ALSTOM

MANAGEMENT REPORT

ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS
HALF-YEAR ENDED 30 SEPTEMBER 2007

1. Main events of half year ended 30 September 2007

1.1. Strong profitable growth

ALSTOM combined a strong growth and a marked improvement of its performance during the first half of 2007/08:

- orders received reached €12.8 billion with major commercial successes recorded in the three Sectors;
- sales increased by 21% (22% on an organic basis) reaching €8 billion, as the Group's growing backlog started to translate into sales;
- income from operations was €573 million, or 7.2% of sales, increasing by 39% from the combined effect of a high level of activity, an improved quality of the order book and continuous focus on project execution and cost control;
- net profit (Group share) amounted to €388 million, a 49% increase compared to the first half of 2006/07[1], under improved operational performance and lower restructuring and financial expenses;
- free cash flow amounted to €1.2 billion, as a result of the increased net income and a new improvement in working capital largely due to the very strong order intake.

1.2. Supporting ALSTOM's organic growth

1.2.1. Human resources management

Over the first half of 2007/08, ALSTOM recruited more than 4,800 employees, in key areas necessary to support the execution of the large backlog and to support the implementation of the growth strategy. The recruitment effort was global, with 45% of employees recruited in Europe, 27% in Asia and 28% in other regions.

ALSTOM is also accelerating its training effort; before the end of the current year, ALSTOM University, the Group's in-house training centre, will have opened 6 new regional campuses worldwide.

Finally, following the Board's decision in principle on 25 September 2007, the "ALSTOM Sharing 2007" initiative, a new employee stock purchase scheme, should be launched in November 2007 (with a maximum of 1 million new ALSTOM shares, or 0.7% of the share capital as of 30 September 2007, which could be issued). Its objectives are to harmonise employees' interests with shareholders' ones and create a stable employee shareholding base, by proposing favourable conditions for employees to become shareholders.

[1] Net income for H1 2006/07 is restated for the change in accounting method related to pensions.

The Board also decided a Long Term Incentive Plan comprised of a grant of conditional stock options and of free performance shares, conditional upon the Group's performance (dealing with around 0.7% of the share capital as of 30 September 2007).

1.2.2. Research and development

ALSTOM intensified its efforts in research and development during the first half of 2007/08. R&D expenses amounted to €252 million vs. €205 million during the first semester of the previous year, i.e. a 23% increase.

ALSTOM was particularly active in its key strategic R&D programmes such as CO2 capture, and improved-efficiency gas turbines for the Power Sectors as well as the new-generation of very-high-speed trains (AGV) and the European Rail Traffic Management System (ERTMS) for the Transport Sector.

ALSTOM signed several agreements to develop testing / demonstration plants for CO2 post-combustion capture: one with Statoil in Norway, one with E.ON in Sweden and one with American Electric Power (AEP) in the USA. In Germany, ALSTOM also successfully installed the combustion chamber of a pilot plant with Vattenfall based on the oxyfiring process.

On 3 April 2007, ALSTOM's "V150" very-high-speed train broke the world rail speed record, reaching 574.8 km/h on the new high-speed line to Eastern France and Germany. This record was achieved under the "French Excellence in Very High Speed Transport" programme which grouped ALSTOM, the French railway operator SNCF and the French railway infrastructure provider RFF.

ALSTOM is developing the next generation AGV train. Pégase, the first prototype of this AGV, is being assembled and will be tested for validation in the coming months.

ALSTOM's current R&D in Transport also includes programmes aimed at enhancing the competitiveness of its product offering:

- X04, the new tramway platform aimed at broadening the Citadis range, will allow ALSTOM to gain an edge in markets where existing infrastructures set specific requirements, such as increased robustness to run on lesser quality tracks;
- the development of "hybrid" (electric/diesel) locomotives that will allow to reduce diesel consumption and emissions.

1.2.3. Capital expenditure

Capital expenditure (excluding capitalised development expenses) amounted to €116 million during the first half of 2007/08 vs. €84 million during the first semester of the previous year.

Capital expenditure is aimed at reinforcing the Group's production capacity, particularly in fast-growing markets such as Asia. Main current programmes include:

- the construction of a new iron foundry in Elblag, Poland, in order to increase the production capacity of key components for turbine parts;
- the expansion of a blade manufacturing workshop in Morelia, Mexico, in order to increase the production capacity for turbine blades and meet the growing demand, particularly in the Americas;

– the development of production facilities for hydroelectric equipment in Tianjin, China, to serve the Chinese as well as export markets.

1.3 Strategic acquisitions and partnerships

During the first half of 2007/08, ALSTOM pursued its strategic positioning through selected acquisitions and partnerships.

Ecotècnia

On 31 October 2007, ALSTOM finalized the acquisition of Ecotècnia, a Spanish wind turbine company. Ecotècnia designs, assembles, installs and services a wide range of onshore wind turbines spanning 640 kW to 2 MW. It is currently developing new wind turbines with a capacity of up to 3 MW. The company has taken a significant part in the development of the Spanish wind energy market, which is ranked second in Europe, and currently generates about half of its sales from other European countries. Ecotècnia employs around 765 people and should make sales of around €300 million in 2007.

