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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 2006/07, orders amounted to €19 billion and sales to €14 billion. On 31 March 2007, the backlog amounted to €32 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:

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

An international network coordinates the presence of ALSTOM throughout the world. This network supports Sectors in market intelligence and project finance.

On 31 March 2007, ALSTOM had a total of approximately 65,000 employees worldwide.

2. Main events of fiscal year 2006/07

2.1. Partnership with Bouygues

During fiscal year 2006/07, ALSTOM and Bouygues entered into an agreement for broad commercial and operational cooperation, which Bouygues decided to strengthen by becoming a long-term shareholder of ALSTOM.

On 26 April 2006, Bouygues agreed with the French State to purchase the 21.03 % stake owned by the French State in ALSTOM since July 2004. This transaction was finalised on 26 June 2006. Subsequently Bouygues acquired additional ALSTOM shares in the stock market, and holds 25.35 % of ALSTOM share capital as at 1 May 2007.

Since 26 April 2006, ALSTOM and Bouygues have been progressively stepping up their cooperation. At a commercial level, the sales networks of both companies are cooperating to maximise their strengths on their markets and develop together, whenever required, integrated projects as opportunities arise. Bouygues and ALSTOM can provide a joint response to market demands by offering solutions that combine Bouygues' civil engineering with ALSTOM's equipment. Both companies agreed that this cooperation should not be exclusive and that they will continue to work with the most suitable partners and suppliers for each project. At an operational level, ALSTOM and Bouygues work together on the improvement of project execution by sharing best practices in organisation and project management and on the preparation of standard guidelines to optimise costs on common projects.

On 31 October 2006, ALSTOM and Bouygues completed the set up of a 50 % - 50 % joint-venture in ALSTOM's hydro power equipment business, thus enabling ALSTOM to fulfill the commitment it made towards the European Commission in 2004 to set up a joint-venture in this sector.

2.2. Very strong commercial activity

During fiscal year 2006/07, the Group booked €19,029 million of new orders, a 34 % increase from previous fiscal year on a comparable basis.

The Group fully benefited from its good positioning in a sound power market. Power Systems sold 20 gas turbines including 13 GT26 as well as 3 major coal power plants and received a key order for the conventional island of the next-generation EPR nuclear power plant in France. Power Service signed several major contracts for Operation and Maintenance as well as for various upgrades of plants, gas turbines, steam turbines and boilers.

Transport achieved a high level of order intake in a competitive environment, booking significant orders for regional trains, metros and tramways over the world, as well as several maintenance contracts.

As a consequence, ALSTOM's orders in hand amount to €32,350 million at 31 March 2007, up 22 % from last year on a comparable basis and represent 27 months sales.

2.3. Efficient human resources management

The Group set human resources management as one of its top priorities to ensure continuous success.

Recruitment has been particularly important over this financial year to support the company's strong order intake. Over the year, 8,700 employees have been recruited, including 4,100 engineers and managers. Training efforts were also a crucial part of ALSTOM's active human resources management.

Project risk management being a key priority for ALSTOM to improve its operational performance, the Group concentrated on the selection of project managers and on the implementation of efficient processes. Project offices in each Sector manage this population of key managers and implement best practices throughout the organisation.

2.4. Focus on research and development

As part of its strategic priorities, the Group focused on research and development to set the ground for future growth through constant innovation and maintained leadership. Its R&D efforts during fiscal year 2006/07 increased materially and addressed the major challenges faced today by its industries, including:

- for the Power Sectors: improving the performance of existing gas turbines and developing clean power technologies (increased plants efficiency, CO₂ capture, ...).
- for the Transport Sector: implementing new standards (European Rail Traffic Management System) and preparing the next generation of very high speed trains (AGV).

Under the “French Excellence in Very High-Speed Transport”, a programme led jointly by ALSTOM, the French railway operator SNCF and the French railway infrastructure provider RFF, the “V150” train broke the world rail speed record on 3 April 2007, reaching 574.8 km/h on the new high-speed line to Eastern France and Germany.

2.5. Enhancing the Group’s financial base

2.5.1. Renegotiation of the bonding programme

On 24 July 2006, the Group renegotiated the conditions of its bonding programme, covering its needs from July 2006 to July 2008. Under this amended agreement, bonding costs have been further reduced and the programme is now unsecured, subject to adjustments pending on certain profitability and liquidity targets (see note 27 of the Consolidated Financial Statements). The €700 million cash collateral paid by the Company to secure its first programme was released as of 31 March 2007.

2.5.2. Improved credit flexibility

During fiscal year 2006/07, the Group reimbursed a total of €526 million of bonds, including €226 million of bonds maturing 26 July 2006, and, in anticipation, €300 million of bonds redeemable on 28 July 2008, 13 March 2009 and 3 March 2010.

At the same time, the Group increased the amount of its syndicated credit line, from €700 million to €1,000 million and extended its maturity to March 2012.

2.5.3. Pension plans discretionary funding and optimization

During fiscal year 2006/07, the Group dedicated €300 million to the funding of its employees' pension plans in Germany, in order to proactively manage its pensions assets and liabilities. In agreement with plans stakeholders, it was also decided to reduce the equity share of the worldwide plans' assets from 50 % at 31 March 2006 to 38 % at 31 March 2007, in order to optimize pensions risk management.

2.5.4. ALSTOM's stock back in the CAC 40 Index

On 31 July 2006, the ALSTOM stock was reintroduced in the Euronext Paris Stock Exchange Index CAC40.

2.6. Acquisitions initiated

Power Systems

Wuhan Boiler Company Limited

On 14 April 2006, ALSTOM signed an agreement with Wuhan Boiler Group Co., Ltd for the acquisition of its subsidiary, Wuhan Boiler Company Limited, in which it holds a majority stake. According to this agreement, ALSTOM will acquire a 51% share in Wuhan Boiler Company Limited ("WBC") from Wuhan Boiler Group and, as required by Chinese stock exchange rules, will launch a general offer to the public holders of 42% of the share capital of WBC listed on the Shenzhen stock exchange market. The acquisition is still in process and the general offer is yet to take place after receipt of the approval from Chinese regulatory authorities.

WBC is based on a single site in Wuhan (Hubei Province in China) and its activities include engineering and manufacturing of boilers for steam power plant applications. In 2006, WBC's sales amounted to approximately €200 million and the company employed 2,500 people.

Atomenergomash nuclear joint-venture

On 2 April 2007, ALSTOM signed in Moscow a framework agreement with Russia's Atomenergomash to establish a joint-venture dedicated to manufacturing the conventional islands included in nuclear power plants using Russian technology for the nuclear island. The future joint-venture, of which Atomenergomash will hold 51% and ALSTOM 49%, will be located in Podolsk, close to Moscow, and will manufacture the conventional island of nuclear power plants based on ALSTOM's "Arabelle" half-speed turbine technology.

Power Service

Power Systems Manufacturing (PSM)

On 22 March 2007, ALSTOM acquired the assets and liabilities of Power Systems Manufacturing, LLC (PSM). Based in Florida, USA, PSM is a high-tech company with a leading position as independent provider of improved gas-turbine parts and low-Nox upgrade solutions for gas turbines. PSM employs over 100 people and its sales amounted to approx. \$ 70 million in 2006, with an EBITDA margin above 25%.

This acquisition extends ALSTOM's technology leadership in providing customers with gas turbine efficiency upgrades and low-emission solutions in after-market sales.

Shenzhen Strongwish

On 24 August 2006, ALSTOM completed the acquisition of Shenzhen Strongwish, a Chinese company specialised in the design and delivery of remote monitoring and diagnostic services. Shenzhen Strongwish was created in 1998 and has grown rapidly ever since. The company employs around 100 highly skilled people in Shenzhen and in five regional offices over China.

Qingdao Sizhou

On 29 March 2007, ALSTOM acquired Qingdao Sizhou Electric Power Equipment Company Limited and Qingdao Sizhou Boiler Auxiliary Company Limited, both companies being markets leaders in China for boiler auxiliaries with a strong focus on ash handling system and the related service business, a critical element of the coal power generation process.

The deal provides ALSTOM with a strong base to become a full local service provider, serving the market through a sales network, supply chain and field service resources all located close to the customer. The company employs 1,100 employees including 170 engineers. The company generated sales of more than €50 million in 2006. Qingdao Sizhou's market position and developed customer base provides ALSTOM with a unique opportunity to further build a presence in the rapidly growing Chinese power service market.

Transport

Schweizerische Bundesbahnen SBB Cargo AG rail maintenance joint-venture

On 19 February 2007, ALSTOM entered into an agreement to set up a joint-venture with Schweizerische Bundesbahnen SBB Cargo AG on its maintenance service business for shunting locos, service vehicles and tank wagons. This joint-venture extends ALSTOM's service offering for the Transport Sector in Europe. ALSTOM is to own 51 % of the joint-venture that is located in Biel, Switzerland.

2.7. Finalization of disposals

Marine Sector

On 31 May 2006, ALSTOM completed the sale to Aker Yards of its 75% interest in its Marine Sector. The sale took place through the creation of a new company comprising the shipyards in Saint-Nazaire and Lorient, 75% of which is owned by Aker Yards and 25% by ALSTOM. At 31 March 2007, ALSTOM's remaining stake was accounted for in investments and will be sold to Aker Yards by 2010 for a calculated amount depending on the new company's performance, not to exceed €125 million.

The Group has retained certain assets and liabilities, notably relating to ships delivered before the closing of the transaction and to three liquid natural gas (LNG) tankers that were still under construction when the sale was completed; these tankers were all delivered to the customer before 31 March 2007.

Industrial Boilers business in Germany and in the Czech Republic

On 24 October 2005, ALSTOM and Austrian Energy & Environment AG had signed agreements for the sale of the bulk of ALSTOM's Industrial Boilers business. The transaction included ALSTOM's Industrial Boiler activities in Germany, the Czech Republic and Australia. The German and Czech activities were sold in May 2006, following the sale of the Australian activities in November 2005. The Industrial Boilers business was part of the disposal programme on which ALSTOM agreed with the European Commission in 2004.

Train renovation business in the United Kingdom

On 2 February 2007, ALSTOM sold 100% of its shareholding in Railcare Limited, a company specialising in the renovation and maintenance of rolling stock to Seckloe Limited.

2.8 European Commission

2.8.1 Commitments towards European Commission executed

On 7 July 2004, the European Commission approved ALSTOM's financing plans implemented in 2003 and 2004, subject to conditions to be fulfilled by the French State and the Group. As at 31 March 2007, commitments are fulfilled as follows:

- all activities identified for disposal have been disposed of;
- ALSTOM set up a 50%-50% joint-venture in its hydro activities;

- the disposal of the 21.03 % French State's stake in ALSTOM and the release of its counter-guarantee on ALSTOM's bonding programme occurred more than two years ahead of schedule.

2.8.2 Alleged anti-competitive practices in the gas insulated switchgears market

On 24 January 2007, the European Commission levied several fines for a cumulated value of €65 million against ALSTOM, which includes €53 million on a joint and several basis with Areva T&D SA, on the basis of anti-competitive practices in the gas insulated switchgears market which was served by the former Transmission and Distribution business disposed of in 2004. The Group launched an appeal of this decision on 18 April 2007.

3. General comments on activity and results

3.1. Consolidated Key Financial Figures

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

Total Group Actual figures (in € million)	Mar 07	Mar 06	% Variation Mar 07/ Mar 06
Order backlog	32,350	26,944	20%
Orders received	19,029	15,290	24%
Sales	14,208	13,413	6%
Income from Operations	957	746	28%
Operating margin	6.7%	5.6%	
Discontinued operations	(32)	(198)	(84%)
Net profit/(loss) Group share	448	178	152%
Free Cash Flow	745	525	42%

Total Group Comparable figures (in € million)	Mar 07	Mar 06	% Variation Mar 07/ Mar 06
Order backlog	32,350	26,431	22%
Orders received	19,029	14,173	34%
Sales	14,208	12,432	14%
Income from Operations	957	686	40%
Operating margin	6.7%	5.5%	

3.1.1. *General comments on activity*

The European power market proved dynamic in both gas and steam equipment and services during fiscal year 2006/07, while the sustained economic growth in Asia keeps driving a robust demand in new power equipment, mainly in coal and hydro. Concerns on dependency on gas and fuel record prices create the need for more efficient power technologies as well as for a more diversified portfolio of energy production technologies. This trend is supporting the demand in high-efficiency coal power plants worldwide. In addition, the need to comply with environmental

regulations (CO₂, Nox, Sox) and the ageing of the installed base are driving the demand for environmental upgrades of existing power plants. Overall, this favourable context in Power supported the Group's high level of activity for new turnkey plants, plant improvements and associated services.

In a competitive Transport market, the Group achieved a good performance in regional trains, tramways and metros in Europe. The Asian market is also growing rapidly with a high level of activity in China in metro and mainline, along with promising potential in mass transit in India. Very high speed also represents significant opportunities for the Group, particularly in Europe and in Central/South America.

3.1.2. Orders received and backlog

Orders received for fiscal year 2006/07, amounting to €19,029 million, were at a remarkably high level with a 34 % increase compared to fiscal year 2005/06 on a comparable basis (adjusted mainly by the disposals of the Power Conversion business, the Transport activities in Australia and New Zealand, the FlowSystems business, the Industrial Boiler business and miscellaneous activities).

All sectors contributed to this growth, with a particularly strong commercial performance in the Power Sectors:

- Power Systems order intake amounted to €9,535 million, a 65 % increase on a comparable basis. The most significant orders booked for Power Systems included a 833MW clean coal power plant in Poland, a 670MW clean coal power station in Bulgaria, the turbine island for the new European Pressurised Reactor (ERP) nuclear power plant in Flamanville (France), a high number of GT26-based combined cycle power (in Australia, France, Italy, Spain, and the United Kingdom), various air pollution systems in North and Latin America and a high efficiency coal-fired generating plant in the United States;
- Power Service order intake, at €4,058 million, increased by 22 % on a comparable basis, notably as a result of major operation and maintenance (O&M) contracts in Europe and in Middle East related to gas-fired power plants, significant upgrades for plants, steam and gas turbines, as well as substantial service contracts in Europe and in the United States.

Transport orders intake increased by 8 % on a comparable basis at €5,388 million. In fiscal year 2006/07, Transport booked orders for metros in Paris, Budapest, Santo Domingo and Shanghai, for tramways in Angers, Reims, Toulouse and Algiers, for commuter trains in France, Germany, Sweden and Denmark, and for rail infrastructure projects in China and Turkey.

At 31 March 2007, the Group's total backlog reached €32,350 million, a 22 % increase from €26,431 million at 31 March 2006 on a comparable basis, representing more than 27 months sales.

3.1.3. Sales

Sales were €14,208 million for fiscal year 2006/07 compared to €12,432 million for fiscal year 2005/06 on a comparable basis, representing a 14 % increase, as a result of growing order intake in the last periods.

Sales in Power Systems grew from €4,724 million in fiscal year 2005/06 to €5,673 million in fiscal year 2006/07, i.e. a 20 % increase, while Power Service grew by 18 % at €3,198 million and Transport increased by 7 % at €5,288 million (all figures are on a comparable basis).

3.1.4. Income from operations

Income from operations in fiscal year 2006/07 amounted to €957 million, up 40 % from an income from operations of €686 million in fiscal year 2005/06 on a comparable basis; operating margin improved from 5.5 % to 6.7 %. This progress was achieved while increasing by 30 % research and development spending; at the same time selling and administrative expenses were contained.

3.1.5. Net profit (Group share)

Net profit (Group share) amounted to €448 million compared with €178 million in fiscal year 2005/06 up 152 % on an actual basis. This performance resulted mainly from improved operational performance and lower financial expenses.

This strong increase in net income was achieved despite capital losses on past disposals incurred during fiscal year 2006/07, including the fines received from the European Commission for alleged anti-competitive practices in the gas insulated switchgears market, whereas a significant capital gain was recorded last year on the disposal of Transport activities in Australia.

3.1.6. Free cash flow

Free cash flow (as defined in paragraph 8.1) amounted to €745 million for fiscal year 2006/07 after an exceptional and discretionary contribution of €300 million to pension plans in Germany. Before this non-recurring event, the Group therefore generated a free cash flow of €1,045 million, compared to a free cash flow of €525 million in fiscal year 2005/06.

This increase in free cash flow resulted mainly from:

- a strong increase in operating cash flow due to the improvement of profitability;
- a significant improvement of the working capital, partly related to the high level of order intake;
- a decrease in restructuring cash outflow and financial expenses.

