ALSTOM

Management Discussion and Analysis on Interim Consolidated Financial Statements as at 30 September 2006

FIRST HALF OF FISCAL YEAR 2006/07

You should read the following discussion together with the 30 September 2006 Interim Consolidated Financial Statements. During the periods discussed in this section, we undertook several significant transactions that affected the comparability of our financial results between periods. In order to allow you to compare the relevant periods, we present certain information both as it appears in our financial statements and adjusted for business composition and exchange rate variations to improve comparability. We describe these adjustments under "—Use and reconciliation of non-GAAP financial measures—Comparable basis" below.

1 MAIN EVENTS OF THE FIRST HALF OF FISCAL YEAR 2006/07

1.1 Acquisition by Bouygues of ALSTOM's shares owned by the French State

Bouygues' stake in ALSTOM's capital

On 26 April 2006, Bouygues agreed with the French State to purchase the 21.03% stake the French State owned in ALSTOM's equity. This operation was finalised on Monday 26 June 2006. With the shares acquired on the market, Bouygues' stake in ALSTOM had been increased to 24.4% at 30 September 2006.

Cooperation with Bouygues

ALSTOM and Bouygues signed a memorandum of understanding for operational and commercial cooperation on 26 April 2006.

The sales networks of both companies are cooperating to maximise their strengths on the markets and develop together integrated projects as opportunities arise whenever required. Bouygues and ALSTOM can provide a joint response to market demands by offering solutions that combine Bouygues' civil engineering with ALSTOM's equipment.

Exchanges at the operational level involve the improvement of project execution by sharing best practices in organisation and project management, setting up joint training programmes for various categories of employees and optimising costs on common projects.

Joint-venture in Hydro business

Consistent with the announcement made on 26 April 2006, a binding agreement was signed on 29 September 2006 granting Bouygues a 50% stake in ALSTOM Hydro activities. Following clearance from all relevant anti-trust authorities, this operation was completed on 31 October 2006.

1.2 Strengthening our financial base

The Group reimbursed €226 million of bonds maturing on 26 July 2006. In view of ALSTOM's high level of liquidities, no particular refinancing of this bond took place.

The Group renegotiated the conditions of its new bonding programme covering its needs from July 2006 to July 2008. Under this new agreement, bonding costs have been further reduced and this fully unsecured programme is subject to adjustments of certain profitability and liquidity targets (see note 24 of the Interim Consolidated

Financial Statements). The cash collateral of € 700 million paid by the Company to secure its first programme is now expected to be released during fiscal year 2007/08.

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

1.3 Scope variations

1.3.1 Disposal of our Marine sector

On 31 May 2006, the sale of 75% interest in the Marine Sector to Aker Yards was completed. 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 30 September 2006, the remaining 25% interest was accounted for in investments and the remaining stake will be sold to Aker Yards by 2010 for up to € 125 million.

The transaction is structured as an asset sale and we are retaining certain assets, liabilities and contracts, notably relating to ships delivered before the closing of the transaction and to the three LNG tankers currently under construction.

In fiscal year 2005/06 and the first semester of 2006/07, we treated our Marine activity as a discontinued operation in our consolidated financial statements.

1.3.2 Disposal of our Industrial Boilers business in Germany and in the Czech Republic

On 24 October 2005, ALSTOM and Austrian Energy & Environment AG signed binding agreements for the sale of the bulk of our Industrial Boilers business. The business sold to Austrian Energy & Environment AG included ALSTOM's German, Czech and Australian industrial boiler activities in those countries. These businesses recorded aggregate sales of around €350 million in 2004/05 and employed approximately 450 employees.

The sale of our Australian activities took place in November 2005, while the German and Czech activities were sold in May 2006.

1.3.3 Acquisition of Shenzhen Strongwish

On 24 August 2006, ALSTOM signed an agreement for the acquisition of Shenzhen Strongwish, a Chinese company specialised in the design and delivery of remote monitoring and diagnostic (RM&D) services. 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. We expect the company to continue a strong growth as part of our Power Service activities.

