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Group Activity

A. Overview

1. GROUP GENERAL ORGANISATION

ALSTOM serves the power generation market through its Power Systems Sector and its Power Service Sector, and the rail transport market through its Transport Sector. ALSTOM designs, supplies and services a complete range of technologically advanced products and systems for its customers, and possesses a unique expertise in systems integration and through-life maintenance and service.

In fiscal year 2007/08, orders amounted to €23.5 billion and sales to €16.9 billion. On 31 March 2008, the backlog amounted to €39.2 billion.

ALSTOM believes the power and transport markets in which the Group operates are sound, offering:

- solid long-term growth prospects based on customers' need to expand essential infrastructure systems in developing economies and to replace or modernise them in the developed world; and
- attractive opportunities to serve the existing installed base.

ALSTOM believes it can capitalise on its long-standing expertise in these two markets to achieve competitive differentiation. ALSTOM is strategically well positioned for the following reasons:

- ALSTOM has global reach, with a presence in around 70 countries worldwide;
- ALSTOM is a recognised technology leader in most of its fields of activity, providing best-in-class technology; and
- the Group benefits from one of the largest installed bases of equipment in power generation and rolling stock, which enables it to develop its service activities.

An international network coordinates the presence of ALSTOM throughout the world. This network supports the Sectors in their business development and sales.

On 31 March 2008, ALSTOM had a total of approximately 76,000 employees worldwide.

2. MAIN EVENTS OF FISCAL YEAR 2007/08

2.1. Very strong commercial and operational performance

ALSTOM achieved record results over 2007/08:

- the Group received €23.5 billion of new orders, a 23% increase (24% on an organic basis) compared to the previous year, bringing its backlog to €39.2 billion at 31 March 2008. Power Systems showed a strong commercial performance across all technologies (gas, coal, nuclear,

hydro and wind). Power Service continued to experience a sustained growth, combining small and medium size orders as well as a number of long-term operation and maintenance contracts. Transport achieved an excellent year in terms of orders received, with a large order for very high speed trains and a number of successes in metros, tramways and regional trains;

- sales reached €16.9 billion, a 19% increase from last year on both an actual and organic basis, as a result of the Group delivering its growing backlog;
- income from operations stood at €1,295 million or 7.7% of sales, compared to €957 million or 6.7% of sales last year. The Group benefited mainly from its higher level of activity, the better quality of its order book and its continuous focus on project execution and cost control;
- net profit (Group share) amounted to €852 million, a 56% increase compared to 2006/07¹, as a consequence of higher operational performance, and lower non-operating and financial expenses. Earnings per share (basic) reached €6.0 vs. €3.9 last year;
- free cash flow amounted to €1,635 million, an all-time high, as a result of the increased net income and a further improvement in working capital primarily due to the large order intake.

2.2. Human resources management at the centre of ALSTOM's priorities

In order to favour the execution of its growing backlog, ALSTOM recruited around 10,500 employees in 2007/08 (of which 5,100 engineers and professionals); this represents 14% of the Group's total headcount as of 31 March 2008. ALSTOM particularly focused its recruitment effort on high-growth regions such as Asia as well as on key functions such as project management. ALSTOM also further developed its training programmes as 3,500 participants took part in "Alstom University"² sessions over the year.

In 2007/08, ALSTOM successfully implemented its new employee stock purchase plan. Around a third of eligible employees subscribed to this scheme, demonstrating their confidence in the Group's future performance. Approximately 700,000 new shares have been issued or will be issued as a result of this plan (representing 0.5% of Alstom's share capital as of 31 March 2008).

2.3. Shaping the future through innovation

ALSTOM accelerated its research and development (R&D) investments in order to prepare its future growth. R&D expenditure (gross) amounted to €561 million in 2007/08 vs. €440 million the previous year, showing a 28% increase. Taking into account capitalization and amortization of development costs, R&D expenditure in the income statement amounted to €554 million compared to €456 million in 2006/07.

¹ Net income for 2006/07 is restated for the change in accounting method related to pensions. Net income – group share – before this restatement was €448 million.

² The Group's in-house training centre

ALSTOM's key strategic R&D programmes showed significant progress over 2007/08:

- on 5 February 2008, ALSTOM unveiled its next generation of very high speed trains, the AGV. The AGV technology, which is based on articulated carriages and a new distributed drive system, will allow trains to reach a commercial speed of 360 kilometres per hour;
- ALSTOM is further intensifying its R&D on CO₂ capture solutions. ALSTOM is mainly focusing on post-combustion (using chilled ammonia and amines) and oxy-combustion technologies. In 2007/08, ALSTOM entered into a series of agreements with utilities and oil companies to develop pilot plants using CO₂ post-combustion capture in Sweden, Norway, the USA and Canada, as well as pilot plants using the oxyfiring process in France and Germany.

Other current R&D programmes focus on enhancing the competitiveness of ALSTOM's product offering. For instance:

- In Transport, the new tramway platform, aimed at broadening the CITADIS range, will allow ALSTOM to gain an edge in markets where existing infrastructures set specific requirements, such as increased robustness to run on lesser quality tracks. New Transport products also aim at addressing environmental issues: for example hybrid locomotives will allow reduced diesel consumption and emissions; CORADIA Lirex, the new platform for regional trains, will be 95% recyclable and fitted with energy management systems to reduce the energy consumption of traction and auxiliary systems. This highly modular train will be able to operate at speeds up to 160 kph;
- In Power, R&D addresses new developments regarding performance improvements of GT26 and GT13 gas turbines as well as steam turbines and generators. Additionally a major upgrade of the 60 Hz GT24 gas turbine is being launched. In the wind activity, ALSTOM is currently finalizing the development of a new 3 MW wind turbine.

2.4. Optimising ALSTOM's industrial base

Capital expenditure (excluding capitalised development expenses) amounted to €374 million in 2007/08 vs €280 million during the previous year.

Capital expenditure aims at continuously reinforcing the efficiency of the industrial base as well as at increasing the Group's production capacity particularly in fast growing markets. Main current capital expenditure programmes include:

- the construction of a new facility in Chattanooga, Tennessee, USA, to manufacture steam turbines (for thermal and nuclear applications), gas turbines, generators and related equipments. This major investment will enable the Group to adapt its industrial base to the increasing demand for power generation, particularly in the Americas;
- the construction of a new foundry in Elblag, Poland, in order to increase the production capacity of key components for turbine parts;

- the expansion of a blade manufacturing workshop in Morelia, Mexico, in order to increase the production capacity for turbine blades and meet the growing demand, particularly in the Americas;
- the development of production facilities for hydroelectric equipment in Tianjin, China, to serve the Chinese as well as export markets;
- the upgrade of a number of industrial sites in the Transport Sector to align them with the Group platforming strategy.

2.5. Enhancing the Group's financial structure

The Group's solid financial structure as of 31 March 2008 and its leading positions in both power and transport markets, allowed it to obtain an investment grade BBB+ and Baa1 rating by Standard & Poor's and Moody's respectively.

ALSTOM optimised its credit flexibility while seizing opportunities offered by the interest rates market. During 2007/08, the Group reimbursed in anticipation €866 million of bonds redeemable on 28 July 2008, 13 March 2009 and 3 March 2010. As of 31 March 2008, the total remaining bonds amounted to €834 million (in nominal value).

In July 2007, ALSTOM also signed an amendment to its bonding programme, extending its coverage to July 2010 (from July 2008 previously) while decreasing its costs.

2.6. Selected acquisitions to reinforce the strategic positioning

Following the acquisition of Power Systems Manufacturing (USA), Qingdao Sizhou (China) and Shenzhen Strongwish (China) in 2006/07, ALSTOM pursued its strategic positioning through selected acquisitions and partnerships during 2007/08.

Ecotècnia

On 31 October 2007, ALSTOM acquired Ecotècnia, a Spanish manufacturer of wind turbines. Ecotècnia designs, assembles, installs and services a wide range of onshore wind turbines spanning 640 kW to 2 MW. Ecotècnia is also currently developing new wind turbines with a capacity of up to 3 MW. This acquisition enables ALSTOM to broaden its portfolio of technologies in power generation. Ecotècnia will benefit from ALSTOM's global reach and supply chain management.

Wuhan Boiler Company

On 14 April 2006, ALSTOM signed an agreement for the acquisition of Wuhan Boiler Company Ltd (WBC), a Chinese manufacturer of boilers for steam power plant applications which is listed on the Shenzhen Stock Exchange. ALSTOM launched a General Offer on WBC shares on 11 July 2007 and announced the acquisition of 51% of the capital of WBC on 27 September 2007.

ALSTOM plans to build a new factory in the outskirts of Wuhan and to transfer WBC's production to this new facility. Fitted with the latest equipment, it will have the capacity to produce 600 MW super critical and 1,000 MW ultra-supercritical boilers, as well as large circulating fluidized bed boilers.

Recent acquisitions (i.e. including PSM, Shenzhen Strongwish and Qingdao Sizhou which were acquired during 2006/07) were integrated within ALSTOM during 2007/08 and positively contributed to the Group's performance.

Joint ventures and partnerships

In addition, ALSTOM also entered into a series of joint-venture and partnership agreements in 2007/08 in both its Power and Transport activities:

- in Russia: a joint venture was set up with Atomenergomash to manufacture the conventional island of nuclear power plants on the Russian market, based on ALSTOM's "Arabelle" half-speed turbine technology. In Transport, ALSTOM and Transmashholding agreed to cooperate on the Russian rolling stock market. This cooperation will take the form of joint companies in the future. These agreements will allow ALSTOM to further increase its presence on the growing Russian market;
- in addition, two other joint ventures were set up in Transport: Signalling Solutions Limited, a joint venture between ALSTOM and Balfour Beatty, will serve the railway signalling markets in the United Kingdom and Ireland. Finally, ALSTOM and RENFE created IRVIA Mantenimiento Ferroviario, a Spanish joint venture in train maintenance.

3. GENERAL COMMENTS ON ACTIVITY AND RESULTS

3.1. Consolidated Key Financial Figures

The following table sets out, on a consolidated basis, some of the key financial and operating figures:

Total Group Actual figures (in € million)	% Variation			
	Year ended	Year ended	March 08 / March 07	
	31 March 08	31 March 07	Actual	Organic
Order backlog	39,222	32,350	21%	23%
Orders received	23,472	19,029	23%	24%
Sales	16,908	14,208	19%	19%
Income from operations	1,295	957	35%	35%
Operating margin	7.7%	6.7%		
Net profit - Group share	852	547 *	56%	
Free cash flow	1,635	745	119%	

* restated for the change in accounting for pensions. Net income - Group share - before restatement was €448 million.

3.1.1. General comments on activity

Power market conditions were particularly favourable over 2007/08, with a high volume for new equipments worldwide: gas projects in Europe, environmental retrofit of coal power plants in order to reduce emissions in North America, coal, hydro and nuclear in Asia, hydro and gas projects in South and Central America. Middle East/Africa also saw a strong demand, notably in gas but also in coal. Demand was mainly driven by power shortages in fast growing countries (China, India, Russia, Middle East/Africa) and by replacement programmes in developed countries. The trend is going towards an increased diversification of technologies driven by the combination of several factors: increase in fuel prices, changes in environmental regulations, need for more flexibility to reach energy independence.

In this context, the Group has revised its market forecast upwards and expects the market to remain strong for the years to come with an average yearly volume ordered for new equipment of 185 GW for 2007–2011 to be compared with an average of 150 GW in 2005–2006. In addition, environmental regulations and the ageing of the installed base have increased the demand for environmental upgrades, retrofitting of existing facilities and services worldwide. As an example, the retrofit market is also expected to reach €4 billion per year on average in 2007-2011 compared to €2.5 billion on average in 2005-2006.

The Transport market showed a faster than anticipated growth in 2007/08. The activity was particularly strong for very high speed and mass transit. In Europe, demand was sustained, driven by urbanization, need for mobility as well as environmental concerns, which support cleaner transportation solutions and modal shift towards rail solutions. Markets are also evolving with the emergence of new players alongside public operators and the growing role of public-private partnerships. This overall positive trend is progressively expanding outside Europe, with emerging markets offering numerous opportunities (China, India...). In addition, the market is also growing in service and signalling activities.

3.1.2. Orders received and backlog

Leveraging its strategic strengths, ALSTOM has fully benefited from strong demand in power and transport markets, achieving a very strong commercial performance during the year. ALSTOM recorded numerous successes throughout its activities with orders received reaching €23.5 billion, a 23% increase over 2006/07 (+24% on an organic basis):

- Power Systems' order intake was €11.6 billion in 2007/08, showing a 21% increase (22% on an organic basis). Power Systems booked 38 gas turbines (including 18 GT26) in 14 countries, mainly in Europe (UK, Netherlands, Ireland, France...) and in Middle East/Africa (United Arab Emirates, Kuwait, Algeria, Morocco...). Major contracts were also recorded for other fuel types in 2007/08, including a very large order for steam turbines/generators for the biggest coal-fired plant in South Africa, as well as steam turbines/generators for the conventional island of nuclear power plants in China. Power Systems was also successful in booking several contracts for large hydroelectric projects in Brazil, China, Vietnam and Uganda;

- Power Service booked contracts for €4.4 billion, an 8% increase over the previous year (on an actual and an organic basis), including 10 long-term operation and maintenance contracts mainly related to gas fired plants (Bahrain, Brazil, India, Ireland, Italy, Mexico, Morocco, UK...). In addition, the Sector also booked several contracts for outages, upgrades and rehabilitation of plants. Finally, Power Service recorded a high number of small and medium-sized orders;
- Transport recorded key successes all across its product range, with orders booked for €7.5 billion, a 39% increase (40% on an organic basis). ALSTOM benefited from its excellence in very high speed by booking a major contract for 80 TGV³ Duplex in France. Significant orders received during the year include, among others, Pendolino high speed trains for the Helsinki-Saint Petersburg line, as well as several contracts for metros (including a large order to provide 360 additional cars for the New York metro system, and orders for the cities of Sao Paulo, Mexico, Istanbul, Paris, Nanjing) and tramways (Dublin, Tram-Trains in France, Istanbul, Rotterdam). Finally, orders received were also sustained for regional and suburban trains (Germany, Spain, Australia), signalling (China, Belgium) and maintenance (UK, Spain).

At 31 March 2008, the Group's backlog amounted to €39.2 billion, representing 28 months of sales.

3.1.3. Sales

As a result of the growing backlog, the Group's sales reached €16.9 billion for 2007/08. This represents a 19% increase compared to 2006/07 on both an actual and organic basis.

Power Systems' sales were €7.8 billion, a 37% increase (35% on an organic basis), as major contracts booked during the last periods were being traded. Main contracts contributing to sales during the year include steam and gas turbines in Europe (e.g. Bulgaria, UK, Italy, Spain, Germany...) and in Middle East/Africa (e.g. Kuwait, Oman, Algeria...).

Power Service generated sales of €3.6 billion, a 13% increase (12% on an organic basis), with strong activity all across the Sector's product range (gas and steam turbines, generators, boilers, ...).

Sales for Transport reached €5.5 billion, a 4% growth (5% on an organic basis), as the increased backlog is being translated into sales. Transport delivered Electrical Multiple Units and locomotives in China, metros in the USA and TGVs⁴ in France.

3.1.4. Income from operations

Income from operations reached €1,295 million in 2007/08, from €957 million in 2006/07, a 35% increase (on both an actual and organic basis). The Group's operating margin rose to 7.7% compared to 6.7% last year. This significant improvement was driven by the high level of activity

³ TGV is a trademark of the SNCF

⁴ TGV is a trademark of the SNCF

generated by the growing backlog, the trading of better quality orders, along with the continuous focus on contract execution and cost control.

All Sectors showed a strong increase in income from operations and operating margin: Power Systems more than doubled its income from operations from €201 million (3.5% of sales) to €415 million (5.3% of sales). Power Service improved it from €510 million (15.9%) to €592 million (16.4%). Transport also contributed positively as its income from operations rose from €350 million (6.6%) to €397 million (7.2%).

3.1.5. Net profit (Group share)

Net profit (Group share) amounted to €852 million in 2007/08 compared to €547 million in 2006/07 (restated for the change in pension accounting while net profit before this restatement was €448 million). The Group benefited from the increase in its income from operations, while restructuring charges, other non-operating expenses and financial expenses dropped significantly. The effective tax rate was around 25%.

3.1.6. Free cash flow

Free cash flow (as defined in paragraph "Use and reconciliation of non-GAAP financial measures") reached a record level of €1,635 million vs. €745 million over 2006/07 (which included a €300 million discretionary contribution to pension plans). Free cash flow generation was strong, mainly as a result of the increase in net income and strong working capital improvement supported by the continuous high level of orders intake.

3.1.7. Net cash

The Group's net cash position turned positive in 2007/08, from a net debt of €64 million at 31 March 2007 to a net cash of €904 million at 31 March 2008. This evolution in net debt / cash (as described in paragraph "Use and reconciliation of non-GAAP financial measures") is mainly the consequence of the Group's strong cash flow generation, taking into account €117 million dividends paid as well as acquisitions finalized during the year for a total of €635 million (including the incoming net debt of acquired entities).