3.1.7. Net debt

Net debt (as defined in paragraph 8.3) was €64 million at 31 March 2007 compared with €1,248 million at 31 March 2006. This reduction of debt was mostly the consequence of the positive free cash flow and the release of the €700 million cash collateral which secured the Group's former bonding programme.

Total equity increased from €1,840 million at 31 March 2006 to €2,271 million at 31 March 2007 as a result of the Group's strong net income.

Gearing (defined as net debt over total equity ratio) was down to 3 % from 68 % at the end of the previous year.

3.2. Key geographical figures for fiscal year 2006/07

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 both on an actual and comparable basis.

ALSTOM			<i>Var 2006/07</i>		
Actual figures, in € million	31 Mar 07	% of contrib	<i>vs. 2005/06</i>	31 Mar 06	% of contrib
Europe	11,396	60%	46%	7,832	51%
North America	3,232	17%	61%	2,010	13%
South and Central America	1,157	6%	11%	1,039	7%
Asia/Pacific	2,307	12%	-18%	2,810	18%
Middle East/ Africa	937	5%	-41%	1,599	11%
Orders received by destination	19,029	100%	24%	15,290	100%

ALSTOM			<i>Var 2006/07</i>		
Comparable figures, in € million	31 Mar 07	% of contrib	<i>vs. 2005/06</i>	31 Mar 06	% of contrib
Europe	11,396	60%	53%	7,433	52%
North America	3,232	17%	79%	1,809	13%
South and Central America	1,157	6%	13%	1,021	7%
Asia/Pacific	2,307	12%	-3%	2,368	17%
Middle East/ Africa	937	5%	-39%	1,542	11%
Orders received by destination	19,029	100%	34%	14,173	100%

Orders received in Europe at €11,396 million in fiscal year 2006/07 increased by 46 % on an actual basis and by 53 % on a comparable basis. Europe was the Group's largest market in terms of orders received, reaching 60 % of total orders (from 51 % on an actual basis and 52 % on a comparable basis). This evolution was mainly due to a large number of turnkey power plants orders across Europe.

North America was the Group's second largest market, representing 17 % of ALSTOM's global orders received during the period at €3,232 million (from 13 % during previous fiscal year both on an actual and comparable basis), boosted notably by the order of a turnkey coal-fired power plant. The order intake increased substantially by 61 % on an actual basis and 79 % on a comparable basis.

Orders in South and Central America increased by 11 % on an actual basis (13 % on a comparable basis) at €1,157 million. During fiscal year 2006/07, main orders received were for hydro projects in Ecuador and Venezuela, while Transport recorded a contract for a metro in the Dominican Republic. South and Central America accounted for 6 % of total orders in 2006/07.

Orders received in the Asia/Pacific region decreased by 18 % on an actual basis at €2,307 million in fiscal year 2006/07 (or 12 % of total orders) due to a decrease in order intake in the Power Systems Sector where major hydro projects were recorded in China and India in fiscal year 2005/06 and to the disposal of Transport activities in Australia and New Zealand. On a comparable basis, the decrease in orders received is 3 %. Main orders received in the Asia/Pacific region during 2006/07 include a turnkey power plant in Australia, as well as the supply of hydro equipment and freight locomotives in China.

Orders intake in Middle East/Africa was €937 million (5 % of total orders) in 2006/07, down by 41 % on an actual basis and 39 % on a comparable basis. Main orders received during 2006/07 include the refurbishment of a coal-fired power plant in Bahrain and long-term service agreements for a power plant in South Africa as well as the supply of a tramway system in Algeria.

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, both on an actual and comparable basis.

ALSTOM Actual figures, in € million	31 Mar 07	% of contrib	Var 2006/07		
			vs. 2005/06	31 Mar 06	
Europe	6,922	49%	10%	6,301	47%
North America	2,442	17%	12%	2,172	16%
South and Central America	854	6%	-4%	891	7%
Asia/Pacific	2,505	18%	-9%	2,747	20%
Middle East/ Africa	1,485	10%	14%	1,302	10%
Sales by destination	14,208	100%	6%	13,413	100%

ALSTOM Comparable figures, in € million	31 Mar 07	% of contrib	Var 2006/07		
			vs. 2005/06	31 Mar 06	
Europe	6,922	49%	18%	5,880	47%
North America	2,442	17%	21%	2,016	16%
South and Central America	854	6%	-1%	865	7%
Asia/Pacific	2,505	18%	4%	2,403	20%
Middle East/ Africa	1,485	10%	17%	1,268	10%
Sales by destination	14,208	100%	14%	12,432	100%

At the end of March 2007, the Group's sales in Europe increased by 10 % compared to fiscal year 2005/06, and represented 49 % of the Group's global sales, at €6,922 million. In the region, the increase in sales for Power Systems and Power Service was offset by a slight decrease in sales for Transport as well as by the disposal of the Power Conversion and FlowSystems businesses that were mainly serving the European market. On a comparable basis, European sales increased by 18 %.

Sales in North America amounted to €2,442 million in fiscal year 2006/07, a 12 % increase from previous fiscal year and a 21 % increase on a comparable basis. Sales in North America represented 17 % of total sales at the end of March 2007. This evolution was mainly due the growth of activities in the Power Systems and Power Service Sectors.

Sales in Central and South America amounted to €854 million (6 % of total sales) in 2006/07, a 4 % and 1% decrease on an actual and comparable basis respectively.

The Group's sales in Asia/Pacific decreased by 9 % compared to fiscal year 2005/06 at €2,505 million, mainly due to the disposal of the Transport activities in Australia and New Zealand. On a comparable basis, sales in the region increased by 4 %.

Power Service sales increased strongly in the Middle East/Africa region due to contracts in Bahrain, Libya and South Africa, explaining the major part of the Group's 14 % increase in sales in this region (17 % on a comparable basis) at €1,485 million in 2006/07.

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 both on an actual and comparable basis.

ALSTOM			<i>Var 2006/07</i>		
Actual figures, in € million	31 Mar 07	% of contrib	vs. 2005/06	31 Mar 06	% of contrib
Europe	9,912	70%	9%	9,057	68%
North America	2,409	17%	12%	2,152	16%
South and Central America	481	3%	-18%	585	4%
Asia/Pacific	1,248	9%	-16%	1,482	11%
Middle East/ Africa	158	1%	15%	137	1%
Sales by origin	14,208	100%	6%	13,413	100%

ALSTOM			<i>Var 2006/07</i>		
Comparable figures, in € million	31 Mar 07	% of contrib	vs. 2005/06	31 Mar 06	% of contrib
Europe	9,912	70%	16%	8,547	69%
North America	2,409	17%	21%	1,997	16%
South and Central America	481	3%	-15%	567	4%
Asia/Pacific	1,248	9%	5%	1,192	10%
Middle East/ Africa	158	1%	23%	129	1%
Sales by origin	14,208	100%	14%	12,432	100%

By region of origin, sales in Europe increased by 9 % on an actual basis (16 % on a comparable basis) at €9,912 million in fiscal year 2006/07, representing 70 % of total sales. France, Switzerland, Italy and Spain were the main contributors to this increase which was partly offset by the decreasing contribution of the United Kingdom while the contribution of Germany was stable. Sales from North America increased by 12 % on an actual basis (21 % on a comparable basis) at €2,409 million or 17 % of total sales in 2006/07. South and Central American sales decreased by 18 % on an actual basis (15 % on a comparable basis), at €481 million. The Asia/Pacific region decreased by 16 % on an actual basis due to the disposal of the Transport activities in Australia and New Zealand (corresponding to a 5 % increase on a comparable basis). Sales from Middle East/Africa represented €158 million in 2006/07.

4. Outlook

For the future, the Group aims at capitalizing on its favourable positioning in both power and rail transport markets to further focus on growth and performance improvement. Priority for the Group is to consolidate its commercial performance, to keep strengthening its project execution while executing a loaded backlog and to adapt its industrial organisation to new challenges. The Group will continue to support its future growth through adequate spending on research and development and capital expenditure that will maintain technology leadership and build new capacities. Selected partnerships and acquisitions should also boost this growth.

In this context, for fiscal year 2007/08, the Group's sales should experience a double digit increase (on a comparable basis) while its operating margin target of 7% should be exceeded, as the operating margin should be over 8 % for the combined Power Sectors and of 7 % for the Transport sector.

For fiscal year 2009/10, operating margin should range between 9% and 10% for the combined Power Sectors and between 7% and 8% for the Transport Sector, leading to an operating margin for the Group over 8%.

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.

More particularly, 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 capabilities. 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 high-tech 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 2006/07, 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), generators, boilers, emission reduction systems and control systems, as well as a full range of services including plant modernisation, maintenance and operational support.

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

I. Offering

I.1. Power Systems offering

The Power Systems Sector designs, manufactures and supplies state-of-the-art products and systems to the power generation – for gas, coal, and hydro power plants - and industrial markets. It also provides conventional islands for nuclear power plants.

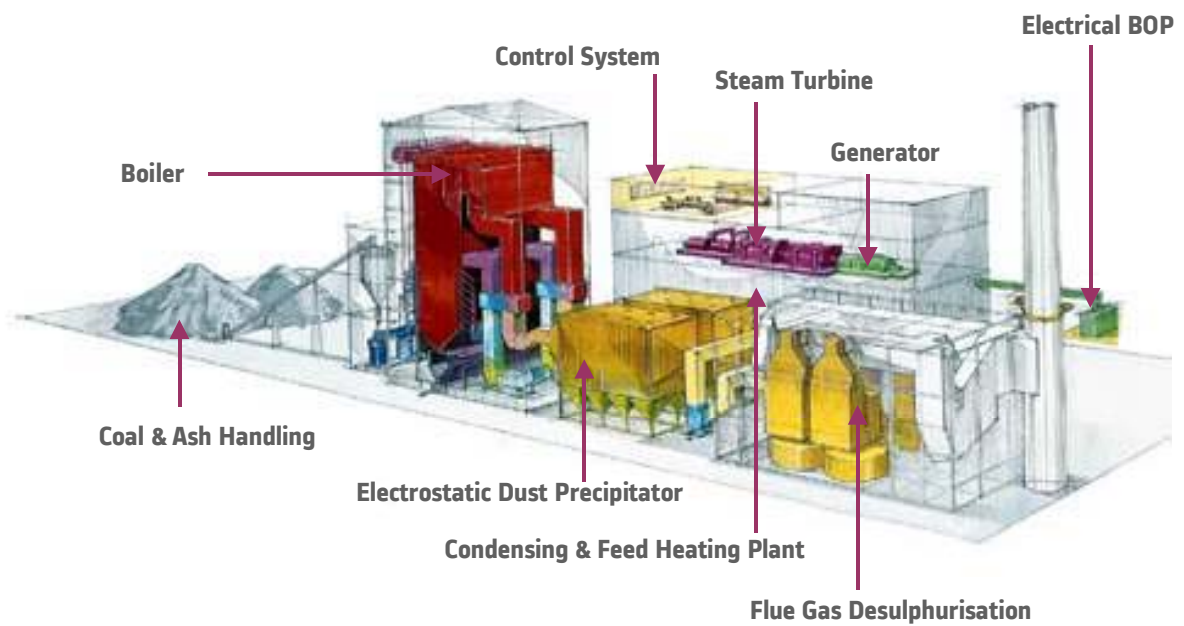
All components can be integrated in order to build the most efficient and the cleanest power solutions for the customers– from boilers and air quality control, to energy recovery systems. ALSTOM has an extensive experience in retrofitting, upgrading, refurbishing and modernising existing power plant equipment. This knowledge is of great value as the worldwide installed base is ageing and needs to operate under more and more stringent regulations.

The Power Systems operates in all geographic markets:

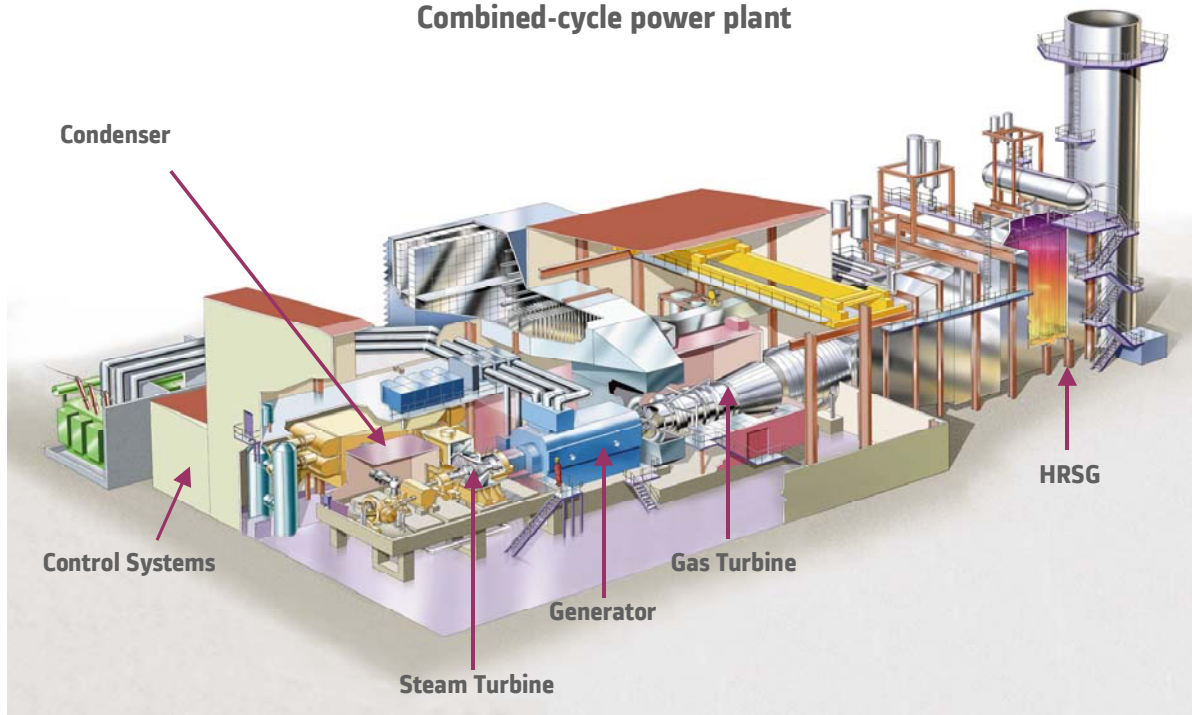
- ALSTOM's main manufacturing sites for steam turbines and generators are located in Birm (Switzerland), Belfort (France), Beijing (China), Wroclaw (Poland);
- Boilers are mainly manufactured in Durgapur (India), Surabaya (Indonesia) and Brno (Czech Republic);
- Heat Recovery Steam Generators are mainly manufactured in Surabaya (Indonesia);

- Main manufacturing sites for gas turbines are located in Birr (Switzerland), Mannheim (Germany), Elbag (Poland);
- Hydro turbines are mainly manufactured in Grenoble (France), Baroda (India), Taubaté (Brazil), Tianjin (China);
- Turbine islands for nuclear power plant are manufactured in Belfort (France).

Coal power plant



Combined-cycle power plant



1A. 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 customer's specific requirements, combining high performance and reliability, with total environmental compliance.

ALSTOM has installed more than 1,300 steam turbine and generator sets and more than 100 turnkey steam power plants, totalling 430 GW world-wide.

a. Integrated Solutions

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

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

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 and services.

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

b. 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 for 40 MW to 1,200 MW fossil fired power plants, ALSTOM proposes optimal designs for the entire range providing the most 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.

- **Control Systems**

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

c. 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-NO_x 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 of 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 step will be the capture of CO₂. ALSTOM is already testing a leading solution on an industrial scale, building on expertise of traditional pollutant control.

1B. 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. Customers today operate over 100 GW of plants built by ALSTOM for various power generation and heat applications.

a. Integrated Simple Cycle Power Plants

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

b. Integrated Combined Cycle Power Plants

For customers who wish efficient, flexible and competitive power generating capacity, ALSTOM proposes modular combined cycle plant designs that are optimised with regards to performance, emissions and installation times. The ALSTOM-made reference modules are adaptable to various site conditions and to individual power plant requirements; in addition, 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; or the phased-construction and steam-tail add-ons to convert simple-cycle into combined cycle plants.

c. 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 are using simple air-cooled technology. This technology combines easy maintenance and high efficiency of nearly 99%. Continuous development enables ALSTOM to build the worldwide 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.