1.3.4 Acquisition of Wuhan Boiler Company

On 14 April 2006, ALSTOM signed an agreement with Wuhan Boiler Group for the acquisition of its subsidiary, Wuhan Boiler Company Limited, in which it holds a majority stake. Following this agreement, which is still subject to the approval of the appropriate Chinese authorities, ALSTOM would acquire a 51% share in WBC from Wuhan Boiler Group and, as required by Chinese stock exchange rules, would launch a general offer on the 42% of WBC securities listed on the Shenzhen stock exchange market.

Wuhan Boiler Company is based on a single site in Wuhan (Hubei Province in China) and its activities include engineering and construction of boilers for steam power plant applications. In 2005, WBC's sales amounted to approx. € 200 million and the company employed 2,500 people.

2 GENERAL COMMENTS ON ACTIVITY AND RESULTS

2.1 Consolidated Key Financial Figures

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

Total Group **Actual figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	30,106	26,366	14%
Orders received	9,664	7,443	30%
Sales	6,608	6,779	(3%)
Income from Operations	413	370	12%
Operating margin	6.3%	5.5%	N/A
Net profit/(loss) Group share	227	136	67%
Free Cash Flow	747	359	108%

Total Group **Comparable figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	30,106	25,071	20%
Orders received	9,664	6,619	46%
Sales	6,608	6,104	8%
Income from Operations	413	326	27%
Operating margin	6.3%	5.3%	N/A

2.1.1 General comments on activity

After the US gas bubble of 2000/2001 and the Chinese coal boom of 2003/2004, the European Power market is coming back strongly both in gas and steam equipment and services and the total new equipment market is expected to stabilise around 130GW per annum. Pushed by the need to comply with regulations, the demand for environmental upgrade of existing power plants is growing sharply.

During the first half of fiscal year 2006/2007, the global Transport market continued to show modest growth. In Europe, the market remained contrasted with opportunities in the urban market, in the high speed and very high speed as well as in the maintenance markets. The Asian Pacific market has continued its rapid development driven by China (main lines and mass transit).

2.1.2 Orders received and backlog

Orders received for the first half of fiscal year 2006/07, amounting to € 9,664 million, were at an exceptionally high level with a 46% increase compared to the first half of fiscal year 2005/06 on a comparable basis - adjusted notably by the disposal of our Power Conversion business, our Transport activities in Australia and New Zealand, our FlowSystems business, our Industrial Boiler business and miscellaneous activities-.

This growth is driven by the performance of the Power Sectors. Power Turbo-Systems / Power Environment order intake amounted to €5 billion or a 131% increase on a comparable basis. The most significant orders booked for Power Turbo-Systems / Power Environment included a 670MW clean coal power station in Bulgaria, the turbine island for the new European Pressurised Reactor (ERP) nuclear power plant in Flamanville (France), GT26-based combined cycle power plants in Australia, Spain, the United Kingdom, Italy and France, 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 more than €2.3 billion, increased by 42% on a comparable basis, notably as a result of major Operation and Maintenance contracts in Europe and in Middle East related to gas-fired power plants, significant steam turbines upgrades in North America and substantial service contracts in Europe and in the United States.

Transport orders intake decreased by 18% on a comparable basis between the first half of fiscal year 2005/06 and the first half of fiscal year 2006/07. In fiscal year 2006/07, Transport booked orders for metros in Paris, Budapest, Santo Domingo or Shanghai, for tramways in Angers, Reims, Toulouse or Algiers, and for commuter trains in France, Sweden and Denmark.

At the end of September 2006, our total backlog had increased to € 30,106 million, from € 26,944 million at the end of March 2006, representing 27 months of sales.

2.1.3 Sales

On a comparable basis, sales were €6,608 million for the first half of fiscal year 2006/07, compared to €6,104 million for the first half of fiscal year 2005/06, representing an 8% increase. The main increase was in Power Turbo-Systems / Power Environment where sales grew from €2,261 million for the first half of fiscal year 2005/06 to €2,732 million for the first half of fiscal year 2006/07, a 21% increase, while Power Service grew by 5% and Transport slightly decreased by 1%.