3.2. Key geographical figures

3.2.1. Geographical analysis of orders by region of destination

The table below sets out the geographical breakdown of orders received by region of destination.

Total Group	Year ended		Year ended		% Variation Mar 08/07	
	31 Mar. 08	% of contrib	31 Mar. 07	% of contrib	Actual	Org.
Actual figures, in € million						
Europe	11,709	50%	11,396	60%	3%	3%
North America	3,137	13%	3,232	17%	(3%)	4%
South and Central America	999	4%	1,157	6%	(14%)	(13%)
Asia/Pacific	3,198	14%	2,307	12%	39%	32%
Middle East/Africa	4,429	19%	937	5%	373%	389%
Orders received by destination	23,472	100%	19,029	100%	23%	24%

Europe represented 50% of the total order intake at €11,709 million, compared to 60% last year. The Group booked significant contracts in France (particularly the order for the TGV⁵ Duplex for €2.2 billion in total), the UK (two turnkey power plants built around a total of 7 GT26 gas turbines), Ireland and Greece. This represents a 3% increase compared to 2006/07 (on an actual and organic basis) as the Group had also booked a high number of turnkey power plants in Europe last year.

Orders in North America decreased slightly at €3,137 million mostly due to unfavourable USD/EUR exchange rate, but rose by 4% on an organic basis. Several orders were booked in the USA, mainly for power environmental systems and for 360 cars for the New York metro, as well as in Mexico for the retrofit of a nuclear steam turbine. North America accounted for 13% of orders in 2007/08.

Orders in South and Central America decreased by 14% (13% on an organic basis) at €999 million. The Group recorded contracts for hydro and metro projects in Brazil, while orders were at a high level last year in this region with a large metro project recorded in the Dominican Republic.

The order intake increased significantly in Asia/Pacific (39% on an actual basis and 32% on an organic basis) at €3,198 million. Main orders received included gas power plants in India (based on GT26 turbines) and Australia (based on GT13 turbines) as well as a hydro power plant in Vietnam, the largest ever built in South-East Asia. The Group also booked numerous projects in China, such as steam turbines/generators packages for conventional islands of nuclear power plants as well as a total of 6 hydro orders. In the Asia/Pacific region, ALSTOM also benefited from the integration of Qingdao Sizhou and Wuhan Boiler Company. In addition, Transport booked orders for X'trapolis suburban trains in Australia and a metro project in China. In total, Asia/Pacific accounted for 14% of the Group's order intake.

Finally, the order flow in Middle East/Africa was particularly strong in 2007/08 as orders received amounted to €4,429 million, around five times the level of the previous year (€937 million in 2006/07). Half of the gas turbines booked this year were sold in Middle East/Africa (Algeria, Ghana, Kuwait, Morocco, United Arab Emirates). More particularly, ALSTOM received two major orders in this region: 6 turbine islands for the biggest coal-fired power plant in South Africa (€1.4 billion) and a power and desalination plant based on 5 GT26 gas turbines in the United Arab Emirates (€1 billion).

⁵ TGV is a trademark of the SNCF

3.2.2. Geographical analysis of sales by region of destination

The table below sets out the geographical breakdown of sales by region of destination:

Total Group	% Variation Mar 08/07					
	Year ended 31 Mar. 08	% of contrib	Year ended 31 Mar. 07	% of contrib	<i>Actual</i>	<i>Org.</i>
Actual figures, in € million						
Europe	8,308	49%	6,922	49%	20%	18%
North America	3,109	19%	2,442	17%	27%	34%
South and Central America	881	5%	854	6%	3%	1%
Asia/Pacific	3,058	18%	2,505	18%	22%	20%
Middle East/Africa	1,552	9%	1,485	10%	5%	6%
Sales by destination	16,908	100%	14,208	100%	19%	19%

Sales in Europe represented 49% of the Group's total sales (stable percentage compared to last year) at €8,308 million, a 20% increase vs. 2006/07 on an actual basis (18% on an organic basis). Significant contracts booked in Europe in the previous periods started being traded (such as turnkey power plants in Bulgaria, UK, France and Spain).

The Group's sales in North America were €3,109 million, a 27% increase (34% on an organic basis). All three Sectors contributed to this increase, particularly in the USA, with good activity in environmental control systems as well as in metros (for the cities of New York and Washington). Sales in North America amounted to 19% of total sales.

Sales in South and Central America increased by 3% at €881 million, a power contract traded in Brazil offsetting the completion of Transport projects in Venezuela and Argentina.

ALSTOM's sales in Asia/Pacific amounted to €3,058 million, a 22% increase (20% on an organic basis). The growth of sales is mainly due to the execution of projects in China for Transport (Electrical Multiple Units, locomotives), in China, Australia, India and Vietnam for Power Systems, as well as the integration of the acquisitions in China (Qingdao Sizhou and Wuhan Boilers). Sales in Asia/Pacific amounted to 18% of total sales.

Sales in Middle East/Africa increased by 5% at €1,552 million with a good level of activity in the gas service business and the trading of contracts for GT13-based turnkey plants in Kuwait and Algeria and for tramways in Tunisia and Algeria, while large contracts in Saudi Arabia and Dubai were close to completion.

3.2.3. Geographical analysis of sales by region of origin

The table below sets out the geographical breakdown of sales by region of origin:

Total Group	Year ended		Year ended		% Variation Mar 08/07	
	31 Mar. 08	% of contrib	31 Mar. 07	% of contrib	<i>Actual</i>	<i>Org.</i>
Actual figures, in € million						
Europe	11,562	68%	9,912	70%	17%	15%
North America	3,041	18%	2,409	17%	26%	34%
South and Central America	528	3%	481	3%	10%	6%
Asia/Pacific	1,511	9%	1,248	9%	21%	15%
Middle East/Africa	266	2%	158	1%	68%	83%
Sales by origin	16,908	100%	14,208	100%	19%	19%

Sales from Europe increased by 17% at €11,562 million, mainly as a consequence of growing Power Systems sales.

North American sales increased by 26% (34% on an organic basis) at €3,041 million, due to boiler environmental services and the execution of metro contracts in the USA.

Sales in South and Central America increased by 10% at €528 million. This evolution was mainly due to hydro business in Brazil.

Sales from Asia/Pacific increased by 21% (15% on an organic basis) at €1,511 million, as Power Systems' sales increased in Australia, India, and China while sales of Power Sectors benefited from the acquisition of Wuhan Boiler Company and Qingdao Sizhou in China.

Sales from Middle East/Africa increased by 68% at €266 million, mainly as a consequence of growing sales generated by Power Systems and Power Service in Saudi Arabia and the United Arab Emirates.

4. OUTLOOK

ALSTOM will continue to select the most profitable orders in order to further improve the quality of its backlog. The Group will also focus on the execution of its contracts by strengthening project management throughout the Group, continuously develop its human resources and optimise its industrial footprint.

Given the strong and healthy backlog, the Group's operating margin in March 2010 should exceed the previous forecast and reach around 9%, with an operating margin between 10% and 11% for the combined Power Sectors and between 7% and 8% for the Transport Sector. Based on current market conditions and trends (as described above), the Group's operating margin should further increase beyond 2009/10.

These targets are based on a number of assumptions and actions, including the correct execution of the contracts in the Group's backlog, the intake of profitable orders and the optimisation of the cost base. For each of the Sectors the following assumptions were taken:

- Power Systems aims to increase the profitability of its orders through selective bidding combined with product cost reductions while project execution would continue to improve. The plan also includes seizing profit opportunities on certain targeted markets, such as environmental-related projects. The Sector plans to differentiate itself through plant integration and clean coal capabilities;
- Power Service aims to develop services based on its field presence, manufacturing and technical expertise. The Sector intends to maintain operating margin notably through cost base improvement;
- Transport's objective is to reach the targeted operating margin through growing sales, improvements in contract execution and further cost reduction based upon standardisation, sourcing and cost adjustments. The Sector plans to keep its technological edge thanks to new products under development.

The foregoing are "forward-looking statements" and as a result they are subject to uncertainties. The success of the Group's strategy and action plan, its sales, operating margin and financial position could differ materially from the goals and targets expressed above if any of the risks described in the Risk section of the Annual Report for fiscal year 2007/08, or other unknown risks, materialise.

B. Sector review

The activities of the Group are organised into three Sectors:

- Power Systems Sector
- Power Service Sector
- Transport Sector

POWER SECTORS

Together, ALSTOM's Power Systems and Power Service Sectors offer a comprehensive range of power generation solutions, from integrated power plants to all types of turbines (gas, steam, hydro, wind), generators, boilers, emission control systems, as well as a full range of services, including plant modernisation, maintenance and operational support.

These Sectors have a common commercial organisation called "Global Power Sales", which ensures the "one face to the Customer" principle through the coordination of commercial activities.

I. Offering

1.1. POWER SYSTEMS OFFERING

The Power Systems Sector designs, manufactures and supplies the broadest range of products and systems in the power generation industry for coal, gas, oil and biomass power plants. It also supplies wind and hydro equipment as well as conventional islands for nuclear power plants. All components can be integrated in order to build the most efficient and the cleanest power solutions for the customers. ALSTOM has an extensive experience in retrofitting, upgrading, refurbishing and modernising existing power plant equipment. This knowledge is of great value as the worldwide installed base is ageing and needs to operate under more and more stringent environmental regulations.

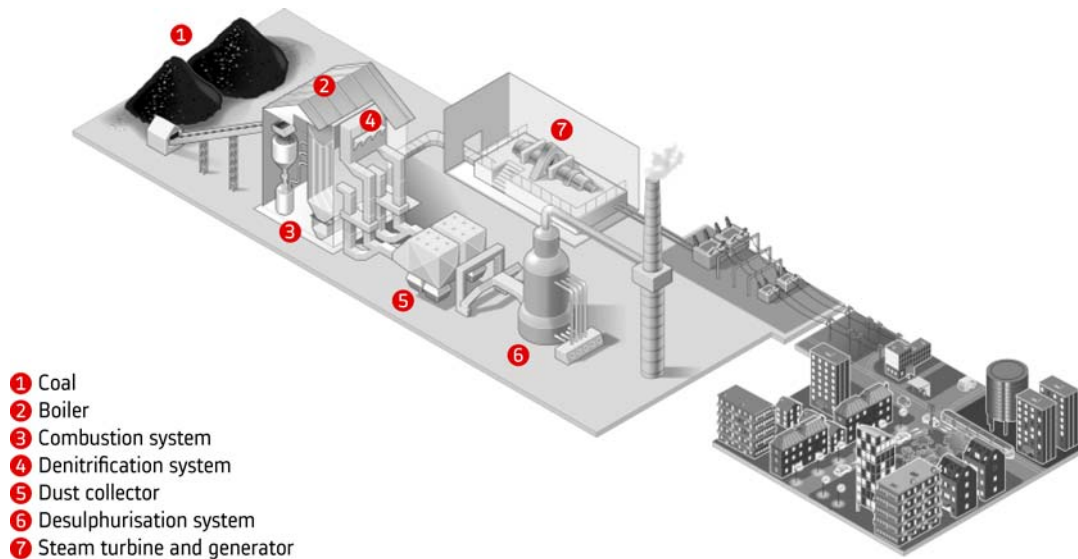
The Power Systems Sector operates in all geographic markets:

- ALSTOM's main manufacturing sites for steam turbines and generators are located in Birr (Switzerland), Belfort (France), Beijing (China) and Wroclaw (Poland);
- Boilers are mainly manufactured in Durgapur (India), Surabaya (Indonesia), Brno (Czech Republic) and Wuhan (China);
- Heat Recovery Steam Generators are mainly manufactured in Surabaya (Indonesia);
- Main manufacturing sites for gas turbines are located in Birr (Switzerland), Mannheim (Germany) and Elbag (Poland);
- Hydro turbines and generators are mainly manufactured in Grenoble (France), Baroda (India), Taubaté (Brazil), Tianjin (China), Birr (Switzerland) and Tracy (Canada);
- Turbine islands for nuclear power plants are manufactured in Belfort (France), and a factory is also under construction in Russia;

- Wind turbines are manufactured in several sites in Spain.

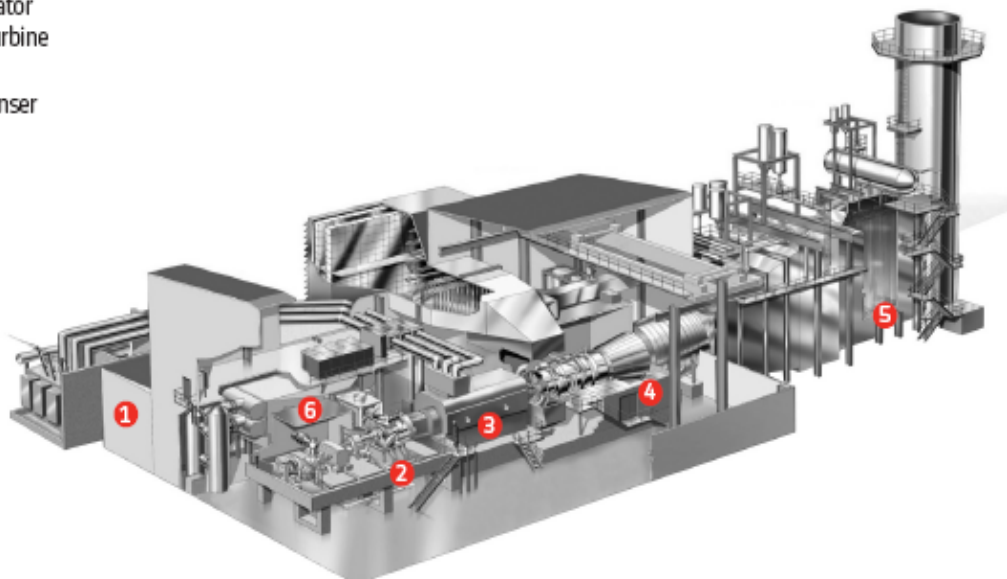
ALSTOM is building a new facility in Chattanooga, Tennessee, USA, to manufacture steam turbines for nuclear and thermal power plants, gas turbines, generators and related equipment.

Coal power plant



Combined cycle power plant

- 1 Control Systems
- 2 Steam Turbine
- 3 Generator
- 4 Gas Turbine
- 5 HRSG
- 6 Condenser



Coal-fired power plants

With over a century of experience in building coal-fired power plants, ALSTOM has the expertise, the technology and the product portfolio to meet its customers' specific requirements, combining high performance and reliability with total environmental compliance.

ALSTOM has installed around 1,450 steam turbine and generator sets and more than 100 turnkey steam power plants, totalling 500 GW worldwide.

INTEGRATED SOLUTIONS

ALSTOM provides a comprehensive range of flexible integrated solutions for various output. The coal-fired power plants can burn any quality of coal, in a single or multi-unit arrangement using different types of boilers.

ALSTOM's modular concept calls on proven, pre-engineered solutions tailored to meet each customer's specific needs.

Due to the broad combination of different elements and technologies used in coal-fired power plants, these projects are inherently complex and require specialist expertise. ALSTOM manages large-scale and complex projects, providing the entire range of services from technical engineering and sub-contracting, construction and commissioning.

ALSTOM's technology provides optimum performance for all steam cycles from 100 MW. Better performance combined with clean technologies significantly reduces the environmental impact of the power plant.

PRODUCTS

Steam Turbines

ALSTOM offers a comprehensive portfolio of steam turbines for all fossil fired power plant applications, with outputs up to 1,200 MW.

Turbogenerators

With a comprehensive range of turbogenerators from 40 MW to 1,200 MW fossil fired power plants, ALSTOM proposes optimal designs for the entire range providing the most reliable and economical solution in each power range.

Boilers

ALSTOM offers a broad range of equipment for boilers, including:

- suspension-fired boilers, 50 – 1,200 MW, including advanced pulverized coal technologies,
- circulating fluidised bed (CFB) boilers, 50 – 600 MW, and hybrid fluidised bed boilers, and
- boiler products for energy recovery, including air pre-heaters and coal pulverizers and mills.

Control Systems

ALSTOM delivers state-of-the-art control systems and solutions to control, monitor and manage power plants and equipments (boilers, steam turbines, ...).

CLEAN COMBUSTION

ALSTOM's expertise in boiler technologies and firing systems provides the perfect blend of knowledge to ensure that each fuel burns cleanly. ALSTOM has designed a family of low-NOx tangential and wall-fired combustion systems to significantly abate emissions, such as nitrogen oxides.

ALSTOM is the world's leading supplier of air quality control systems to the power generation industry and for many other industrial applications. The wide range of post-combustion solutions addresses all customers' existing and future emission-compliance needs for all traditional pollutants:

- Control of sulphur dioxide (SO₂): up to 98% sulphur reduction;
- Control of nitrogen oxide (NO_x): up to 90%;
- Control of Particulates: ALSTOM is PM 2.5 compliant;
- Control of Mercury emissions: up to 90%.