1C. Hydro Power

ALSTOM is a market leader for hydro turbines and generators and it has supplied 25% of the world's installed hydro power generation capacity. All core equipment are produced in-house.

As part of the cooperation with Bouygues, a joint-venture 50-50 in hydro -called ALSTOM Hydro- was created between ALSTOM and Bouygues. This operation was finalised on the 31 October 2006 by the purchase by Bouygues of a 50% stake in ALSTOM's Hydro activities.

- a. ALSTOM Hydro Power Solutions

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

ALSTOM Hydro today 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 interface 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 optimization.

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

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.

- b. Products

- **Turbines up to 900 MW**

ALSTOM Hydro provides a full range of hydro turbines up to 900 MW to meet all industry applications, whether 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 1000 MVA**

ALSTOM Hydro's generators produce up to 1000 MVA for any hydro power application, including large and medium hydro generators, small generators, bulb generators, diesel generators, and excitation systems.

- **Hydro-Mechanical Equipment**

The demand for water is rapidly increasing. But control, distribution and disposal of water require a great deal of specialized equipment. ALSTOM Hydro designs and manufactures hydro-mechanical equipment for hydropower 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 satisfied within seconds.

1D. Nuclear Power Plants

Nuclear energy is more and more on the agenda in many countries as a part of the CO2 free energy mix required to limit global warming. 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 the conventional islands and services for nuclear power stations.

- a. Nuclear solutions

ALSTOM core competences 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.

- b. Products

- **Steam Turbines**

ALSTOM has produced and installed over 175 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 largest steam turbines with four 1550 MW units having cumulated over 200 000 hours of operation.

- **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 1800 MW output. ALSTOM has built around 30% of the world's fleet of turbogenerators for nuclear power plants.

1E. 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 with which to 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 complete plant upgrades, rehabilitation packages, and service partnerships.

Power Systems also has unique value-integration skills that combine boiler and turbine retrofits to increase the plant's economics and the environmental benefits.

ALSTOM also possesses the largest retrofit experience in the market with the retrofit of over 340 ALSTOM fleet cylinders and of over 250 third party cylinders .

1.2. Power Service offering

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

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

- spare parts: including re-conditioned parts, workshop repairs;
- field service: outage management, field repairs, erection, commissioning, construction, supervision;
- consultancy & support: technical services, condition assessment, consultancy, training, monitoring & diagnosis, performance analysis;
- performance improvements: upgrades, uprates, modernisation, optimisation, life-time extension; and
- service agreements: inventory management, maintenance management, long term service agreements, operation & maintenance (O&M) for all major power plant components as well as combinations of these through packaging of integrated solutions. These solutions are designed to meet specific customer requirements for asset life-cycle management, performance improvements, risk management, cost management or environmental compliance.

The Power Service offering of turnkey services is particularly well suited to the growing demand on the part of electricity producers, who are looking for a long-term relationship.

The Power Service Sector has more than 15,000 specialists in 25 technology-related product centres, and 200 local service centres in 70 countries around the world.

Power Service is active in every plant area:

- **Gas Turbines**

With the ever-increasing cost of natural gas, turbine performance and sub-component lifecycle extension have become paramount concerns. Power Service is continually developing innovative upgrade solutions for gas turbines. The Sector achieves substantial thermal efficiency gains for reduced costs, and its knowledge of the latest coatings and reconditioning techniques ensures the reliability and longevity of spare parts.

- **Steam Turbines**

Any delays in delivering spares can turn a brief turbine outage into an expensive situation. ALSTOM's process for blade manufacturing and logistics is one example of a response that has earned Power Service a reputation for one of the industry's shortest delivery time of critical parts. The Sector's record in extending existing component lifecycles is also clearly established.

- **Generators**

As the average age of power plant generators increases worldwide, maintenance, lifetime extension and failure-risk management become evermore critical. Plant operators need effective cost control for components such as rotors and stators. Power Service has developed monitoring and diagnostics systems with continuous assessment that reduce unscheduled downtime. As the global leader in component rewinding, Power Service's time-to-restart is excellent—as is its record of increasing per-unit output through upgrading and reconditioning.

- **Boilers**

A leader in steam generation since more than a century, ALSTOM benefits from its experience, capabilities and responsive service for boiler island equipment. Power Service partners with boiler operators to meet operational challenges with products that offer reliability, performance and extended service life. Power Service's experienced technical service engineers are an invaluable asset in assessing equipment condition and ensuring optimal operation.

- **Balance of Plant**

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

- **Instrumentation, Control and Electrical Equipment**

ALSTOM has invested strongly in developing innovative, cost-effective solutions. Power Service experts integrate modern control architectures into existing systems, and offer a comprehensive asset-assessment and optimisation process to ensure that every balance of-plant subsystem achieves original performance and efficiency—or better.

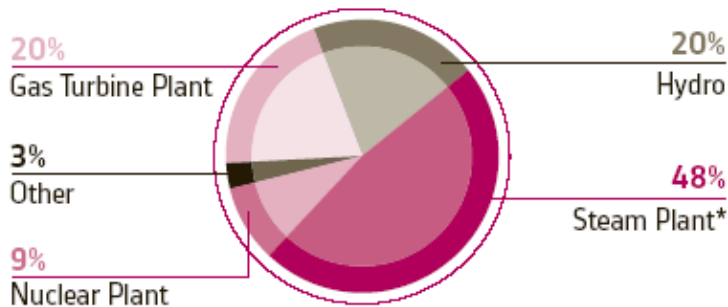
- **Environmental Equipment**

Meeting environmental standards around the world requires responsive, innovative engineering and management. Power Service ensures on-line availability of environmental controls while balancing costs and performance. A good example is a set of cost-effective strategies for upgrades and rebuilds of precipitators and filtration systems that control costs with redesigned or revamped core components. ALSTOM solutions for particulate or sulphur-dioxide reduction systems deliver long-term compliance with maximum availability and known costs.

II. Industry characteristics

The world's installed power generation capacity at the beginning of 2006 was estimated at around 4,230 GW. The chart below sets out the breakdown of this installed base by technology.

Installed Base by Technology



* 64% of Steam Plants are fuelled by coal, 19% by gas, 14% by oil, 3% others.

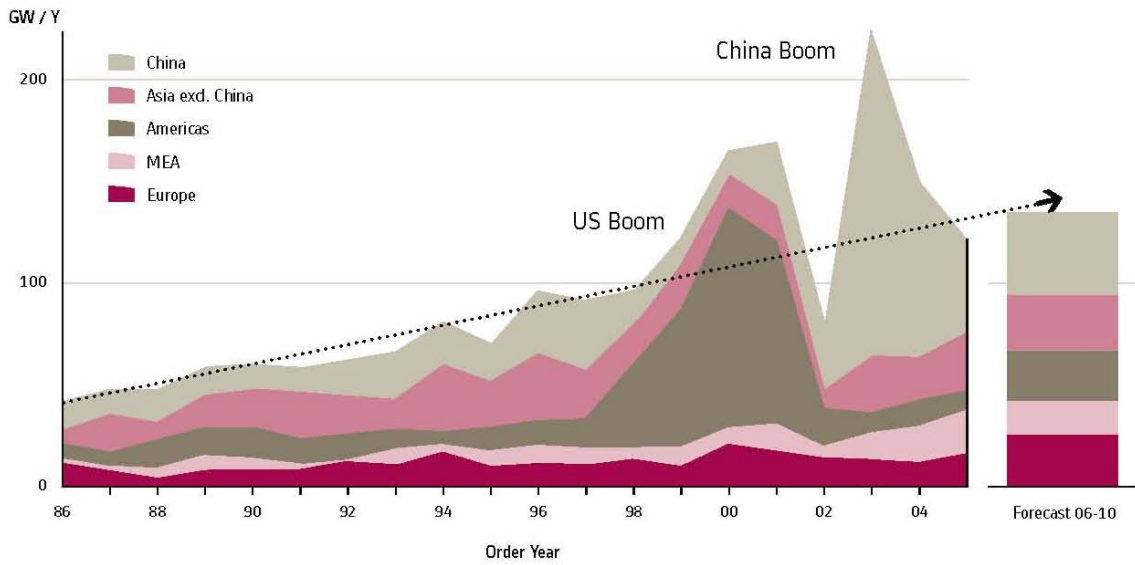
Source: ALSTOM, Utility Data Institute (UDI) – Status 1st of January 2006

Investments needed in new power generation over the next decades are extremely important: according to IEA (WEO 2006), they should represent at least around €140 billion per year until 2030.

Market evolution

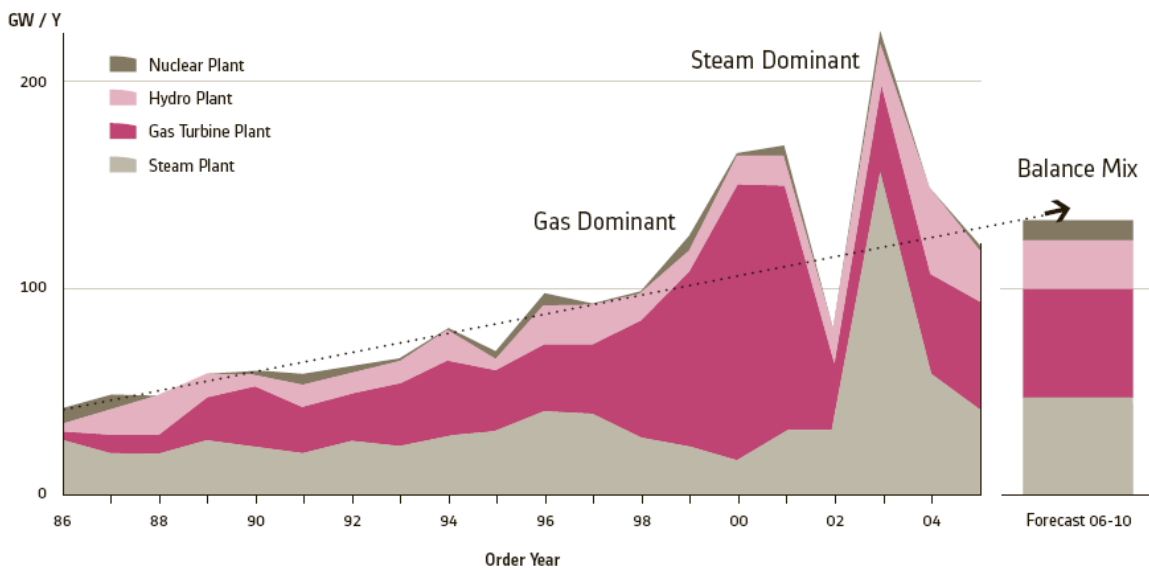
The graphs below show the evolution of the large power plant market by region and by technology, considering ALSTOM's scope of activity:

Market evolution



Notes: Large GTs, Large Conv STs, ST CC, Nuclear, Hydro
 Source: ALSTOM

Market evolution



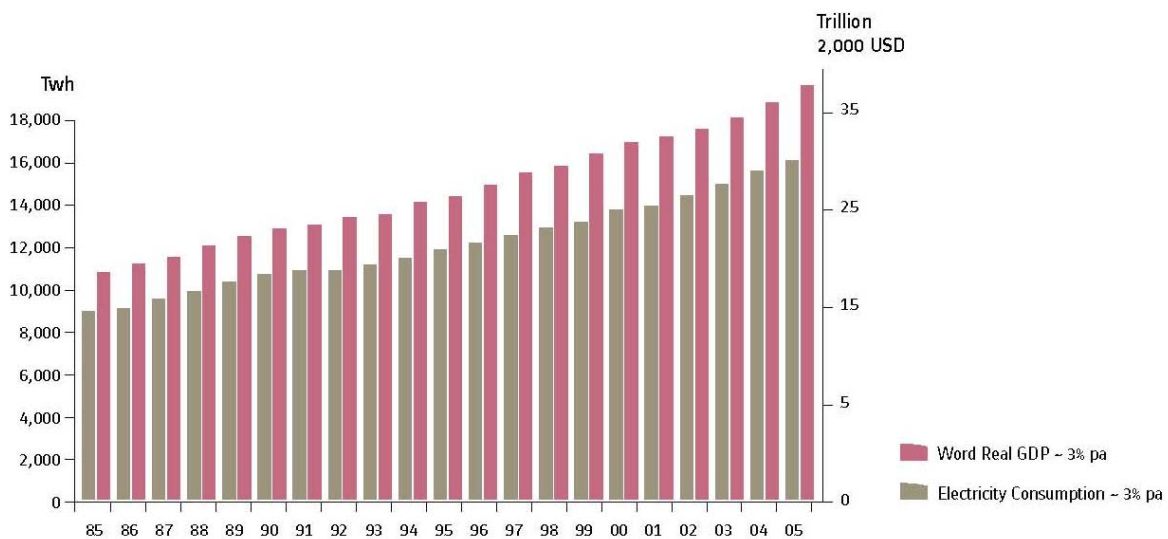
Source: ALSTOM

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

Economic growth

Global demand for new power plants tends to be stronger in those regions where economic growth is high. Historically, there has been a strong correlation between growth of the electricity consumption and worldwide GDP growth, although on a short-term basis, demand for power generation equipment may fluctuate significantly. Changing consumption patterns that favour electricity as a power source also drives demand for power generation equipment.

Electricity consumption growth ~ linked to GDP



Source: ALSTOM, EIA-DOE, Worldbank

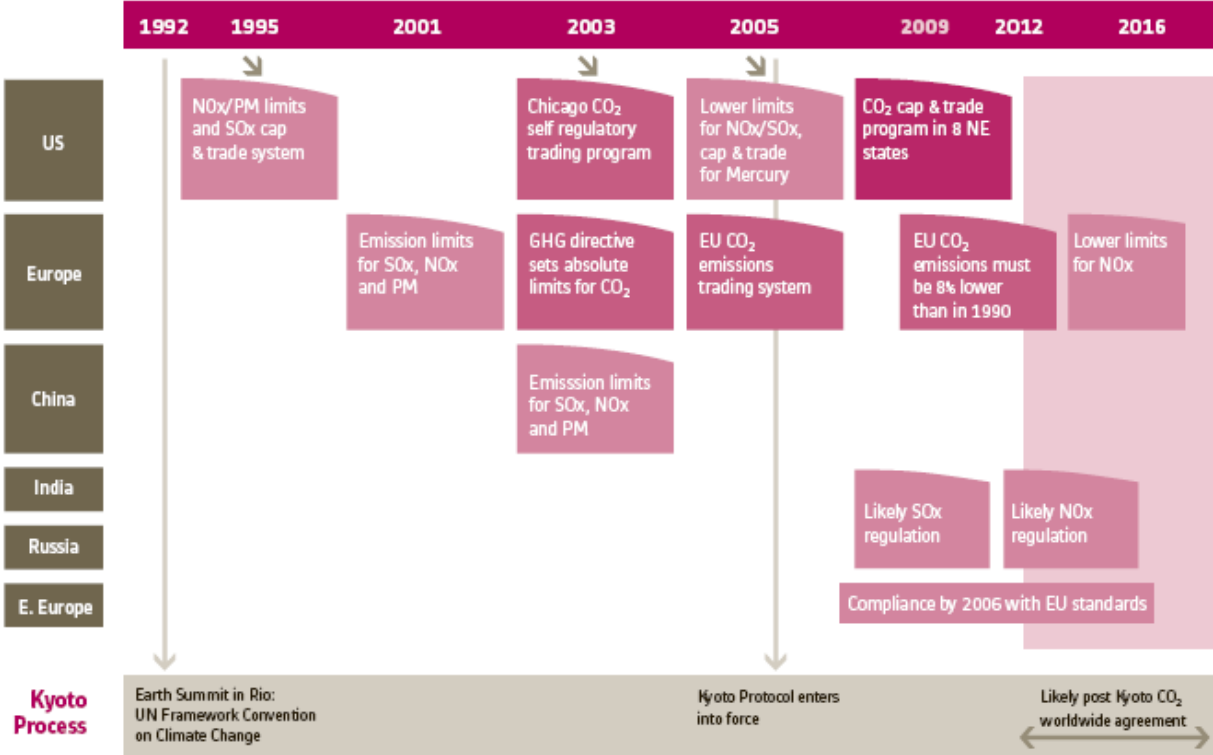
Following a period of intense growth in power infrastructure investment in the United States from the late 1990s, 2002 saw a sharp drop in the level of new orders. In 2003 and 2004, the world economy was driven by unprecedented growth in China, and there was literally a surge for new power plants in the country. 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 this region’s capacity demand. Alongside continued healthy demand for conventional steam plants and hydro plants, 2005/06 also saw a high level of gas plant orders. Strong demand for gas fired technologies in the Middle East and Europe and somewhat lower order levels in China, resulted in a fairly balanced technology split. In forthcoming years, ALSTOM continues to see a balanced regional and technological mix of the large power plant market, with at least two third for fossil power plants (steam plants- mainly burning coal / gas plants- mainly burning gas), a strong hydro market and a smaller but growing market for nuclear. Asia will likely remain the biggest market globally, with China and India representing key parts of it. The rest of the world market will be roughly equally distributed among the Middle East, including big projects for Combined Power & Water (IWPP), Europe – with a strong German coal market and a potential market comeback in Russia - and the Americas.