Wuhan Boiler Company

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

WBC currently generates revenues of about €200 million per year. ALSTOM plans to build a new factory in the outskirts of Wuhan and transfer WBC's production to this new facility. Fitted with the latest equipment, it will have the capacity to produce 600 MW super critical and 1000 MW ultra-supercritical boilers as well as large circulating fluidized bed boilers.

ALSTOM / Atomenergomash Joint-Venture

Following a framework agreement signed on 2 April 2007, ALSTOM and Atomenergomash finalised on 29 June 2007 the constitution of a joint-venture dedicated to manufacturing the conventional islands of Russian nuclear power plants, based on ALSTOM's "Arabelle" half-speed turbine technology.

Atomenergomash and ALSTOM own 51% and 49% of the joint-venture respectively.

ALSTOM / Balfour Beatty Joint-Venture

On 10 October 2007, ALSTOM and Balfour Beatty announced the creation of Signalling Solutions Limited, a joint venture which will serve the railway signalling markets in the United Kingdom and Ireland. ALSTOM and Balfour Beatty will each hold a 50% stake in this new company.

1.4. Improved financial flexibility

ALSTOM optimized its credit flexibility while seizing opportunities offered by the interest rates market:

- since 1 April 2007, the Group has reimbursed in anticipation €405 million of bonds redeemable on 28 July 2008, 13 March 2009 and 3 March 2010.
- on 1 October 2007, ALSTOM launched a public tender offer to partly reimburse its 3 March 2010 bond line. The transaction was settled on 22 October 2007 and the Group bought back €194 million of its bonds (nominal value).

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

Finally, on 5 October 2007, Bouygues announced that it had acquired additional ALSTOM shares, which has increased its participation in ALSTOM's share capital from 25% on 31 March 2007 to around 30% on 30 September 2007.

2. General comments on activity and results

2.1. Consolidated key financial figures

The following table sets out, on a consolidated basis, some of the Group's key financial and operating figures for the first half of 2007/08:

Total Group Actual figures (in € million)	**1st Half 30 Sept. 07**	**1st Half 30 Sept. 06**	% Var. Sept. 07 / Sept. 06	% Var. Organic Sept. 07/ Sept. 06
Order backlog	37,226	30,106	24%	25%
Orders received	12,847	9,664	33%	35%
Sales	8,004	6,608	21%	22%
Income from Operations	573	413	39%	39%
Operating margin	7.2%	6.3%		
Net profit - Group share	388	261 *	49%	
Free Cash Flow	1,248	747	67%	

* restated for change in pension accounting. Net income before restatement was €227 million

2.1.1. General comments on the Group's activity

The positive market trend that prevailed during 2006/07 proved to extend during the first half of 2007/08. The market for new equipment was sustained especially in Europe for gas projects, in North America for environmental retrofit of coal power plants in order to reduce emissions, in Asia for hydro and nuclear and in South and Central America for hydro and gas projects. The Middle East / Africa region also saw a strong demand, especially in gas. In this context, the Group has revised its market expectations upwards and it expects the market to remain strong for the years to come with an average volume ordered for new equipment per year for the years 2007–2011 of 185 GW to be compared with an average of 150 GW in 2005–2006. In addition, environmental regulations combined with the ageing of the installed base increased the demand for environmental upgrades, retrofitting of existing facilities and services worldwide. As an example, the retrofit market is also expected to reach €4 billion per year on average in 2007-2011 as compared to €3 billion on average in 2005-2006.

The Transport market showed a sustained demand for light rail vehicles and metros from municipalities. There are also positive dynamics on the high-speed market worldwide. Emerging markets are also offering numerous opportunities, such as in China (metro, mainline) and India (mass transit, signalling).

2.1.2. Orders received and backlog

Under this favourable environment and leveraging its good strategic positioning, ALSTOM recorded numerous commercial successes in all its activities during the first half of 2007/08, with orders received exceeding €12.8 billion, a +33% increase vs. the same semester of 2006/07 (+35% on an organic basis):

– Power Systems' order intake was €5.5 billion over the semester, a 9% increase (12% on an organic basis). Power Systems booked a total of 29 gas turbines (including 10 GT26) in 12 countries. Contracts were also recorded to supply steam turbines / generators packages for the conventional islands of nuclear power plants in China and for hydroelectric projects in Brazil and China;

– Power Service booked contracts for €2.5 billion, a 6% increase (7% on an organic basis), including numerous small and medium-sized contracts as well as significant operation and maintenance contracts notably in the United Kingdom, Ireland and India;

– The semester was also very positive for the Transport Sector, with orders received reaching €4.8 billion, a 114% increase both on an actual and an organic basis, including a major contract in very high speed for 80 TGV Duplex in France. The Group also achieved key successes in metros – with a significant contract to provide 360 additional cars to the New York city metro system – as well as in tramways (Dublin).