The next challenge will be the capture of CO₂. ALSTOM is testing various solutions on an industrial scale. (see Research and development hereafter)

Gas-Fired Power Plants

ALSTOM has leading experience and knowledge in simple-cycle, co-generation and combined cycle projects for gas turbine-based power plants. Today ALSTOM-built power plants produce over 100 GW of power for various power generation and heat applications.

INTEGRATED SIMPLE CYCLE POWER PLANTS

Today, open-cycle gas turbines are used whenever power generation capacity needs to be built rapidly. ALSTOM is the key supplier for many customers who are looking for reliable commitments and on-time delivery.

INTEGRATED COMBINED CYCLE POWER PLANTS

For customers who wish for efficient, flexible and competitive power generating capacity, ALSTOM proposes modular combined cycle plant designs that are optimised with regards to performance, utilisations, emissions and installation times. The ALSTOM-made reference modules are adaptable to various site conditions and to individual power plant requirements. Additionally, the integrated plant design provides numerous advantages, such as optimised installation times, high-performance and low-emission features and high operational flexibility features.

ALSTOM's project capabilities and references also encompass special applications, for example: the co-generation for district heating, industrial processes or desalination; and the conversion of simple cycle into combined cycle plants.

PRODUCTS

Gas Turbines

ALSTOM's gas turbines (ranging from 50 to 280 MW) are successfully operating in open, combined and/or co-generation applications.

ALSTOM's gas turbine products are:

- GT26 (281 MW) for 50 Hz
- GT24 (188 MW) for 60 Hz
- GT13E2 (172 MW) for 50 Hz
- GT11N2 (115 MW) for 50 and 60 Hz
- GT11NM (87 MW) for 60 Hz
- GT8C2 (56 MW) for 50 and 60 Hz

Turbogenerators

Most of ALSTOM's turbogenerators for combined cycle power plants use air-cooled technology. This technology combines easy maintenance with high efficiency of nearly 99%. Continuous development enables ALSTOM to build the world's largest air-cooled turbogenerator in operation, with a 320 MW (400 MVA) rating.

Control Systems

ALSTOM offers state-of-the-art control systems including: plant distributed control systems (DCS), related monitoring and plant management functions.

HRSB (Heat Recovery Steam Generator)

ALSTOM offers a complete range of HRSBs that provide high performance in cycling operations, cost-effective construction, and efficient operations. ALSTOM has unparalleled experience in this area, from horizontal and vertical drum-type HRSBs to advanced once-through HRSBs.

Hydro Power

ALSTOM is the market leader for hydro turbines and generators and has supplied 25% of the world's installed hydro power generation capacity. (source: ALSTOM)

All core equipments are produced in-house.

As part of a global cooperation with Bouygues, a joint venture 50%-50% in hydro -called ALSTOM Hydro- was created between ALSTOM and Bouygues in 2006.

ALSTOM HYDRO POWER SOLUTIONS

Water is the world's largest consistent source of renewable energy allowing to reduce carbon dioxide emissions and avoid further global warming.

ALSTOM Hydro currently offers the world's most comprehensive range of power generation services and equipment for all kinds of hydro projects, from small to large, from single equipment to complete turnkey solutions.

ALSTOM Hydro offers the customers a single point-of-contact to coordinate and interact with all related parties (consulting engineering, civil engineering, etc.) and acts as the consortium leader for major projects (where required), taking full responsibility for the project and its optimisation.

ALSTOM Hydro's power plants combine reliability with very high efficiency, converting more than 90% of available energy into electricity.

For medium and small power ranges, ALSTOM Hydro has also developed a range of turnkey solutions based upon standardised electromechanical equipment for industrial and agricultural applications, to satisfy all requirements from 5 MW to 30 MW.

PRODUCTS

Turbines up to 1,000 MW

ALSTOM Hydro provides a full range of hydro turbines, up to 1,000 MW, to meet all industry applications, whether it be for new-build or refurbishment projects. The wide range of hydro turbines includes Francis turbines, Kaplan turbines, pump turbines, Pelton turbines, bulb turbines and speed governors.

Generators up to 1,000 MVA

ALSTOM Hydro's generators produce up to 1,000 MVA for any hydro power application, including large and medium hydro generators, small generators, bulb generators, diesel generators, and excitation systems.

Hydro-Mechanical Equipment

ALSTOM Hydro designs and manufactures hydro-mechanical equipment for hydro power plants as well as for waterways and irrigation systems.

Balance of Plant and Control Systems

ALSTOM Hydro's core competencies in control systems span all types of hydro power plants to optimise power production. The control systems enable fast and easy regulation so that a shortfall of generation or a peak demand can be dealt with within seconds.

Nuclear Power Plants

Nuclear energy is becoming more and more topical in many countries. ALSTOM is one of the major players in the world in the field of nuclear power stations, with extensive worldwide experience and know-how in conventional islands and services for nuclear power plants.

ALSTOM offers integrated conventional islands as well as specific products. ALSTOM has one of the best turbine technologies and is the only turbine manufacturer able to fully design, engineer and manufacture all the main equipments of a conventional island for any type of civil nuclear reactor.

ALSTOM is also market leader in the retrofitting business, with a market share of about 50% (source: ALSTOM). Retrofitting a nuclear power plant turbine and generator package by replacing various key components, such as turbine rotors, whilst keeping most of its basic features, allows a significant improvement in power output and life duration. By 2015, the majority of the nuclear installed base will be over 40 years old, creating a strong potential demand for retrofit.

NUCLEAR SOLUTIONS

ALSTOM's core competencies cover all phases of implementation of the power conversion systems, starting from licensing, conventional island basic and detail design, including general layout, civil work studies, supply of equipment, engineering of electrical equipment and control, documentation and training, technical assistance to erection up to commissioning and performance testing.

PRODUCTS

Steam Turbines

ALSTOM has produced and installed around 180 steam turbines for nuclear plants, making it a clear market leader. They operate all over the world and have demonstrated a high level of reliability and performance.

ALSTOM has produced the world's largest steam turbines with four 1,550 MW units.

Turbogenerators

ALSTOM's turbogenerators for nuclear power plants are the largest turbogenerators in operation world-wide, matching the output of the biggest reactors. These generators are designed to achieve greatest reliability and life-time targets and can offer today up to 1,800 MW output.

ALSTOM has built around 30% of the world's fleet of turbogenerators for nuclear power plants. (source: ALSTOM)

Wind Power

ALSTOM believes in Wind as a viable source of clean power to help meet today's energy challenges and wants to become a major player in this field. The recent acquisition of Ecotècnia, a Spanish wind turbine company, has provided the adequate foothold for ALSTOM's entry into this activity.

Since 1981 Ecotècnia was a pioneer in the development of wind power as a reliable source of clean power. The company grew from a small local wind equipment supplier into an international manufacturer, having equipped more than 72 wind farms with 1,500 wind turbines in Spain, France, Italy, Portugal, Japan, India and Cuba. Joining forces with ALSTOM puts Ecotècnia in a unique position of being able to accelerate its expansion in this fast growth market.

WIND SOLUTIONS

From site development, system design, key components design and manufacturing, assembly, site installation and operation and maintenance, ALSTOM is present throughout the entire value chain.

PRODUCTS

The product portfolio ranges from 0.64 to 2 MW turbines, with a 3 MW prototype currently under development. They offer dynamic control of the active and reactive power and supply continuity against voltage drop-downs. The 1.67 and 2.0 MW wind turbines combine variable rotor speed, independent pitch control in each blade and increased rotor size to offer higher energy production, smoother integration into the electrical grid, higher environmental compatibility and greater cost-effectiveness.

Retrofit for the installed base

An entire generation of power plants built in the last 10 to 40 years faces a series of existing and future emission regulations to which they must comply. In order to respond to these obligations and boost power plants' efficiency, availability and extend their lifetime, ALSTOM provides them with state-of-the-art technologies, ranging from comprehensive retrofits for boilers, turbines and air quality control systems to plant upgrades.

Power Systems also has unique value-integration skills that combine boiler and turbine retrofits to increase the plant's economic and environmental benefits, whatever the origin of equipments.

1.2. POWER SERVICE OFFERING

The Power Service Sector provides a complete range of power generation services, support and equipment, to customers who operate thermal power and industrial plants in all geographic markets.

The Sector offers a portfolio of products and services that covers:

- Power plant management: tailored service packages, including Operation and Maintenance agreements for a plant's full life cycle (O&M).
- Advice and support: technical services, performance analysis, assessment, training, monitoring and diagnostics.
- Performance improvement: modernisation, upgrades and lifetime extension.
- Field service: outage management, field repairs, erection, commissioning, construction and supervision.
- New spare parts and reconditioned components.

With the industry's widest range of services, Power Service delivers measurable results aligned with its customers' business objectives for asset life-cycle management, performance improvements, risk management, cost management and environmental compliance.

The Power Service Sector created the Global Field Service Network (GFSN) to coordinate field service initiatives on a global scale, thereby guaranteeing ALSTOM customers expert on-the-ground business partners, regardless of their location. The Sector has more than 19,000 specialists in 25 technology-related product centres, and some 200 local service centres operating in 70 countries around the world.

Combined cycle gas power plants

Power Service provides comprehensive support, customised solutions and products for the entire gas turbine simple and combined cycle power plant.

The Sector offers cost-effective packages for the whole power train, as well as for instrumentation, control and electrical systems, balance of plant and auxiliaries. Deep plant knowledge and expertise in product and component integration enables Power Service to provide high-value solutions that keep customers' plants competitive throughout their life cycle. Component improvements or upgrades and life extension packages ensure full plant performance, operational flexibility, and compliance with the most stringent emission regulations.

Services and solutions include monitoring and diagnostics based upon the powerful AMODIS® platform. Comprehensive plant assessments are offered for performance optimisation and operational improvement, risk and lifetime assessment. With the Plant Support Centre OEM, recommendations and troubleshooting are available 24 hours a day, 7 days a week. Tailor-made operation and maintenance and long-term service agreements complete the offering.

Steam power plants (coal and nuclear)

Worldwide, over 50% of steam power plants are more than 25 years old and operate in markets characterised by more demanding environmental and economic conditions (Source: ALSTOM). Power Service supports customers in optimising their plants with regard to environment, efficiency, power output, flexibility, availability, reliability and lifetime extension. The Sector covers the full range of steam plants, including the conventional island of nuclear power plants. The focus is to not only capitalise on component-related potentials, but also to elaborate integrated systems and total plant upgrades. As OEM for all major components, Power Service's plant design know-how ensures it can deliver the most cost-effective solutions. Power Service is also capable of acting as a general contractor to the customer, thereby minimising the number of customer - supplier interfaces. Finally, Power Service offers plant operation and maintenance services.

Gas turbines

Strong cost pressures – especially the ever-increasing cost of natural gas – mean that turbine performance, reliability and lifetime extension are paramount customer concerns.

Power Service commits significant R&D resources to continually developing and delivering innovative upgrade solutions for its gas turbine fleets. It also offers numerous component improvement packages for turbines, compressors and combustors.

The Sector's upgrade philosophy is to introduce the latest field-proven technology into existing turbine designs to keep the engines competitive throughout their life cycle. Upgrades include performance improvement packages that enable plant owners to produce more power and utilise less fuel in so doing. Extending the operation intervals between major outages enables more production time and reduces maintenance costs. Modern combustion technology allows lower fuel utilisation per kWh produced, thereby driving environmental performance by reducing NOx and CO₂ emissions. Power Service's innovative reconditioning services cover the full range of gas turbine noble parts. Reconditioning solutions extend component lifetime and optimise turbine life cycle economics.

Steam turbines

Demand for performance upgrade solutions that can also reduce emissions is accelerating, and with an ageing installed base, the demand for lifetime extension solutions combined with steam turbine technology upgrades is increasing. Power Service has a proven track record of lifetime extension and upgrade solutions in European and US markets and is expanding this product offering to steam turbine fleets around the world. Significant investment in economic engineering solutions to improve steam path efficiency and reduce pressure loss in valves means the steam turbine product line is positioned for solid growth in the coming years in core markets such as Europe and the USA, while continuing to expand in Asia.

Generators

As the average age of power plant generators increases worldwide, maintenance, lifetime extension and failure-risk management become evermore critical with respect to reliability and consequently costs. Plant operators need effective risk management for components such as rotors and stators. Power Service has developed monitoring and diagnostics systems, which efficiently support our lifetime assessment solutions and therefore reduce unscheduled downtime. As the global leader in fast rewind solutions, Power Service's time-to-restart is excellent – as is its record in harnessing ALSTOM's latest winding technologies to increase per-unit output, reliability and availability.

Boilers

To meet growing demand for power generation at a lower cost, power generators require greater availability, reliability and efficiency on their existing boiler fleet.

ALSTOM has been the world leader in steam generation for over a century, benefiting from its experience, capabilities and responsive service on boiler island equipment. ALSTOM's expertise in power engineering and process design, together with its relationships with key suppliers, enables the Sector to continuously bring to the market the latest product upgrades for all major brands of coal pulverizers, low emission burners, pressure parts and ash handling equipment. The Sector's goal is to assist boiler owners in achieving optimum plant performance by reducing maintenance costs and improving availability and combustion efficiency.

Power Service partners with boiler operators in the utility and industrial sectors to meet new operational challenges with advanced products, engineering competency and experienced technical service support to assess equipment condition and ensure optimal operation. Typical services range from boiler inspection and dedicated plant performance engineering to equipment reconstruction and inventory management programmes.

Balance of plant, instrumentation and control

ALSTOM's know-how spans the numerous disciplines required for power plant operation and maintenance. Whether mechanical, hydraulic, electrical or electronic equipment, from engineering conception to custodial care, Power Service has the people and experience customers require.

In the area of instrumentation and control, ALSTOM continues to invest strongly in developing innovative, cost-effective solutions. Power Service experts integrate modern control architectures into existing systems, and offer a comprehensive plant-assessment and optimisation process to

ensure that every balance of plant subsystem can maintain or improve its original performance and efficiency.

Monitoring and diagnostics

A key way to improve a power plant's competitive position is to maximise knowledge about the plant's past and current operational performance. Using specialised monitoring and diagnostics equipment to collate this data is a first step towards optimising the plant's operation and minimising the risk of unplanned shutdowns.

ALSTOM's portfolio features two major monitoring and diagnostics product lines.

First, monitoring and diagnostics services based on the AMODIS® system provide monitoring and diagnostics functionality for the complete plant, both locally on site and remotely in ALSTOM's service centres in order to better:

- Recognise degradation of machine components at an early stage to minimise the risk of unplanned shutdowns and extend the equipment's overall lifetime;
- Increase availability and reduce maintenance downtime through implementation of a predictive maintenance policy;
- Optimise asset performance.

Secondly, following the acquisition of Strongwish, ALSTOM also provides attractively priced, state of the art vibration monitoring and diagnostics equipment to address the largest segment of the overall monitoring and diagnostics market.

Environmental equipment

More stringent environmental regulations make it necessary for power and industrial plant operators to find ways to control and lower emissions levels from their facilities. This means improving the performance of their air pollution control equipment.

Power Service specialises in developing cost effective solutions to upgrade and extend the life of environmental systems. The Sector develops dedicated environmental services that bring operation costs down and let plant operators focus on their core business.

Environmental service offers cover electrostatic precipitators, fabric filters, flue gas desulphurisation, DeNOx systems and more globally, the entire flue gas line. This range of services extends to enhanced spare parts, improved equipment designs, optimised maintenance technologies, and value based comprehensive service programmes tailored to customer needs.

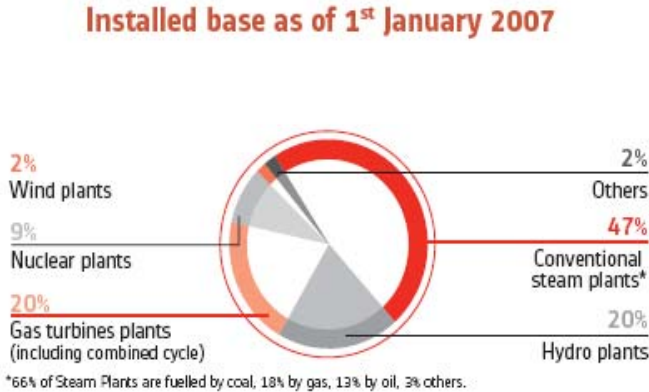
In addition, advanced control systems, which allow for dramatic emission reductions whilst retaining full control of operations, are a powerful and proven set of solutions benefiting from dedicated R&D.

These service activities cover original ALSTOM equipment as well as all other main original equipment manufacturers.

II. Industry characteristics

The world's installed power generation capacity as of 1st of January 2007 was estimated at

around 4,415 GW. The chart below sets out the breakdown of this installed base by technology.



Source: ALSTOM, UDI.

Investments needed in new power generation over the next decades are extremely important: according to IEA (International Energy Agency) (WEO 2006), they should represent an average of more than €150 billion per year over the period until 2030.