Environmental concern

Alongside energy security, environmental concerns have been the most widely debated topic over recent years. A real change in behaviour is visible, with more stringent legislations and a general

consensus amongst OEM’s, generators, the public and politicians that action needs to be taken against global warming and pollution.

Environmental legislation: a main driver for change



Source : IPCC, ALSTOM

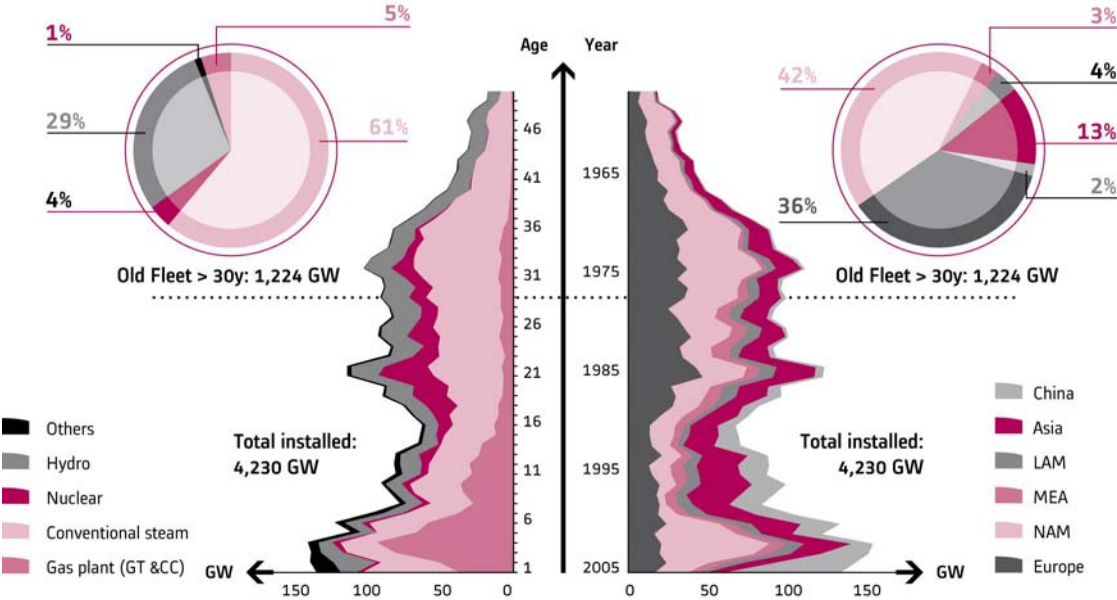
These environmental concerns have not only created increased demand for clean-coal technologies, but also for refurbishment and for the integration of environmental control systems in existing power plants - A field where ALSTOM is particularly strong. The outlook for environmental equipment market is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

Ageing installed base of power plants

The ageing installed base along with more stringent environmental regulations will lead to higher demand for retrofit. Even with modest GDP growth, 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. 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 has particularly benefited 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 USA. 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 thermal power generation equipment. The Group considers the experience with installing and servicing this large installed base of equipment is key in securing further customer service contracts and supporting sales of the Power Service Sector in the future.

Age pyramid of world installed capacity



Note : 180 GW missing due to unknown commission year
 Source : ALSTOM, UDI

Deregulation and liberalisation

The deregulation and liberalisation process of electricity markets transformed the customer base and also impacted demand. This was particularly visible during the boom in the USA, where demand from merchant developers, which are private power plant operators, selling electricity independently, grew very fast. However, record high fuel and carbon dioxide prices, as well as increased wholesale and retail electricity prices, have led to a restructuring of the industry. The high energy prices have increased the threats of political intervention to cap or curb price levels, adding political risks for power companies and ultimately questioning liberalisation. Concerns regarding energy security of supply are also increasing, leading to more government intervention in power investment decisions such as for new nuclear power. A slow move towards a more balanced positioning between market-based policies and government control is recorded in several regions.

Besides driving a large proportion of new investment in the past few years, liberalisation also caused price pressure on power plant costs and increased the demand for more efficient and environmentally friendly plants with higher operating profitability. In addition, the increasing number of plants built and owned by private companies that tend to outsource most of their operating and maintenance activities is also driving service market growth. Such a trend has been maintained even in a period of lower private initiatives since utilities are also adopting a strategy of cost reduction and asset optimisation.

Deregulation influences the timing of market demand and the choice of portfolio of technologies, but not the volume of the demand. Its influence on the final price of electricity is not proven yet.

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.

Gas prices especially have strongly increased, more than doubling compare to the end of the 90's – the time where gas turbine investment were booming in the USA. They are also far more volatile than coal or uranium prices. The rise in energy prices is general, but does not impact similarly the cost of electricity produced by the power plants: gas plants are more sensitive to fuel price changes than coal or nuclear plants. Coal is currently the world's fastest growing fuel, although China alone accounted for the lion part of the consumption growth.

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

The 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 Middle East still holds the largest proven reserves but Russia alone has over 25% of the world wide proven reserves and is also the biggest 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 power generators companies profitability on a long term and a key path for energy security increase in a country.

III. Competitive position

ALSTOM Power Sectors occupy leading worldwide positions in the major part of their businesses.

III.1. Power Systems competitive position

The Power Systems Sector occupies leading worldwide positions in all its Businesses.

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

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 like Shanghai Electric, Harbin and Dongfang in China, or BHEL in India.

In the utility boilers segment, the Sector's main competitors are Mitsubishi Heavy Industries, Babcock & Wilcox, Babcock Hitachi, Foster Wheeler and the domestic suppliers in India and China 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 hydro-electric power market, ALSTOM Hydro's main competitors are Voith-Siemens, Andritz VATECH Hydro and IMPSA as well as Chinese domestic manufacturers Harbin and Dongfang and BHEL in India.

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 conventional part in nuclear island;
- its position as world leader in hydro systems and equipment, through the joint venture with Bouygues.

III.2. Power Service competitive position

Main competitors in service include other original equipment manufacturers of power generation equipment such as General Electric, Siemens-Westinghouse and Mitsubishi who mainly concentrate on servicing their own equipment, as well as a number of smaller independent and local service providers.

The Power Service Sector's competitive strengths are:

- extensive global network of local service capabilities with more than 200 local service centres in some 70 countries, throughout the world;
- large base of ALSTOM-supplied power generation equipment;
- a large service product portfolio, covering the whole plant and its systems; and
- a continuous development of innovative service products and solutions thanks to a comprehensive research and development effort.

IV. Research & development focus

IV.1. Power Systems R&D

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

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.

Another area which has seen continuous improvement is clean power. Growing levels of CO₂ and other greenhouse gases are increasingly contributing to global warming and to fundamental changes in the earth's climate. Existing power generation accounts for one third of these greenhouse gases.

The main issue today is the CO₂ emitted by existing plants. ALSTOM's primary focus is to produce cleaner power in today's fossil fuel power plants, through using advanced but proven technologies. Efficiency is the first target as improved efficiency means a lower rate of fuel used per MWh of electricity. ALSTOM's R&D centers have focused on ways to improve efficiency and performance of all types of power generating systems from fuel delivery to flue gas treatment. Innovations in boiler technology will enable new supercritical and ultra-supercritical coal-fired plants to achieve around 50% efficiency with high reliability and availability.

The Group also believes that CO₂ capture is a must and ALSTOM is at the forefront of developments to produce reliable, cost-effective solutions for CO₂ capture, retrofitable for the installed base and new built. Pilot projects have been launched in Europe and in the USA, in collaboration with main customers, for post-combustion capture and oxy-firing experiments. ALSTOM is leading the way in the race to curtail emissions for traditional pollutants.

Whilst clean power technologies for fossil fuel power generation will continue to dominate the power industry in the short to medium term, ALSTOM will continue with its philosophy of maintaining a portfolio of technologies that meets the market and environmental demands.

ALSTOM's R&D efforts are driven essentially by current and future market needs in its product areas. To ensure that this is so, the 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 seek links with the leading academic institutions to access facilities, expertise and research talent. Across the world, the Group has established relations with some forty universities where active R&D collaboration is underway.

ALSTOM has also developed partnerships with some of its customers to build demonstration plants, e.g. in the fields of enhanced plant's efficiency and carbon capture and storage. One good example is the agreement signed between ALSTOM and AEP – main coal power producer in the USA - in March 2007 to bring the CO₂ capture technology to commercial scale by 2011.

Whilst much of technology is currently developed in Western Europe and the USA, ALSTOM is developing centres of excellence in other parts of Europe, and in India and China from where much of the demand for new power generation capacity will come in future years.

IV.2. Power Service R&D

The Power Service Sector provides day-to-day services based on its knowledge in operating and maintaining power stations at world-class levels, thus reducing the customer's risk profile in terms of operational and maintenance related aspects.

R&D within Power Service has launched several programmes with the objective of creating increased value for customers. These programmes mainly focus on gas turbine upgrades, monitoring and diagnostic processes, performance and lifecycle solutions, steam turbine replacement parts, and generator rewind solutions.

In the area of service for gas turbines and combined-cycle power plants, Power Service R&D activities focus mainly on improvements of thermal efficiency, on lowering lifecycle costs and on environmental issues for already existing power plant. Thus, the Sector not only offers solutions to keep existing power plants competitive, but also to reduce their 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 environmental requirements regardless of power plant age.

In the area of monitoring and diagnostic processes, a special program focus is on the newly introduced inspection technologies targeting the application of state-of-the-art remote operating vehicles applying advanced inspection and repair methodologies.

With ALSTOM's advanced monitoring, assessment and inspection technologies such as ECORAM "CO₂-CUT", and gas turbine rotor retirement programme, Power Service can review the condition of a power plant, recommend performance improvements, life cycle extension solutions, meet environmental requirements, and increase power plant availability.

By identifying efficiency upgrades, the Sector can immediately deliver fuel savings for the plant operator, at an unchanged electricity production rate, whilst allowing compliance with the Kyoto Protocol to reduce the CO₂ impact.

In the area of steam turbine replacement parts, advancements in the manufacturing process for stationary blade profiles mean that Power Service can now meet geometric requirements for the original blade design. Combined with a superior material specification this allows for delivery of new blades with enhanced anti corrosion capabilities.

In addition, by using computational fluid dynamics analysis the Sector can redesign blade geometry to deliver a higher efficiency level.

In the generator space, Power Service R&D has developed an economical stator rewind solution by combining ALSTOM's standard stainless steel cooling technology with low cost manufacturing capability.

V. Strategy

V.1. Power Systems Strategy

The two pillars of the Power Systems strategy are:

- the Plant Integrator, and
- the Clean Power.

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 in always looking at creating more value for customers via the search for total optimization of a power solution versus mere direct cost reduction via products compilation. It allows to:

- Increase cash flow and get lowest cost
- Get more power
- Increase the installation's efficiency
- Burn less fuel

- Improve flexibility of operation

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

Today, plant operators are facing multiple challenges in their efforts to make their plants more competitive, while complying with the different environmental regulations. In addition, market predictions say that electricity demand will continue to increase in the next decades.

Clean Power

ALSTOM stands ready to help plant operators to choose the right and balanced portfolio of energy sources, while giving them the newest technologies on hand to curtail emissions, both all traditional pollutants and CO₂. ALSTOM today is best positioned to provide the cleanest power plants: for all plants (both existing and new ones), all types of energy sources (from fossil fuels, hydro, to nuclear), and all emission types (NO_x, SO_x, Mercury, particulate matters).

ALSTOM offers the complete range of products designed to help power plants to either reduce pollutant and CO₂ emissions, or to produce clean electricity straight from the beginning.

In addition of these two pillars, the Power Systems Sector continues to implement an operational methodology based on the Back to Basics programme, that focuses on three key issues:

- Increase intake of profitable orders, through a global sales coverage and being present where the customer is.
- Improve project management excellence.
- Optimise the cost base by moving it where the market is and where the labour cost is lower and the workforce flexible.

As part of this issue, the Power Systems strategy is to increase its presence in China and India, and to build its position in Russia and the emerging markets.

Another key growing trend is the use of Chinese manufacturing units or Indian engineering offices to export products or projects to other countries. For example, the ALSTOM Beizhong Power (ABP) joint venture allows the Group to build a local presence in China for the steam turbine and generator markets.

Whenever necessary, ALSTOM will strengthen its position through strategic partnerships and will observe opportunities to expand its product range. One good example is the agreement signed on 2 April 2007 with Russian group Atomenergomash to create a joint venture dedicated to manufacturing the conventional island of nuclear power plants.

V.2. Power Service Strategy

With a full service offering and extensive global and regional market coverage, ALSTOM is in a strong position to increase its Power Service activities in the future. The strategy pursued by the

Power Service Sector aims to combine growth with performance enhancement at all levels. This approach is guided by strategic priorities:

- be a full plant service provider and expert in optimising performance and extending the life cycle of equipment;
- continue to develop products which respond directly to customer needs;
- serve the needs of an expanding market, notably in key high growth areas such as China, India and, the Gulf States;
- broaden its activity portfolio through selective acquisitions;
- achieve best-in-class performance in terms of customer responsiveness and on-time delivery by focus on process excellence; and
- invest in the development of its people.

VI. Key financial data

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

Power			% Variation
Actual figures			Mar 07/
(in € million)	31 Mar 07	31 Mar 06	Mar 06
Order backlog	17,092	12,783	34%
Orders received	13,593	9,567	42%
Sales	8,871	7,932	12%
Income from Operations	711	543	31%
Operating margin	8.0%	6.8%	
EBIT	674	482	40%
Capital employed	1,480	1,373	8%

Power			% Variation
Comparable figures			Mar 07/
(in € million)	31 Mar 07	31 Mar 06	Mar 06
Order backlog	17,092	12,426	38%
Orders received	13,593	9,113	49%
Sales	8,871	7,432	19%
Income from Operations	711	509	40%
Operating margin	8.0%	6.8%	

Power Systems

The following table sets out certain key financial data for the Power Systems Sector:

Power Systems			% Variation
Actual figures			Mar 07/
(in € million)	31 Mar 07	31 Mar 06	Mar 06
Order backlog	11,873	8,447	41%
Orders received	9,535	6,076	57%
Sales	5,673	5,079	12%
Income from Operations	201	101	99%
Operating margin	3.5%	2.0%	
EBIT	175	75	133%
Capital employed	(648)	(439)	48%

Power Systems			% Variation
Comparable figures			Mar 07/
(in € million)	31 Mar 07	31 Mar 06	Mar 06
Order backlog	11,873	8,074	47%
Orders received	9,535	5,783	65%
Sales	5,673	4,724	20%
Income from Operations	201	85	137%
Operating margin	3.5%	1.8%	

Power Service

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

Power Service			% Variation
Actual figures			Mar 07/
(in € million)	31 Mar 07	31 Mar 06	Mar 06
Order backlog	5,219	4,336	20%
Orders received	4,058	3,491	16%
Sales	3,198	2,853	12%
Income from Operations	510	442	15%
Operating margin	15.9%	15.5%	
EBIT	499	407	23%
Capital employed	2,128	1,812	17%

Power Service			% Variation
Comparable figures			Mar 07/
(in € million)	31 Mar 07	31 Mar 06	Mar 06
Order backlog	5,219	4,352	20%
Orders received	4,058	3,330	22%
Sales	3,198	2,708	18%
Income from Operations	510	424	20%
Operating margin	15.9%	15.7%	

VII. Comments on activity during fiscal year

Orders

Power Systems

After the US gas bubble of 2000/2001 and the Chinese coal boom of 2003/2004, the European market has come back strongly for both gas and steam equipment. The total global market is

expected to remain active above 130GW per annum. In addition, the need to comply with environmental regulations and the ageing of the installed base has stepped up the demand for environmental upgrades of existing power plants.

