidated companies

(Amounts in €000's)

	% of shareholding	Net book value of shares	Equity	Net result
SUECOBRAS (Brazil)	100%	193	196	(25)
SAB-WABCO SHAVARAN Ltd. (Iran)	49%	10	-	(0.4)

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Ladies and Gentlemen Shareholders,

In the performance of the task entrusted to us by your General Meeting, we proceeded with an audit of Faiveley S.A.'s consolidated accounts for the financial year ending 31st March 2005, as enclosed with the present report.

The consolidated accounts were approved by the Board of Management. Based on our audit, we are required to express our opinion on these accounts.

1 – Opinion on the Consolidated Accounts

We carried out our audit in accordance with the professional standards applicable in France which require us to act with due diligence to obtain a reasonable assurance that the consolidated accounts do not include any significant errors. An audit consists of sampling the most significant information providing proof for the data contained in the accounts. It also consists of assessing the accounting principles used and the significant estimations retained upon closure of the accounts and giving a value judgement on their overall presentation. We consider that our audit provide a reasonable basis for the opinion expressed below.

We certify and attest that, under the terms of French accounting rules and principles, the consolidated accounts present a true and fair view of the assets, financial situation and results achieved by the companies included in the consolidated group.

Without casting doubt on the aforesaid opinion, we would draw your attention to Note A (Significant Events) in the Notes which mentions, in particular, the overall profit of €53.4 m realised when minority interests entered the capital of the Faiveley Transport S.A. subsidiary and an exceptional expense of €21 m relating to depreciation of assets in the Plastics' division.

2 – Justification for our assessment

Under the terms of the conditions laid down in Article L. 225-235 of the Commercial Code (Code de Commerce) relating to justification for our assessments, we would draw your attention to the following information:

- As specified in Note B-6 in the Notes to the financial statements, when purchasing shares in consolidated companies, the Group assesses the acquired assets and liabilities at their fair value. When Sab-Wabco and its subsidiaries joined the consolidated Group, we reviewed the assessments undertaken by the Group and checked the accuracy of the figures.
- As specified in Note E-4 of the Notes to the financial statements, the Group reviewed the goodwill and other non current assets. We reviewed the information prepared by the Group's Management upon which the estimations were based and the conversion of these estimations into figures as of 31st March 2005. In particular, we took note of the data and hypotheses forming the basis of the forecast cash flow established by the Group Management and we reviewed the calculations. As part of our assessment, we checked that these estimations were reasonable.
- As indicated in Note B-5 of the Notes to the financial statements, the Faiveley Group uses accounting estimates to calculate the profit margin upon completion for each contract, based on the last known information. These estimations led the Group to include contracts in progress in the assets and to include charges payable in the liabilities and, where appropriate, losses upon completion. We took note of the processes introduced by the company in this respect and we checked that the data and hypotheses forming the basis of these estimations were reasonable.

- As specified in Note B-14 of the Notes to the financial statements, at the end of each accounting period, the Group estimates the risks and expenses outstanding for which provision must be made. As far as possible, the Group uses the services of external experts e.g. consultants, barristers and actuaries, to assess these provisions. We examined the studies and letters drafted by these external experts and the processes introduced by the Group. We then assessed the extent to which the estimations were reasonable, especially with regard to the assessment of risks linked to pension commitments and warranties.

In the previous financial year, we included in our report an observation on the internal control procedures and noted the absence of any formality for certain procedures. Improvements have been made during the financial year. However, a number of procedures remain to be structured and this has led us to carry out extended substantive audits on the cycles concerned.

The assessments made are part of our overall audit of the consolidated accounts and have therefore helped us to form an unreserved opinion, as expressed in the first section of this Report.

3 – Verification and specific information

In accordance with the professional standards applicable in France, we have also verified the information contained in the report regarding the management of the Group.

We have no comments to make on the sincerity of this information or its consistency with the consolidated accounts.

Given in Paris and Dijon on 28th July 2005
Statutory Auditors

BDO MARQUE & GENDROT
represented by **Pierre MARQUE**
Statutory Auditor
Member of the Compagnie
Régionale de Paris

EXPERTISE COMPTABLE ET AUDIT
represented by **Patrick COLLOMB**
Statutory Auditor
Member of the Compagnie
Régionale de Dijon

Faiveley S.A.
Corporate financial statements
as of 31st march 2005

BALANCE SHEET AS OF 31ST MARCH 2005

ASSETS

(In €000's)	31 st March 2005			31 st March 2004 Net	31 st March 2003 Net
	gross	Depreciation and provisions	Net		
NON CURRENT ASSETS					
Intangibles	117	106	11	16	21
Property, plant and equipment	674	664	10	16	23
Financial investments	63,037	20,157	42,880	65,414	75,421
TOTAL (I)	63,828	20,926	42,901	65,446	75,465
CURRENT ASSETS					
Trade and related accounts receivable	160	-	160	435	859
Misc. Receivables	330	-	330	291	926
Investment securities	11,622	-	11,622	169	8
Cash	218	-	218	343	103
Deferred charges	130	-	130	116	47
Exchange rate adjustment (assets)	-	-	0	0	0
TOTAL (II)	12,461	0	12,461	1,354	1,943
TOTAL ASSETS (I + II)	76,289	20,926	55,362	66,800	77,409