Market evolution

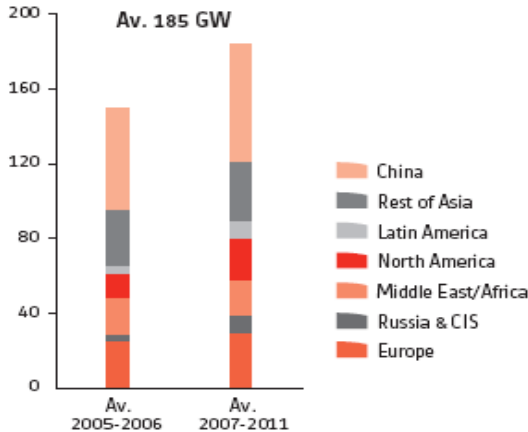
Following a period of intense growth in power infrastructure investment in the United States from the late 1990s, 2002 saw a sharp drop in the level of new orders for power generation equipment. Since 2003, the world economy has been driven by unprecedented growth in Asia – especially China and India – where there is a buoyant demand for new power plants. This market shift – decline in North America, growth in Asia – also resulted in a technology switch from gas to coal and hydroelectric power, which account for a large proportion of the available resources in this region. Alongside continued healthy demand for conventional steam plants and hydro plants, 2007 also saw a high level of gas plant orders. Strong demand for gas fired technologies in the Middle East and Europe resulted in a fairly balanced technology split. 2007 itself has been buoyant, with strong and simultaneous demand for almost all technologies and in almost every region in the world. In the forthcoming years, ALSTOM continues to see a balanced regional and technological mix of the large power plant market, with at least two thirds for fossil power plants (steam plants - mainly burning coal / gas plants), a strong hydro market, a nuclear revival and a growing demand for wind. In the light of CO₂ concerns and continued portfolio balancing, several countries in the Middle East, Africa, Asia, Europe and the Americas have expressed nuclear intentions.

Asia is likely to remain the biggest market globally, with China and India representing key parts of it. The rest of the world market will be distributed among the Middle East, including big projects for Integrated Combined Water & Power Plants (IWPP), Europe – gas dominated, but with a strong coal market in Germany and big investment plans in Russia. Markets will also grow in the

Americas, with growing needs in Latin America and a new investment cycle to start in North America, including for nuclear.

The graphs below show the evolution of the large power plant market by region and by technology over the 2007-2011 period, covering ALSTOM’s scope of activity:

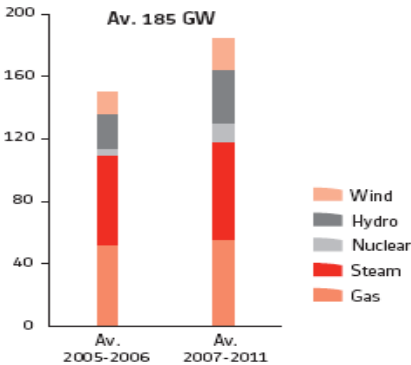
Order per country in GW



Note: order forecasts include large gas power plants, large conventional steam power plants, combined cycle power plants, nuclear, hydro and wind plants.

Source: ALSTOM.

Order per technology in GW



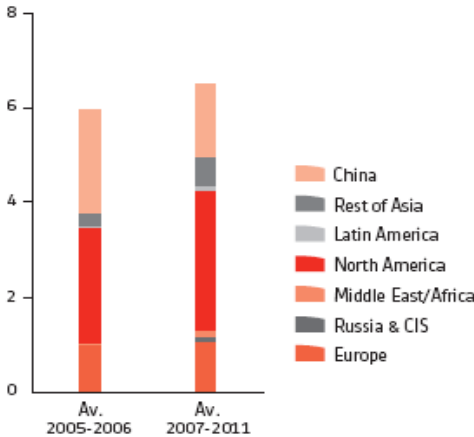
Note: order forecasts include large gas power plants, large conventional steam power plants, combined cycle power plants, nuclear, hydro and wind plants.

Source: ALSTOM.

Environmental products and retrofit markets should offer strong opportunities in developed countries, mainly driven by more stringent regulations and ageing of the installed base.

The graphs below show the evolution of the environmental and retrofit markets over the 2007-2011 period:

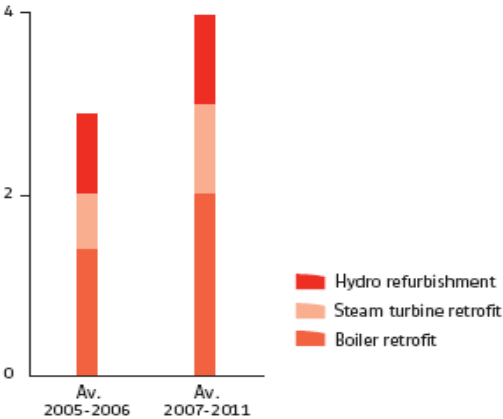
Environmental product market in billions euros*



*Excluding inflation, power market only.

Source: ALSTOM.

Retrofit market in billions euros*



*Excluding inflation.

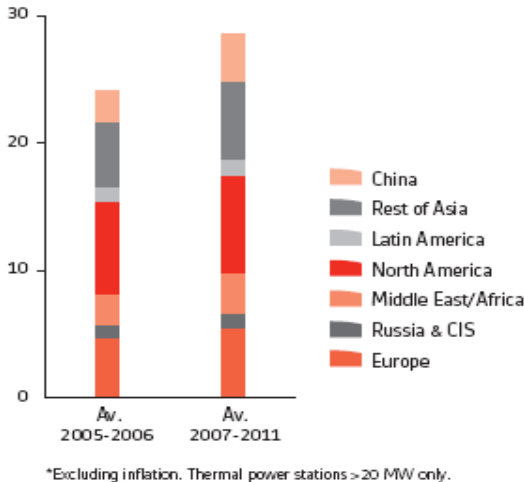
Source: ALSTOM.

The service market should continue to be healthy, notably in Europe and in the USA, where needs for maintenance and life time extension are becoming more and more important. Service should accelerate in Asia by addressing environmental issues and improvement of plant performance. It

generates an annual volume of circa €25bn, with a predicted market growth rate of close to 5% p.a. through 2015.

The graph below shows the evolution of the service market by geography over the 2007-2011 period, considering ALSTOM’s scope of activity:

Service market in billions euros*



Source: ALSTOM.

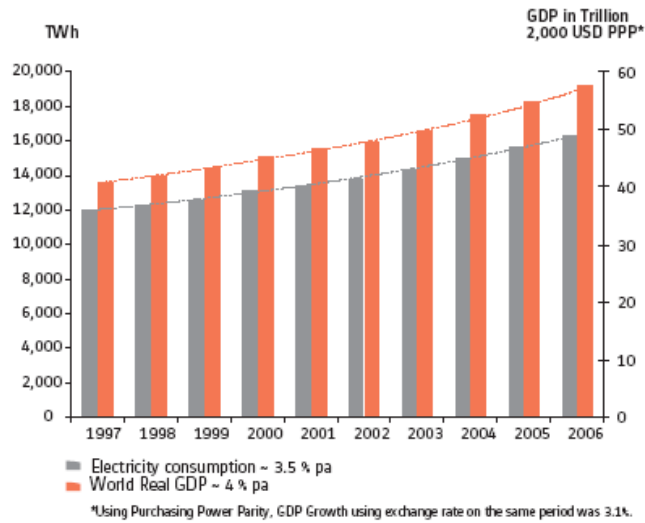
Market Drivers

Demand for power generation equipment tends to be driven by a variety of complex and inter-related factors, notably:

Economic growth

Power consumption and GDP are tightly linked. Economic development is driving consumption of electricity, particularly in countries with rapid industrialisation. In China for example, power consumption growth has outpaced GDP growth, driven by strong production from heavy industry and growing electrification in rural areas. In developed countries, the ratio of electricity consumption to GDP, known as electricity intensity, is progressively declining due to a shift of the economy to more services.

Electricity consumption growth – linked to GDP

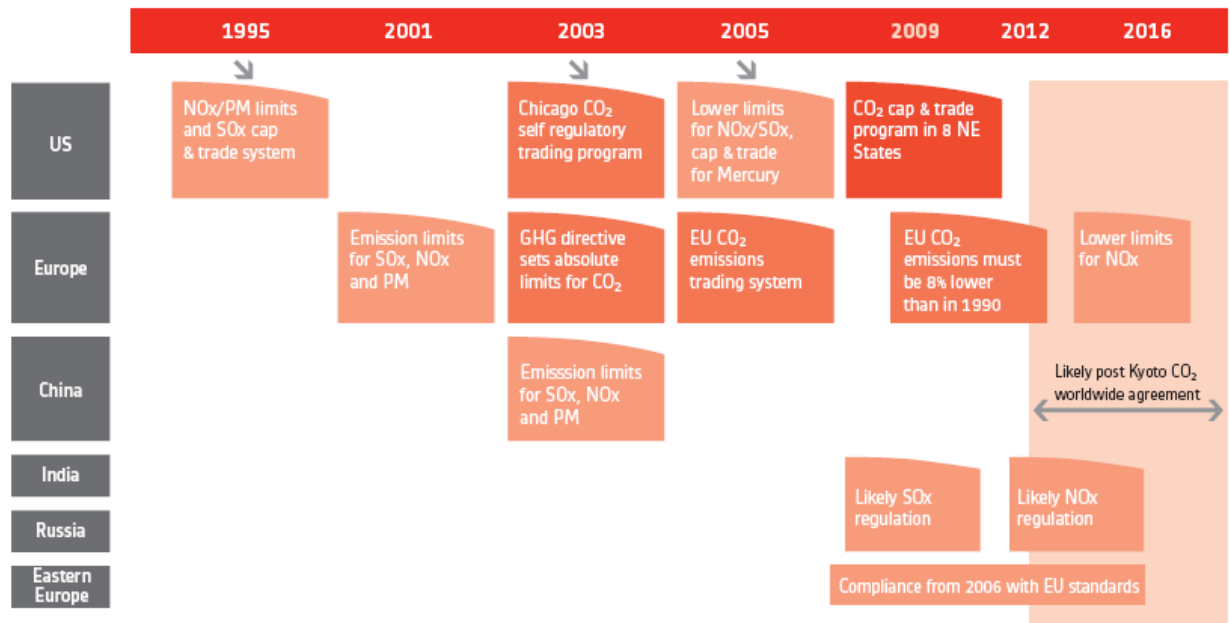


Source: ALSTOM, IEA, Worldbank.

Environmental concern

Environmental concerns have been the most widely debated topics over recent years. A real change in behaviour is visible, with more stringent regulations being implemented all over the world. Global warming is a fact now accepted by the majority of scientists, politicians and general public, and man-made greenhouse gases such as CO₂ are seen as the major root cause. The power sector, as one of the biggest emitters of CO₂, is looking at ways to dramatically reduce its carbon footprint. Legislators are beginning to put in place the policies that will be needed to drastically reduce CO₂ emissions in the medium- to long-term.

Environmental legislations: a main driver for change



Source: IPCC, ALSTOM.

These environmental concerns have not only created increased demand for clean-coal technologies, but also for refurbishment and for the integration of environmental control systems in existing power plants - a field where ALSTOM is particularly strong. The outlook for the environmental equipment market is positive, including in Asia, with current years being exceptionally strong for DeSox systems in North America and in Europe due to compliance deadlines.

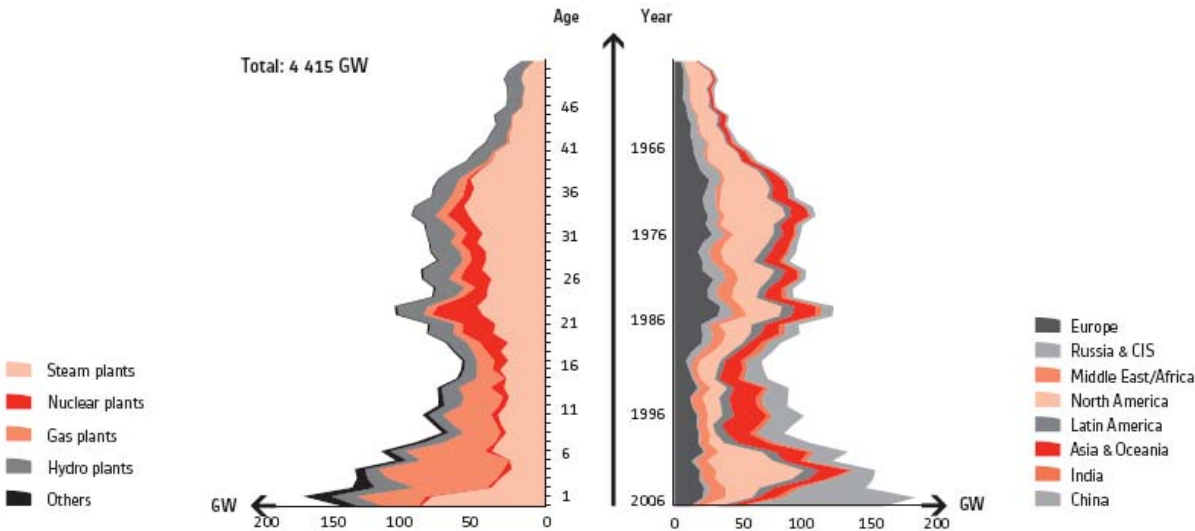
Ageing installed base of power plants

The ageing installed base along with more stringent environmental regulations and increased fuel prices will lead to a higher demand for retrofit. In recent years, demand for maintenance and refurbishment has been strengthened by a general trend among power producers to seek to increase performance, lower operating costs and extend the life cycles of their existing plants. This increase in demand to upgrade facilities will particularly benefit power plant manufacturers such as ALSTOM, and the Group believes that its large worldwide installed base will be a significant source of future growth for its Power Service activities, especially in Europe and in the USA, but increasingly in other regions like Asia or the Middle East. Everywhere in the world, the increasing number of old plants reaching retirement age will still drive the market for new equipment just to maintain current levels of installed capacity.

By carrying out an integrated analysis of power plant equipment, operation and maintenance, individual plants can be improved to run more efficiently, thus cutting fuel costs, enhancing performance and allowing to drastically reduce CO₂ emissions.

According to the Group’s analysis based on data published by Utility Data Institute (UDI - USA) and proprietary sources, ALSTOM has installed major power generation equipment in about 25% of the world’s installed power generation equipment. The Group considers its experience of installing and servicing this large installed base of equipment is key to securing further customer service contracts and supporting sales of the Power Service Sector in the future.

Age pyramid of world installed capacity



Source: ALSTOM, UDI.

Fuel price and availability

Fuel price and its availability is not a prime driver for electricity demand but it rather influences the portfolio of technologies. Recent years have been characterised by rising fuel prices and concerns about energy security. But rising energy prices is not just an oil issue - natural gas, coal and uranium prices are all directly or indirectly affected by the general rise and questioning the right choice for investment in new power plants.

The rise in energy prices is general but impacts of the cost of electricity produced by the power plants are variable: gas plants are more sensitive to fuel price changes than coal or nuclear plants.

This price volatility, energy security concerns and the need to reduce greenhouse gas emissions (GHG) have led to a return of nuclear power plants to many countries’ development plans.

Energy resources are not evenly distributed. The Middle East holds by far the largest reserves of oil and is also the world’s biggest producer. The USA, Western Europe and Asia/Pacific are the biggest importers of oil. For gas, the picture is different, as the Middle East still holds the largest proven reserves but Russia alone has over 25% of worldwide proven reserves and is also the largest exporter of natural gas.

Coal is an abundant energy source in many regions, with China, India, Australia, South Africa, Russia, Western Europe and the USA all having large proven reserves.

Globally, a balanced portfolio of technology and fuel appears to be probably the best way to secure electricity generation in the long term and a key path for energy security increase in a country.

III. Competitive position

III.1. POWER SYSTEMS COMPETITIVE POSITION

The Power Systems Sector occupies leading worldwide positions in all its Businesses. (source: ALSTOM)

In the gas turbine segment, the Sector competes against three other major groups: General Electric, Siemens and Mitsubishi Heavy Industries.

In the steam turbine segment, the Sector competes against global companies such as Siemens, Mitsubishi Heavy Industries, Toshiba and General Electric, but also against domestic suppliers such as Shanghai Electric, Harbin and Dongfang in China, and BHEL in India.

In the utility boiler segment, the Sector's main competitors are Mitsubishi Heavy Industries, Babcock & Wilcox, Babcock Hitachi, Foster Wheeler and the domestic suppliers in China and India mentioned above.

In emissions control systems for electrical power producers, the main competitors are Fisia Babcock, BPI, Babcock & Wilcox, Lurgi, Siemens - Wheelabrator, Mitsubishi Heavy Industries, Babcock Hitachi, Black & Veatch and Austria Energy & Environment.

In emissions control for industry, the Sector mainly competes with Hamon, FLS Airtech, Solios, Mitsubishi, Voest Alpine, Enfil and BHA.

In the hydroelectric power market, ALSTOM Hydro's main competitors are Voith-Siemens, Andritz VATECH Hydro and IMPSA as well as Chinese manufacturers Harbin and Dongfang and BHEL in India.

In wind, where ALSTOM operates through Ecotècnia, the main players are Vestas, Gamesa, General Electric, Siemens and Enercon.