2.1.4 Income from Operations

Income from operations in the first half of fiscal year 2006/07 amounted to €413 million or 6.3% of sales, as compared with income from operations of €326 million and operating margin of 5.3% in the first half of fiscal year 2005/06 on a comparable basis. This strong improvement in all Sectors is due to our continuous selectivity in order intake, a strict management of our cost base and to a better execution of our projects.

2.1.5 Net profit/(loss) Group share

Net profit Group share amounted to €227 million compared with €136 million in the first half of fiscal year 2005/06. This gain resulted from improved operational performance and lower restructuring and financial expenses, while last year's first semester was impacted by a significant capital gain on disposed activities and exceptional losses on discontinued activities.

2.1.6 Free cash flow

Our free cash flow as defined in paragraph 2.2.1 was €747 million for the first half of fiscal year 2006/07 compared to €359 million in the first half of fiscal year 2005/06. It resulted mainly from:

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

2.1.7 Net debt

Net debt, as defined in paragraph "Use and Reconciliation of non-GAAP measures", was €611 million at 30 September 2006, including €205 million of obligations under finance leases, compared with €1,248 million at 31 March 2006. This reduction of debt was the consequence of the positive free cash flow.

As total equity increased from €1,840 million at 31 March 2006 to €2,043 million at 30 September 2006, gearing improved, down from 68% to 30%.

2.2 Use and Reconciliation of non-GAAP financial measures

In this section, we present figures that are non-GAAP financial indicators. Under the rules of the Autorité des Marchés Financiers ("AMF"), a non-GAAP financial indicator is a numerical measurement of our 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 our 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.

2.2.1 Free cash flow

We define free cash flow as net cash provided by (used in) operating activities less capital expenditure, net of proceeds from disposals of property, plant and equipment, and increase (decrease) in existing receivables considered as a source of funding of our 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 flows and net cash provided by (used in) operating activities is presented below ;

Total Group **Actual figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**
Net cash provided by operating activities	**832**	**471**
Elimination of variation in sale of existing receivables	34	(1)
Capital expenditure	(125)	(120)
Proceeds from disposals of Property, Plant and Equipment	6	9
Free Cash Flow	**747**	**359**

We use the free cash flow measure both for internal analysis purposes as well as for external communication as we believe it provides more accurate insight into the actual amount of cash generated or used by our operations.

2.2.2 Capital Employed

We define capital employed as the closing position of goodwill, intangible assets, property, plant and equipment, other non current assets (excluding pension assets) and current assets (excluding marketable securities and other current financial assets net, and cash and cash equivalents) minus current and non-current provisions and current liabilities (excluding current financial debt).

Total Group **Actual figures** **(in € million)**	**30 Sept. 06**	**31 March 06**
Non current assets (excl. Deferred tax)	7,267	7,230
Current assets (excl. Cash & cash equ.)	8,162	7,484
Marketable securities and other current financial assets, net	(185)	(22)
Pension assets	(417)	(387)
Current liabilities (excl. Provisions & financial debt)	(10,859)	(9,903)
Current and non current provisions	(2,091)	(2,120)
Capital employed	**1,877**	**2,282**

Capital employed by Sectors and for the Group as a whole is also presented in Note 23 to our Interim Consolidated Financial Statements.

We use the capital employed measure both for internal analysis purposes as well as for external communication, as we believe they provide 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 the resources employed.

2.2.3 Net debt

We define net debt as cash and cash equivalents and marketable securities and other current financial assets net, net of current and non current financial debt.

Total Group **Actual values** **(in € million)**	**30 Sept. 06**	**31 Mar. 06**
Cash and cash equivalent	1,455	1,301
Marketable securities and other current financial assets, net	185	22
Current financial debt	(40)	(360)
Non current financial debt	(2,211)	(2,211)
Net debt / (cash)	**611**	**1,248**

2.2.4 Comparable basis

The 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 our accounts into Euro following the variation of foreign currencies against the Euro. We use figures prepared on a comparable basis both for our internal analysis and for our external communication, as we believe 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, we have performed the following adjustments to the corresponding figures presented on an actual basis:

- restatement of the actual figures for the first and the second halves of fiscal year 2005/06 using 30 September 2006 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 the first and second halves of fiscal year 2005/06.