EQUITY AND LIABILITIES

(In €000's)	31 st March 2005 before allocation	31 st March 2004 before allocation	31 st March 2003 before allocation
EQUITY			
Share capital	12,440	12,440	12,437
Merger and contribution premiums	17,364	17,364	17,360
Legal reserve	1,167	837	-
Regulated reserves	6,861	6,861	6,861
Other reserves	-	-	-
Retained earnings	20,492	15,406	(3,771)
Profit/(loss) for the financial year	(7,981)	6,593	20,511
Regulated provisions	1	1	1
TOTAL EQUITY (i)	50,344	59,502	53,399
PROVISIONS FOR LIABILITIES AND CHARGES			
	1,235	46	280
TOTAL (ii)	1,235	46	280
DEBTS			
Loans and debts with financial institutions	17	11	20,252
Various financial loans & debts	577	1,772	914
Trade notes and accounts payable	534	532	608
Tax & contributions payable	2,445	4,117	931
Other liabilities	206	815	1,020
Deferred income	5	5	5
Exchange rate adjustment (liabilities)	-	-	-
TOTAL (iii)	3,783	7,252	23,730
TOTAL EQUITY AND LIABILITIES (i + ii + iii)	55,362	66,800	77,409

INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH 2005

(In €000's)	31 st March 2005	31 st March 2004	31 st March 2003
SALES EXCLUDING VAT	1,966	2,116	2,535
Cost of sales	(519)	(762)	(730)
GROSS PROFIT	1,447	1,354	1,805
Non-productive overheads	(2,322)	(2,298)	(2,156)
Miscellaneous income	752	966	595
Miscellaneous expenditure	(1,231)	(11)	(236)
Restructuring costs	0	0	0
OPERATING PROFIT/(LOSS)	(1,353)	10	7
Depreciation included in the operating profit/(loss)	11	12	17
OP. PROFIT/(LOSS) + ALLOW. FOR DEPREC.	(1,342)	22	24
Financial income/(expense)	(13,232)	795	891
PROFIT/(LOSS) ON ORDINARY ACTIVITIES	(14,585)	805	898
EXTRAORDINARY INCOME	6,690	9,728	19,023
Employee profit-sharing	0	0	0
Income tax	(86)	(3,940)	590
NET PROFIT/(LOSS)	(7,981)	6,593	20,511

CASH FLOW STATEMENT

(In €000's)	31 st March 2005	31 st March 2004	31 st March 2003
Movement in operating cash flow			
Net profit/(loss)	(7,981)	6,593	20,511
Conversion adjustments from profit to movement in the net operating cash flow:			
• Depreciation of property, plant and equipment and intangible assets	11	12	17
• Provisions	21,219	157	233
• Recovery on provisions	(30)	(233)	(91)
• Net capital (losses (gains) on assignment of assets)	(6,695)	(7,127)	
CASH FLOW	6,523	(598)	20,669
• Gross movement in current assets and liabilities:			
* Decrease (increase) in receivables	222	990	518
* Increase (decrease) in debts and expenditure payable	(2,461)	2,990	289
CASH FLOW FROM OPERATIONS	4,284	3,382	21,476
Investments			
Pay out/Purchase of property, plant and equipment and intangible assets	0	(1)	(5)
Receipt/assignment of property, plant and equipment and intangible assets			
Payout/purchase of capital assets	(2)	0	(14,312)
Receipt/assignment of capital assets	7,990	4	0
CASH FLOW FROM INVESTMENTS	7,988	3	(14,317)
Increase in capital or contributions	0	7	85
Dividends paid	(995)	(497)	
Income from loans	0	1,550	0
Reimbursement of loans	(1,195)	(20,245)	(7,284)
Movement in Group current accounts	1,240	16,208	(283)
CASH FLOW FROM FUNDING	(950)	(2,977)	(7,482)
Net increase (decrease) in overall cash flow	11,322	408	(323)
Cash and cash equivalents at start of financial year	501	93	416
CASH AND CASH EQUIVALENTS AS OF END OF FINANCIAL YEAR	11,823	501	93

NOTES TO THE COMPANY ACCOUNTS

1. Significant events relating to the financial year

The Plastics' division is going through a difficult period and prospects are not very favourable. Given this situation, Faiveley S.A. assessed the division on the basis of future discounted cash flows, leading to a provision of €20 m on shares.

Sale of Faiveley Transport S.A. shares to Sagard F.C.P.R. and Sagard Rail Invest F.C.P.R.:

On 15th November 2004, Faiveley S.A. sold thirteen thousand five hundred and fifty-two Faiveley Transport S.A. shares (13,552) to Sagard F.C.P.R. and thirteen thousand and forty Faiveley Transport S.A. shares (13,040) to Sagard Rail Invest F.C.P.R., for a total price of seven million nine hundred and forty-five thousand nine hundred and fifty-two Euros and fifty-two centimes (€7,945,955.52).

In doing so, Faiveley S.A. had a capital gain of €6,695,430.28. This was recorded in Faiveley S.A.'s accounts as an extraordinary item.

2. Accounting rules and methods

A. Application of accounting rules and methods

The annual accounts and analysis for the year ending 31st March 2005 were drafted and presented in accordance with accounting rules that maintain due care and ensure the independence of successive financial years during ongoing operation of the company.

The items entered in the accounts were assessed using the historic cost method.

B. Bases of valuation

The valuation types and methods described below were used for the various headings in the financial summaries. There were no changes compared to the previous financial year.

1. Non current assets were recorded at their purchase price or at their contribution value in the case of those which were part of restructuring exercise in previous financial years.
2. Depreciation of non current assets purchased before 1st April 1993 was calculated in accordance with fiscal standards, using either the declining balance or straight line method. For later purchases, only the straight line method was used to bring the figures more into line with economic depreciation. Exceptional depreciation was calculated for the portion allowable under tax laws.

The main periods of depreciation were as follows:

Intangibles

- Software 1 to 3 years

Property, plant and equipment

- Misc. equipment and fittings 10 years
- Transport 4 years
- Office equipment 5 to 10 years
- Computer equipment 3 to 5 years
- Furniture 5 to 10 years

3. Equity investments were assessed at their purchase and/or contribution value. At the end of the financial year, provision for write down was created when the realisable value was lower than the value upon acquisition of the asset. The realisable value is the value in use for the Group, based on future discounted cash flows.