The Power Systems Sector's competitive strengths include:

- its unique capability to supply optimised turnkey plants by integrating all major components from in-house technology (turbine, generator, boiler, condenser, environmental systems, electrical and control systems);
- its extensive experience in heavy duty and mid-range gas turbines, with a portfolio of proven machines;

- its strong market position and extensive experience in all types of boiler technologies, including clean coal combustion;
- its size and balanced world presence;
- its leadership position in steam turbines and generators and in the conventional islands of the nuclear power plant;
- its position as world leader in hydro systems and equipment, through its joint venture with Bouygues.
- a growing position in wind turbines, mainly in Southern Europe.

III.2. POWER SERVICE COMPETITIVE POSITION

Besides ALSTOM, the following players are present in the 'after sale' market:

- The original equipment manufacturers (OEMs) of power generation equipment (such as General Electric or Siemens), concentrating mainly on servicing their own machines;
- Independent service providers offering varied service products to OEM customers, including some reverse-engineered replacement parts (such as Sulzer and Wood Group);
- Many local field service companies with activities mostly limited to maintenance planning and execution.

Changes in customers' expectations as they focus increasingly on their assets' economic and environmental performance, are changing the dynamics of the service market. Power Service is very well positioned to benefit from these changes:

- Holding leading market share positions across all major equipment categories in terms of installed base globally (Source: UDI-ALSTOM), Power Service has the required knowledge to deliver improved performance on an individual equipment basis as well as full power plants solutions.
- ALSTOM's size and sustained investment in Research & development focused on its after sales offering allows it to propose a real competitive advantage to clients through innovative products.
- Its global network and decentralized organisation (200 local service centres in some 70 countries throughout the world) brings Power Service close to its customers, allowing for a better understanding of their business requirements, and improved response times.

These competitive advantages enable ALSTOM to continue to enjoy a leadership position on all the major components of its installed base (Source: UDI-ALSTOM).

IV. Research & development

IV.1. POWER SYSTEMS R&D

Power Systems has a long term research & development (R&D) programme for developing and/or acquiring the best available technology that will provide optimum efficiency, environmental and commercial benefits to power plant operators worldwide, now and in the future.

ALSTOM has been carrying out an intensive research and development programme over the past years to meet the technological and economic challenges of capturing the CO₂ created by fossil-fuel-based electricity production. In the medium term, the company will be able to offer solutions for all fossil-fuel-based power plants to capture CO₂ emissions. ALSTOM has launched the development of several technologies so that it should be in a position to offer CO₂ capture solutions that give one of the best energy efficiency for an acceptable cost of installation and maintenance for the operator.

Power Systems is mainly developing on post combustion and oxy-combustion technologies. The availability and efficiency performances for these technologies are promising. They should allow to capture CO₂ emissions from commercial scale power plants at a reasonable cost from around 2015 depending on the technology. Moreover, part of the installed base should be retrofittable with these technologies.

Post-combustion technology is the most advanced technology today. It consists of separating CO₂ from exhaust gases using a solvent (amine or chilled ammonia). The latest results from our bench test show that the chilled ammonia capture method developed by ALSTOM could remove up to 90% of CO₂ from combustion gases. This technology could also be applied to both coal-fired power plants and to combined cycle gas-fired power plants. The various pilot projects and industrial demonstrations that will begin at the end of this year will measure the energy use of these technologies and should confirm their economic advantages over other technologies.

The oxy-combustion method consists of burning a solid fuel in oxygen instead of air. This combustion produces a concentrated stream of CO₂ which can be easily stored. Conditions for retrofitting existing fleet with oxy-combustion technology are currently being studied. Also, important technological breakthroughs are being prepared, such as chemical looping, a new and promising form of oxy-combustion currently undergoing bench tests at ALSTOM. This process should avoid the costly use of cryogenic oxygen.

The third path, called pre-combustion, consists of transforming by gasification a fuel rich in carbon (coal or petrol derivatives) into a synthetic gas made up of carbon monoxide and hydrogen. ALSTOM has not decided to invest in the gasification process itself as this technology cannot be applied to the existing fleet. This technology can potentially be successful in a "poly-generation" mode producing synthetic gas (or hydrogen if equipped with carbon capture), synthetic fuels as well as other by-products, including electricity. Nevertheless, ALSTOM has launched development programmes to enable its gas turbines to burn hydrogen rich gases.

ALSTOM has already signed seven agreements with utilities and oil companies for pilot CO₂ capture plants using both oxy-combustion and post-combustion methods.

Post-combustion:

- a 5 MWt post-combustion pilot plant (using chilled ammonia) in association with the Electric Power Research Institute (EPRI) for We Energies in the United States (coal).

- a 5 MWt post-combustion demonstration plant (using chilled ammonia) for E.ON in Sweden (oil and gas).
- a 30 MWt post-combustion product validation unit (using chilled ammonia) for American Electric Power (AEP) in the United States (coal) to be followed by the design, construction and commissioning of a commercial scale CO₂ capture system of over 200 MWt.
- a 40 MWt post-combustion test and product validation facility (using chilled ammonia) for Statoil in Norway (gas).
- an agreement with TransAlta in Canada to develop and construct a commercial CO₂ capture and storage facility to retrofit an existing coal-fired power plant.

Oxy-combustion:

- a 32 MWt oxy-firing demonstration (boiler retrofit) unit for Total in France (gas).
- a 30 MWt oxy-firing demonstration plant for Vattenfall in Germany (lignite).

A joint development (JDA) and commercialisation agreement with The Dow Chemical Company (Dow) has been recently signed for advanced amine scrubbing technology for the removal of CO₂ from low pressure flue gases particular to fossil fuel fired power plants and other major industries. Other partnerships are also currently under discussion. ALSTOM thus intends to take a worldwide leadership position in CO₂ capture, as is already the case in other “clean energy” areas.

While the development of CO₂ capture solutions is a priority, ALSTOM remains committed to the foundation of its business and the continued improvement of energy efficiency is key among its research and development efforts.

In parallel, the Sector has continued to work on the performance upgrades of its GT26 and GT13 gas turbines with the development of more efficient cooling systems; increases in turbine temperature, pressure and speed; advanced materials including ceramic, alloy and super-conducting; and improved insulation.

In the Wind activity, the Sector is currently developing a new 3MW wind turbine called Eco 100. It will match the growing needs of bigger turbines. The first prototype was installed at the beginning of 2008.

ALSTOM’s R&D efforts are essentially driven by current and future market needs in its product areas. To ensure that this is so, R&D resources are an integral part of its businesses. The Group has major development centers in France, Germany, Switzerland, United Kingdom and the United States. Power Systems employs over 4,000 engineers and have 22 development centres and 13 laboratories worldwide. In addition to its internal resources, ALSTOM actively seeks links with leading academic institutions to access facilities, expertise and research talents. Across the world, the Group has established relations with some forty universities where active R&D collaboration is underway.

IV.2. POWER SERVICE R&D

In the area of service for gas turbines and combined cycle power plants, Power Service R&D activities focus mainly on thermal efficiency improvements, the lowering of life cycle costs and environmental solutions for existing power plants. Thus, the Sector not only offers products which keep existing power plants competitive, but which also reduce their negative environmental impact. With ALSTOM's environmentally friendly gas turbine burner technology, Power Service R&D develops gas turbine combustion solutions, which allow customers to meet today's stringent environmental requirements regardless of the power plant age.

In the area of monitoring and diagnostic processes, the programme focus is on inspection technologies using remotely operated vehicles to deliver advanced inspection and repair methodologies.

The Sector's extensive experience and knowledge gained from the ECORAM (ECONomic Reliability Availability, Maintainability) plant assessment programme has resulted in the creation of a number of highly effective programmes, focussing on plant capacity, performance improvements, lifetime extension and environmental compliance.

Power Service has launched development of plant optimisation programmes to further reduce CO₂ emissions from existing power plants, thereby facilitating compliance with environmental regulations. Thanks to these programmes, plant operators can reduce costs and emissions whilst maintaining or even increasing the electricity production rate.

In the area of steam plant products, R&D programmes typically focus on driving the overall plant performance by optimising start up behaviour and thermal efficiency.

Improvements for core boiler components focus on maintaining the desired combustion efficiency and bringing down maintenance and operating costs by developing advanced durable materials such as ceramics, as well as burner and ash handling equipment to extend run time.

Other R&D programmes are enhancing techniques for improved-quality lower-cost pressure part production. Elsewhere, innovative new ignitor and flame scanner technology delivers improved reliability and greater operational flexibility for customers.

V. Strategy

V.1. POWER SYSTEMS STRATEGY

The three pillars of the Power Systems strategy are:

- Clean Power,
- Plant Integrator, and
- Operational excellence.

Clean Power

ALSTOM is in a position to help plant operators to choose the right and balanced portfolio of energy sources, whilst offering them the newest available technologies to curtail emissions, both for all traditional pollutants and CO₂. Today ALSTOM is the best positioned to provide the cleanest power plants whatever their age (both existing and new ones), their energy source (from fossil fuels, hydro, wind to nuclear) or their emission type (NO_x, SO_x, Mercury, particulate matters).

On one hand, improvement in efficiency of existing plants gives significantly more electricity from the same amount of fuel and a longer life span. This translates into a large offering of services, engineering and equipments for the rehabilitation of existing power plants, leading to important fuel savings and substantial CO₂ emission reductions. On the other hand, the use of increasing steam cycle temperatures allows ALSTOM to offer its clients the best available technology for new power plants. The next step of these advanced cycles will be at 700 degrees Celsius and should allow for an energy efficiency of around 50% by 2020 for coal power plants.

ALSTOM believes that energy use must be decarbonised, and that this must be done as soon as possible in order to start to reduce emissions. This will need investment and innovation across a whole range of technologies.

With electricity consumption rising worldwide, environmental protection, such as CO₂ emissions control, is creating a new demand. ALSTOM, world leader in clean energy (source: ALSTOM), offers the complete range of solutions, both for new equipment and for the retrofit of the installed base, as well as services.

Plant Integrator

ALSTOM has a unique expertise as a plant integrator.

Plant Integrator applies to all options for supplies and services. It is a cutting edge methodology to yield significant value for customers. It is a unique way of working which consists of always looking at creating more value for customers seeking total optimisation of a power solution and not just simple direct cost reductions through products compilation. It allows to:

- increase cash flow and get the lowest cost,
- get more power,
- increase the installation's efficiency,
- burn less fuel,
- improve flexibility of operations.

This concept is particularly efficient for the retrofit of the installed base.

Operational excellence

In parallel, the Power Systems Sector continues to implement its change programme, that focuses on three key issues:

- increase intake of profitable orders, through a global sales coverage and being present where the customer is, as well as a value-based selling method,
- continue to improve project management excellence,

- optimise industrial footprint.

As part of this programme, Power Systems' priority is to increase its presence in China and India, and to build its position in Russia and emerging markets. This year significant steps have been achieved:

- ALSTOM has acquired 51% of the capital of the Wuhan Boiler Company Ltd (WBC). WBC has been an industrial partner of ALSTOM for over ten years. Through WBC, ALSTOM will have better access to the Chinese market for boilers used in coal-fired power plants, which is today the largest market in the world for these power plants. The acquisition of WBC will also provide ALSTOM with a strategic industrial base for export.

- ALSTOM has joined forces with Russian group Atomenergomash to jointly meet growing demand in the nuclear power plant market for power generation, particularly in Russia, notably by establishing a joint venture dedicated to manufacturing the conventional islands of Russian nuclear power plants. Atomenergomash is a subsidiary of Atomenergoprom, the state-owned company in charge of producing equipment for Russia's civil nuclear programme.

ALSTOM will also expand its manufacturing and engineering capacity in the USA by building a new facility in Chattanooga, Tennessee, where it will manufacture steam turbines, gas turbines, generators and related equipment. This investment will allow the Group to serve the American market, notably following the agreement with UniStar Nuclear Energy (UNE) for conventional islands, and to respond to the growing demand for the retrofit of power generation equipment in the country.

V.2. POWER SERVICE STRATEGY

Since its creation in the late 90's the Power Service Sector has pursued a step-by-step strategy aiming to leverage its technology offering and service competences to become the reference for customers and other stakeholders as both the leading full plant service provider and an expert on the associated environmental issues.

Having successfully rolled out the first stage by widening its global network, the second stage of the strategy is underway and focusing on streamlining and reinforcing structures and processes in order to offer customers both improved efficiency and a broader portfolio of technological and value-added solutions.

Progress in the roll-out of the second stage can be seen in the recent re-alignment of the regional set up for a stronger local presence in fast growing areas and a renewed focus on developing and driving global product strategies.

A renewed focus on global plant and product strategies supports the Service regions in creating locally acting, but globally integrated and aligned business operations. Its responsibility covers the development and implementation of global product and plant strategies, the deployment of standard tools and processes, and the optimisation and leveraging of the industrial base.

With a full service offering and a large global footprint including key regional markets, ALSTOM is well positioned to exploit its full potential for profitable growth by responding effectively to existing and prospective customers' power generation needs.

VI. Key financial data

The following table presents key financial data for the combined Power Systems and Power Service Sectors:

Power Actual figures (in € million)	Year ended 31 March 08	Year ended 31 March 07	% Variation	
			March 08 / March 07	
			Actual	Organic
Order backlog	21,939	17,092	28%	28%
Orders received	15,970	13,593	17%	18%
Sales	11,370	8,871	28%	27%
Income from operations	1,007	711	42%	42%
Operating margin	8.9%	8.0%		
EBIT	1,001	698	43%	
Capital employed	1,287	1,458	(12%)	

The following tables set out certain key financial data for the Power Systems and Power Service Sectors:

Power Systems

Power Systems Actual figures (in € million)	Year ended 31 March 08	Year ended 31 March 07	% Variation	
			March 08 / March 07	
			Actual	Organic
Order backlog	16,039	11,873	35%	33%
Orders received	11,569	9,535	21%	22%
Sales	7,768	5,673	37%	35%
Income from operations	415	201	106%	105%
Operating margin	5.3%	3.5%		
EBIT	408	194	110%	
Capital employed	(937)	(648)	45%	

Power Service

Power Service Actual figures (in € million)	Year ended 31 March 08	Year ended 31 March 07	% Variation	
			March 08 / March 07 Actual	Organic
Order backlog	5,900	5,219	13%	18%
Orders received	4,401	4,058	8%	8%
Sales	3,602	3,198	13%	12%
Income from operations	592	510	16%	17%
Operating margin	16.4%	15.9%		
EBIT	593	504	18%	
Capital employed	2,224	2,106	6%	

VII. Comments on activity during fiscal year

Orders

Power Systems

2007/08 has been extremely positive for the power generation market with volumes moving up in most countries. In addition, China and India have been through a booming demand this year. Asia remains the dominant market with more than half of the world demand for new equipments. Coal in Europe, China and India, hydro in China, India and South America will remain leading sources of energy, together with gas. The nuclear renaissance in the USA and ambitious nuclear programmes in several other countries (South Africa, China, Russia, UK) are leading to a market increase for the different types of nuclear plant technologies. In addition, the recognition of environment as a key issue, the need to comply with environmental regulations, to improve efficiency or to extend the life of power plants, have increased the demand for retrofits of existing power plants.

Orders received by the Sector in 2007/08 amounted to €11,569 million, a 21% increase over last year (22% on an organic basis). Overall, Power Systems booked a total of 38 gas turbines (including 18 GT26) compared to 20 the previous year.

Power Systems recorded a number of successes in gas power plants in Europe. Two very large gas power plants with a total of 7 GT26 turbines were booked in the UK and 4 projects comprising a total of 5 turbines were recorded in other European countries (the Netherlands, France, Ireland, Greece). With an order intake of €4,241 million, Europe accounted for 37% of the Sector's total orders. This represents a 25% decrease vs. last year, which was at a particularly high level due to the booking of several turnkey gas plants as well as of two very large coal-fired plants.

In North America, the market for environmental retrofit of coal power plants has been very solid in the last few years and is expected to remain so due to emission reduction compliance

deadlines. The market for retrofit of steam turbines is increasing for both coal and nuclear plants. Several orders for the retrofit of steam turbines were booked during the year in the USA and in Mexico. The development of new projects for coal power plants has been hindered due to concerns on CO₂ and future regulations, which have led to delays in the permitting process. For hydro, the market is starting to recover for both new projects and retrofit of existing units. North America accounted for 13% of the order intake this year at €1,455 million (a 24% decrease vs. last year).

The Asia/Pacific region recorded a significant growth in orders, mainly in China. In hydro, six projects were secured for a total of 3.7 GW of turbines and 9.7 GW of generators. In nuclear, four conventional islands of nuclear power plants were booked based on two types of reactor technologies – EPR and CRP 1000. In 2007/08, ALSTOM recorded orders in China for boilers (following the acquisition of Wuhan Boilers Company) and for steam turbines (ALSTOM Beizhong Power). In India, ALSTOM recorded its first GT26-combined cycle power plant project. The rest of Asia/Pacific also recorded significant growth with orders in Australia (GT13-based power plant) and Vietnam (the largest hydro power plant in South East Asia). Orders in Asia/Pacific represented 16% of the order intake at €1,850 million, a 68% increase vs. 2006/07 (57% on an organic basis).