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 the first and second halves of fiscal year 2005/06. No adjustment has been made on figures disclosed for the first half of fiscal year 2006/07.

	1st Half - September 2005				2nd Half - March 2006				September 2006	
in € million	**Actual figures**	**Exchange rate**	**Scope impact**	**Comp. Figures**	**Actual figures**	**Exchange rate**	**Scope impact**	**Comp. Figures**	**Actual figures**	**% Var comp Sept 06/05**
Power Turbo-Systems / Power Environment	7,450	(151)	(374)	6,925	8,447	(100)	(188)	8,159	10,442	51%
Power Service	4,026	(86)	(3)	3,937	4,336	(54)	-	4,282	5,176	31%
Transport	14,277	(100)	-	14,177	14,141	(70)	-	14,071	14,468	2%
Corporate & Others	613	(2)	(579)	32	20	(2)	-	18	20	-38%
Orders backlog	**26,366**	**(339)**	**(956)**	**25,071**	**26,944**	**(226)**	**(188)**	**26,530**	**30,106**	**20%**
Power Turbo-Systems / Power Environment	2,346	(35)	(127)	2,184	3,730	(54)	(59)	3,617	5,035	131%
Power Service	1,760	(21)	(75)	1,664	1,731	(45)	-	1,686	2,364	42%
Transport	2,902	3	(161)	2,744	2,282	(14)	-	2,268	2,241	-18%
Corporate & Others	435	(2)	(406)	27	104	(2)	(81)	21	24	-11%
Orders Received	**7,443**	**(55)**	**(769)**	**6,619**	**7,847**	**(115)**	**(140)**	**7,592**	**9,664**	**46%**
Power Turbo-Systems / Power Environment	2,426	(22)	(143)	2,261	2,653	(55)	(83)	2,515	2,732	21%
Power Service	1,505	(16)	(73)	1,416	1,348	(40)	(1)	1,307	1,484	5%
Transport	2,553	2	(149)	2,406	2,575	(22)	-	2,553	2,370	-1%
Corporate & Others	295	(2)	(272)	21	58	(2)	(36)	20	22	5%
Sales	**6,779**	**(38)**	**(637)**	**6,104**	**6,634**	**(119)**	**(120)**	**6,395**	**6,608**	**8%**
Power Turbo-Systems / Power Environment	37	(1)	(9)	27	64	(2)	-	62	83	207%
Power Service	220	(3)	(6)	211	222	(5)	-	217	238	13%
Transport	155	2	(14)	143	169	2	-	171	151	6%
Corporate & Others	(42)		(13)	(55)	(79)	-	(3)	(82)	(59)	N/A
Income from Operations	**370**	**(2)**	**(42)**	**326**	**376**	**(5)**	**(3)**	**368**	**413**	**27%**
Power Turbo-Systems / Power Environment	1.5%	N/A	6.3%	1.2%	2.4%	N/A	N/A	2.5%	3.0%	N/A
Power Service	14.6%	N/A	8.2%	14.9%	16.5%	N/A	N/A	16.6%	16.0%	N/A
Transport	6.1%	N/A	9.4%	5.9%	6.6%	N/A	N/A	6.7%	6.4%	N/A
Corporate & Others	N/A	N/A	4.8%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating margin	**5.5%**	**N/A**	**6.6%**	**5.3%**	**5.7%**	**N/A**	**2.5%**	**5.8%**	**6.3%**	**N/A**
Sales	6,779	(38)	(637)	6,104	6,634	(119)	(120)	6,395	6,608	8%
Cost of sales	(5,641)	30	527	(5,084)	(5,439)	104	109	(5,226)	(5,409)	6%
R&D expenses	(162)	1	8	(153)	(202)	2	-	(200)	(205)	34%
Selling expenses	(280)	2	32	(246)	(289)	4	6	(279)	(264)	7%
Administrative expenses	(326)	3	28	(295)	(328)	4	2	(322)	(317)	7%
Income from Operations	**370**	**(2)**	**(42)**	**326**	**376**	**(5)**	**(3)**	**368**	**413**	**27%**

Contributions of material activities sold since 1 April 2005 have been restated in the comparable figures. In particular, but not only, the Industrial Boilers business for Power Turbo-Systems / Power Environment, 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 excluded from the comparable figures. The disposals released in the past and the current fiscal year impacted orders received and sales by (10.3)% and (9.4)% respectively compared with the first half of fiscal year 2005/2006.