4. Loans to related companies correspond to current accounts. On 31st March 2005, the Faiveley Transport S.A. current account amounted to € 000's 323 and the Sepal current account to € 000's 25. Interest is calculated and recorded as of 31st March 2005.

When there is a likely risk of non-recovery, provision is made to cover it.

5. Accounts receivable and payable are recorded at nominal value. Provision has been made for bad and doubtful debts in accordance with the probable likelihood of non-recovery as estimated at the end of the financial year. Old accounts receivable for which non-recovery has become a certainty are reported as an expense and the corresponding provisions recorded in the Income Statement.

6. Provision has been made for litigation-related expenditure to the value of €000's 22.

7. Provision was made for taxation to the value of € 963,278 as of 31st March 2005. This represents the tax saving achieved through the fiscal integration introduced with the companies in the Plastics' division. If the companies in the Plastics' division leave the fiscal integration structure, this tax saving would have to be paid back to the said companies. The provision is also used to cover the risk that the subsidiary becomes profitable and uses its own tax losses

8. Financial loans and debts are valued at their nominal value.

- Miscellaneous financial debts represent the balance of the Special Reserve for employees profit-sharing, which was remunerated at the basic bank rate.
- The other miscellaneous financial debts correspond to credi-

tor current accounts with companies within the Group, mainly Financière Faiveley current account to the value of € 000's 424 and Faiveley Plasturgie current account to the value of €000's 80. Interest has been calculated and recorded as of 31st March 2005.

9. The company uses a structured financial instrument to limit its exposure to interest rates. The notional amount of the structured interest rate swap was €12.9 m on 31st March 2005.

The main characteristics of the swap are as follows:

- The amount can be amortised,
- Period: 10th March 2002 to 30th April 2007,
- Interest rate received: Euribor 3 months,
- Rate interest is revised quarterly. It varies depending on the Euribor 1 year index. The rate paid by the company changes as follows:
 - 3.47% if Euribor 1 year is less than, or equal to, 5.25%
 - Euribor 1 year if Euribor 1 year is greater than 5.25% and less than, or equal to, 6.25%

- 6.25% if Euribor 1 year is greater than 6.25%
- On 31st March 2005, the market value of this instrument was €(180,600).

10. The Income Statement recorded the income and expense resulting from the General Services activity of the Faiveley Group.
11. Faiveley S.A. opted for the tax grouping with its subsidiaries Grand-Perret, Faiveley Plasturgie, SEPAL, Rhône Moulage Industrie, Sogena and Verchere Plastiques Industriels. This option was renewed in March 2003 and will expire on 31st March 2008.

It should be pointed out that Faiveley Transport S.A. left the tax grouping structure during the financial year.

The tax savings and the expenses linked to tax losses within subsidiaries and resulting from tax grouping restatements have been taken into account in the Faiveley S.A.'s results.

12. On 31st March 2005, there remained 18,000 stock options not exercised yet at a price of €11.40 as part of a scheme still on-going at the end of the financial year.

ADDITIONAL INFORMATION ON THE BALANCE SHEET AND INCOME STATEMENT

1 NON CURRENT ASSETS

(In €000's)	Gross value at start of financial year	Increases	Decreases	Other movements	Gross value at end of financial year
Intangible assets	117		0	0	117
General fittings, fixtures and miscellaneous	559	0	0		559
Equipment, office and computer equipment, furniture	115	0	0		115
Advance and deposit on non current assets	0		0		0
Assets in progress	0		0		0
Miscellaneous equity investments	63,492	0	1,251		62,241
Loans, receivables linked to related companies and miscellaneous equity investments	2,079	2	1,285		796 ⁽¹⁾
TOTAL	66,362	2	2,536	0	63,828

(1) Including loans to Faiveley Transport S.A.: €000's 323.

2 DEPRECIATION AND AMORTISATION OF NON CURRENT ASSETS

Non current assets open to depreciation (In €000's)	Gross value at start of financial year	Increases during the financial year	Decreases depreciation of items removed from assets and writebacks	Amount at end of financial year
Intangible assets	101	5	0	106
General fittings, fixtures and miscellaneous	549	0	0	549
Equipment, office and computer equipment, furniture	109	5	0	114
Write down equity investments	157	20,000	0	20,157
TOTAL	916	20,010	0	20,926

3 REGULATORY PROVISION AND PROVISIONS FOR LIABILITIES AND CHARGES

Type of provisions (In €000's)	Amount at start of financial year	Increases, provided in financial year	Decreases, release in financial year	Amount at end of financial year
Regulated provisions				
Exceptional depreciation	1	0	0	1
Provisions for liabilities and charges				
Provision for taxation	0	963	0	963
Provision for litigation	0	255	0	255
Provision for employee indemnities	46	0	30	16
TOTAL	47	1,218	30	1,235

4 MATURITY OF RECEIVABLES AND DEBTS

Statement of receivables

(In €000's)	Gross amount	At 1 yr. or less	At more than 1 year
Receivables from non current assets			
Loans and loans linked to related companies	371	371	0
Miscellaneous equity investments	425	26	399
TOTAL (I)	796	397	399
RECEIVABLES FROM CURRENT ASSETS TOTAL (II)	620	620	
TOTAL (I + II)	1,416	1,017	399

Statement of debts

(In €000's)	Gross amount	At 1 yr. or less	At more than 1 year
Loans and debts with financial institutions	17	17	0
Miscellaneous loans and debts	577	512	65
Operating and other debts	3,189	3,189	0
TOTAL	3,783	3,718	65

Exposure to interest rate risks

In October 2002, the Group signed a swap agreement that will expire on 30th April 2007.