At 30 September 2007, the Group's backlog amounted to €37.2 billion, representing 28 months of sales.

2.1.3. Sales

As a result of the growing backlog, the Group's sales reached €8,004 million for the first half of 2007/08. This represents a +21% increase compared to the first half of 2006/07 (+22% on an organic basis).

Power Systems' sales were €3,538 million, a +30% increase (+33% on an organic basis), as major contracts booked during the last periods are being traded.

Power Service generated sales of €1,756 million, a 18% increase (17% on an organic basis), with strong activity all across the Sector's product range (gas and steam turbines, generators, boilers, …).

Sales for Transport reached €2,686 million, a +13% growth (+14% on an organic basis), as the increased backlog is being translated into sales with notably the delivery of the EMUs and the locomotive contracts in China.

2.1.4. Income from operations

The high level of activity and improvement of the quality of the order book, combined with continuous focus on contract execution and cost control, allowed the Group to post a significant improvement of its income from operations, which amounted to €573 million in the first half of 2007/08, a 39% increase on both an actual and an organic basis as compared to €413 million in the first half of 2006/07. The Group's operating margin reached 7.2% from 6.3% one year ago.

All Sectors contributed to this improvement of the income from operations and the operating margin: Power Systems increased its income from operations from €83 million (3.0% of sales) to €159 million (4.5% of sales), Power Service from €238 million (16.0%) to €286 million (16.3%) and Transport from €151 million (6.4%) to €186 million (6.9%).

2.1.5. Net profit, Group share

Net profit (Group share) amounted to €388 million compared to €261 million for the first half of 2006/07 (restated for change in pension accounting). The Group benefited from increased income from operations, decreasing restructuring and financial expenses, the tax rate being stable at around 25%.

2.1.6. Free cash flow

Free cash flow (as defined in paragraph "Use and reconciliation of non-GAAP financial measures") reached an exceptional level of €1,248 million vs. €747 million over the first half of 2006/07. Free cash flow generation was strong, mainly as a result of increase in net income and strong working capital improvement supported by the continuous high level of orders intake.

2.1.7. Net cash

The Group turned net cash positive during the first half of 2007/08, from a net debt of €64 million at 31 March 2007 to a net cash of €901 million at 30 September 2007. This evolution in net debt / cash (described in paragraph "Use and reconciliation of non-GAAP financial measures") is a result of the Group's strong cash flow generation, after a €116 million dividend payment in July 2007.

2.2. Key geographical figures for the first half of 2007/08

2.2.1. Geographical analysis of orders by destination

The table below presents the geographical breakdown of orders received by region of destination:

Total Group	**1st Half**		*% Variation*	**1st Half**	
Actual figures, in € million	**30 Sept. 07**	% of contrib	*Sept. 07/06*	**30 Sept. 06**	% of contrib
Europe	6,976	54%	*20%*	5,804	60%
North America	2,012	16%	*10%*	1,831	19%
South and Central America	554	4%	*74%*	319	3%
Asia/Pacific	1,808	14%	*70%*	1,063	11%
Middle East/ Africa	1,497	12%	*131%*	647	7%
Orders received by destination	**12,847**	**100%**	***33%***	**9,664**	**100%**

Europe represented 54% of the total order intake at €6,976 million, a 20% increase on an actual basis, as the Group booked significant contracts in France (particularly the order for the TGV Duplex), the UK, Ireland and Greece.

Orders in North America increased by 10%, at €2,012 million, as several orders were booked in the USA, notably for environmental systems and for 360 cars for the New York metro, and in Mexico for the retrofit of a nuclear steam turbine.

Orders in South and Central America increased by 74% at €554 million. The Group recorded contracts for 2 hydro projects and a metro project in Brazil.

The order intake increased by 70% in Asia/Pacific at €1,808 million. Main orders received included gas turbines in India (based on GT-26 technology) and Australia (based on GT-13 technology), as well as steam turbines / generators packages for conventional islands of nuclear power plants, a total of 5 hydro projects and metros in China.

ALSTOM received large orders in the Middle East / Africa for a total €1,497 million, or a 131% increase. A total of 13 GT-13 / GT-11 turbines were booked for power plants in Algeria, Morocco, Kuwait, the United Arab Emirates and Ghana.

2.2.2. Geographical analysis of sales by destination

Total Group **Actual figures, in € million**	**1st Half** **30 Sept. 07**	% of contrib	*% Variation* *Sept. 07/06*	**1st Half** **30 Sept. 06**	% of contrib
Europe	3,886	49%	*27%*	3,068	46%
North America	1,479	18%	*38%*	1,069	16%
South and Central America	352	4%	*(12%)*	398	6%
Asia/Pacific	1,563	20%	*21%*	1,288	19%
Middle East/ Africa	724	9%	*(8%)*	785	12%
Sales by destination	**8,004**	**100%**	***21%***	**6,608**	**100%**

Sales in Europe represented 49% of the Group's total sales, at €3,886 million, a 27% increase vs. the first half of 2006/07 on an actual basis. Significant turnkey contracts booked by Power Systems in Europe in the past periods started being traded.