A significant part of the Group's sales and expenses is realised and incurred in currencies other than the Euro. The principal currencies to which the Group had significant exposures to in the first half of fiscal year 2006/07 were the US Dollar, British Pound, Swiss Franc, Mexican Peso and Brazilian Real. Orders received and sales have been affected by the translation of our accounts into Euros resulting from changes in value of the Euro against other currencies in the first half of fiscal year 2006/07. The impact is a decrease for orders received and sales by 0.7% and 0.6% respectively compared with the first half of fiscal year 2005/2006.

2.3 Key geographical figures for the first half of fiscal year 2005/06, and for the first half of fiscal year 2006/07

2.3.1 Geographical analysis of orders

The table below sets out, on an actual basis, the geographic breakdown of orders by region of destination.

ALSTOM Actual figures (in € million)	First Half Sept. 06	% of contrib Sept. 06	First Half Sept. 05	% of contrib Sept. 05
Europe	5,804	60%	3,075	41%
North America	1,831	19%	1,137	15%
South and Central America	319	3%	575	8%
Asia / Pacific	1,063	11%	2,012	27%
Middle East / Africa	647	7%	644	9%
Orders received by destination	**9,664**	**100%**	**7,443**	**100%**

Europe remained the largest market in terms of orders received: its share increased from 41% in the first half of fiscal year 2005/06 to 60%. This evolution was mainly due to the performance of the Power Turbo-Systems / Power Environment Sector where large turnkey power plants orders have been recorded in Germany, Spain, Italy, the UK and Bulgaria.

North America was the second largest market. Our order intake increased substantially, boosted by power plants projects, and represented 19% of ALSTOM's global orders received during the period.

Activity in South and Central America decreased as no major orders were booked during the period. In the first half of fiscal year 2005/06, our Transport and our Power Turbo-Systems / Power Environment sectors received significant orders in Chile and in Venezuela.

The decrease in Asia / Pacific region, compared to the first half of fiscal year 2005/06, was mainly due to the reduction of orders in our Transport Sector in China and in our Power Turbo-Systems / Power Environment Sector where a major Hydro project in India was booked in the first half of fiscal year 2005/06.

Orders intake in the Middle East / Africa were stable.

2.3.2 Geographical analysis of sales by region of destination

The table below sets out, on an actual basis, the geographic breakdown of sales by region of destination.

ALSTOM Actual figures (in € million)	First Half Sept. 06	% of contrib Sept. 06	First Half Sept. 05	% of contrib Sept. 05
Europe	3,068	46%	3,206	47%
North America	1,069	16%	1,026	15%
South and Central America	398	6%	414	6%
Asia / Pacific	1,288	19%	1,403	21%
Middle East / Africa	785	12%	730	11%
Sales by destination	**6,608**	**100%**	**6,779**	**100%**

At the end of September 2006, on an actual basis, the Group's sales in Europe decreased by 4% compared to the first half of fiscal year 2005/06, and represented 46% of the firm's global sales. This evolution was mostly due to the disposal of the Power Conversion and FlowSystems businesses that were mainly serving the European market.

The Group’s sales in Asia/Pacific decreased by 8% compared to the first half of fiscal year 2005/06, mainly due to the disposal of the Transport activities in Australia and New Zealand.

North America increased slightly and represented 16% of our global sales at the end of September 2006. This evolution was due the growth of our activities in Power Service.

The Power Turbo-Systems / Power Environment sales in the United Arab Emirates and in Saudi Arabia explained the good performance of the Middle East/Africa region.

2.3.3 Geographical analysis of sales by region of origin

The table below sets out, on an actual basis, the geographic breakdown of sales by region of origin.