The main characteristics of the swap agreement are as follows:

- Notional amount €12.9 m on 31st March 2005,
- The amount can be depreciated,
- Period: 3rd October 2002 to 30th April 2007,
- Lender interest rate (received): Euribor 3 months,
- Borrower interest rate (paid): reviewed quarterly in line with the Euribor 1 year rate.

It is equal to:

- 3.47% (floor) if Euribor 1 year is less than, or equal to, 5.25% per year;
 - Euribor 1 year if Euribor 1 year is greater than 5.25% and less than, or equal to, 6.25% per year;
 - 6.25% (ceiling) if Euribor 1 year is greater than 6.25%.
- On 31st March 2005, the fair market value of this instrument was €(180,600).

5 RECEIVABLES AND DEBTS REPRESENTED BY COMMERCIAL PAPER

	31 st March 2005	31 st March 2004
Trade payable and related accounts	0	0
Debts on non current assets and related accounts	0	0

6 DETAILS RELATING TO RELATED COMPANIES

(In €000's)	31 st March 2005	31 st March 2004
Fraction of financial investments, receivables, debts, Charges and income relating to related companies:		
Equity investments	62,241	63,491
Receivable linked to related companies	371	1,612
Client and related accounts	160	435
Miscellaneous accounts	249	31
Miscellaneous borrowings and financial debts	0	0
Miscellaneous debts	68	825
Financial charges	57	25
Financial income	7,087	1,709

7 DETAILS OF ACCRUED INCOME AND ACCRUED EXPENSES RELATED TO RECEIVABLE AND DEBT ITEMS

Accrued expenses

Amount of accrued expenses included in the following balance sheet items

(In €000's)	31 st March 2005	31 st March 2004
Borrowings and debts with finance institutions	17	11
Miscellaneous borrowings and debts	8	4
Trade and related accounts payable	367	301
Tax and social contributions payable	166	160
Payable on non current assets and related accounts	0	0
Miscellaneous debts	28	59
TOTAL	586	535

Accrued revenues

Amount of accrued revenues included in the following balance sheet items

(In €000's)	31 st March 2005	31 st March 2004
Borrowings to equity investments	23	143
Trade receivable and related accounts	0	228
Miscellaneous receivables	0	210
Cash	25	27
TOTAL	48	608

8 ADJUSTMENT ACCOUNTS

Prepaid expenses and deferred revenue

(In €000's)	Expenditure	Earnings
Operating charges/income	130	5
Financial charges/income	-	-
Extraordinary charges/income	-	-
TOTAL	130	5

9 BREAKDOWN OF SHARE CAPITAL PER CLASS OF SHARES AND MOVEMENTS IN THE FINANCIAL YEAR

	2004 (1 st April)	Creation	Reimburse- ment	2005 (31 st March)	Par value	incl. to be paid up
SHARES						
Ordinary	2,487,917	0	-	2,487,917	5	-
Written down	-	-	-	-	-	-
With preferential dividends	-	-	-	-	-	-
TOTAL	2,487,917	0	-	2,487,917	-	-

10 SEGMENT ANALYSIS

(In €000's)	31 st March 2005	31 st March 2004
General Services		
Services	1,539	1,757
Rentals / hire	427	359
TOTAL	1,966	2,116

The entire sales is achieved in France

11 BREAKDOWN OF INTEREST CHARGES AND INCOME

(In €000's)	Charges	Income
Dividends received		7,058
Write down of Faiveley Plasturgie shares	20,000	
Income from marketable bonds		13
Interest on loans to subsidiaries	57	28
Interest on borrowings	0	
Commissions for commitments	0	
Interest charges and income from SWAPS	182	
Provision and writebacks for financial investments	0	
Miscellaneous interest charges and income	92	
TOTAL	20,331	7,099

12 BREAKDOWN OF EXTRAORDINARY INCOME/(EXPENSE)

(In €000's)	Charges	Income
Sale of financial investments	1,251	7,946
Miscellaneous	5	
TOTAL	1,256	7,946

13 BREAKDOWN OF TAX BETWEEN THE PORTION PAYABLE FOR THE PRE-TAX PROFIT, THE EXTRAORDINARY RESULT AND THE ACCOUNTING RESULT

(In €000's)	Before tax	Tax	After tax
Pre-tax profit/(loss)	(14,585)	(1,049)	(15,634)
Extraordinary result	6,690		6,690
Effect of tax grouping		963 ⁽¹⁾	963
Accounting result	(7,895)	(86)	(7,981)

(1) Corresponds to the amount of tax paid by integrated profit-making subsidiaries.

14 OVERALL INDICATION OF REMUNERATION GRANTED TO ALL MEMBERS OF THE ADMINISTRATION, DIRECTION AND SUPERVISORY BOARDS

The attendance fees paid to Board Members amounted to €12,000

The remuneration paid to Board Members amounted to €51,184

15 BREAKDOWN OF MEAN STAFFING LEVELS BY CATEGORY

	Average staffing levels	
	2004/2005	2003/2004
Management	3	3
Staff	3	3
Employees	3	2
TOTAL	9	8

Financial commitments and other information (In €000's)

1 COMMITMENTS MADE

• Guarantees - securities - collateral given to financial institutions	None
• Retirement indemnities	36
• Debts guaranteed by collateral:	366
• Mortgage on buildings	173
• Collateral (equipment)	193

2 COMMITMENTS RECEIVED

Faiveley S.A. has received from the shareholders of Faiveley Management S.A.S. a conditional promise to sell their shares in this company.

Identity of the consolidating company

Faiveley S.A. applies the full consolidation method for the subsidiaries in which it holds more than 50% of the capital, directly or indirectly.