The Group's sales increased by 38% in North America, at €1,479 million. All three Sectors contributed to this increase, particularly in the USA, with good activity in environmental systems, as well as in metros.

Sales in Central and South America decreased by 12% at €352 million mainly due to the completion of projects in Chile and Argentina.

ALSTOM's sales in Asia/Pacific amounted to €1,563 million, a 21% increase. The growth of sales is due mainly to the execution of projects in China for Transport, as well as in Australia and India for Power Systems.

Sales in Middle East/Africa were down by 8% at €724 million, mainly due to near-completed large contracts in Saudi Arabia and Dubai, partly offset by good level of activity in the gas service business in this region.

2.2.3. Geographical analysis of sales by origin

Total Group **Actual figures, in € million**	**1st Half** **30 Sept. 07**	% of contrib	*% Variation* *Sept. 07/06*	**1st Half** **30 Sept. 06**	% of contrib
Europe	5,427	68%	*17%*	4,653	70%
North America	1,448	18%	*35%*	1,075	16%
South and Central America	240	3%	*8%*	223	3%
Asia/Pacific	753	9%	*23%*	614	9%
Middle East/ Africa	136	2%	*216%*	43	1%
Sales by origin	**8,004**	**100%**	***21%***	**6,608**	**100%**

Sales from Europe increased by 17% at €5,427 million, mainly as a consequence of growing Power Systems sales.

North American sales increased by 35% at €1,448 million, due to boiler environmental services and the execution of metro contracts in the USA.

Sales in South and Central America increased by 8% at €240 million. This evolution was mainly due to hydro business in Brazil.

Sales from Asia / Pacific increased by 23% at €753 million, as Power Systems' sales increased in Australia and China while Power Service's sales benefited from the acquisition of Sizhou in China.

Sales from Middle East / Africa increased by 216% at €136 million, mainly as a consequence of growing sales generated in Saudi Arabia and the United Arab Emirates.

3. Outlook

ALSTOM's first half of 2007/08 was overall favourable: the Group recorded a continuing buoyant commercial activity in a dynamic power and transport market environment. Ramp-up in sales combined with an improved quality of the backlog and a continuous focus on project execution and cost control allowed the Group to achieve a strong growth and a significant improvement of its profitability. ALSTOM expects this trend to continue during the second semester of 2007/08.

As a consequence, for the year ended 31 March 2008, sales should grow organically by approximately 15% compared to the year ended 31 March 2007 and the Group's operating margin should be around 7.5%.

The foregoing are "forward looking statements" and as a result they are subject to uncertainties. The main risks and uncertainties which may affect the Group during the second semester of 2007/08 are described in the Risks section of the annual report / Reference document for 2006/07. More generally, the success of the Group's strategy and action plan, its sales, operating margin and financial position could differ materially from the objectives and targets expressed above if any of the main risks and uncertainties described in the Risks section of the annual report / Reference document for 2006/07, or other unknown risks, materialise.

4. Sector analysis

4.1. Power Sectors

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

Power **Actual figures** **(in € million)**	**1st Half** **30 Sept. 07**	**1st Half** **30 Sept. 06**	% Var. Sept. 07 / Sept. 06	% Var. Organic Sept. 07/ Sept. 06
Order backlog	19,999	15,618	28%	29%
Orders received	8,025	7,399	8%	11%
Sales	5,294	4,216	26%	27%
Income from Operations	445	321	39%	41%
Operating margin	8.4%	7.6%		
EBIT	452	332	36%	
Capital employed	742	1,044	(29%)	

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

Power Systems **Actual figures** **(in € million)**	**1st Half** **30 Sept. 07**	**1st Half** **30 Sept. 06**	% Var. Sept. 07 / Sept. 06	% Var. Organic Sept. 07/ Sept. 06
Order backlog	14,117	10,442	35%	35%
Orders received	5,513	5,035	9%	12%
Sales	3,538	2,732	30%	33%
Income from Operations	159	83	92%	94%
Operating margin	4.5%	3.0%		
EBIT	162	95	71%	
Capital employed	(1,345)	(831)	62%	

The following table sets out key financial data for Power Service:

Power Service **Actual figures** **(in € million)**	**1st Half** **30 Sept. 07**	**1st Half** **30 Sept. 06**	% Var. Sept. 07 / Sept. 06	% Var. Organic Sept. 07/ Sept. 06
Order backlog	5,882	5,176	14%	16%
Orders received	2,512	2,364	6%	7%
Sales	1,756	1,484	18%	17%
Income from Operations	286	238	20%	22%
Operating margin	16.3%	16.0%		
EBIT	290	237	22%	
Capital employed	2,087	1,875	11%	

4.1.1. Orders received

4.1.1.1. Power Systems

Orders received by the Sector during the first half of 2007/08 amounted to €5,513 million, 9% higher than during the first semester of 2006/07 (12% higher on an organic basis). Overall, a total of 29 gas turbines were booked. The Group also achieved a key success in nuclear in China, booked a large steam turbine retrofit contract in Mexico and a significant environmental contract for the aluminium industry in the United Arab Emirates.