In South and Central America, demand grew in hydro as well as in environmental equipment for power generation and industry. ALSTOM booked significant hydro power generation contracts in Brazil. Orders received in South and Central America represented 5% of the Sector's order intake.

In Middle East and Africa, the market is essentially a gas market except in South Africa where the coal market is coming back after many years of limited investment. In 2007/08 ALSTOM booked a contract for six large turbine islands (6 x 780 MW) in South Africa. In the rest of the region, the market was strong with a total of 18 gas turbines booked. ALSTOM booked its first order for the GT26 technology in the Gulf region for a 5-units power and desalination plant. Power Systems also booked a hydro contract in Uganda. In total, ALSTOM booked €3,421 million of orders (compared to €291 million last year) in this region, representing 29% of the total order intake.

Power Service

Power Service achieved a strong performance in 2007/08, supported by a favourable market rise of service activities.

The service market growth is mainly linked to power consumption with some specific regional characteristics. The underlying growth drivers are a larger installed base, an ageing fleet, liberalisation and a greater focus on environmental standards. Recent high fuel prices have also induced a number of customers to commit to plant improvements where Power Service can provide competitive solutions.

Power Service's total order intake was €4,401 million, an 8% increase compared to 2006/07 (on an actual and an organic basis).

The high level of order flow for turnkey gas power plants translated into 10 long-term operation and maintenance contracts booked by Power Service for a cumulated value of around €0.8 billion. Main successes include contracts in Algeria, Bahrain, Brazil, India, Ireland, Italy, UK, Mexico and Morocco. In addition, Power Service booked a high number of small and medium-sized contracts worldwide.

In Europe, environmental issues are becoming a key factor in utilities' investment decisions. Regulations are driving the demand for efficiency-enhancing products that allow a reduction of fuel consumption and for emissions control solutions. Some utilities also favour the lifetime extension of existing plants, which is creating opportunities as well in service activities. Orders received in Europe were €1,658 million, up 2% from last year.

In North America, customers are optimizing their generation portfolio towards high-efficiency coal plants and associated services. Orders received were €1,012 million, down by 15% from the high level recorded last year. In South and Central America, orders received were €150 million.

The Asia/Pacific region is showing a fast capacity build-up and growing environmental concerns, which are driving service opportunities. Customers show an increased interest in asset management services as a consequence of liberalization. ALSTOM's competitiveness in these fields led to several successes in 2007/08, especially in the very competitive markets of India, Malaysia and China, where recent acquisitions have reinforced the Group's local industrial base. In Asia/Pacific, orders amounted to €750 million, a 48% increase (33% on an organic basis).

The Middle East/Africa region showed dynamic growth during 2007/08. Strong demand for gas in the Middle East/Africa region translated into service opportunities, with supply of spare parts and plant rehabilitation in Algeria. Orders in Middle East/Africa reached €831 million, a 72% increase.

Main orders received by the Power Sectors during fiscal year 2007/08

The Power Sectors received the following major orders during 2007/08:

Country	Customer	Sector	Description
Algeria	Sonelgaz	Power Systems Power Service	510 MW GT13 open-cycle power plant Contract for spare parts
Australia	Delta Electricity	Power Systems	650 MW GT13 open-cycle power plant
Bahrain	Hidd Power Company	Power Service	Operation and maintenance contract
Brazil	Furnas	Power Systems	Equipments for a 4 x 217 MW hydropower plant
Brazil	CSA	Power Service	Operation and maintenance contract

China	Dong Fang	Power Systems	4 x 1,000 MW-class steam turbine-generator packages for the conventional island of a new nuclear power plant
China	Ertan Hydro Power Co.	Power Systems	Equipments for an 8 x 600 MW hydropower plant
Finland	TVO	Power Systems	Steam turbine retrofit for nuclear power plant
France	Electrabel	Power Systems	420 MW GT26 combined-cycle power plant
Germany	Vattenfall	Power Systems	2 x 820 MW steam turbine generator
India	Gujarat SEC	Power Systems Power Service	400 MW GT26 combined-cycle power plant Operation and maintenance contract
Ireland	ESB	Power Systems Power Service	400 MW GT26 combined-cycle power plant Operation and maintenance contract
Italy	Abruzzo Energia	Power Service	Operation and maintenance contract
Italy	Ergosud SpA	Power Service	Operation and maintenance contract
Kuwait	Al Ghanim & Sons	Power Systems	Turbines and other components for an 850 MW GT13 open-cycle power plant
Mexico	Iberinco	Power Systems	Steam turbine retrofit for nuclear power plant
Mexico	Fuerza y Energia de Hermosillo	Power Systems	Operation and maintenance contract
Morocco	Abener	Power Systems Power Service	Turbines and other components for a 450 MW GT13 combined-cycle power plant Operation and maintenance contract
The Netherlands	Electrabel	Power Systems	870 MW GT26 combined-cycle power plant
South Africa	Eskom	Power Systems	Turbines and other components for a 4,800 MW coal-fired power plant
Uganda	Bujagali Energy Ltd	Power Systems	Equipments for a 255 MW hydropower plant
United Arab Emirates	Dubal	Power Systems	150 MW GT13 cogeneration power plant
United Arab Emirates	Marubeni	Power Systems	2,000 MW GT26 combined-cycle power and desalination plant
United Kingdom	E.ON	Power Systems	1,300 MW GT26 combined-cycle power plant
United Kingdom	RWE	Power Systems Power Service	1,700 MW GT26 combined-cycle power plant Operation and maintenance contract
Viet Nam	Electricity of Vietnam	Power Systems	Equipments for a 6 x 400 MW hydropower plant

Sales

Power Systems

In 2007/08, Power Systems sales stood at €7,768 million, 37% higher than in 2006/07 (35% on an organic basis), a consequence of the positive order intake of last year. The book-to-bill ratio continued to be very strong (at 1.5 vs. 1.7 last year).

All regions, except Middle East/Africa, contributed to the increase in sales. Sales in Europe increased by 79% on an actual basis at €3,665 million or 47% of total sales. Sales in North America increased by 20 % on an actual basis (30 % on an organic basis) at €1,348 million and represented 17% of total sales. Sales in South and Central America increased by 16% at €475 million. Sales in Asia/Pacific increased by 29% on an actual basis at €1,472 million, representing 19% of total sales in 2007/08. Finally, sales in Middle East/Africa decreased by 15% at €808 million as some of the large projects in the order book (particularly in Saudi Arabia and Dubai) reached final stages of execution. The impact of the higher order volume booked this year in this region will translate into sales over the next years.

The following table sets out the geographical breakdown of sales by destination:

Power Systems	% Variation Mar 08/07					
	Year ended 31 Mar. 08	% of contrib	Year ended 31 Mar. 07	% of contrib	Actual	Org.
Actual figures, in € million						
Europe	3,665	47%	2,051	36%	79%	71%
North America	1,348	17%	1,119	20%	20%	30%
South and Central America	475	6%	411	7%	16%	13%
Asia/Pacific	1,472	19%	1,142	20%	29%	25%
Middle East/Africa	808	11%	950	17%	(15%)	(14%)
Sales by destination	7,768	100%	5,673	100%	37%	35%

Power Service

Power Service generated sales of €3,602 million in 2007/08, a 13% increase (12% on an organic basis).

Europe represents 34% of the Sector's sales at €1,241 million, a 6% increase compared to last year.

North America also contributed significantly with sales of €1,154 million, a 26% increase and a 32% share of the Sector's sales due to a good activity across all businesses and the acquisition of Power Systems Manufacturing in the USA. Sales in South and Central America increased by 7% at €105 million (3% of the Sector's sales). In Asia/Pacific, sales were up by 8% (1% on an organic

basis) at €642 million, i.e. 18% of global sales. Finally, sales in Middle East/Africa amounted to €460 million, up 11%, due to an increase in the gas service business in Middle East.

The following table sets out the geographical breakdown of sales by destination:

Power Service	<i>% Variation Mar 08/07</i>					
	Year ended 31 Mar. 08	% of contrib	Year ended 31 Mar. 07	% of contrib	<i>Actual</i>	<i>Org.</i>
Actual figures, in € million						
Europe	1,241	34%	1,176	37%	6%	5%
North America	1,154	32%	914	29%	26%	28%
South and Central America	105	3%	98	3%	7%	10%
Asia/Pacific	642	18%	596	19%	8%	1%
Middle East/Africa	460	13%	414	13%	11%	16%
Sales by destination	3,602	100%	3,198	100%	13%	12%

Income from operations and operating margin

Power Systems

The income from operations of Power Systems was €415 million in 2007/08, more than doubling compared to 2006/07 (€201 million). The operating margin increased from 3.5% to 5.3%, driven by the increase in sales volume with a constant focus on project execution and cost control

Power Service

Power Service posted an income from operations of €592 million in 2007/08, up 16% from the €510 million recorded during 2006/07. The operating margin improved slightly from 15.9% to 16.4% on an actual basis as a result of volume increase and productivity improvement.

TRANSPORT SECTOR

the Transport Sector serves the urban transit, the regional / intercity passenger travel markets and the freight shipping markets all over the world with rail transport products, systems and services. ALSTOM designs, develops, manufactures, commissions and maintains trains, develops and implements system solutions for rail control. It also designs and manages the creation of new railway lines, as well as offering customers maintenance and renovation programmes to keep their assets safe and productive. The Sector markets each of these as stand-alone offerings or combined with turnkey rail transport systems, according to each customer's requirements.

I. Offering

Trains (rolling stock)

ALSTOM addresses all product segments from tramways to very high speed trains and locomotives. ALSTOM is the world leader in very high speed trains, and holds the number 2 position in the tramway and metro rolling stock segments. ALSTOM is among the leaders for suburban commuter regional trains and locomotives (source: ALSTOM). It addresses all market segments worldwide with customised solutions configured from standard platforms.

The rolling stock product line is organised into 5 product centres of excellence and in manufacturing centres of excellence, in order to maximise the quality and performance level of the Sector's deliveries to the customers as follows:

- High Speed Trains Group based in La Rochelle, France, is the design centre for trains to operate at speeds over 250 kph. In early February 2008, the Group launched the new AGV™ very high speed train which main subsystems were exhaustively tested during the world speed record on rail (574,8 kph) achieved on 3 April 2007.
- Intercity Trains Group based in Savigliano, Italy, is in charge of PENDOLINO™ tilting trains, CORADIA™ "MINUETTO" and X'TRAPOLIS™. These trains operate at speeds ranging from 140 kph up to 250 kph.
- Regional Trains Group based in Salzgitter, Germany, is in charge of the CORADIA™ family of electrical and diesel multiple units as well as the double-deck trains. These operate at speeds ranging from 100 kph up to 180 kph.
- Urban Trains Group based in Valenciennes, France, is in charge of designing the Sector's new generation of CITADIS™ including a "Tram-Train" CITADIS Dualis™ as well as the METROPOLIS™ metros.
- Locomotives Group based in Belfort, France, is in charge of designing the new generation of PRIMA™ locomotives.

Manufacturing centres of excellence are present across all continents.

Railway infrastructure (track & electrification)

The Infrastructure product line addresses both urban and main line rail transport segments and encompasses the design and construction of:

- New railway lines
- Extensions to existing lines
- Modernisation of existing railway lines

To these segments, ALSTOM brings expertise and project management in:

- Track lay-out (on concrete or ballast beds)
- Line electrification and power supply, including sub-stations and specific power supply feeding system for tramways to suppress catenaries
- Station electrical and mechanical equipment
- Maintenance of all these items of railway infrastructure

Rail control systems (railway signalling and information solutions)

The Information Solutions product line provides rail transport operators and infrastructure managers with equipment to operate efficiently and safely.

In the main line railway segment, the Group offers customers a complete range of products, organised around centres of excellence:

- Train control and monitoring systems and electronic modules in Villeurbanne (France)
- Trackside products and interlocking systems in Bologna (Italy)
- Integrated control and security centres in Meudon (France)
- Urban transit solutions in Saint-Ouen (France)
- Railway main line solutions in Charleroi (Belgium)
- Freight optimised solutions in Sao Paulo (Brazil)

ALSTOM markets these products either as single products or as integrated system solutions that fulfil either European (with the ATLAS™ solution) or American standards (with the “OTMS” solution).

In the urban segment, the offering ranges from basic operations control to driverless systems. These systems take advantage of telecommunication-centred architectures such as the mass transit train control systems (URBALIS™) implementing a CBTC (Communication Based Train Control) technology.

Signalling systems are complemented by other related information-based systems and services, such as:

- Passenger information systems (AGATE™ Media), on board trains and on platform,
- Security systems (CCTV, emergency telephony, ...),
- Train control and monitoring systems (TCMS).

The offering also covers maintenance services ranging from simple spare parts and repairs to availability-based maintenance contracts.

Lifetime service support for trains & rail infrastructure

For trains, railways and rail control systems, the Group supports its customers with:

- Advanced logistic services for the supply of the parts they need
- Comprehensive maintenance programmes

- Modernisation services
- Technical support and assistance with documentation management

The continued liberalisation of railway markets around the world, combined with the increase in private financing in railway ventures, is fuelling exceptionally high growth rates in rail transport markets. ALSTOM continues to lead the industry by supporting operators in boosting their performance, through faster supply chains, modernised rolling stock and optimised fleet availability.

Full integrated system solutions

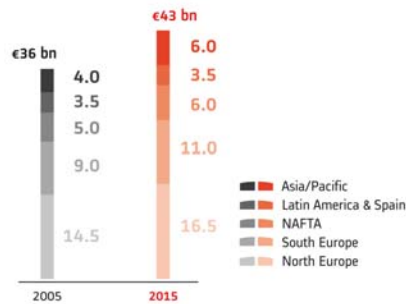
The Systems Business offers complete turnkey solutions. ALSTOM addresses these DBOM (Design Build Operate Maintain) or PPP (Public Private Partnership) opportunities either as a consortium leader or as a consortium partner in turnkey project management. The Sector addresses urban transit (tramway or metro) as well as main line railways (including very high speed rail projects). The management of such projects includes design, building, commissioning, maintenance programmes and coordination of financial, administrative and technical project domains. The Group's core competency consists of the development and supply of an optimised and integrated rail transport system, comprising rolling stock, information solutions, infrastructure and lifetime maintenance.

II. Industry characteristics

Market evolution

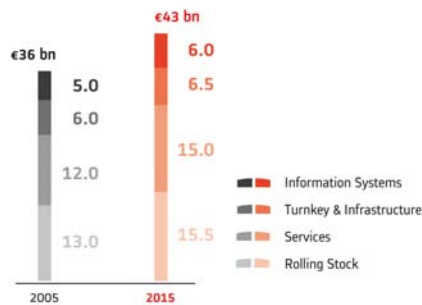
Governments are increasingly paying attention to the rail sector pushed by environmental constraints, mobility needs, growing urbanisation, urban and suburban road congestion, as well as medium-distance air traffic saturation. This combination of factors increases the demand for trains and rail equipment. This translates into market growth.

Market growth by region



Source: UNIFE-ALSTOM.

Market growth by product line



Source: UNIFE-ALSTOM.

In late 2006, the European Railway Industries Union (UNIFE) estimated the size of the global annual market accessible to its main members, at approximately €36 billion in 2005. This market is expected to grow to €43 billion in 2015. The bulk of the growth will come from rolling stock and services, representing over 80% of the increase within the accessible market. Asia/Pacific will be the region generating the most additional opportunities, representing around 15% of the accessible market in 2015 versus 10% in 2005.

After a low point reached in 2004, the market continued to gain momentum in 2007, with growth exceeding that anticipated by the UNIFE study and driven by a number of factors. We expect 2008 and 2009 to continue in a similar trend.

Market drivers

Environmental concerns

The global need for mobility is creating increasing nuisances: greenhouse gas emissions, noise and congestion in cities. At the same time, public opinion is becoming increasingly conscious of environmental risks and climate change. Trains, development of new infrastructures, and an increase in traffic on existing rail lines are all concrete and feasible solutions to these concerns.

The Sector is committed to contributing to the environmental performance of rail systems, focusing on lower energy consumption (motor efficiency, weight reduction, new materials or recovery of braking energy), reduced internal and external noises and the global impact throughout product life.

Transport's industrial organisation contributes as well, by reducing its environmental impact through a management system assessing continuous improvement. Lastly, an "Eco-design" Centre of Excellence was created in 2007.

Urbanisation and congestion

Demographic and economic growth forecasts remain high in emerging and transitional economies such as India, China, Brazil or Mexico. This growth has outpaced rail infrastructure development in recent years. The rising transport needs resulting from this growth, combined with increasing road congestion, higher pollution levels and improved financing capacity, have triggered large investment plans for new urban and suburban transit systems.

These plans are intended to develop new efficient transport systems, which are considered strategic contributors to continued economic growth. Recent examples of this are Delhi or Mumbai, Shanghai or Beijing, Sao Paulo or Mexico City. ALSTOM expects this movement to amplify in the short term. These projects translate into opportunities for track lay-out, electrification, signalling and rolling stock.