1 LIST OF SUBSIDIARIES AND EQUITY INVESTMENTS (In €000's)

Detailed information on equity investments with an inventory value in excess of 1% of Faiveley S.A. Capital

SUBSIDIARIES AND SHAREHOLDINGS on 31 st March 2005	Capital	Equity capital other than the capital (1)	Stake held	Realisable value of shareholding	Provision	Net value of shareholding	Loans and advances	Guarantees and collateral provided	Sales (excl. VAT)	Net profit or loss	Dividends received
FAIVELEY TRANSPORT S.A. ⁽²⁾	42,628	89,159	61,7	27,487	-	27,487	323	-	130,639	5,896	7,058
FAIVELEY PLASTURGIE ⁽²⁾	8,773	6,433	100	34,753	(20,157)	14,596	-	-	611	(19,175)	0
TOTAL				62 240		42 083					

(1) Including the results for the financial year before distribution.

(2) 12-month financial year: 1st April 2004 to 31st March 2005

5-YEAR FINANCIAL SUMMARY

(In €000's)	2000/01	2001/02	2002/03	2003/04	2004/05
I. Capital as of end of financial year					
a. Share capital	11,341,827	12,399,585	12,436,585	12,439,585	12,439,585
b. Number of ordinary shares	2,479,917	2,479,917	2,487,317	2,487,917	2,487,917
c. Value of shares	4,57	5	5	5	5
d. Number of shares with preferential dividends (without voting rights)	-	-	-	-	-
e. Maximum future number of shares to be created					
1. by conversion of bonds	-	-	-	-	-
2. by exercise of application rights	26,000	26,000	18,600	18,000	18,000
3. by exercise of equity warrants	-	-	-	-	-
II. Operations and results from the financial year					
a. Sales excluding VAT	2,413,156	2,165,764	2,534,832	2,115,827	1,966,185
b. Pre-tax results and expenses calculated (depreciation, allowances and employees profit sharing)	1,206,335	950,419	20,078,884	10,467,587	13,305,309
c. Tax on profits	(2,445,621)	(1,642,793)	(590,044)	3,939,517	86,009
d. Employees profit-sharing for the financial year	-	-	-	-	-
e. Post-tax results and expenses calculated (depreciation, provisions and employees profit sharing)	3,646,498	2,620,979	20,510,726	6,592,668	(7,980,592)
f. Dividends distributed	-	-	497,463	995,167	-
III. Earnings per share					
a. Earnings post-tax but before expenses calculated (depreciation and provisions)	1,47	1,04	8,31	2,62	5,31
b. Earnings post-tax and expenses calculated (depreciation and provisions)	1,47	1,06	8,25	2,65	(3,21)
c. Dividend allocated to each share	-	-	0,20	0,40	-
IV. Personnel					
a. Mean staffing levels during the financial year	16	10	9	8	8
b. Wages and salaries for the financial year	711,191	605,913	497,540	575,388	372,122
c. Total sums paid as social welfare over the financial year (Social Security, charities etc.)	298,272	275,863	216,217	174,916	136,292

STATUTORY AUDITORS' REPORT ON THE CORPORATE FINANCIAL STATEMENTS

Ladies and Gentlemen Shareholders,

In the performance of the task entrusted to us by your General Meeting, we are presenting our report on the financial year ending 31st March 2005 with regard to the following points:

- the audit of Faiveley S.A.'s annual accounts as enclosed with the present report,
- the justification for our assessments,
- the specific checks carried out and the information required by law.

The annual accounts were approved by your Board of Directors. Based on our audit, we are required to express our opinion of these accounts.

1 – Opinion of the annual accounts

We carried out our audit in accordance with the professional standards applicable in France which require us to act with due diligence to obtain a reasonable assurance that the annual accounts do not include any significant errors. An audit consists of sampling the most significant information providing proof of the data contained in the accounts. It also consists of assessing the accounting principles used and the significant estimations retained for the closure of the accounts and giving a value judgement on their overall presentation. We consider that our audits provide a reasonable basis for the opinion expressed below.

We certify and attest that, under the terms of French accounting rules and principles, the annual accounts present a true and fair view of the operations undertaken during the previous financial year and the financial situation and assets of the company at the end of the said financial year.

Without casting doubt on the aforesaid opinion, we would draw your attention to Note I in the Notes which indicates that "Faiveley S.A. undertook an assessment of the Plastics' division, using the discounted future cash flows method. This led to a provision on shares of €20 million".

2 – Justification for our assessment

As per stipulations laid down in Article L. 225-235 of the Commercial Code (Code de Commerce) relating to justification for our assessments, we would draw your attention to the following information:

As specified in Note II-B-3 of the Notes to the financial statements, equity investments are assessed at the end of financial year at their value in use for your company. As part of our assessment of the significant estimations retained upon closure of the accounts, we reviewed the hypotheses upon which this estimated was based as regards the projection of future results for these subsidiaries. We also reviewed the corresponding figures. As part of our assessments, we ensured

that the estimations, which led to a provision of €20 m on Faiveley Plasturgie shares, were reasonable.

In the previous financial year, we included in our report an observation on the internal control procedures and noted the absence of any formality for certain procedures. Improvements have been made during the financial year. However, a number of procedures remain to be structured and this has led us to carry out extended substantive audits on the cycles concerned.

The assessments made are part of our overall audit of the consolidated accounts and have therefore helped us to form an unreserved opinion, as expressed in the first section of this Report.

3 – Verification and specific information

In accordance with the professional standards applicable in France, we have also verified the information contained in the report regarding the management of the Group.

We have no comments to make on the sincerity of the information given in the Board of Management's report and the documents forwarded to shareholders regarding the financial position and the annual accounts. Nor have we any comments to make as regards the extent to which this information agrees with the annual accounts.