Power Systems has recorded a number of successes in gas in Europe. Two very large power plants with a total of 7 GT26 gas turbines were booked in the UK. The environmental retrofit of existing coal power plants is also benefiting from high growth due to the need for operators to meet the deadlines for emission reduction set by the European Union. Globally Europe accounted for 41% of the total order intake at €2,264 million, decreasing by 31% compared to the first half of 2006/07, which was particularly strong and included a large order for a turnkey steam plant.

In North America, the market for environmental retrofit of coal power plants has been very solid in the last few years and is expected to remain so for some time due to emission reduction compliance deadlines. The market for retrofit of steam turbines is increasing, illustrated by one order booked in Mexico. North America accounted for 16% of the order intake at €865 million, a 15% decrease compared to one year ago, which was particularly strong with the booking of one large plant.

The Asia/Pacific region recorded a significant growth during the first half of 2007/08 compared to first half of 2006/07, mainly due to China (hydro projects, conventional islands for nuclear plants), India (first GT26-combined cycle power plant) and Australia (GT-13 power plant). The rest of Asia / Pacific also recorded a significant growth. Orders in Asia/Pacific represented 19% of the order intake during the semester, at €1,044 million, representing an 80% increase vs. the first half of 2006/07.

In South and Central America, demand grew in hydro as well as in gas and environmental equipment. Orders received in South and Central America were €344 million (versus €86 million in the first half of 2006/07), representing 6% of the Sector's order intake.

In Middle East and Africa, the market is essentially a gas market except in South Africa where the coal market is coming back after many years of limited investment. The market was strong in this region with a total of 13 gas turbines booked during the first semester. ALSTOM booked orders for €996 million or 18% of the total order intake.

4.1.1.2. Power Service

Power Service's order intake was €2,512 million, a 6% increase compared to the first half of 2006/07 (7% on an organic basis). Europe represented 40% of the total orders received, North America and Asia/Pacific both 21%, Middle East/Africa 17% and South and Central America 1%.

In Europe, environmental regulation and an active CO_2 market are major factors driving investment decisions. This is pushing demand for both efficiency-enhancing products in order to reduce fuel consumption, and emissions control solutions. Some utilities strategy towards existing plants life extension is creating opportunities as well. During the semester, ALSTOM recorded operation and maintenance contracts related to several new gas power plants, especially in the UK, in Ireland and in Italy. Orders received in Europe were stable at €999 million.

In North America, customers are optimizing their generation portfolio according to market that favours high-efficiency coal plants and associated services. Orders received were €523 million, down by 29% from the high level recorded last year.

The Asia / Pacific region is showing a fast capacity build-up as well as growing environmental concerns, driving service opportunities. Growing customer interest in asset management services linked with liberalization is also being noticed. ALSTOM's competitiveness in these fields has led to several successes during the first semester of 2007/08, especially in the very competitive markets of India, Malaysia and China, where recent acquisitions have reinforced the Group's local industrial base. In Asia/Pacific, orders amounted to €517 million, a 72% increase.

Middle East and North Africa have shown dynamic growth during the first semester of 2007/08. Strong demand for gas in the Middle East will translate into service opportunities mid-term. Orders in Middle East/Africa reached €440 million, an increase of 64%.

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

Country	**Customer**	**Sector**	**Description**
Algeria	Sonelgaz	Power Systems	510 MW GT13 open-cycle power plant
Australia	Delta Electricity	Power Systems	650 MW GT13 open-cycle power plant
Brazil	Furnas	Power Systems	Equipments for a 4 x 217 MW hydropower plant
China	Dong Fang	Power Systems	4 x 1,000 MW-class steam turbine-generator packages for the conventional island of a new nuclear power plant
China	Ertan Hydro Power Co.	Power Systems	Equipments for a 8 x 600 MW hydropower plant
Finland	TVO	Power Systems	Steam turbine retrofit for nuclear power plant
India	Gujarat SEC	Power Systems Power Service	400 MW GT26 combined-cycle power plant Operation and maintenance contract
Ireland	ESB	Power Systems Power Service	400 MW GT26 combined-cycle power plant Operation and maintenance contract
Kuwait	Al Ghanim & Sons	Power Systems	Turbines and other components for a 850 MW GT13 open-cycle power plant
Mexico	Iberinco	Power Systems	Steam turbine retrofit for nuclear power plant
Morocco	Abener	Power Systems Power Service	Turbines and other components for a 450 MW GT13 combined-cycle power plant Operation and maintenance contract
United Arab Emirates	Dubal	Power Systems	150 MW GT13 cogeneration power plant
United Kingdom	E.ON	Power Systems	1,300 MW GT26 combined-cycle power plant
United Kingdom	RWE	Power Systems Power Service	1,700 MW GT26 combined-cycle power plant Operation and maintenance contract

4.1.2. Sales

4.1.2.1. Power Systems

During the first half of 2007/08, sales in Power Systems reached €3,538 million, 30% higher than the first half of 2006/07 (33% higher on an organic basis), as a consequence of the level of orders booked during the previous periods.