Asia remains the dominant market with about half of the world demand for new equipment. Coal and hydro are and will remain the leading energy sources in China and India, while gas prevails in the rest of Asia and Australia. The recognition of environment as a key issue leads to a fast growing market in China for environmental control equipment. Both China and India have started ambitious nuclear programmes.

New coal projects are emerging in Central and Northern Europe, requiring more efficient clean coal combustion technologies. The environmental retrofit of existing coal power plants is also experiencing sharp growth due to the need for operators to meet the deadlines set by the European Union. The nuclear market is coming back in Europe and the Group booked a major order in France.

In North America, the demand for new equipment in high efficiency coal projects is strong. The market for environmental retrofit of coal power plants has been very solid in the last few years and is expected to remain so for some time due to Nox and Sox compliance deadlines. Nuclear is also coming back.

Power Systems has seen a reduction in order intake in Asia/Pacific for the fiscal year 2006/07 compared to the previous fiscal year which benefited from a large hydro order in India and due to the temporary cooling down of this market, in particular in South East Asia.

In Latin America, growth is seen in hydro but also in gas and coal power plants. The market has been suffering from under investment in recent years and increased investment is expected in the region in the near to medium term.

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 the Middle East the market has cooled down this year after strong growth in the prior two years, but it is expected to recover with some diversification into conventional steam and power plants associated with desalination plants.

Orders received by the Sector for the fiscal year 2006/07 amounted to €9,535 million, 65 % higher than in fiscal year 2005/06 on a comparable basis. Overall, a total of 20 gas turbines and 3 major coal power plants orders were booked. The Group also achieved a key success in nuclear with an order from EDF for the conventional island of the new generation EPR nuclear power plant in Flamanville, France.

On a regional basis, in fiscal year 2006/07, Europe represented 59 % of the total order intake, North America 20 % while Asia accounted for 12 % of the total order intake:

- Europe increased by 128% on an actual basis (141 % on a comparable basis) at €5,657 million as a result of the booking of a high number of gas-fired power plant projects as well as two coal-fired power plants in Poland and Bulgaria. ALSTOM's market share has increased in this region;
- North America increased by 120 % on an actual basis (133 % on a comparable basis) at €1,904 million as various air pollution systems as well as a high efficiency coal-fired generating plant were booked during 2006/07;
- In Asia/Pacific, orders received amounted to €1,099 million, a 19 % decrease from 2005/06 on an actual basis (13 % on a comparable basis), mainly due to India where a significant hydro project was booked in 2005/06 and Australia where two gas plants were booked in 2005/06 as compared to one in 2006/07.
- In South/Central America, orders received amounted to €585 million, stable from previous year. Orders decreased by 63 % in Middle East/Africa at €291 million, due to the slow-down of the gas market in this region.

Power Service

Power Service finished a strong fiscal year 2006/07 reflecting a generally favourable market development of service activities and good positions on this market.

Market growth is mainly enhanced by increased 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 although the significance of these varies regionally.

Recent high fuel prices have also triggered a number of customers to commit to plant improvements where Power Service can provide competitive solutions.

In Europe, environmental regulation and an active CO₂ market are major factors in investment decisions. These areas are driving both efficiency-enhancing products to reduce fuel consumption as well as emissions control products. In addition, a number of utilities are following a strategy of extending plant life, thus creating opportunities to offer corresponding solutions.

In North America, customers continue to manage their power generation portfolios in response to the current market situation. This has favoured high efficiency coal generating plant and associated services. Demand for clean-coal power generation opens service opportunities. US GT market is gaining attractiveness including potential upgrades.

In Asia and Australia, a build-up of capacity and a greater focus on environmental control will drive service opportunities. Liberalisation is also starting to generate interest in asset management services. Previous year included gas turbines inspections in South Korea and Operation & Maintenance contracts in Asia now starting to be translated into sales.

The Middle East's growing demand for large gas turbines will open additional opportunities.

Orders received were €4,058 million in fiscal year 2006/07, 22 % higher than in fiscal year 2005/06 on a comparable basis. The high level of order flow for turnkey power plants booked by Power Systems drove associated long-term Operation & Maintenance contracts. Notable successes included the USA, Italy, the United Kingdom, Spain, Germany, South America and entry into the Russian market. In addition to Operation & Maintenance contracts, significant steam turbines upgrades in North America, stator rewinds in France and in the United States have been recorded.

Orders received were €1,627 million in Europe (40 % of total orders), up 11 % and 16% on an actual and a comparable basis respectively from the previous year. Power Service booked €1,188 million of orders in North America (29% of total orders), a 33 % increase on an actual basis (43 % on a comparable basis). Orders were €508 million in Asia/Pacific (13 % of total orders), down 12 % from previous fiscal year on an actual basis and 9 % on a comparable basis and €483 million in Africa/Middle East (12 % of total orders), stable on an actual basis and up 4 % on a comparable basis. Finally, orders received were €251 million in South/Central America (6 % of total orders), a 230 % increase on an actual basis (234% on a comparable basis).

Main orders received by the Power Sectors during fiscal year 2006/07

The most significant orders booked by Power Systems and Power Service during fiscal year 2006/07 were the following:

Country	Customer	Sector	Description
Australia	CLP / TRU	Power Systems	400MW GT26 combined-cycle power plant
		Power Service	12-year long-term service agreement
Bahrain	MEW	Power Service	Modernisation of a power plant
Brazil	CSA	Power Systems	490MW GT11 combined-cycle power plant
Bulgaria	AES	Power Systems	670 MW clean coal power plant
France	EDF	Power Systems	Turbine island for the new European Pressurized Reactor (EPR) nuclear power plant
France	EDF	Power Service	Maintenance of the conventional island of nuclear power plants
France	Gaz de France	Power Systems	410 MW GT26 combined-cycle power plant
Germany	RWE	Power Systems	800MW GT26 combined-cycle power plant
		Power Service	Operation and maintenance contract
Italy	Endesa	Power Systems	800 MW GT26 combined-cycle power plant
Italy	Energia	Power Systems	800 MW GT26 combined-cycle power plant
		Power Service	Operation and maintenance contract
Poland	Belchatow	Power Systems	833 MW clean coal power plant
Russia	Mosenergo	Power Systems	420 MW GT26 combined-cycle power plant
		Power Service	Operation and maintenance contract
Spain	Hidrocantabrico	Power Systems	400 MW GT26 combined-cycle power plant
			Operation and maintenance contract
Spain	Gas Natural	Power Systems	400 MW GT26 combined-cycle power plant
		Power Service	Operation and maintenance contract
UK	Centrica	Power Systems	800MW GT26 combined-cycle power plant

		Power Service	Long-term service agreement
UK	Scottish & Southern Energy	Power Service	Generator upgrade and supply four new 500MW inner stators
USA	Kansas City Power and Light	Power Systems Power Service	Boiler and air quality control equipment for a 850 MW advanced high-efficiency coal-fired power plant
USA	Consumers Energy	Power Service	Maintenance and construction of unit
Vietnam	Lilama	Power Systems	480MW GT13 combined cycle power plant

In addition, Power Systems booked several air pollution systems orders in the USA, Greece and the UK and several medium size hydro projects in China and India.

Sales

Power Systems

In fiscal year 2006/07, sales in Power Systems stood at €5,673 million, 20 % higher than fiscal year 2005/06 on a comparable basis, a consequence of the positive order intake development during the previous period.

All regions, except Asia/Pacific, contributed to the increase in sales. Sales in Europe increased by 68 % on an actual basis (103 % on a comparable basis) at €2,051 million or 36 % of total sales. Sales in North America increased by 12 % on an actual basis (19 % on a comparable basis) at €1,119 million, reflecting the growth in the environmental control business, and represented 20 % of total sales. South and Central America increased by 3 % on an actual basis and by 4 % on a comparable basis, corresponding to 7 % of the 2006/07 global sales. Sales in Asia/Pacific decreased by 25 % on an actual basis (20 % on a comparable basis), representing 20 % of total sales in 2006/07. Finally, sales in Middle East/Africa remained stable, contributing 17 % of total sales.

The following table sets out, on both an actual and a comparable basis, the geographical breakdown of sales by destination:

Power Systems			<i>Var 2006/07</i>		
Actual figures, in € million	31 Mar 07	% of contrib	<i>vs. 2005/06</i>	31 Mar 06	% of contrib
Europe	2,051	36%	<i>68%</i>	1,218	24%
North America	1,119	20%	<i>12%</i>	997	19%
South and Central America	411	7%	<i>3%</i>	398	8%
Asia/Pacific	1,142	20%	<i>-25%</i>	1,513	30%
Middle East/ Africa	950	17%	<i>0%</i>	953	19%
Sales by destination	5,673	100%	<i>12%</i>	5,079	100%

Power Systems			<i>Var 2006/07</i>		
Comparable figures, in € million	31 Mar 07	% of contrib	<i>vs. 2005/06</i>	31 Mar 06	% of contrib
Europe	2,051	36%	<i>103%</i>	1,009	21%
North America	1,119	20%	<i>19%</i>	944	20%
South and Central America	411	7%	<i>4%</i>	397	9%
Asia/Pacific	1,142	20%	<i>-20%</i>	1,434	30%
Middle East/ Africa	950	17%	<i>1%</i>	940	20%
Sales by destination	5,673	100%	<i>20%</i>	4,724	100%

Power Service

Sales booked by Power Service in fiscal year 2006/07 stood at €3,198 million, an 18 % increase on fiscal year 2005/06 on a comparable basis.

On a geographical basis, sales increased in North America by 16 % on an actual basis and 24 % on a comparable basis to €914 million or 29 % of the total sales. Sales also increased in Asia/Pacific by 14 % on an actual basis and 18 % on a comparable basis to €596 million (18 % of total sales). Middle East/African sales represented 13 % of total sales at €414 million, a 49 % increase on an actual basis (54 % on a comparable basis). Sales in Europe were €1,176 million or 37 % of total sales in 2006/07, stable from previous fiscal year on an actual basis and up 7 % on a comparable basis due to the disposal of the Flow Systems business. Finally, sales in South/Central America were down by 4 % on an actual basis (stable on a comparable basis) at €98 million (3 % of total sales).

The following table sets out, on both an actual and a comparable basis, the geographical breakdown of sales by destination:

Power Service Actual figures, in € million			<i>Var 2006/07</i>			
	31 Mar 07	% of contrib	<i>vs. 2005/06</i>	31 Mar 06	% of contrib	
Europe	1,176	37%	1%	1,167	41%	
North America	914	29%	16%	785	27%	
South and Central America	98	3%	-4%	102	4%	
Asia/Pacific	596	18%	14%	522	18%	
Middle East/ Africa	414	13%	49%	277	10%	
Sales by destination	3,198	100%	12%	2,853	100%	

Power Service Comparable figures, in € million			<i>Var 2006/07</i>			
	31 Mar 07	% of contrib	<i>vs. 2005/06</i>	31 Mar 06	% of contrib	
Europe	1,176	37%	7%	1,101	41%	
North America	914	29%	24%	735	27%	
South and Central America	98	3%	-1%	99	4%	
Asia/Pacific	596	18%	18%	505	18%	
Middle East/ Africa	414	13%	54%	268	10%	
Sales by destination	3,198	100%	18%	2,708	100%	

Income from operations and operating margin

Power Systems

Power Systems income from operations was €201 million in fiscal year 2006/07, compared to an income from operations of €85 million in fiscal year 2005/06 on a comparable basis. The operating margin increased from 1.8 % to 3.5 % on a comparable basis. This improvement results mainly from the increased sales as well as from effects of the cost reduction programme implemented over the last two years and from an improved performance in project execution.

Power Service

Power Service's income from operations was €510 million or 15.9 % of sales in fiscal year 2006/07 compared with €424 million or 15.7 % of sales for fiscal year 2005/06 on a comparable basis. Operating income increased due to higher sales, an improved mix of activities as well as cost reduction programmes.

Transport Sector

Transport Sector designs, manufactures, supplies and maintains a broad range of products, systems and services to railway customers worldwide.

1. Offering

Transport supplies fully integrated rail transport systems, a full range of rolling stock products as well as information and infrastructure solutions. Transport also offers services such as maintenance, renovation, spare parts supply chain management, turnkey project management, customer training and technical consulting.

Transport is a global organisation, with 32 major production and service sites around the world and a dedicated sales force on all five continents. Its main production sites are located in Belgium, Brazil, Canada, China, France, Germany, Italy, the Netherlands, Poland, Spain, the UK and the USA.

Transport's activities are summarised below :

Rolling Stock

The Rolling Stock business encompasses the design, development, production, testing, delivering and commissioning of :

- mainline passenger trains including very high-speed (TGV^{tm*}), high-speed, and tilting trains (PENDOLINOtm);
- mass transit trains including tramways, light rail vehicles (CITADIStm) and metros (METROPOLIStm);
- single and double deck suburban trains (X'TRAPOLIStm);
- regional electrical and diesel multiple units (CORADIAtm);
- locomotives (PRIMAtm) and freight cars.

** TGV is a trademark of SNCF.*

Information Solutions

The Information Solutions' product line includes a wide range of products and solutions such as:

- main line train control and supervision systems (ATLAStm), including trackside and onboard ERTMS (European Rail Traffic Management System);
- mass transit train control and supervision systems (URBALIStm), including control centres, Automatic Train Protection (ATP) and signalling products for driverless systems;
- point machines, signal lights and interlocking;
- railroad-specific signalling products and solutions;
- passenger information systems (AGATEtm Media).

Information Solutions also covers full maintenance for signalling and train control as well as on-site assistance.

Train Life Services

The Train Life Services Business offers public and private rail transport operators a broad range of services for train life management, including:

- maintenance,
- renovation,
- technical support and assistance with documentation management,
- spare parts supply chain management.

System

The System Business offers complete turnkey solutions as well as infrastructure-related products and services.

ALSTOM can lead or participate in turnkey project management, for transit as well as mainline. The management of such projects covers designing, building, commissioning, maintaining and coordinating financial, administrative and technical issues. In doing so, ALSTOM offers a complete, integrated and optimized combination of rolling stock, information solutions, infrastructure and maintenance.

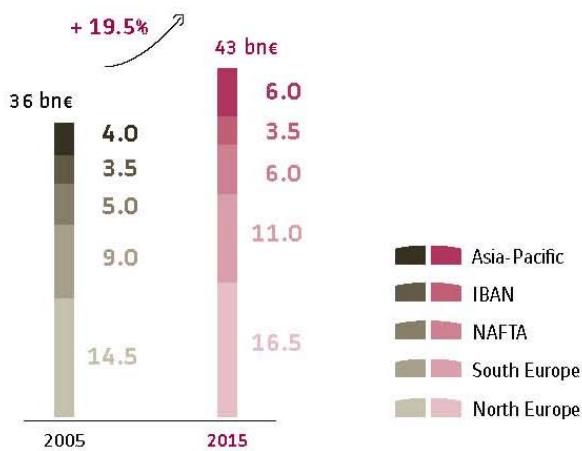
Specific products and services address needs related to main line and urban transportation, such as:

- line electrification and power supply, including sub-stations;
- track lay-out;
- station electrical and mechanical equipment (comfort, control and communication);
- infrastructure maintenance.

II. Industry characteristics

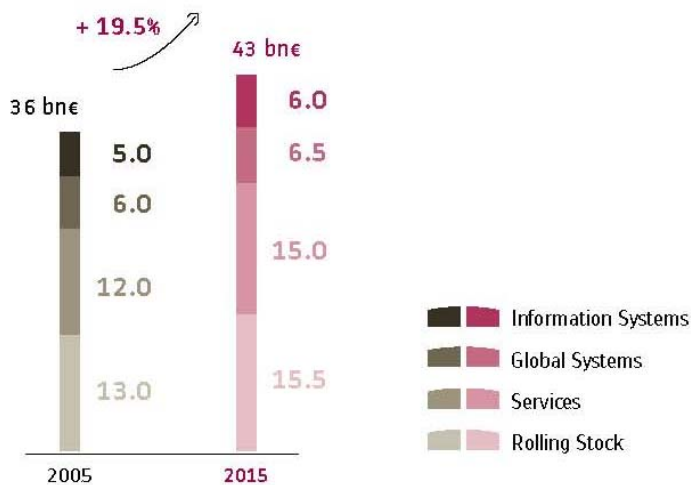
Governments are paying increasing attention to the rail sector with regards to environmental constraints, mobility, growing urbanisation, urban and suburban road congestion, as well as medium-distance air traffic saturation.

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 market accessible to its main members, at approximately €36 billion in 2005. This market is expected to grow at an annual rate of around 2% 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. Also Asia-Pacific will be the region generating the most additional opportunities, representing 14% of the accessible market in 2015 versus 10% in 2005.