As required by law, we ensured that the information relating to the identity of shareholders has been given to you in the Management Report.

Given in Paris and Dijon on 28th July 2005
Statutory Auditors

BDO MARQUE & GENDROT
represented by **Pierre MARQUE**
Statutory Auditor
Member of the Compagnie
Régionale de Paris

EXPERTISE COMPTABLE ET AUDIT
represented by **Patrick COLLOMB**
Statutory Auditor
Member of the Compagnie
Régionale de Dijon

BOARD OF DIRECTORS' SPECIAL REPORT ON STOCK OPTIONS

Ladies and Gentlemen Shareholders,
No stock options were exercised during the financial year.

Board of Directors

SPECIAL REPORT ON REGULATED AGREEMENTS

Ladies and Gentlemen,

In our capacity as the statutory auditors of your company, we would like to present our report on the regulated agreements.

Under the terms of Article L. 225-40 of the Commercial Code (Code de Commerce), we have been advised of the agreements signed during the financial year.

It is not our duty to seek after the possible existence of any other agreements; we are merely required to inform you of the characteristics and essential conditions of the agreements brought to our attention, based on the data supplied to us. We are not required to express an opinion as to their usefulness and the justification for their signature. Under the terms of Article 92 of the Decree of 23rd March 1967, you are required to assess the usefulness of the signature of these agreements prior to approving them.

We have carried out our work in accordance with the professional standards applicable in France. These standards require us to show all due diligence in verifying that the information supplied to us corresponds to the documents upon which it is based.

Agreements signed during the financial year

• With Robert JOYEUX

Board meeting of 10th November 2004

Your company reached agreement with the shareholders of Faiveley Management S.A.S., including Mr Robert Joyeux, regarding a promise on the part of the shareholders to sell their Faiveley Management S.A.S. shares to Faiveley S.A..

• With Faiveley Management S.A.S.

Relevant person: Mr. Robert Joyeux
Board meeting of 10th November 2004

Within the framework of the Sab-Wabco takeover by your subsidiary Faiveley Transport S.A, your company concluded a shareholders' pact on 16th November 2004 with the company Faiveley Management S.A.S., which governs the relations between shareholders within the company Faiveley Transport S.A. and whose essential terms are described in the part C of the report from the Board of Directors.

• With the company François Faiveley Participations

Relevant person: Mr. François Faiveley
Board meeting of 10th November 2004

Invoicing, by François Faiveley Participations, of expenses and services corresponding to the takeover of the Sab-Wabco Group. The amount invoiced to your company is €230,000.

• With Faiveley Transport S.A.

Relevant people: Messrs. François Faiveley, Robert Joyeux, Philippe Alfroid and Christian Germa

1. Services provided mutually by and to Faiveley S.A. and Faiveley Transport S.A.

Board meetings of 15th November 2004
and 18th July 2005

Your company rendered services to Faiveley Transport S.A. to the value of €2,143,924. Faiveley Transport S.A. provided your company with services to the value of €118,971.

2. Conditions under which Faiveley Transport S.A. is leaving the Faiveley S.A. fiscal group

Board meeting of 18th July 2005

The arrival of minority shareholders in the capital of Faiveley Transport S.A. led this company to leave the Faiveley S.A. fiscal group, without the payment of any indemnity by one or other party.

3. Agreement of investment

Board meeting of 8th September 2004

Within the framework of the Sab-Wabco Group takeover, your company concluded an agreement of investment with the company Faiveley Transport S.A.. This convention started to be applied on 15th November 2004 with the acquisition of the shares of the Vestar Acquisition AB company, parent company of the SAB WABCO Group, by your subsidiary Faiveley Transport S.A..

Agreements approved during previous financial years and still in effect during the last financial year

Under the terms of the Decree of 23rd March 1967, we were informed that the following agreements, which were approved during previous financial years, remained in effect during the last financial year:

• With François Faiveley Participations

Under the terms of a contract of assistance, Faiveley S.A. entered the following amounts in its expenses and income for the financial year, corresponding to the re-invoicing of rent and the provision of services:

(in €)	Expenses for FAIVELEY S.A.	Income for FAIVELEY S.A.
Contract of assistance, Provision of services	340,000 ⁽¹⁾	-
Re-invoicing of rent and expenses	-	3,100

(1) not including an invoice for €230,000 corresponding to the takeover of the Sab-Wabco group

Given in Paris and Dijon on the 28th of July 2005
Statutory Auditors

BDO MARQUE & GENDROT
represented by **Pierre MARQUE**
Statutory Auditor
Member de la Compagnie
Régionale de Paris

EXPERTISE COMPTABLE ET AUDIT
represented by **Patrick COLLOMB**
Statutory Auditor
Member de la Compagnie
Régionale de Dijon

DRAFT RESOLUTIONS TO BE SUBMITTED TO THE COMBINED GENERAL MEETING OF THE 27TH SEPTEMBER 2005 TO CONSIDER THE ACCOUNTS OF THE FINANCIAL YEAR ENDING ON 31ST MARCH 2005

1. RESOLUTIONS COMING WITHIN THE REMIT OF THE ORDINARY GENERAL MEETING

Loss of the financial year	:	€(7,980,592.18)
Retained earnings	:	€20,492,266.84
Amount to be allocated	:	€12,511,674.66

RESOLUTION ONE

Approval of the consolidated accounts for the financial year ending on 31st March 2005

The Ordinary General Meeting, having heard the annual report of the Board of Directors on the activities of the group for the financial year ending on 31st March 2005, and on the accounts of that financial year, and having heard the report on the consolidated accounts from the statutory auditors in the execution of their remit for this financial year, approves the consolidated accounts of the financial year ending on 31st March 2005, as presented, and the transactions recorded in these accounts and summarised in these reports.