In developed economies, passenger traffic is on the rise. Car ownership rates are stable, but the pressure to reduce car usage in city centres is fast increasing (e.g. tolls, ..). At the same time, airway hubs are increasingly congested. This situation leads to a rising demand for urban transit capacity, as well as high speed and/or high capacity solutions to connect large cities. Such developments will translate into the modernisation of existing infrastructure to boost efficiency, as well as into new systems.

Standard solution in tailored products

The development of private operators brings a new emphasis to rail systems: as well as being a mobility solution, they are also seen as an asset on which the profitability must be optimised. Consequently, these customers request solutions that are readily available, safe, more reliable and easier to maintain.

At the same time, private passenger operators and city governments look for some differentiators, either to position themselves versus existing competition or to capitalise upon the spirit of the

community (Reims tram in France, with a Champagne glass-like fascia). In addition, the regionalisation of the investment decision process in Europe results in increasing attention paid to customers' expectations, whether it be for more safety, or on-board connectivity, for instance.

New opportunities in the European railway freight market

The liberalisation of the railway freight market has generated hundreds of new actors and operators, including lease companies. With increasing requirements for Transport, this major market change has revived railway freight after years of decline, as seen for example in Germany, Sweden and Poland.

These new actors have important needs for railway equipment, including electric and diesel locomotives, parts and maintenance services as well as on-board signalling systems (ERTMS) to allow for cross-border operations.

The Sector is very well positioned to benefit from this market expansion thanks to its PRIMA™ locomotive range, ERTMS product offering and its expertise in maintenance and logistics.

European interoperability

The European Union supports more specifically, investment aimed at boosting cross border-operations, through the construction of new lines, the upgrading of existing ones and the development of European standards. As a market leader in the European Railway Traffic Management System (ERTMS) technology, the Sector is accompanying this development.

III. Competitive position

The Transport Sector has successfully established its global presence through a strategy of organic, profitable growth in existing and new markets, complemented by targeted acquisitions and alliances.

ALSTOM is a world leader for railway equipment and services. In particular, the Transport Sector is number 1 in very high-speed trains, number 2 in tramways and metros, and is among the leaders for electrical and diesel multiple units, information systems, traction systems, power supply systems and track work. ALSTOM's main competitors in the field of rail transport are Bombardier and Siemens. (Source: ALSTOM)

One of the Sector's key competitive strengths is its industry-leading product and service offering. This allows ALSTOM to offer the optimal solution to its customers' specific needs, as well as to optimise the integration of the various parts in full system projects.

More specifically, the strength of the Sector is based on several key competitive factors:

- Full life cycle cost competitiveness, including product availability;
- Performance achievement, especially product reliability and speed;
- Passenger comfort and features in all rolling stock;
- Time to market;

- Technological leadership (AGV™, TGV™*, PENDOLINO™ tilting train, ERTMS™ Signalling, URBALIS™, APS catenary-less tramway...);
- Customer centric, service-and-assistance-focused organisation with a strong global network of engineering, manufacturing and service locations.

These are the key elements of Transport Sector successes.

IV. Research & development

In 2007/08, many R&D concepts and architectures turned into real products and prototypes :

- AGV™: The 7-car prototype of this fourth generation very high speed train, was assembled in the first half of the year and was powered up, for the first time in December 07. Static testing was completed in March 2008 before dynamic testing is performed mid 2008.
- CORADIA™ Continental : the first train-set of this new regional train was assembled and validated this year. The first batch of 20 trains are due to be delivered in 2008.
- CITADIS™: this successful tramway product (over 1,000 tram-sets ordered to date) is being developed to run in an optimal fashion on older existing tramlines particularly in Northern and Eastern Europe. A prototype is in construction in the Valenciennes (France) factory and will be ready to start testing in the second quarter of 2008.
- URBALIS™: this CBTC (Communications-Based Transit Control) system solution has been improved and the first metro to use it will be Beijing Line 2 (China) in time for the 2008 Olympic Games.
- ATLAS™: this inter-operable main line signalling system solution designed by ALSTOM is an implementation of the ERTMS™ standard (European Rail Traffic Management System) in which ALSTOM is a leader with both trackside and train-borne implementations. This includes Betuwe Route (Netherlands), Mattstetten-Rothrist line in Switzerland, L3 & L4 high speed lines in Belgium and new PENDOLINO™ high speed tilting trains for Cisalpino that run between Italy and Switzerland.

To crown these product development achievements, the new world rail speed record, shared with ALSTOM's partners RFF and SNCF, was set at 574.8 kph on 3 April 2007, demonstrating the Group's commitment to, and leadership in, advanced railway technology.

V. Strategy

The rail market is more promising than anticipated and its growth takes place in segments where the Sector has strong positions. In this business environment, ALSTOM confirms its strategy of profitable growth, focusing on selectivity in order intake.

* TGV is a trademark of the SNCF

To respond to the evolution of the market towards standard solutions, ALSTOM has launched a platforming strategy: the Sector will maximise the benefits of shared development costs, while selecting the opportunities that are most in line with the Group's platforms. The necessary customisation is made possible by ALSTOM's modular design combined with specific developments. The Sector is investing in new value-adding platforms, as demonstrated by the AGV™; the ALSTOM-funded fourth generation of very high speed train introduced in February 2008.

This favourable situation also provides an opportunity to optimise the Sector's industrial organisation: ALSTOM is investing in manufacturing capacity, mixing increased customer proximity and lower cost base. The Sector is also redesigning its sourcing network: the intensification of its partnership with selected suppliers will provide improved quality, economies of scale and shared development opportunities. In addition, the sourcing footprint is further extended in low labour cost countries.

Another key part of the Sector's strategy is to put an emphasis on developing its activities in promising markets, in particular Russia, India, China and Brazil. These markets are driven by a pronounced need to develop or renovate their national and urban public transport infrastructures. The Sector's efforts in these markets may take the shape of either partnerships or fully owned entities.

VI. Key financial data

The following table sets out key financial data for Transport:

Transport Actual figures (in € million)			% Variation	
	Year ended	Year ended	March 08 / March 07	
	31 March 08	31 March 07	Actual	Organic
Order backlog	17,283	15,239	13%	17%
Orders received	7,467	5,388	39%	40%
Sales	5,509	5,288	4%	5%
Income from operations	397	350	13%	12%
Operating margin	7.2%	6.6%		
EBIT	368	293	26%	
Capital Employed	(84)	(40)	110%	

VII. Comments on activity during fiscal year

Orders

Orders received by the Transport Sector for 2007/08 reached €7,467 million, a 39% increase compared to 2006/07 (40% on an organic basis). The order intake shows a good combination of

existing products (TGV⁶, tramways) and new products (Tram-Trains, new generation of regional trains Coradia LIREX). On a geographical basis, Transport also gained market share in countries outside its historical strongholds (e.g. Turkey, Morocco, Russia). Overall, Europe accounted for 78% of the total order intake, North America 9%, Asia/Pacific 8%, South and Central America 3% and Middle East/Africa 2%.

Sustained demand in Europe was mainly driven by urbanisation, mobility and environmental concerns:

- in France, the market remained strong, leading to a large contract in very high speed of €2.2 billion for 80 trains as well as numerous contracts for regional, metros and tram-trains;
- in Germany, the demand remained strong for regional trains with major orders won on the new regional train platform CORADIA Lirex as well as on the more mature one CORADIA Lint;
- in the UK, continued trust from the customer resulted in the extension of the maintenance contract for London's Jubilee metro line;
- in Belgium, a very important countrywide re-signalling contract was won, showing positive signs for ALSTOM's SMARTLOCK technology.
- contracts were also booked in Scandinavia (Pendolino trains), the Netherlands (tramway, renovation contract), Ireland (tramway), and Turkey (tramway, metro).

Orders in Europe amounted to €5,810 million, compared to €4,112 million last year.

In North America, the Transport Sector booked options for 360 additional cars for New York's metro with orders received in this region standing at €670 million.

South and Central America remained at a high level of activity, particularly in metros. Significant projects are also considered in very high speed and regional transports. Orders in South and Central America amounted to €247 million during the year.

In China, the metro market showed opportunities, which translated into 2 significant orders for the Sector (Shanghai Line 10 and Nanjing Line 2) for a total of 400 cars. The Chinese market also enabled ALSTOM to secure an order in signalling based on URBALIS Evolution. In the rest of the region, Transport received a contract in Australia for suburban trains for the Melbourne metropolitan network. Finally there were opportunities in Taipei resulting in a contract in signalling. Globally, in the Asia/Pacific region, orders reached €563 million.

Orders received in the Middle East/Africa region were €177 million during 2007/08, including a metro infrastructure contract for Cairo's metro and locomotives in Morocco.

Transport received the following significant orders during 2007/08:

⁶ TGV is a trademark of the SNCF

Country	Description
Australia	X'TRAPOLIS suburban trains for the Melbourne metropolitan network
Belgium	Signalling system
China	Metro cars and control system for the Shanghai metro network
China	Metro cars for the Nanjing metro network
Finland/Russia	PENDOLINOs for the Helsinki/Saint Petersburg rail link
France	Very high speed TGV ⁷ DUPLEX trains for the French railway operator SNCF
France	CITADIS DUALIS tram-train for the French railway operator SNCF
France	Metro cars for the Paris metro network operator RATP
France	Renovation of suburban RER trains on Ile-de-France line B
Germany	CORADIA LIREX trainsets for German railway operators
Ireland	CITADIS trainsets for the Dublin light rail system
Spain	Commuter trains for Spanish railway operator RENFE
The Netherlands	CITADIS trainsets for the city of Rotterdam
United Kingdom	10-year maintenance contract for the Jubilee Line of the London Underground
United States of America	Metro cars for the New York City metro network

Sales

Transport's sales amounted to €5,509 million, a 4% increase vs last year (5% on an organic basis).

In spite of an 8% decrease to €3,400 million, sales in Europe continued to be the most important contributor to the Sector's sales, with a 62% share of the total turnover. Main contracts traded include regional trains, locomotives and TGV⁸ in France, metros for the Barcelona system and maintenance contracts in the UK. Activity in North America was strong with a 48% increase (61% on an organic basis) at €607 million (11% of the Sector's sales) mainly due to the trading of metro projects in the USA (metro projects in Washington and Atlanta close to completion and ramp-up of the New York metro project). Sales in South and Central America were down by 12% at €302 million (5% of the total sales), as contracts are coming to an end in Venezuela. Sales in Asia/Pacific increased by 27% at €916 million, mainly due to development of contracts for Electrical Multiple Units and locomotives in China. Sales in Middle East/Africa amounted to €284 million or 5% of global sales, a 135% increase mainly due to projects in Tunisia, Algeria and Israel.

The following table sets out the geographical breakdown of sales by destination:

⁷ TGV is a trademark of the SNCF

⁸ TGV is a trademark of the SNCF

Transport	% Variation Mar 08/07					
	Year ended		Year ended		Actual	Org.
	31 Mar. 08	% of contrib	31 Mar. 07	% of contrib		
Actual figures, in € million						
Europe	3,400	62%	3,695	70%	(8%)	(8%)
North America	607	11%	409	8%	48%	61%
South and Central America	302	5%	343	6%	(12%)	(14%)
Asia/Pacific	916	17%	720	14%	27%	29%
Middle East/Africa	284	5%	121	2%	135%	136%
Sales by destination	5,509	100%	5,288	100%	4%	5%

Income from operations and operating margin

Income from operations for the Transport Sector amounted to €397 million or 7.2% of sales during 2007/08. This represented a 13% increase from the €350 million (or 6.6% of sales) recorded during 2006/07, while the Sector intensified its R&D efforts. The improvement in operating income is mainly the consequence of higher sales, improved margin in backlog due to the high selectivity in orders booked over the recent years, better project management and cost reductions related to the platforming strategy.

CORPORATE & OTHERS

Corporate & Others comprise all units bearing Corporate costs, the International Network, and, until their disposal in October 2007, some entities in India which were not reported by the Sectors.

The following table sets out some key financial data for the Corporate & Others organisation:

Corporate & Others Actual figures (in € million)	% Variation			
	Year ended		March 08 / March 07	
	31 March 08	31 March 07	Actual	Organic
Order backlog	-	19	N/A	N/A
Orders received	35	48	N/A	N/A
Sales	29	49	N/A	N/A
Income from operations	(109)	(104)	N/A	N/A
EBIT	(148)	(165)	N/A	
Capital Employed	(128)	(248)	N/A	

Loss from operations for Corporate & Others was €(109) million during 2007/08, compared to €(104) million for the previous year. Loss from operations included a €17 million expense related to the ALSTOM employee sharing plan implemented in 2007/08.

C. Operating and financial review

With retrospective effect from 1 April 2005, the Group has adopted the option offered by the amendment to IAS 19 "Employee Benefits" to recognise directly in equity, net of deferred taxes, all actuarial gains and losses, as well as any asset ceiling impacts on post-employment defined benefit plans.

In previous periods, starting from the date of first-time adoption of IFRS (1 April 2004), the Group applied the corridor method according to which actuarial gains or losses in excess of 10% of the greater of the future obligation or the fair value of plan assets were recognised in the income statement over the average remaining working lives of the employees.

The negative impact of this change in accounting method on the equity of the Group amounted to € (1,008) million at 31 March 2005, € (1,052) million at 31 March 2006 and € (896) million at 31 March 2007. The impact on the Group's net income is positive by € 80 million for the year ended 31 March 2006 and € 99 million for the year ended 31 March 2007.

1. INCOME STATEMENT

Total Group Actual figures (in € million)	Year ended 31 March 08	Year ended 31 March 07	% Variation	
			March 08 / March 07	
			Actual	Organic
Sales	16,908	14,208	19%	19%
Cost of sales	(13,761)	(11,586)	19%	18%
R&D expenditure	(554)	(456)	21%	21%
Selling expenses	(619)	(567)	9%	10%
Administrative expenses	(679)	(642)	6%	5%
Income from operations	1,295	957	35%	35%
Operating margin	7.7%	6.7%		

1.1. Sales

Sales were €16,908 million in 2007/08, compared to €14,208 million in 2006/07. This represents a 19% increase on both an actual and organic basis.

The three Sectors contributed to this increase in sales with sales in Power Systems escalating by 37% (35% on an organic basis) from €5,673 million in 2006/07 to €7,768 million in 2007/08, Power Service sales growing by 13% (12% on an organic basis) from €3,198 million to €3,602 million and Transport sales up 4% (5% on an organic basis) from €5,288 million to €5,509 million.

1.2. Research and development expenditure

Research and development expenditure grew by 21% at €554 million in 2007/08 from €456 million in 2006/07.

Before impact of capitalisation and amortisation, the research and development expenditure increased from €440 million in 2006/07 to €561 million in 2007/08, up 28%. This rise relates mainly, for the Transport Sector, to developments in the new generation of very high speed trains (AGV) and in ERTMS and, for the Power Systems Sector, to CO2 capture programmes and in developments in steam and gas turbines technologies.

1.3. Selling and administrative expenses

Selling and administrative expenses amounted to €1,298 million in 2007/08 compared to €1,209 million in 2006/07.

Selling and administrative costs were strictly maintained in 2007/08. Selling expenses stood at €619 million, or 3.7% of sales vs. 4.0% during the previous year. Main expenses were related to an increased tendering activity as well as to the stronger commercial network set up in countries showing a growth potential. Administrative expenses reached €679 million, or 4.0% of sales vs. 4.5% during the previous year. Specific projects aiming at improving future performance were developed (sourcing and standardisation programmes in Transport and Customer Relationship Management tool in Power Service).

1.4. Income from operations

Income from operations was €1,295 million (7.7% of sales), compared with an income from operations of €957 million (6.7% of sales) for 2006/07. This strong improvement (+35% both on an actual and an organic basis) is driven by a high level of activity, a better quality of the backlog resulting from improved pricing conditions in some markets and a strict selectivity on the orders booked during recent years, along with constant focus on project execution and cost control.

Total Group			% Variation
Actual figures (in € million)	Year ended 31 March 08	Year ended 31 March 07 *	Mar 08/ Mar 07
Income from operations	1,295	957	35%
Restructuring costs	(35)	(68)	(49%)
Other non operating income (expense)	(39)	(63)	(38%)
Earnings Before Interest and Taxes	1,221	826	48%
Financial income (expense)	(69)	(111)	(38%)
Income tax charge	(291)	(145)	101%
Share in net income (loss) of equity investments	1	-	N/A
Discontinued operations	-	(32)	(100%)
Minority interest	(10)	9	N/A
Net income - Group share	852	547	56%

* restated for the change in accounting for pensions.

1.5. Earnings Before Interest and Tax (EBIT)

EBIT was €1,221 million in 2007/08 vs. €826 million in 2006/07 (EBIT for 2006/07 is restated for the change in pension accounting and was €727 million before this restatement), and is the result of the following:

- increase in income from operations, from €957 million to €1,295 million;
- decrease in restructuring costs, from €(68) million in 2006/07 to €(35) million in 2007/08;
- decrease in other non-operating expenses, at €(39) million (including a capital loss related to the re-measurement of a put and call agreement related to the disposal of the Marine activity) compared to €(63) million in the previous year (which included a fine received from the European Commission related to the former Transmission & Distribution business disposed of in 2004).