After a low point reached in 2004, the market continued to gain momentum in 2006, with the growth driven by:

- Rapid urbanisation in Asia Pacific giving rise to increasing demands for urban, suburban and intercity rail systems;
- Interoperability in Europe creating needs for train control and signalling solutions;
- Upgrade of railway infrastructure in Eastern European countries;
- Development of private operators entering various markets.

The main trends currently having a positive effect on the industry include:

Environmental concerns

National, regional and local political authorities are focusing on a more sustainable development approach. They are particularly concerned by greenhouse gas emissions, notably carbon dioxide, as well as noise pollution.

Environmental necessities, combined with legislation in preparation and political trends related to the Kyoto protocol, indirectly give new appeal to the rail sector which responds most appropriately to global warming and should become the backbone for a sustainable transport network world-wide.

Moreover, advertising campaigns, tax measures and the implementation of urban tolls should bring about a change in the population's behaviour, and thus contribute to the development of the rail industry.

This trend has led to technological innovations in the field of energy savings (traction systems output, clean motors, volume reduction, aerodynamics, and exploitation systems optimising energy consumption).

With its broad products and services portfolio, the Transport Sector is particularly well placed to respond to this trend.

Urbanisation

With more than 50% of the world's population expected to live in urban areas by 2010, growing urbanisation, as well as the increasing need for intercity mobility, merit a great deal of attention and an important change in transport administration.

In fact, the resulting automotive traffic congestion and environmental concerns generates an increased demand for mass transit and suburban systems.

The growth of large urban centres also leads to an increasing demand for high-speed trains to connect them. This causes many railways to invest heavily in order to increase capacity and reduce journey times, at the same time increasing the competitiveness of railways versus airways.

Growing emphasis on security, reliability and efficiency

Traditional and new operators around the world are showing growing interest in the proven benefits of new train control and train management systems, including increased safety, higher capacity, lower maintenance costs and greater international harmonisation.

Opening of Railway Markets

In many countries, deregulation of the railway industry and privatisation of the railways have changed expectations and led to the arrival of a new breed of customers. These new rail undertakings include private operators, leasing companies and private sector infrastructure owners. While presenting major opportunities for development to suppliers such as ALSTOM, the changing nature of the customer base generates new performance expectations, e.g. in terms of train reliability or passenger comfort and features. These customers are less conscious of technical aspects and instead focus on functional needs. Customers in these deregulated markets have also shown a tendency to concentrate on their core businesses and to outsource the maintenance and service of their trains to suppliers such as ALSTOM.

European ambition

The European Union is particularly encouraging interoperability, i.e. the ability to operate rolling stocks across borders. This is giving rise to new opportunities both for the construction of new lines and for the upgrading of existing lines to new international standards. The construction of a pan-European high speed network is already well underway and will continue. The development of cross-border traffic within the EU, open to all operators after 2010, will also trigger further cooperation among European operators.

The Transport Sector is at the forefront of these developments as a market leader in the supply of European Railway Traffic Management System (ERTMS) technology, the aim of which is to achieve borderless, safe and competitive railways across Europe.

Globalisation of the Rail Industry

Globalisation is occurring alongside deregulation and privatisation. This has led suppliers to seek growth opportunities in new geographic zones beyond their traditional domestic markets and to establish a local commercial and/or industrial presence. The globalisation of suppliers and the resulting over-capacity led to the concentration of suppliers and increases pressure on equipment sales prices.

III. Competitive position

The Transport Sector has successfully established its global presence through a strategy of organic, profitable growth in new markets, complemented by targeted acquisitions and alliances. It is present in over 40 countries which account for over 90% of the market. This customer base allows the Sector to minimise risks associated with cyclical and political changes in different countries, regions or municipalities.

Furthermore, the Transport Sector's client portfolio includes public operators as well as private customers.

This worldwide presence is demonstrated by the sample of ALSTOM's customer portfolio : SNCF and RATP (France), RENFE, Barcelona metro and Madrid metro (Spain), Virgin and Network Rail (UK), SNCB (Belgium), FS/Trenitalia (Italy), Deutsche Bahn (Germany), KHRC (South Korea), Amtrak, CTA-Chicago, BNSF and NYCT (USA), SJ and SL (Sweden), Santiago Metro and Valparaiso Merval (Chile), Shanghai Municipality and the Ministry of Railways (China) and Metrorex-Metro of Bucharest (Romania).

Based on sales, ALSTOM is the world leading provider of 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, traction systems, information systems, power supply systems and track work. ALSTOM's main competitors in the field of rail transport are Bombardier and Siemens.

The Transport Sector's key competitive factors are multiple :

- full life cycle cost competitiveness, including product availability;
- performance achievement, especially product reliability and speed;
- passenger comfort and features;
- time to market;
- technological leadership (TGVtm, PENDOLINOtm tilting train, ERTMS signalling, URBALIStm, APS catenary-less tramway...);
- customer centric, service- and assistance-focused organisation with a strong global network of engineering, manufacturing and service locations.

IV. Research & development focus

The Transport Sector continued its R&D efforts in 2006/07 with the clear ambition to develop reference solutions for each of its platforms and sub-systems. Specifically this year, the R&D focused on :

- AGV, the fourth generation of ALSTOM's High Speed Train: delivery of major sub-systems and components started for the assembly of Pegase, a 7-car AGV prototype dedicated to the validation of this new train starting March 2008.

- CORADIA™ Continental, a regional platform for the northern European markets: with optimised traction system, ONIX 253 SRD, and standardized TCMS.
- X04, the new Tramway platform: while capitalizing on CITADIS™ strength, this product will allow ALSTOM to gain an edge in markets where old networks set specific requirements, such as increased robustness to run on lesser quality tracks.
- URBALIS™ Evolution, ALSTOM's standard transit signalling and train management solution : the Transport Sector has already secured business with the standard solution (eg. Beijing line 2 and airport link), yet, it invests further to improve the product.
- ATLAS™, ALSTOM's main line signalling solution compliant with the new European interoperability standards: its successful deployment on Roma-Napoli confirms the Sector's position as technology leader on this market.

From a technology standpoint, the Transport Sector has, on the one hand, further investigated light weight materials for structural applications. A full composite bogie has been successfully tested, and a composite AGV inter-circulation will soon undergo on line validation. On the other hand, the Sector is about to test on line its prototype ONIX 400, its last generation traction converter, based on its power electronics integration technologies, leading to major weight, volume and cost improvement.

ALSTOM's technical expertise is most visible with its excellence in very high speed trains, as demonstrated with the speed record achieved last April 3rd at 574.8 km/h.

V. Strategy

The Transport Sector's strategy is based on the combination of selectivity, with a focus on enhanced profitability, and growth. At the same time, the Sector is adjusting its strategic profile in order to anticipate structural changes in the market, to take advantage of targeted growth opportunities, and to build on its strengths. In deploying this strategy, the Sector is more specifically revising its business model from one of selling products and services separately, to one of partnering with its customers, fully satisfying them with extended offers, focusing on optimised global performance and costs. The Sector is also adapting its offering to changes in the market place, such as the development of private operators, Public Private Partnerships and concessions, or increased urbanization and heighten environmental concern. In doing so, the Sector should rebalance its sales distribution towards a higher portion of Information Systems, Services, and complete Rail Systems.

On the geographical side, the Transport Sector redeploys its organization to take advantage of high regional growth potential, e.g. Asia and Europe; and develop a growth strategy in main lines and mass transit for China.

Additionally, the Sector intends to establish strategic partnerships to access new opportunities and share project risks; and complete its strategic positioning via targeted acquisitions.

With regards to product development, the Transport Sector will further standardise its products and optimise its costs. The Sector will also apply extra resources to develop the signalling, infrastructure and service activities; and develop new high tech products such as the AGV for more demanding expectations.

Furthermore, the Transport Sector will take advantage of the strong points in its product portfolio, especially in high speed and very high speed trains, mass transit trains and information solutions, as well as its expertise in railways systems integration and turnkey projects.

The Transport Sector's key aim is to deliver its contracts with full client satisfaction and turn the Sector into a customer centric organization, in order to become recognised by clients worldwide as the solution provider of reference.

VI. Key financial data

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

Transport Actual figures (in € million)	31 Mar 07	31 Mar 06	% Variation Mar 07/ Mar 06
Order backlog	15,239	14,141	8%
Orders received	5,388	5,184	4%
Sales	5,288	5,128	3%
Income from Operations	350	324	8%
Operating margin	6.6%	6.3%	
EBIT	277	256	8%
Capital Employed	(40)	125	N/A

Transport Comparable figures (in € million)	31 Mar 07	31 Mar 06	% Variation Mar 07/ Mar 06
Order backlog	15,239	13,986	9%
Orders received	5,388	5,011	8%
Sales	5,288	4,957	7%
Income from Operations	350	314	11%
Operating margin	6.6%	6.3%	

VII. Comments on activity during fiscal year

Orders

The European market had contrasted features. Whereas demand in Italy slowed down, the Spanish market remained at a very high level and is expected to remain strong for very high speed, infrastructure and signalling. Demand increased in regional trains (Germany, the Netherlands, Sweden), signalling (UK), and remained at a high level in urban systems (France, Germany, Hungary).

In Asia-Pacific, the Chinese market proved very active, particularly in mass transit and in mainline where rolling stock and infrastructure continue to grow. In India, the mass transit market is emerging, with significant opportunities arising.

In the Americas, the USA market continued to grow in all segments of rolling stock and signalling; this is supported in part by increasing federal funding in mass transit. The Latin American market remained roughly stable, with a large number of isolated opportunities such as a major Very High Speed Line project in Argentina.

In other regions, the Group experienced a high market level in Algeria, with the first significant tram project, and a growing activity in the Arabic peninsula.

Orders received in fiscal year 2006/07 amounted to €5,388 million compared with €5,011 million on a comparable basis, showing an 8 % increase.

Transport received the following major orders during fiscal year 2006/07:

Country	Description
France	Coradia™ regional trains for the French railway operator SNCF
Turkey	Track work and signalling project for the trans-Bosphorus rail link
China	Prima™ freight locomotives + electrification of a high-speed line
Algeria	Turnkey Citadis™ tramway in Algiers
Sweden	Coradia™ regional trains for Skanetrafiken
Hungary	Metropolis™ metro in Budapest
UK	Maintenance for locomotives operated on Virgin's West Coast Main Line
Germany	Coradia™ regional trains for the German railway operator, Deutsche Bahn
France	Citadis™ tramways in Orleans
Netherlands	Regio Citadis™ tram-trains for a new light rail link between The Hague and Zoetermeer
France	Citadis™ tramways in Reims

As a percentage of total orders received, Europe continued to represent the biggest share of the Transport sector order intake with 76 % of total orders or €4,111 million, with a 12 % increase from last fiscal year on both an actual and a comparable basis. Orders received decreased by 16 % in North America on an actual basis (11 % on a comparable basis) to €140 million (3 % of total order intake) and by 14 % in South/Central America on an actual and a comparable basis to €320 million (6 % of total order intake). In Asia/Pacific, orders received amounted to €653 million (12 % of total order intake) in fiscal year 2006/07, showing a 2 % decrease on an actual basis but a 30 % increase on a comparable basis (due to the disposal of the Transport activities in Australia and New Zealand). Finally, in Africa/Middle East, orders received were €163 million (3 % of total order intake) representing a 45 % decrease on an actual and a comparable basis due to a high level of orders received in metro in this region in fiscal year 2005/06.

Sales

Sales in Transport increased by 7 % in fiscal year 2006/07 on a comparable basis, at €5,288 million.

The following table sets out, on an actual and a comparable basis, the geographical breakdown of sales by destination:

Transport			<i>Var 2006/07</i>		
Actual figures, in € million	31 Mar 07	% of contrib	<i>vs. 2005/06</i>	31 Mar 06	% of contrib
Europe	3,695	70%	-2%	3,756	73%
North America	409	8%	14%	358	7%
South and Central America	343	6%	-7%	369	7%
Asia/Pacific	720	14%	22%	590	12%
Middle East/ Africa	121	2%	120%	55	1%
Sales by destination	5,288	100%	3%	5,128	100%

Transport			<i>Var 2006/07</i>		
Comparable figures, in € million	31 Mar 07	% of contrib	<i>vs. 2005/06</i>	31 Mar 06	% of contrib
Europe	3,695	70%	-2%	3,759	76%
North America	409	8%	21%	337	7%
South and Central America	343	6%	-7%	368	7%
Asia/Pacific	720	14%	67%	432	9%
Middle East/ Africa	121	2%	98%	61	1%
Sales by destination	5,288	100%	7%	4,957	100%

During fiscal year 2006/07, Europe showed major contributions from France, Italy, Spain and the United Kingdom. Even if sales in Europe decreased slightly to €3,695 million, Europe continued to be the main contributor of the Sector's sales with a 70 % share of the total turnover. Sales in Asia/Pacific increased to €720 million (14 % of total sales), a 22 % increase from 2005/06 on an actual basis and a 67 % increase on a comparable basis (after adjusting for the disposed Transport activities in Australia and New Zealand). Sales in North America increased to €409 million (8 % of total sales), up 14 % from 2005/06 on an actual basis and 21 % on a comparable basis. Sales in South/Central America decreased to 6 % of total sales or €343 million, down 7 % from previous fiscal year on an actual and a comparable basis.

Income from operations and operating margin

The Transport income from operations for fiscal year 2006/07 amounted to €350 million or 6.6 % of sales, as compared to €314 million or 6.3 % of sales for previous fiscal year on a comparable basis. This improvement comes primarily from better project management and continuous cost reduction, notably as a result of manufacturing efforts and standardisation.

Corporate & Others

Corporate & Others comprises all units accounting for Corporate costs, the International Network and, for fiscal year 2006/07, entities in India which are not reported by Sectors. During fiscal year 2005/06, Corporate & Others also included the Power Conversion activity, which was disposed of on 10 November 2005.

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

Corporate & Other Actual figures (in € million)	31 Mar 07	31 Mar 06	% Variation Mar 07/ Mar 06
Order backlog	19	20	N/A
Orders received	48	539	N/A
Sales	49	353	N/A
Income from Operations	(104)	(121)	N/A
EBIT	(224)	(11)	N/A
Capital Employed	(248)	784	N/A

Corporate & Other Comparable figures (in € million)	31 Mar 07	31 Mar 06	% Variation Mar 07/ Mar 06
Order backlog	19	19	0%
Orders received	48	49	(2%)
Sales	49	43	14%
Income from Operations	(104)	(137)	(24%)

Corporate & Others' income from operations was €(104) million for fiscal year 2006/07, compared with an income from operations of €(137) million for fiscal year 2005/06 on a comparable basis, which included € (40) million of expenses related to the Group's free shares programme.

C. Operating and financial review

1. Income statement

Total Group Actual figures (in € million)	31 Mar 07	31 Mar 06	% Variation Mar 07/ Mar 06
Sales	14,208	13,413	6%
Cost of sales	(11,586)	(11,080)	5%
R&D expenses	(456)	(364)	25%
Selling expenses	(567)	(569)	(0%)
Administrative expenses	(642)	(654)	(2%)
Income from Operations	957	746	28%
Operating margin	6.7%	5.6%	

Total Group Comparable figures (in € million)	31 Mar 07	31 Mar 06	% Variation Mar 07/ Mar 06
Sales	14,208	12,432	14%
Cost of sales	(11,586)	(10,260)	13%
R&D expenses	(456)	(351)	30%
Selling expenses	(567)	(521)	9%
Administrative expenses	(642)	(614)	5%
Income from Operations	957	686	40%
Operating margin	6.7%	5.5%	

1.1. Sales

Sales were €14,208 million for fiscal year 2006/07, compared to €13,413 million for fiscal year 2005/06 on an actual basis, an increase of 6 %.

On a comparable basis (adjusting mainly for the disposal of the Power Conversion business, the Industrial boilers business, the FlowSystems business, the Transport activities in Australia and New Zealand, the Transport plant in Valencia (Spain) and of miscellaneous activities in Australia) sales increased by 14 %. The three sectors contributed to this sales increase on a comparable basis with sales in Power Systems increasing by 20 % from €4,724 million in fiscal year 2005/06 to €5,673 million in fiscal year 2006/07, Power Service sales growing by 18 % from €2,708 million to €3,198 million and Transport sales up 7 % from €4,957 million to €5,288 million.