Allocation

- dividend of 1.20 euros for each of the 2,487,917 shares in issue : €2,985,500.40
- the remainder to retained earnings : €9,526,174.26
- Total equal to the amount to be allocated : €12,511,674.66

The General Meeting will recall that tax credit is no longer attached to dividends anymore, under the provisions of article 93 of the Finance Act of 30th December 2003.

The dividend distributed will give an entitlement, but only for individual shareholders, to a rebate of 50% on the amount received.

According to the provisions of article 243b of the General Tax Code, the General Meeting will recall the amount of dividends distributed in the last three financial years:

Year	2001/2002	2002/2003	2003/2004
Dividend in €	0	0.20	0.40
Tax credit in €	0	0.10	0.20

If, when paying out, the company holds some of its own shares, the distributable profit corresponding to the dividend not paid out because the shares belong to the company will be taken to retained earnings.

RESOLUTION TWO

Approval of the company accounts for the financial year ending on 31st March 2005

The Ordinary General Meeting, having heard the annual report of the Board of Directors on the activities of the company for the financial year ending on 31st March 2005 and on the accounts of that financial year, and having heard the statutory auditors' report on the execution of their remit for this financial year, approves the company accounts for the financial year ending on 31st March 2005, as presented, showing a loss of €7,980,592.18, and the transactions recorded in these accounts and summarised in these reports.

In consequence, the General Meeting discharges the directors of the execution of their duties for this financial year.

RESOLUTION THREE

Allocation of the result of the financial year ending on 31st March 2005

The General Meeting, on the proposal of the Board of Directors, agrees to allocate the results of the financial year ending on 31st March 2005 as follows:

RESOLUTION FOUR

Directors' Fees

The Ordinary General Meeting set the amount for fees allocated to the Board of Directors for the financial year ending on 31st March 2005 at €14,400.

RESOLUTION FIVE

Approval of transactions and conventions under articles L.225-38 et seq. of the Code of Commerce

The Ordinary General Meeting, having heard the auditors' special report on the conventions dealt with in articles L.225-38 et seq. of the Code of Commerce, notes and approves the terms of this report.

RESOLUTION SIX

Ratification of the appointment of a director

The Ordinary General Meeting ratifies the appointment of Monsieur Erwan FAIVELEY as director for a period of 3 years, to run until the end of the General Meeting called to vote on the accounts of the financial year ending on 31st March 2008.

RESOLUTION SEVEN

Re-election of two directors

The Ordinary General Meeting re-elects Messrs François FAIVELEY and Paul KLEIN as directors for a period of 3 years, to run until the end of the General Meeting called to vote on the accounts of the financial year ending on 31st March 2008.

RESOLUTION EIGHT

Re-election of the auditors

The General Meeting appoints for a period of six financial years to run until the end of the General Meeting called to vote on the accounts of the financial year ending on 31st March 2011, the company Expertise Comptable et Audit (ECA) and the company BDO Marque & Gendrot as statutory auditors, and of Messrs Jérôme Burrier and Patrick Viguié as deputy auditors.

RESOLUTION NINE

Transfer of long-term capital gains from the special reserve

The General Meeting decides that from the sum of €7,749,263.56, allocated to special reserves of long-term capital gains, €7,568,031.56 should be transferred to an ordinary reserve account and the remaining €181,232, corresponding to the exceptional tax, should be charged to retained earnings.

RESOLUTION TEN

Authorisation given to the Board of Directors or the Board of Management to trade in company shares

The General Meeting, voting under the conditions of quorum and majority for ordinary meetings, being aware of the report of the Board of Directors [and the contents of the information note issued by the Financial Markets Authority] authorises the Board of Directors, or the Board of Management if resolution twelve is adopted, in compliance with articles L.225-209 et seq. of the Code of Commerce, to buy shares of the Company so as to:

- allocate them to staff under the provisions of articles L.225-179 et seq. of the Code of Commerce,
- stimulate the secondary market of company's shares, via an investment service agency, as part of a liquidity contract in compliance with the professional code of conduct of the AFEI recognised by the Financial Markets Authority.

The purchase of the Company's shares may apply to any number of shares so long as the number of shares that the Company holds after of these purchases does not exceed 3% of the share capital of the Company, bearing in mind that the percentage will apply to an adjusted share capital, depending on transactions that may affect it after the present meeting.

Purchases, sales, exchanges or transfers may be transacted by any means, on the market or between individuals, including block sales or purchases, or by recourse to derivatives in the conditions allowed by the market authorities and within the regulations. The maximum proportion of the capital bought, sold, exchanged or transferred as a block of shares may be the whole of the purchasing programme.

The maximum purchase price is set at €180 per share.

The General Meeting delegates to the Board of Directors, or the Board of Management if resolution twelve is adopted, the power to adjust this purchase price to take account of the effect of possible future financial transactions on the value of shares. Especially in the event of increase of capital by incorporation of reserves or of allocation of bonus shares, the price stated above shall be adjusted by a coefficient equal to the ratio between the number of shares composing the share capital before the transaction and the number after the transaction.

The maximum amount allocated to the purchasing programme is €13.5 m.

This authorisation shall remain valid for eighteen months from this day.

The General Meeting grants full powers to the Board of Directors, or the Board of Management if resolution twelve is adopted, with the right to delegate the deciding and implementing of the purchasing programme, including placing any stock-market orders, concluding any agreements, performing any formalities and declarations to the Financial Markets Authority or any other body, making the adjustment referred to in articles 174-1A and 174-9A of the decree of 23 March 1967 if shares are bought at a higher price than the market rate, and in general doing whatever is necessary to complete the transactions carried out in application of the present authorisation.