Sales in Europe increased by 118% at €1,610 million, representing 45% of total sales as some major turnkey contracts booked in the past periods started being traded. Sales in North America increased by

20% at €637 million or 18% of Sector's sales, with good activity particularly in environmental systems. In South and Central America, sales decreased by 18% at €178 million (5% of the Sector's sales), as a contract in Argentina is nearing completion. Sales in Asia/Pacific increased by 13%, reaching €731 million (21% of the Sector's sales), as projects are being executed in Australia and India. Finally, sales in Middle East/Africa were down by 36% at €382 million, representing 11% of Sector's sales, as large projects in Saudi Arabia and Dubai are being completed.

The following table sets out, on an actual basis, the geographical breakdown of Power System's sales by destination.

Power Systems **Actual figures, in € million**	**1st Half** **30 Sept. 07**	% of contrib	*% Variation* *Sept. 07/06*	**1st Half** **30 Sept. 06**	% of contrib
Europe	1,610	45%	*118%*	739	27%
North America	637	18%	*20%*	530	19%
South and Central America	178	5%	*(18%)*	218	8%
Asia/Pacific	731	21%	*13%*	649	24%
Middle East/ Africa	382	11%	*(36%)*	596	22%
Sales by destination	**3,538**	**100%**	***30%***	**2,732**	**100%**

4.1.2.2. Power Service

During the first semester of 2007/08, Power Service generated sales of €1,756 million, a 18% increase (17% on an organic basis).

Europe represents 39% of the Sector's sales at €679 million, a 13% increase compared to last year.

North America also contributed significantly with sales of €536 million, a 37% increase and a 31% share of the Sector's sales due to a good activity across all businesses. Sales in South and Central America increased by 23% at €43 million (2% of the Sector's sales). In Asia/Pacific, sales were down by 8% at €290 million, corresponding to 16% of global sales. Finally, sales in Middle East/Africa amounted to €208 million, up 46%, due to an increase in the gas service business in Middle East.

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

Power Service **Actual figures, in € million**	**1st Half** **30 Sept. 07**	% of contrib	*% Variation* *Sept. 07/06*	**1st Half** **30 Sept. 06**	% of contrib
Europe	679	39%	*13%*	602	41%
North America	536	31%	*37%*	390	26%
South and Central America	43	2%	*23%*	35	2%
Asia/Pacific	290	16%	*(8%)*	315	21%
Middle East/ Africa	208	12%	*46%*	142	10%
Sales by destination	**1,756**	**100%**	***18%***	**1,484**	**100%**

4.1.3. Income from operations and operating margin

4.1.3.1. Power Systems

Power Systems' income from operations was €159 million in the first half of 2007/08, around twice the amount recorded in the first half of 2006/07. The operating margin increased from 3.0% to 4.5%. These improved results come from an increased volume, an improved quality of the backlog and a continuous focus on project execution.

4.1.3.2. Power Service

Power Service posted an income from operations of €286 million during the first semester of 2007/08, up 20% from the €238 million recorded during the first semester of 2006/07. The operating margin improved slightly from 16.0% to 16.3% on an actual basis.

4.2. Transport Sector

The following table sets out key financial data for Transport:

Transport **Actual figures** **(in € million)**	**1st Half** **30 Sept. 07**	**1st Half** **30 Sept. 06**	% Var. Sept. 07 / Sept. 06	% Var. Organic Sept. 07/ Sept. 06
Order backlog	17,200	14,468	19%	21%
Orders received	4,796	2,241	114%	114%
Sales	2,686	2,370	13%	14%
Income from Operations	186	151	23%	21%
Operating margin	6.9%	6.4%		
EBIT	179	138	30%	
Capital Employed	(112)	55	N/A	

4.2.1. Orders received

Orders received by the Transport Sector for the first half of 2007/08 reached €4,796 million, a 114% increase compared to the first half of 2006/07 on both an actual and an organic basis. On a regional basis, Europe accounted for 77% of the total order intake, North America 13%, Asia/Pacific 5%, South and Central America 4% and Africa / Middle East 1%.

In France, demand remained strong and this translated into large contracts in very high speed, regional and tram-train, the latter showing promising potential. In Germany, the demand remained strong for regional trains. The Italian market was slow but gave signs of recovery. In Belgium, a very important countrywide re-signalling contract was won. The tramway market was overall stable at a high level, reflected by a contract in Dublin. Lastly, continued trust from the customer resulted in the extension of the maintenance contract for London's Jubilee metro line. Other markets showed a good level of activity, including Greece or Bulgaria. Orders in Europe amounted to €3,713 million, more than twice the orders received during the first half of the previous year (€1,513 million).