1.2. Selling and Administrative expenses

Selling and administrative expenses were €1,209 million in fiscal year 2006/07 compared to €1,223 million in fiscal year 2005/06 on an actual basis.

On a comparable basis, selling expenses increased by 9 % in fiscal year 2006/07 as a result of intense tender activity and the implementation of stronger commercial organisations in all Sectors and countries. Administrative expenses increased by 5 % on a comparable basis between fiscal year 2005/06 and fiscal year 2006/07 mainly due to development costs of specific projects aiming at improving future performance such as the Sourcing and Standardisation programmes in Transport or the Customer Relationship Management tool in Power Service.

1.3. Research and Development expenses

Research and development expenses were €456 million in fiscal year 2006/07 from €364 million in fiscal year 2005/06 on an actual basis. This represents a major increase of 25 % on an actual basis and of 30 % on a comparable basis.

Before impact of capitalisation and amortisation, the research and development expenses increased from €349 million in fiscal year 2005/06 to €440 million in fiscal year 2006/07, up 26 % on an actual basis. This increase relates, for the Transport Sector, to developments in the new generation of very high speed train (AGV) and in the ERTMS programme and, for the Power Systems Sector, to developments in new steam and gas turbines and new programmes in several key areas of research such as clean combustion.

1.4. Income from operations

Income from operations for fiscal year 2006/07 was €957 million or 6.7 % of sales, as compared with income from operations of €746 million and operating margin of 5.6 % for fiscal year 2005/06 on an actual basis. On a comparable basis for fiscal year 2005/06, income from operations amounted to €686 million or 5.5 % of sales. This strong improvement of the operating income (+28 % on an actual basis, + 40 % on a comparable basis) is notably due to a high level of activity, a continuous selectivity of projects, an improved cost base and better execution of projects.

Total Group	% Variation		
Actual figures	Mar 07 /		
(in € million)	31 Mar 07	31 Mar 06	Mar 06
Income from Operations	957	746	28%
Restructuring costs	(68)	(80)	(15%)
Pension costs	(72)	(61)	18%
Other non operating income (expense)	(90)	122	N/A
Earnings Before Interest and Tax	727	727	0%
Financial income (expense)	(111)	(222)	(50%)
Income tax charge	(145)	(125)	16%
Share in net income (loss) of equity investments	-	(1)	(100%)
Discontinued operations	(32)	(198)	(84%)
Minority interest	9	(3)	N/A
Net income	448	178	152%

1.5. Earnings Before Interest and Tax (EBIT)

EBIT was €727 million in fiscal year 2006/07, the same level as the previous fiscal year on an actual basis.

This stability in EBIT between fiscal year 2005/06 and fiscal year 2006/07 is the result of a combination of contrasted evolutions:

- increase in income from operations from €746 million to €957 million;
- expenses of €(90) million in fiscal year 2006/07, comprising mainly net capital losses on disposal of investments/activities (including fines received from the European Commission related to the former Transmission & Distribution business disposed of in 2004), compared with an income of €122 million in fiscal year 2005/06 as a result of net capital gains on disposal of investments/activities;
- higher pension costs, from €(61) million in fiscal year 2005/06 to €(72) million in fiscal year 2006/07;
- lower restructuring costs, from €(80) million in fiscal year 2005/06 to €(68) million in fiscal year 2006/07.

1.6. Financial expenses

The reduction of net financial expenses at €(111) million in fiscal year 2006/07, half of the level of the previous year, was mainly due to the reduction in debt level after reimbursements made and the increased level of cash and cash equivalents during fiscal year.

Financial charges included fees paid for bonding and other financing facilities, which amounted to €(11) million in fiscal year 2006/07 compared with €(75) million in 2005/06.

1.7. Income tax charge

The income tax charge for fiscal year 2006/07 was €(145) million compared with €(125) million in fiscal year 2005/06. The fiscal year 2006/07 income tax charge included a current income tax charge of €(168) million and a deferred income tax credit of €23 million.

1.8. Discontinued operations

Discontinued operations consist of the Marine activities. At 31 March 2007, the discontinued operations contribution amounted to €(32) million. As at 31 March 2006, the discontinued operations contribution included €(198) million of net losses.

1.9. Net profit Group share

As a result of stable EBIT, lower financial expenses, and lower net loss from discontinued operations partly offset by higher tax charges, net profit amounted to €448 million (Group share), a sharp increase compared with the €178 million net profit for the previous year.

2. Balance sheet

Total Group Actual figures (in € million)	31 Mar 07	31 Mar 06	Variation Mar 07/ Mar 06
Goodwill	3,510	3,323	187
Intangible assets, net	1,191	1,197	(6)
Tangible assets, net	1,370	1,361	9
Equity method investments and other investments, net	34	99	(65)
Other non-current assets, net	1,245	1,250	(5)
Deferred tax	1,280	1,249	31
Non-current assets	8,630	8,479	151
Working capital assets	9,008	7,462	1,546
Marketable securities and other current financial assets	197	22	175
Cash and cash equivalents	1,907	1,301	606
Current assets	11,112	8,785	2,327
Assets held for sale	-	1,144	(1,144)
Assets	19,742	18,408	1,334

Total Group Actual figures (in € million)	31 Mar 07	31 Mar 06	% Variation Mar 07/ Mar 06
Equity	2,271	1,840	431
Non-current and current provisions	2,061	2,120	(59)
Accrued pension and retirement benefits	512	792	(280)
Financial debt current and non-current	2,822	2,571	251
Deferred tax	47	39	8
Other current liabilities	12,029	9,903	2,126
Liabilities directly associated with assets held for sale	-	1,143	(1,143)
Liabilities	19,742	18,408	1,334

2.1. Goodwill and intangible assets

Net goodwill increased to €3,510 million at 31 March 2007 compared to €3,323 million at 31 March 2006, following the acquisitions completed during the period.

The Group requested an independent third party evaluation as part of its annual impairment tests of goodwill. The valuation as at 31 March 2007 supported the Group's opinion that the goodwill is not impaired.

Net intangible assets amounted to €1,191 million at 31 March 2007 compared to €1,197 million at 31 March 2006. They include acquired intangible assets and capitalised development costs.

Acquired intangible assets mainly result from the allocation of the purchase price following the acquisition of ABB-ALSTOM Power in 1999 and 2000.

Capitalised development costs represent expenses that meet IAS 38 criteria for capitalisation as described in the Consolidated Financial Statements Note 3 (j). These costs are amortised on a straight-line basis over the estimated useful life of the asset. Capitalised development expenses come from the Transport and Power Systems Sectors.

2.2. Tangible assets

Net tangible assets amounted to €1,370 million at 31 March 2007 compared to €1,361 million at 31 March 2006.

Capital expenditure excluding capitalised development expenses increased in fiscal year 2006/07, at €280 million compared to €207 million in fiscal year 2005/06. During fiscal year 2006/07, capital expenditure related to tangible assets aimed mainly to renew the Group's asset base and to expand its production capacity in high growth regions. Capital expenditure related principally to the Power Systems and the Transport Sectors and, on a geographical basis, to Europe, North America and Asia/Pacific.

2.3. Other non-current assets

Other non-current assets (net) amounted to €1,245 million at 31 March 2007 compared to €1,250 million at 31 March 2006. At 31 March 2007, other non-current assets included notably pension assets, long-term loans, deposits, and financial non-current assets directly associated to financial debt.

The net variation is principally the result of the release of the €700 million cash collateral which secured the Group's former bonding programme, offset by the €628 million of non-current financial asset directly associated to long-term leases of trains and associated equipment for a London Underground operator.

2.4. Working capital

Working capital (defined as current assets excluding cash and cash equivalent less current liabilities excluding current financial liabilities and including non current provisions) at 31 March 2007 was €(5,082) million compared with €(4,561) million at 31 March 2006. 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 €1,233 million at 31 March 2007 compared with €1,210 million at 31 March 2006.

At 31 March 2007, the Group reviewed the recoverability of these deferred tax assets by jurisdiction, on the basis of its 3 year-business plan, extrapolated when needed. This review led to a cumulative valuation allowance on deferred tax assets of €926 million at 31 March 2007 compared with €919 million at 31 March 2006. At 31 March 2007, the Group is satisfied as to the recoverability of its net deferred tax assets.

2.6. Current and non-current provisions

At 31 March 2007, the current and non-current provisions were €2,061 million compared with €2,120 million at 31 March 2006. This net decrease included a decrease in provisions on completed contracts for €27 million and in restructuring provisions for €43 million.

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

Equity at 31 March 2007 was €2,271 million, including minority interests, compared with €1,840 million at 31 March 2006. This variation is mainly due to the net income of the period for €439 million (Group share and minority interests) and to share-based payments for €15 million.

2.8. Financial debt

The gross financial debt was €2,822 million at 31 March 2007, compared with €2,571 million at 31 March 2006, or a €251 million increase. Main variations of financial debt relate to the €512 million decrease of bonds from previous fiscal year, offset by €185 million of new commitments related to options (mainly related to the joint-venture set up in the hydro business) and the inclusion of €628 million of other obligations under long-term rentals related to the lease of trains and associated equipment for a London Underground operator.

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)	31 Mar 07	31 Mar 06
Net cash provided by operating activities - before changes in net working capital	565	627
Changes in net working capital	524	158
Net cash provided by operating activities	1,089	785
Net cash provided by investing activities	118	26
Net cash used in financing activities	(596)	(403)
Decrease in cash and cash equivalents - discontinued operations	-	(215)
Transfer to / from assets held for sale	29	(317)
Net effect of exchange rate	(30)	24
Other changes	(4)	(3)
Increase (decrease) in cash and cash equivalents	606	(103)

3.1. Net cash provided by operating activities

Net cash provided by operating activities was €1,089 million in fiscal year 2006/07 compared to €785 million in fiscal year 2005/06.

Net cash provided by operating activities before changes in net working capital was €565 million in fiscal year 2006/07. 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. In fiscal year 2006/07, it included the €300 million exceptional and discretionary contribution to the Group's pension plans.

Total changes in net working capital were €521 million (€524 million for net working capital resulting from operating activities), under the following main movements:

- an increase of €282 million in inventories;
- an increase of €635 million in trade receivables and other current assets;
- a decrease of €59 million in provisions;
- an increase of €1,209 million in construction contracts in progress, net liabilities;
- an increase of €288 million in trade payables and other current liabilities.

The net cash provided by operating activities was €785 million in fiscal year 2005/06.

3.2. Net cash provided by investing activities

Net cash provided by investing activities was €118 million in fiscal year 2006/07. This amount mainly comprised:

- capital expenditure of €(395) million, including capitalised research and development of €(115) million;
- cash expenditure for acquisition of investments (net of cash acquired) of €(232) million;
- variation in other non current assets of €727 million, mainly due to the release of the €700 million cash collateral securing the Group's former bonding programme;

Net cash provided by investing activities was €26 million in fiscal year 2005/06.

3.3. Net cash used in financing activities

Net cash used in financing activities in fiscal year 2006/07 was €(596) million. This amount included mainly the reimbursement of borrowings for €(377) million, and the variation of marketable securities and other current financial assets for €(175) million. In fiscal year 2005/06, net cash used in financing activities of €(403) million included mainly the repayment of borrowings for €(369) million.

3.4. Decrease (increase) in net debt

As a result of the above, cash and cash equivalent increased by €606 million in fiscal year 2006/07 after a decrease of €103 million in fiscal year 2005/06. The net debt decreased by €1,184 million, from €1,248 million in fiscal year 2005/06 to €64 million in fiscal year 2006/07 as described below:

Total Group Actual figures (in € million)	31 Mar 07	31 Mar 06
(Net debt) / Net cash at the beginning of the period	(1,248)	(1,651)
Increase (decrease) in cash and cash equivalents	606	(103)
Increase (decrease) in marketable securities and other financial assets	175	(2)
(Issuance) repayment of current and non current borrowings	335	369
(Issuance) repayment of obligation under finance leases	38	42
Net cash used in financing activities - discontinued operations	29	103
Net effect of exchange rate and other	1	(6)
(Net debt) / Net cash at the end of the period	(64)	(1,248)

4. Maturity and liquidity

The Group has a wide range of liquidity resources in order to finance its operations, including mainly bonds and borrowings under revolving credit facilities. Additional sources include customer deposits and advances, and proceeds from the sale of trade receivables, including future trade receivables. In the past, the Group also used the issuance of commercial paper, securities, including debt securities and preferred shares, as well as asset disposals, as a source of liquidity.

The following table sets forth, in nominal values, the list of ALSTOM's drawn and undrawn lines of credit and financial debt obligations (including future receivables securitised) and, as part of these, the available credit lines as of 31 March 2007:

Total Group Nominal values (in € million)	Mar 06	Mar 07	within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 year
Bonds reimbursable with shares	5	3	-	3	-	-	-	-
Subordinated notes	5	-	-	-	-	-	-	-
Bonds	2,224	1,700	-	900	800	-	-	-
Other borrowing facilities	106	125	69	23	5	12	3	13
Commitments related to options and earn-out	-	185	-	-	185	-	-	-
Derivatives relating to financing activities	-	7	7	-	-	-	-	-
Accrued interest	33	9	9	-	-	-	-	-
Obligations under finance leases	233	815	40	43	46	47	53	586
Financial debt	2,606	2,844	125	969	1,036	59	56	599
Undrawn credit lines	700	1,000	-	-	-	-	1,000	-
Total lines of credit	3,306	3,844	125	969	1,036	59	1,056	599

Instrument (in € million)	Maturity	Nominal amount	Nominal interest rate
Bonds	July 2008	370	Euribor 3M+ 0.9%
Bonds	March 2009	530	Euribor 3M+ 2.2%
Bonds	March 2010	800	6.3%
Revolving credit facility	March 2012	1000	Undrawn

Total available unused credit lines together with cash and cash equivalents available at parent company and marketable securities amounted to €2,815 million at 31 March 2007, compared to €1,650 million at 31 March 2006.

These amounts consisted of:

- available credit lines at Group level for €1,000 million at 31 March 2007 compared with €700 million at 31 March 2006;
- cash available at parent company level of €1,815 million at 31 March 2007, compared with €950 million at 31 March 2006.

The Group parent company, has access to some cash held by wholly-owned subsidiaries through the payment of dividends or pursuant to intercompany loan arrangements. However, local constraints can delay or restrict this access. Furthermore, while the Group parent company has the power to control decisions of subsidiaries of which it is the majority owner, its subsidiaries are distinct legal entities and their payment of dividends and granting of loans, advances and other payments to the parent company may be subject to legal or contractual restrictions, be contingent upon their earnings or be subject to Business or other constraints. These limitations include local financial assistance rules, corporate benefit laws and other legal restrictions. The Group's policy is to centralise liquidity of subsidiaries at the parent company level when possible. The cash and cash equivalents available at subsidiary level were €351 million and €267 million at 31 March 2006 and 31 March 2007 respectively.

5. Impact of exchange rate and interest rate fluctuations

The Group's policy is to use derivatives, such as forward foreign exchange contracts or interest rate derivatives, in order to hedge exchange rate fluctuations and interest rate fluctuations. Policy does not permit speculative market positions.

ALSTOM has a centralised treasury policy in order to better control the company's financial risks..

The Senior Vice-President Funding and Treasury (who reports to the Chief Financial Officer) has global responsibility for foreign exchange risk, interest rate management, and cash management. He manages a team of more than 20 people located in Levallois Headquarters, which forms the Corporate Treasury and is organised with a Front-Office, a Middle-Office and a Back-Office to ensure segregation of duties. A network of Country Treasurers supports Corporate Treasury in the countries where the Group has a significant presence.

Corporate Treasury acts as an in-house bank for subsidiaries by providing hedging, funding and deposits, maintaining internal current accounts and managing an inter-company payment netting system. The Group has implemented cash pooling structures to centralise cash on a daily basis in the countries where local regulations permit it.

5.1. Exchange rate risks

In the course of its operations, the Group is exposed to currency risk arising from tenders for contracts to be paid in foreign currency, and from awarded contracts or “firm commitments” under which revenues are denominated in foreign currency. The principal currencies to which the Group has significant exposure in fiscal year 2006/07 were the US Dollar, the British Pound and the Swiss Franc. ALSTOM policy is to eliminate currency risk with the most appropriate instruments then risks related to firm commitments and tenders are hedged as follows:

- by using forward contracts for firm commitments;
- by using foreign exchange derivative instruments for tenders, usually pursuant to strategies involving combinations of purchased and written options; or
- and from time to time when available by entering into specific insurance policies, such as with Coface in France or Hermes in Germany.