1.6. Financial expenses

In spite of costs linked to an important debt buy back over the year, financial expenses showed a significant decrease at €(69) million compared to €(111) million last year, mainly due to the evolution of the Group's cash position, from €(64) million net debt at 31 March 2007 to €904 million net cash at 31 March 2008.

1.7. Income tax charge

The income tax charge for 2007/08 was €(291) million compared to €(145) million in 2006/07, mainly due to the sharp rise in pre-tax income (€1,152 million in 2007/08 vs. €715 million in 2006/07). The income tax charge in 2007/08 was made up of a €(194) million current income

tax charge (vs. €(168) million in 2006/07) and a €(97) million deferred income tax charge (€23 million deferred tax credit in 2006/07).

The effective tax rate was around 25% in 2007/08.

1.8. Discontinued operations

There were no discontinued operations in 2007/08. In 2006/07, the discontinued operations contributed to €(32) million and related to the Marine activities.

1.9. Net income - Group share

As a result of higher EBIT and lower financial expenses, leading to higher income tax charges, net income (Group share) amounted to €852 million, a sharp increase compared with the €547 million net income for the previous year (net income for 2006/07 is restated for the change in pension accounting and was €448 million before this restatement).

2. BALANCE SHEET

Total Group Actual figures (in € million)	At 31 March 08	At 31 March 07 *	Variation Mar 08/ Mar 07
Goodwill	3,767	3,510	257
Intangible assets	1,322	1,191	131
Property, plant and equipment	1,501	1,370	131
Associates and available-for-sale financial assets	62	34	28
Other non-current assets	635	812	(177)
Deferred taxes	1,070	1,307	(237)
Non-current assets	8,357	8,224	133
Working capital assets	10,703	9,008	1,695
Marketable securities and other current financial asset:	170	197	(27)
Cash and cash equivalents	2,115	1,907	208
Current assets	12,988	11,112	1,876
Assets	21,345	19,336	2,009

Total Group Actual figures (in € million)	At 31 March 08	At 31 March 07 *	Variation Mar 08/ Mar 07
Equity (Group share and minorities)	2,245	1,375	870
Provisions (non-current and current)	1,761	2,061	(300)
Accrued pension and other employee benefits	818	999	(181)
Financial debt (current and non-current)	1,927	2,822	(895)
Deferred taxes	3	50	(47)
Working capital liabilities (excl. provisions)	14,591	12,029	2,562
Liabilities	21,345	19,336	2,009

* restated for the change in accounting for pensions.

2.1. Goodwill and intangible assets

Goodwill increased to €3,767 million at 31 March 2008 compared to €3,510 million at 31 March 2007, which is mainly the result of goodwill generated following the acquisitions completed during the period (mainly Ecotècnia and Wuhan Boilers).

Intangible assets include acquired intangible assets and capitalised development costs. They amounted to €1,322 million at 31 March 2008 compared to €1,191 million at 31 March 2007. This increase is mainly due to the fair value revaluation of Ecotècnia's and PSM's acquired intangible assets.

Capitalised development expenses amounted to €124 million in 2007/08 vs €115 million in 2006/07. Amortization of development costs amounted to €(55) million in 2007/08 compared to €(72) million in 2006/07.

Acquired intangible assets mainly result from the allocation of the purchase price following the acquisition of ABB-Alstom Power in 1999 and 2000. The amortization expense of acquired technology was €(62) million in 2007/08 vs. €(59) million in 2006/07.

2.2. Tangible assets

Tangible assets amounted to €1,501 million at 31 March 2008 compared to €1,370 million at 31 March 2007.

Capital expenditure (excluding capitalised development expenses) increased by 34% in 2007/08, at €374 million compared to €280 million in 2006/07. These investments aim at reinforcing the efficiency of the industrial base as well as increasing the Group's production capacity in fast growing markets. Main programmes during 2007/08 included the construction of a new facility in Chattanooga (USA), the construction of a new iron foundry in Elblag (Poland), the expansion of a blade manufacturing workshop in Morelia (Mexico), the development of production facilities for hydroelectric equipment in Tianjin (China), as well as the upgrade of a number of industrial sites in the Transport Sector to align them with the Group platforming strategy.

2.3. Other non-current assets

Other non-current assets amounted to €635 million at 31 March 2008 compared to €812 million at 31 March 2007. At 31 March 2008, other non-current assets included mainly financial non-current assets directly associated to long-term leases of trains and associated equipment for a London Underground operator (for €546 million at 31 March 2008 vs. €654 million at 31 March 2007), along with pension assets, long-term loans and deposits.

2.4. Working capital

Working capital (defined as current assets excluding cash and cash equivalents and marketable securities, less current liabilities excluding current financial liabilities and including non current provisions) at 31 March 2008 was €(5,649) million compared with €(5,082) million at 31 March 2007. This improvement, which benefited from the high order intake, also reflects the results of stronger working capital management.

2.5. Deferred tax assets

Net deferred tax assets amounted to €1,067 million at 31 March 2008 compared with €1,257 million at 31 March 2007.

At 31 March 2008, the Group reviewed the recoverability of these deferred tax assets by jurisdiction, on the basis of its three-year business plan, extrapolated when needed. This review led to the non-recognition of €851 million deferred tax assets at 31 March 2008 compared with €1,184 million at 31 March 2007.

2.6. Current and non-current provisions

At 31 March 2008, the current and non-current provisions were €1,761 million compared with €2,061 million at 31 March 2007, due to a decrease in provisions on completed contracts for €254 million and in restructuring provisions for €63 million.

2.7. Equity attributable to the equity holders of the parent and minority interests

Equity at 31 March 2008 was €2,245 million (including minority interests) compared with €1,375 million at 31 March 2007 (restated for change in pension accounting; equity before this restatement was €2,271 million). This variation is mainly due to the net income of the period for €862 million (Group share and minority interests), to the capital increase following the issuance of new shares under stock option plans and the new employee sharing programme for a total of €100 million and to dividends paid for €(117) million.

2.8. Financial debt

The gross financial debt was €1,927 million at 31 March 2008, compared with €2,822 million at 31 March 2007, representing a €895 million decrease. The main variation of financial debt relates to the buy-back of €866 million of bonds (in nominal value) during 2007/08.

See Note 26 to the Consolidated Financial Statements for further details regarding the financial debt.

3. LIQUIDITY AND CAPITAL RESOURCES

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

Total Group Actual figures (in € million)	Year ended 31 March 08	Year ended 31 March 07
Net cash provided by operating activities - before changes in net working capital	1,195	565
Changes in net working capital	897	524
Net cash provided by operating activities - continuing operations	2,092	1,089
Net cash used in or provided by investing activities - continuing operations	(896)	118
Net cash used in financing activities - continuing operations	(957)	(596)
Transfer of cash and cash equivalents from (to) assets held for sale	-	29
Net effect of exchange rate	(33)	(30)
Other changes	2	(4)
Increase in cash and cash equivalents	208	606

In 2007/08, free cash flow reached a record level of €1,635 million. As described in paragraph "Use and reconciliation of non-GAAP financial measures", free cash flow is calculated as net cash provided by operating activities – continuing operations, less capital expenditure (including capitalized development costs) net of proceeds from disposals of tangible and intangible assets.

3.1. Net cash provided by operating activities

Net cash provided by operating activities – continuing operations reached €2,092 million in 2007/08 compared to €1,089 million in 2006/07.

Net cash provided by operating activities before changes in net working capital was €1,195 million in 2007/08. It represents the cash generated by the Group's net income after elimination of non-cash items (as provisions are included in the definition of the working capital, provisions are not part of the elimination of non-cash items) and before working capital movements.

The Group's net working capital improved by €897 million, which is explained, among others, by the following variations:

- a €502 million increase in inventories;
- a €318 million decrease in provisions;
- a €1,825 million increase in construction contracts in progress, net liabilities (particularly due to down payments received).

3.2. Net cash used in investing activities

Net cash used in investing activities – continuing operations was €(896) million in 2007/08. This amount comprises mainly:

- capital expenditure of €(498) million, including capitalised research and development for €(124) million;

- cash expenditure for acquisition of investments of €(425) million;

Net cash provided by investing activities was €118 million in fiscal year 2006/07; it included the release of the €700 million cash collateral securing the Group's former bonding programme.

See Notes 5 (b) and 4 to the Consolidated Financial Statements for further details regarding capital expenditure and cash expenditure for acquisition of investments, respectively.

3.3. Net cash used in financing activities

Net cash used in financing activities – continuing operations in 2007/08 was €(957) million. This amount included mainly a capital increase for €100 million (following the issuance of shares related to stock option plans and the new employee sharing programme), the reimbursement of borrowings for €(956) million and dividends paid for €(117) million.

3.4. Net cash / (net debt) position

As a result of the above, cash and cash equivalent increased by €208 million in 2007/08 after an increase of €606 million in 2006/07. ALSTOM turned from a €(64) million net debt at 31 March 2007 to a €904 million net cash at 31 March 2008:

Total Group Actual figures (in € million)	Year ended 31 March 08	Year ended 31 March 07
Net cash / (Net debt) at the beginning of the period	(64)	(1,248)
Increase in cash and cash equivalents	208	606
Increase (decrease) in marketable securities and other current financial assets	(49)	175
Repayment of current and non current borrowings	956	335
Repayment of obligation under finance leases	38	38
Net debt of acquired entities at acquisition date	(210)	-
Net effect of exchange rate and other	25	30
Net cash / (Net debt) at the end of the period	904	(64)

Notes 25, 26, 27, 31 and 34 to the Consolidated Financial Statements provide further details, respectively, on:

- the analysis of pensions and other employee benefits;
- the nature and the maturity of the financial debt;
- the Group's policy regarding financial risk management, including currency, interest, credit and liquidity risks;
- off-balance sheet commitments and lease obligations; and
- a subsequent event.

Use and reconciliation of non-GAAP financial measures

This section presents non-GAAP financial indicators.

Under the rules of the Autorité des marchés financiers (“AMF”), a non-GAAP financial indicator is a numerical measurement of historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measurement calculated and presented in accordance with GAAP in the consolidated income statement, consolidated balance sheet or consolidated statement of cash flows; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measurement so calculated and presented. In this regard, GAAP refers to International Financial Reporting Standards.

Free cash flow

Free cash flow is defined as net cash provided by operating activities – continuing operations, after elimination of variation in sale of existing receivables, less capital expenditure (including capitalized development costs), net of proceeds from disposals of tangible and intangible assets. In particular, free cash flow does not include the proceeds from disposals of activity.

The most directly comparable financial measure to free cash flows calculated and presented in accordance with IFRS is net cash provided by operating activities – continuing operations, and a reconciliation of free cash flow and net cash provided by operating activities – continuing operations is presented below:

Total Group Actual figures (in € million)	Year ended 31 March 08	Year ended 31 March 07
Net cash provided by operating activities - continuing operations	2,092	1,089
Elimination of variation in sale of existing receivables	-	34
Capital expenditure (including capitalized development costs)	(498)	(395)
Proceeds from disposals of tangible and intangible assets	41	17
Free Cash Flow	1,635	745

ALSTOM uses the free cash flow measure both for internal analysis purposes as well as for external communication as the Group believes it provides accurate insight into the actual amount of cash generated or used by operations.

Capital employed

Capital employed is defined as the closing position of goodwill, intangible assets, property, plant and equipment, other non current assets (excluding pension assets and financial non-current

assets directly associated to financial debt) and current assets (excluding marketable securities and other current financial assets, and cash and cash equivalents) minus current and non-current provisions and current liabilities (excluding current provisions and current financial debt).

Capital employed by Sectors and for the Group as a whole is also presented in Note 5 to the Consolidated Financial Statements.

Capital employed is used both for internal analysis purposes as well as for external communication, as it provides insight into the amount of financial resources employed by a Sector or the Group as a whole, and the profitability of a Sector or the Group as a whole in regard to resources employed.

Total Group		
Actual figures		
(in € million)	At 31 March 08	At 31 March 07
Non current assets (excl. deferred tax & financial non-current assets directly associated to financial debt)	6,741	6,263
Current assets (excl. cash & cash equivalent)	10,873	9,205
Marketable securities and other current financial assets	(170)	(197)
Prepaid pensions and other employee benefit costs	(17)	(11)
Current liabilities (excl. current provisions & current financial debt)	(14,591)	(12,029)
Current and non current provisions	(1,761)	(2,061)
Capital employed	1,075	1,170

Net cash / (net debt)

Net cash / (net debt) is defined as cash and cash equivalents, marketable securities and other current financial assets and financial non-current assets directly associated to financial debt, less current and non-current financial debt.

Total Group		
Actual values		
(in € million)	At 31 March 08	At 31 March 08
Cash and cash equivalents	2,115	1,907
Marketable securities and other current financial assets	170	197
Financial non-current assets directly associated to financial debt	546	654
<i>less:</i>		
Current financial debt	619	125
Non current financial debt	1,308	2,697
Net cash / (net debt)	904	(64)

Organic basis

Figures presented in this section include performance indicators presented on an actual basis and on an organic basis. Figures have been given on an organic basis in order to eliminate the impact of changes in business composition and changes resulting from the translation of the accounts into Euro following the variation of foreign currencies against the Euro. The Group uses figures prepared on an organic basis both for internal analysis and for external communication, as it believes they provide means by which to analyse and explain variations from one period to another. However these figures, provided on an organic basis, are not measurements of performance under IFRS.

To prepare figures on an organic basis, the figures presented on an actual basis are adjusted as follows:

- the actual figures for 2006/07 (order backlog, orders received, sales and income from operations) are restated taking into account the exchange rates used for 2007/08, as used for preparing the Consolidated Financial Statements;
- in order to reflect the same scope of activity, the same indicators are adjusted both for 2006/07 (restatement of disposals) and for 2007/08 (restatement of acquisitions).

Figures on an organic basis are presented in the table shown next page.

ALSTOM - ORGANIC FIGURES 2007/08

in € million	Year ended 31 March 2007				Year ended 31 March 2008				
	Actual figures	Exchange rate	Scope impact	Comparable Figures	Actual figures	Scope Impact	Organic figures	% Var Act. March 08 / March 07	% Var Org March 08 / March 07
Power Systems	11,873	(340)	-	11,533	16,039	(717)	15,322	35%	33%
Power Service	5,219	(183)	(157)	4,879	5,900	(153)	5,747	13%	18%
Transport	15,239	(507)	-	14,732	17,283	-	17,283	13%	17%
Corporate & Others	19	(2)	(23)	(6)	-	-	-	-100%	-100%
Orders backlog	32,350	(1,032)	(180)	31,138	39,222	(870)	38,352	21%	23%
Power Systems	9,535	(181)	(46)	9,308	11,569	(228)	11,341	21%	22%
Power Service	4,058	(151)	-	3,907	4,401	(164)	4,237	8%	8%
Transport	5,388	(47)	-	5,341	7,467	-	7,467	39%	40%
Corporate & Others	48	1	(19)	30	35	-	35	-27%	17%
Orders Received	19,029	(378)	(65)	18,586	23,472	(392)	23,080	23%	24%
Power Systems	5,673	(113)	(26)	5,534	7,768	(287)	7,481	37%	35%
Power Service	3,198	(109)	-	3,089	3,602	(138)	3,464	13%	12%
Transport	5,288	(48)	-	5,240	5,509	-	5,509	4%	5%
Corporate & Others	49	1	(22)	28	29	-	29	-41%	4%
Sales	14,208	(269)	(48)	13,891	16,908	(425)	16,483	19%	19%
Power Systems	201	(4)	1	198	415	(9)	406	106%	105%
Power Service	510	(19)	-	491	592	(19)	573	16%	17%
Transport	350	5	-	355	397	-	397	13%	12%
Corporate & Others	(104)	2	(3)	(105)	(109)	-	(109)	5%	4%
Income from Operations	957	(16)	(2)	939	1,295	(28)	1,267	35%	35%
Power Systems	3.5%			3.6%	5.3%		5.4%		
Power Service	15.9%			15.9%	16.4%		16.5%		
Transport	6.6%			6.8%	7.2%		7.2%		
Corporate & Others	N/A			N/A	N/A		N/A		
Operating margin	6.7%			6.8%	7.7%		7.7%		
Sales	14,208	(269)	(48)	13,891	16,908	(425)	16,483	19%	19%
Cost of sales	(11,586)	225	43	(11,318)	(13,761)	361	(13,400)	19%	18%
R&D expenses	(456)	7	-	(449)	(554)	9	(545)	21%	21%
Selling expenses	(567)	10	2	(555)	(619)	8	(611)	9%	10%
Administrative expenses	(642)	11	1	(630)	(679)	19	(660)	6%	5%
Income from Operations	957	(16)	(2)	939	1,295	(28)	1,267	35%	35%