In North America, the Transport sector booked options for 360 additional cars for New York's metro with orders received during the semester in this region standing at €624 million.

South and Central America remained at a high level of activity, particularly in metro. Significant projects are also considered in very high speed and regional transports. Orders in South and Central America amounted to €177 million during the semester.

In China, the metro market showed opportunities, which translated into 2 significant orders for the Sector (Shanghai Line 10 and Nanjin Line 2) for a total of 400 cars. In India, the metro market confirmed its emergence. In the rest of the region, there were opportunities in signalling resulting in a contract for Sector in Taipei. In Asia/Pacific, orders reached €220 million during the semester.

Orders received in the Africa / Middle East region were €62 million during the first half of 2007/08, including a metro infrastructure contract for Cairo's metro.

Transport received the following significant orders during the first half of 2007/08:

Country	Description
Belgium	Signalling system
China	Metro cars for the Shanghai metro network
China	Metro cars for the Nanjing metro network
France	Very high speed TGV DUPLEX trains for the French railway operator SNCF
France	CITADIS DUALIS tram-train for the French railway operator SNCF
Germany	CORADIA LIREX trainsets for German railway operators
Ireland	CITADIS trainsets for the Dublin light rail system
United Kingdom	10-year maintenance contract for the Jubilee Line of the London Underground
United States of America	Metro cars for the New York City metro network

4.2.2. Sales

During the first half of 2007/08, Transport's sales amounted to €2,686 million, a 13% increase (+14% on an organic basis).

In spite of a 7% decrease to €1,598 million, sales in Europe continued to be the most important contributor to the Sector's sales, with a 60% share of the total turnover. Activity in North America was strong with a 105% increase at €305 million (11% of the Sector's sales) due to the trading of metro projects in the USA. Sales in South and Central America were down by 10% at €131 million (5% of the total sales). Sales in Asia/Pacific increased by 72% at €519 million, notably due to development of contracts for EMUs and locomotives in China. Sales in Middle East/Africa amounted to €133 million or 5% of global sales, a 183% increase mainly due to projects in Tunisia, Israel, and Algeria.

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

Transport **Actual figures, in € million**	**1st Half** **30 Sept. 07**	% of contrib	*% Variation* *Sept. 07/06*	**1st Half** **30 Sept. 06**	% of contrib
Europe	1,598	60%	*(7%)*	1,727	73%
North America	305	11%	*105%*	149	6%
South and Central America	131	5%	*(10%)*	145	6%
Asia/Pacific	519	19%	*72%*	302	13%
Middle East/ Africa	133	5%	*183%*	47	2%
Sales by destination	**2,686**	**100%**	***13%***	**2,370**	**100%**

4.2.3. Income from operations and operating margin

Income from operations for the Transport Sector amounted to €186 million or 6.9% of sales during the first half of 2007/08. This represented an increase of 23% from the €151 million or 6.4% of sales recorded during the first half of 2006/07. This improvement is mainly a result of higher sales, improved margin in backlog, and a continuous focus on project execution and cost control.

4.3. Corporate and Others

Corporate & Others comprise all units accounting for Corporate costs, the International Network, and some entities in India which are not reported by the Sectors.

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

Corporate & Others Actual figures (in € million)	**1st Half 30 Sept. 07**	**1st Half 30 Sept. 06**	% Var. Sept. 07 / Sept. 06	% Var. Organic Sept. 07/ Sept. 06
Order backlog	27	20	N/A	N/A
Orders received	26	24	N/A	N/A
Sales	24	22	N/A	N/A
Income from Operations	(58)	(59)	N/A	N/A
EBIT	(70)	(64)	N/A	
Capital Employed	(109)	756	N/A	

Income from operations for Corporate & Others was €(58) million during the first half of 2007/08, compared to €(59) million for the first half of the previous year.

5. 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.

5.1. 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.

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)	**1st Half 30 Sept. 07**	**1st Half 30 Sept. 06**
Net cash provided by (used in) operating activities	**1,408**	**832**
Elimination of variation in sale of existing receivables		34
Capital expenditure (including capitalized development costs)	(172)	(125)
Proceeds from disposals of tangible and intangible assets	12	6
Free Cash Flow	**1,248**	**747**

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.

5.2. 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 provisions and current financial debt).