The Group does not hedge its net assets invested in foreign operations. It monitors its market positions closely and regularly analyse market valuations. It also has in place counter-party risk management guidelines. All derivative transactions, including forward exchange contracts, are designed and executed by the central corporate treasury department, except in some specific countries where restrictive regulations prevent centralised execution.

5.2. Interest rate risks

See Note 33 to the Consolidated Financial Statements for discussion of interest rate risks and of sensitivity to interest rate variation.

5.3. Value of financial instruments

At 31 March 2007 and 31 March 2006, the nominal and fair value of foreign exchange instruments are detailed as follows:

Derivative instruments qualifying for hedge accounting

Total Group (in € million)	At 31 March 2007				At 31 March 2006			
	Purchased		Sold		Purchased		Sold	
	Nominal	Fair Value	Nominal	Fair Value	Nominal	Fair Value	Nominal	Fair Value
British pound	87	-	399	(4)	2	-	375	1
Brazilian real	-	-	58	(7)	33	(8)	29	1
Polish zloti	276	4	301	(4)	149	-	252	(2)
Swedish krona	310	(3)	234	3	227	(3)	279	2
US dollar	607	(88)	1,884	166	713	(64)	2,462	104
Australian dollar	116	2	150	(8)	163	(4)	150	3
Singapore dollar	39	-	24	-	16	-	39	-
Swiss franc	1,807	(38)	1,520	34	1,889	(21)	2,139	31
Other	458	-	475	4	345	3	297	2
Total	3,700	(123)	5,045	184	3,537	(97)	6,022	142

Derivative instruments not qualifying for hedge accounting

Total Group (in € million)	At 31 March 2007				At 31 March 2006			
	Purchased		Sold		Purchased		Sold	
	Nominal	Fair Value	Nominal	Fair Value	Nominal	Fair Value	Nominal	Fair Value
Currency option contracts - US dollar	23	-	72	-	1	-	34	-
Currency option contracts - Other currencies	16	-	6	-	-	-	19	-
Forward contracts - US dollar	-	-	158	8	146	(3)	193	4
Forward contracts - Swiss franc	-	-	135	1	95	2	9	-
Forward contracts - Swedish krona	-	-	23	-	71	1	8	-
Forward contracts - Other currencies	-	-	125	(3)	56	(1)	41	-
Total	39	0	519	6	369	(1)	304	4

At 31 March 2007, the nominal value of derivative instruments by maturity is as follows:

Derivative instruments qualifying for hedge accounting

Total Group (in € million)				
	Total	< 1 year	1-5 years	> 5 years
British pound	487	408	75	4
Brazilian real	58	49	9	-
Polish zloti	577	315	262	-
Swedish krona	544	421	123	-
US dollar	2,491	1,698	788	5
Australian dollar	265	145	120	-
Singapore dollar	63	55	8	-
Swiss franc	3,327	2,463	864	-
Other	933	792	142	(1)
Total	8,745	6,346	2,391	8

Derivative instruments not qualifying for hedge accounting

Total Group (in € million)				
	Total	< 1 year	1-5 years	> 5 years
Currency option contracts - US dollar	95	95	-	-
Currency option contracts - Other currencies	22	22	-	-
Forward contracts - US dollar	159	146	12	1
Forward contracts - Swiss franc	135	120	15	-
Forward contracts - Swedish krona	23	19	4	-
Forward contracts - Other currencies	124	94	29	1
Total	558	496	60	2

6. Pensions and other employee benefits

The Group provides various types of post-employment and other long-term benefits to its employees, including retiree medical benefits to some retired employees in certain countries, principally in the United States. The type of benefits offered to an individual employee is related to local legal requirements as well as to operating practices of the specific subsidiaries. The Group also provides other long-term employee benefits such as jubilee awards and deferred compensation scheme.

The retirement plans are categorized in two different types by design and accounting treatment: defined-contribution and defined-benefit plans. The Group's global policy on employee benefits

promotes defined contribution plans over defined benefit schemes. Many defined benefit schemes have been closed to new members and defined contribution plans have been introduced for new entrants.

6.1. Defined contribution plans

For defined-contribution plans, the Group pays contributions to independently administered funds at a fixed percentage of employees' pay. These contributions are recorded as operating expenses.

6.2. Defined benefit plans

These plans mainly cover retirement and termination benefits and post-employment medical benefits. The Group participates in multi-employer and single employer defined benefits plans. Multi-employer defined benefit plans are accounted for as defined contribution plans, mainly in the United States and in Canada. For single employer defined benefit plans, benefits are normally based on an employee's pensionable remuneration and length of service.

These plans are predominantly funded. Some plans, such as post-employment medical benefits plans, are unfunded. Plan assets related to funded plans are invested mainly in bonds and equities. Components of these assets are disclosed in Note 26 to the Consolidated Financial Statements.

Expected costs of providing retirement pensions under defined benefit plans, as well as costs of other post-employment benefit plans, are charged to the profit and loss account over the periods benefiting from the employees' services.

6.2.1. Valuation of the Defined Benefit Obligation

The Group uses the Projected Unit Credit method to determine the present value of its future obligations (Defined Benefit Obligation – "DBO") and the related current and past service costs. Financial and demographic assumptions used are determined at measurement date (usually at 31 March) as being appropriate for the plan and the country in which it is situated.

The main assumptions made are listed below:

- discount rate;
- inflation rate;
- rate of salary increases;
- long-term rate of return on plan assets;
- mortality rates; and
- employees turnover rates.

Certain assumptions used are discussed in Note 26 to the Consolidated Financial Statements.

This actuarial value of future obligations of the employer fluctuates annually, depending upon the following:

- increases related to the acquisition by the employees of one additional year of benefit rights (“service cost”);
- increases in the present value of the DBO which arises because the benefits are one year closer to their payment dates (“interest cost”);
- decreases related to the benefits paid during the year;
- actuarial gains and losses created during the year (as explained below);
- changes in obligations related to plan amendments;
- changes due to curtailments or settlements applied on the plans; and
- changes in scope (“Business combinations/disposals”).

The change in the DBO is disclosed in Note 26 to the Consolidated Financial Statements.

6.2.2. Valuation of plan assets

The fair value of the assets held by each plan is the amount that the plan could reasonably expect to receive in a sale of the assets. This is compared with the DBO and the difference is referred to as the “funded status” of the plan.

Changes in the fair value of assets and funded status are disclosed in Note 26 to the Consolidated Financial Statements. During 2006/07, the Group contributed a €300 million exceptional and discretionary funding of pension plans in Germany. In agreement with stakeholders of the plans (in the USA and in the UK), it was also decided to reduce the equity share of plans’ assets. As a result, global equity share of all plans’ assets decreased from 50 % to 38 % at 31 March 2007, in order to reduce financial risks relating to pensions.

6.2.3. Actuarial gains and losses and past service costs

A number of factors can trigger actuarial gains and losses:

- differences between the assumptions used and the actual experience (for instance, an actual return on assets differing from the expected rate of return at the beginning of the year) and
- changes in long-term actuarial assumptions (inflation rate, discount rate, rate of salary escalation, mortality table etc.).

Unrecognised actuarial gains/losses at year end are compared on a plan-by-plan basis with the higher of the DBO and the fair value of the assets held. If unrecognised actuarial gains/losses exceed 10% of this amount, the excess above the 10% level is amortised over the remaining working lives of employees of the respective plan.

As of 31 March 2007, actuarial losses unrecognised were €898 million, a decrease of €152 million since March 2006.

The introduction of a defined benefit plan or changes resulting from plan amendments may increase/decrease the obligations. Such event triggers a “past service cost” which is recognised immediately in the case of vested benefits, or amortised on a straight-line basis over the average period until the benefits become vested in case of non-vested benefits. The unrecognised past service costs amounted to €24 million (positive effect) at 31 March 2007, the same amount as at 31 March 2006.

Total unrecognized items were €846 million at 31 March 2007 and €1,028 million at 31 March 2006.

6.2.4. Total benefit expense

The following table shows the composition of the total benefit expense for fiscal years 2005/06 and 2006/07:

Total Group		
Actual values		
(in € million)	31 Mar 07	31 Mar 06
Service Cost	(84)	(85)
Multi employer contributions and defined contributions	(106)	(90)
Income from Operations	(190)	(175)
Amortisation of actuarial losses (gains)	(66)	(68)
Amortisation of unrecognised past service cost	(7)	3
Other	1	4
Other income (expense)	(72)	(61)
Interest cost	(208)	(215)
Expected return on plan assets	200	200
Financial income (expense)	(8)	(15)
Benefit expense	(270)	(251)

7. Off-balance sheet commitments and contractual obligations

The following table sets forth the off balance sheet commitments, which are further discussed in Note 31 to the Consolidated Financial Statements:

Total Group		
Actual values		
(in € million)	31 Mar 07	31 Mar 06
Guarantees related to contracts	4,972	4,816
Guarantees related to Vendor financing	362	432
Commitments to purchase fixed assets	3	8
Other guarantees	177	242
Off balance sheet commitments	5,514	5,498

– Guarantees related to contracts

The overall amount given as guarantees on contracts increased from €4,816 million at 31 March 2006 to €4,972 million at 31 March 2007.

– Vendor Financing Exposure

In the past years, the Group provided financial support to institutions which finance some of its customers and also, in some cases, directly to its customers for the purchases of its products. This financial support is referred to as “Vendor Financing”. The Group has not provided any Vendor Financing guarantees to its customers since fiscal year 1998/99.

The following table set forth the Group’s Vendor Financing exposure, which is discussed further in Note 31 to the Consolidated Financial Statements:

Total Group		
Actual values		
(in € million)	31 Mar 07	31 Mar 06
Marine	55	126
Transport	307	306
Vendor financing exposure	362	432

8. 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.

8.1. Free cash flow

Free cash flow is defined as net cash provided by (used in) operating activities less capital expenditure, net of proceeds from disposals of tangible and intangible assets, and increase (decrease) in existing receivables considered as a source of funding of the activity. In particular, free cash flow does not include the proceeds from disposals of activity.

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

Total Group Actual figures (in € million)	31 Mar 07	31 Mar 06
Net cash provided by (used in) operating activities	1,089	785
Elimination of variation in sale of existing receivables	34	(26)
Capital expenditure	(395)	(294)
Proceeds from disposals of tangible and intangible assets	17	60
Free Cash Flow	745	525

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

8.2. 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 financial debt).

Total Group		
Actual figures		
(in € million)	31 Mar 07	31 Mar 06
Non current assets (excl. deferred tax & financial non-current assets directly associated to financial debt)	6,696	7,230
Current assets (excl. cash & cash equivalent)	9,205	7,484
Marketable securities and other current financial assets	(197)	(22)
Prepaid pensions and other employee benefit costs	(422)	(387)
Current liabilities (excl. current provisions & current financial debt)	(12,029)	(9,903)
Current and non current provisions	(2,061)	(2,120)
Capital employed	1,192	2,282

Capital employed by Sectors and for the Group as a whole is also presented in Note 6 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.

8.3. Net debt

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

Total Group		
Actual values		
(in € million)	31 Mar 07	31 Mar 06
Cash and cash equivalents	1,907	1,301
Marketable securities and other current financial assets	197	22
Financial non-current assets directly associated to financial debt	654	-
Current financial debt	(125)	(360)
Non current financial debt	(2,697)	(2,211)
Net debt / (cash)	64	1,248

8.4. Comparable basis

Figures presented in this section include performance indicators presented on an actual basis and on a comparable basis. Figures have been given on a comparable basis in order to eliminate the impact of changes in business composition and changes resulting from the translation of the accounts into Euro following the variation of foreign currencies against the Euro. The Group uses figures prepared on a comparable 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 a comparable basis, are not measurements of performance under IFRS.

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

- restatement of the actual figures for fiscal year 2005/06 using 31 March 2007 exchange rates, as stated in the Consolidated Financial Statements, for order backlog, orders received, sales and income from operations, and
- adjustments due to changes in Business composition to the same line items for fiscal year 2005/06, in order to reflect the same scope of activity as during fiscal year 2006/07.

The following table sets out the estimated impact of changes in exchange rates and in business composition (“Scope impact”) for all indicators disclosed in this document both on an actual basis and on a comparable basis for fiscal year 2005/06. No adjustment has been made on figures disclosed for fiscal year 2006/07.

in € million	31 March 2006				31 March 2007	
	Actual figures	Exchange rate	Scope impact	Comp. Figures	Actual figures	% Var comp. March 07/06
Power Systems	8,447	(185)	(188)	8,074	11,873	47%
Power Service	4,336	(144)	160	4,352	5,219	20%
Transport	14,141	(155)	-	13,986	15,239	9%
Corporate & Others	20	-	(1)	19	19	0%
Orders backlog	26,944	(484)	(29)	26,431	32,350	22%
Power Systems	6,076	(103)	(190)	5,783	9,535	65%
Power Service	3,491	(85)	(76)	3,330	4,058	22%
Transport	5,184	(13)	(160)	5,011	5,388	8%
Corporate & Others	539	(4)	(486)	49	48	-2%
Orders Received	15,290	(205)	(912)	14,173	19,029	34%
Power Systems	5,079	(101)	(254)	4,724	5,673	20%
Power Service	2,853	(71)	(74)	2,708	3,198	18%
Transport	5,128	(22)	(149)	4,957	5,288	7%
Corporate & Others	353	(3)	(307)	43	49	14%
Sales	13,413	(197)	(784)	12,432	14,208	14%
Power Systems	101	(6)	(10)	85	201	137%
Power Service	442	(13)	(5)	424	510	20%
Transport	324	4	(14)	314	350	11%
Corporate & Others	(121)	-	(16)	(137)	(104)	-24%
Income from Operations	746	(15)	(45)	686	957	40%
Power Systems	2.0%	N/A	3.9%	1.8%	3.5%	
Power Service	15.5%	N/A	6.8%	15.7%	15.9%	
Transport	6.3%	N/A	9.4%	6.3%	6.6%	
Corporate & Others	N/A	N/A	N/A	N/A	N/A	
Operating margin	5.6%	7.6%	5.7%	5.5%	6.7%	
Sales	13,413	(197)	(784)	12,432	14,208	14%
Cost of sales	(11,080)	159	661	(10,260)	(11,586)	13%
Selling expenses	(569)	9	39	(521)	(567)	9%
R&D expenses	(364)	5	8	(351)	(456)	30%
Administrative expenses	(654)	9	31	(614)	(642)	5%
Income from Operations	746	(15)	(45)	686	957	40%

Contributions of material activities sold since 1 April 2006 have been restated in the comparable figures for fiscal year 2005/06. In particular, but not only, the Industrial Boilers business for Power Systems, the FlowSystems business for Power Service, activities in Australia and New Zealand for Transport and the Power Conversion business for Corporate and Others have been restated. In addition, orders in hand from activities acquired during fiscal year 2006/07 have

been restated in the comparable figures for fiscal year 2005/06. Fiscal years 2005/06 and 2006/07 disposals decreased orders received and sales by 6.0 % and 5.8 % respectively compared with fiscal year 2005/06.

Disposals

The following tables show the main activities which were disposed of during fiscal year 2005/06 and fiscal year 2006/07 and were restated in comparable figures. Sales and employees figures shown in the tables relate to the last fiscal year before the disposal of the activity.

Fiscal year 2006/07

Activities	Related Sector	Fiscal year 2005/06	
		Sales	Employees
Industrial Boilers/Germany	Power Systems	€200 million	127
Industrial Boilers/Czech Republic	Power Systems	€20 million	183

Fiscal year 2005/06

Activities	Related Sector	Fiscal year 2004/05	
		Sales	Employees
Power Conversion	Power Conversion	€506 million	3,145
Industrial Boilers/Australia	Power Systems	€73 million	224
Transport Australia/New Zealand	Transport	€282 million	2,073
FlowSystems	Power Service	€145 million	579
Easton	Power Service	€18 million	110

The Marine Sector was treated as discontinued activity in both fiscal year 2005/06 and fiscal year 2006/07.

Exchange rates

A significant part of the Group's sales and expenses is realised and incurred in currencies other than the Euro. Main currencies to which the Group had significant exposure in fiscal year 2006/07 were the US Dollar, British Pound, Swiss Franc, Brazilian Real, Indian Rupee and Chinese Yuan. Orders received and sales have been affected by the translation of the accounts into Euros resulting from changes in value of the Euro against other currencies in fiscal year 2006/07. The impact is a decrease in orders received and sales by 1.3 % and 1.5 %, respectively, compared with fiscal year 2005/06.