The present authorisation over rules the part so far unused of the authorisation to purchase shares which was granted by resolution eight of the Combined General Meeting of 9th July 2004.

2. RESOLUTION COMING WITHIN THE REMIT OF AN EXTRAORDINARY GENERAL MEETING

RESOLUTION ELEVEN

Delegation of powers to the Board of Directors or the Board of Management to grant stock options

The General Meeting, met under the conditions of quorum and majority for extraordinary general meetings, being aware of the report of the Board of Directors and of the auditors' special report:

- delegates to the Board of Directors, or the Board of Management if resolution twelve is adopted, its powers to grant options to purchase existing shares in the company Faiveley S.A. arising from purchases made by Faiveley S.A. in the conditions laid down in law. Within the provisions of the Code of Commerce, these options shall be for the benefit of members of the salaried staff and directors of the company Faiveley Transport S.A. and French or foreign companies or groups in which Faiveley Transport S.A. holds an interest and which are in addition related to Faiveley S.A. in the conditions referred to in article L.225-180 of the Code of Commerce, as those members will be defined by the Board of Directors, or by the Board of Management as the case may be,
- decides that the total number of options granted by virtue of the present authorisation may not give rise to the purchase of more than 65,000 shares of five (5) Euros nominal value, plus the shares arising from the adjustments allowed by the law and regulations,

- fixes the period of validity of the present authorisation at thirty-eight (38) months from the date of the present meeting,
- decides, in compliance with the law, that the purchase price of the shares may not be less than 95% of the average price quoted on the market over the twenty days' trading prior to the day when the options are granted, nor less than 80% of the average price of purchase by the Company of shares it holds under articles L.225-208 and L.225-209 of the Code of Commerce,
- decides that the options must be exercised in a maximum of seven (7) years from the day they are granted,
- notes that the present delegation of powers includes full power of the Board of Directors, or the Board of Management if resolution twelve is adopted, to carry out its decision within the limits above, with the right to delegate to the Managing Director or the Chairman of the Board, as the case may be, in order to:
 - draw up a list of beneficiaries of the options described above, and the conditions of exercising their options,
 - determine the deadline, which must not exceed seven years, by which the beneficiaries may exercise their options and the period over which the options may be exercised, bearing in mind any period of unavailability of options that may be set by the Board of Directors,
 - within the conditions laid down in article L.228-99 of the Code of Commerce, take the necessary steps to protect the interests of the beneficiaries of the options if any of the conditions listed in article L.225-181 of the Code of Commerce should arise,
 - allow the possibility of temporarily suspending the exercise of options for a maximum of three months if financial transactions occur which imply the exercise of a right attached to the shares,
 - set the rights attached to shares with the possibility of a clause preventing the immediate re-sale of all or part of the shares, so long as the time imposed for keeping the shares does not exceed three years from the exercise of the option,
 - make any later rider or modification if necessary to the terms of the options allocated.

RESOLUTION TWELVE

Changes to the method of administering and managing the company: adoption of management by a Board of Management and a Supervisory Board

The General Meeting, having heard the report of the Board of Directors, decides in compliance with the provisions of article L.225-57 of the Code of Commerce, to alter the mode of administration and management of the Company from this day on, and to adopt management by a Board of Management and a Supervisory Board as provided for in articles L.225-57 to L.225-93 of that code.

RESOLUTION THIRTEEN

Amendment to the memorandum and articles of association

The General Meeting adopts article by article, and then as a whole, new wording of the memorandum and articles of association which will henceforward govern the company in view of the adoption of management by a Board of Management and a Supervisory Board.

RESOLUTION FOURTEEN

Nomination of members of the Supervisory Board (Resolution falling within the remit of the ordinary general meeting)

The General Meeting appoints as the first members of the Supervisory Board for a period of three years to terminate at the end of the ordinary meeting that decides on the accounts of the financial year ending on 31st March 2008.

Claude COMPAIN, born on 3rd July 1924 in Billom (63), resident at 63, rue Notre-Dame des Champs in Paris (75006),

Monsieur Christian GERMA, born on 11th February 1970 at Boulogne-Billancourt (92), resident at 26, cours Ferdinand de Lesseps in Rueil-Malmaison (92500),

Monsieur Paul KLEIN, born on 6th February 1938 in Bouzonville (57), resident at 7, rue Henri Demesse in Dijon (21000),

Monsieur Denis GRAND-PERRET, born on 2nd May 1941 in Saint-Claude (39), resident at 13, Lieu-dit des 3 maisons in Avignon le Saint Claude (39200),

Monsieur François FAIVELEY, born on 26th April 1951 in Neuilly-sur-Seine (92), resident at Chemin de la Guibaude 6, 1092 Belmont sur Lausanne (Switzerland),

Monsieur Philippe ALFROID, born on 29th August 1945 at Clermont (60), resident at 34, rue du Bac in Paris (75007),

Monsieur Edmond BALLERIN, born on 6th January 1943 in Nimes (34), resident at 10, allée des archers in Carrières-on-Seine (78420).

3. RESOLUTION COMING WITHIN THE REMIT OF BOTH MEETINGS

RESOLUTION FIFTEEN

Powers for formalities

The Combined General Meeting confers full powers on the bearer of copies or extracts of the minutes recording its decisions, so as to carry out all the legal formalities of publication.



FAIVELEY S.A.

Société Anonyme with share capital of €12,439,585

Carrefour Pleyel, 143, boulevard Anatole France

FR-93285 Saint-Denis Cedex - France

Tel.: +33(0) 1 48 13 65 00

Fax: +33(0) 1 48 13 66 47

www.faiveley.com

www.faiveleytransport.com

E-mail : info@faiveley.com