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

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

Total Group **Actual figures** **(in € million)**	**30 Sept. 07**	**31 March 07**
Non current assets (excl. deferred tax & financial non-current assets directly associated to financial debt)	6,246	6,263
Current assets (excl. cash & cash equivalent)	9,978	9,205
Marketable securities and other current financial assets	(132)	(197)
Prepaid pensions and other employee benefit costs	(29)	(11)
Current liabilities (excl. current provisions & current financial debt)	(13,529)	(12,029)
Current and non current provisions	(2,013)	(2,061)
Capital employed	**521**	**1,170**

5.3. Net cash / 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)**	**30 Sept. 07**	**31 March 07**
Cash and cash equivalents	2,668	1,907
Marketable securities and other current financial assets	132	197
Financial non-current assets directly associated to financial debt	630	654
less:		
Current financial debt	526	125
Non current financial debt	2,003	2,697
Net cash / (net debt)	**901**	**(64)**

5.4. Organic basis

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

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

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

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

ALSTOM

in € million	1st Half - 30 Sept. 06				2nd Half - 31 Mar. 07				1st Half - 30. Sept 07			
	Actual figures	Exchange rate	Scope impact	Comparable Figures	Actual figures	Exchange rate	Scope impact	Comparable Figures	Actual figures	Scope Impact	Organic figures	% Var Org Sept. 07 / Sept. 06
Power Systems	10,442	(201)	-	10,241	11,873	(104)	-	11,769	14,117	(250)	13,867	35%
Power Service	5,176	(232)	-	4,944	5,219	(114)	(160)	4,945	5,882	(149)	5,733	16%
Transport	14,468	(203)	-	14,265	15,239	(127)	-	15,112	17,200	-	17,200	21%
Corporate & Others	20	2	-	22	19	-	-	19	27	-	27	23%
Orders backlog	**30,106**	**(634)**	**-**	**29,472**	**32,350**	**(345)**	**(160)**	**31,845**	**37,226**	**(399)**	**36,827**	**25%**
Power Systems	5,035	(82)	(46)	4,907	4,500	(30)	-	4,470	5,513	-	5,513	12%
Power Service	2,364	(73)	-	2,291	1,694	(20)	(3)	1,671	2,512	(62)	2,450	7%
Transport	2,241	(4)	-	2,237	3,147	(11)	-	3,136	4,796	-	4,796	114%
Corporate & Others	24	1	-	25	24	2	-	26	26	-	26	4%
Orders Received	**9,664**	**(158)**	**(46)**	**9,460**	**9,365**	**(59)**	**(3)**	**9,303**	**12,847**	**(62)**	**12,785**	**35%**
Power Systems	2,732	(44)	(26)	2,662	2,941	(23)	-	2,918	3,538	-	3,538	33%
Power Service	1,484	(33)	-	1,451	1,714	(30)	(4)	1,680	1,756	(61)	1,695	17%
Transport	2,370	(9)	-	2,361	2,918	(10)	-	2,908	2,686	-	2,686	14%
Corporate & Others	22	1	-	23	27	1	-	28	24	-	24	4%
Sales	**6,608**	**(85)**	**(26)**	**6,497**	**7,600**	**(62)**	**(4)**	**7,534**	**8,004**	**(61)**	**7,943**	**22%**
Power Systems	83	(2)	1	82	118	1	-	119	159	-	159	94%
Power Service	238	(9)	-	229	272	(7)	(1)	264	286	(7)	279	22%
Transport	151	3	-	154	199	1	-	200	186	-	186	21%
Corporate & Others	(59)	1	-	(58)	(45)	-	-	(45)	(58)	-	(58)	0%
Income from Operations	**413**	**(7)**	**1**	**407**	**544**	**(5)**	**(1)**	**538**	**573**	**(7)**	**566**	**39%**
Power Systems	3.0%			3.1%	4.0%			4.1%	4.5%		4.5%	
Power Service	16.0%			15.8%	15.9%			15.7%	16.3%		16.5%	
Transport	6.4%			6.5%	6.8%			6.9%	6.9%		6.9%	
Corporate & Others	N/A			N/A	N/A			N/A	N/A		N/A	
Operating margin	**6.3%**			**6.3%**	**7.2%**			**7.1%**	**7.2%**		**7.1%**	
Sales	6,608	(85)	(26)	6,497	7,600	(62)	(4)	7,534	8,004	(61)	7,943	22%
Cost of sales	(5,409)	66	25	(5,318)	(6,177)	48	2	(6,127)	(6,547)	40	(6,507)	22%
Selling expenses	(264)	4	1	(259)	(303)	3	1	(299)	(298)	5	(293)	13%
R&D expenses	(205)	4	-	(201)	(251)	3	-	(248)	(252)	5	(247)	23%
Administrative expenses	(317)	4	1	(312)	(325)	3	-	(322)	(334)	4	(330)	6%
Income from Operations	**413**	**(7)**	**1**	**407**	**544**	**(5)**	**(1)**	**538**	**573**	**(7)**	**566**	**39%**

6. Other information

6.1. Information related to the parent company

ALSTOM S.A., the Group's parent company, has no industrial or commercial activity and consequently its revenues include mainly fees invoiced to its subsidiaries for the use of the ALSTOM name, dividends and other financial income.

Net profit amounted to €122 million for the first half of 2007/08, compared to €50 million for the first half of 2006/07.

6.2. Related parties

During the first semester of 2007/08, there was no new significant transaction between related parties.