ALSTOM Actual figures (in € million)	First Half Sept. 06	% of contrib	First Half Sept. 05	% of contrib
Europe	4,653	70%	4,602	68%
North America	1,075	16%	1,018	15%
South and Central America	223	3%	280	4%
Asia / Pacific	614	9%	818	12%
Middle East / Africa	43	1%	61	1%
Sales by origin	**6,608**	**100%**	**6,779**	**100%**

Europe’s share of total sales by origin increased by 2% in the first half of fiscal year 2006/07 compared to the first half of fiscal year 2005/06. France and Switzerland were the main contributors to this increase which was partly offset by the decreasing contribution of the United Kingdom. North America increased slightly while South and Central America’s share decreased compared to September 2005. The Asia/Pacific region decreased sharply due to the disposal of the Transport activities in Australia and New Zealand.

3 SECTOR ANALYSIS

3.1 Power Turbo-Systems / Power Environment

The following table sets out certain key financial data for the Power Turbo-Systems / Power Environment Sector:

Power Turbo-Systems / Power Environment **Actual figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	10,442	7,450	40%
Orders received	5,035	2,346	115%
Sales	2,732	2,426	13%
Income from Operations	83	37	N/A
Operating margin	3.0%	1.5%	N/A
EBIT	86	11	N/A
Capital employed	(831)	(571)	46%

Power Turbo-Systems / Power Environment **Comparable figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	10,442	6,925	51%
Orders received	5,035	2,184	131%
Sales	2,732	2,261	21%
Income from Operations	83	27	207%
Operating margin	3.0%	1.2%	N/A

3.1.1 Orders received

After the US gas bubble of 2000/2001 and the Chinese coal boom of 2003/2004, the European market is coming back strongly both in gas and steam equipment, and the total global market is expected to stabilise around 130GW per annum. Pushed by the need to comply with regulations, the demand for environmental upgrade of existing power plants is growing sharply.

Asia is the dominant market with almost 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 programs.

Power Turbo-Systems / Power Environment has seen a reduction in the order intake in Asia/Pacific for the first half of fiscal year 2006/07 compared to the first half of previous fiscal year which benefited from an exceptionally high Hydro order.

In Europe, ALSTOM’s market share has increased in a growing market. New coal projects are emerging in Central Europe, requiring more efficient clean coal combustion technologies. The environmental retrofit of existing coal power plants is also experiencing a sharp growth due to the need for operators to meet the 2008 deadline set by the European Union. The nuclear market is back in Europe and the Group has booked a major order in France.

In the USA, the demand for new equipment in high efficiency coal projects is strong. The market for environmental retrofit of coal power plants is expected to keep growing in the coming years.

In Latin America we are seeing a growing interest in Hydro and Gas power plants which is expected to continue in the coming years.

In Middle East and Africa, the market is essentially a gas market. It has been cooling down this year but is expected to recover over the next years.

Orders received by the Sector for the first half of fiscal year 2006/07 were 131% higher than in the first half of fiscal year 2005/06 on a comparable basis. The most significant orders booked for Power Turbo-Systems / Power Environment included a 670MW clean coal power station in Bulgaria, the turbine island for the new European Pressurised Reactor (ERP) nuclear power plant in Flamanville, a 400MW GT26 combined cycle power plant in Australia and in Spain, a 885MW GT26 combined cycle power plant in the United Kingdom, a 800MW GT26 combined cycle power plant in Italy, a 425MW GT26 combined cycle power plant in France, some air pollution systems in Chile and in the US and a high efficiency coal fired generating plant in the US.

On a regional basis, in the first half of fiscal year 2006/07, Europe represented 65% of the total order intake, North America 20% while Asia accounted for 12% of the order intake. Compared to the first half of fiscal year 2005/06, orders decreased by 32% in Asia, and by 68% in South and Central America. These decreases were mainly due to India for Asia where a significant Hydro project was booked in 2005/06 and to Venezuela in South and Central America. Conversely, in comparison to the first half of fiscal year 2005/06, orders increased sharply in Europe by 530% as a result of the booking of a high number of gas-fired power plant projects as well as of a coal-fired power plant in Bulgaria.

3.1.2 Sales

In the first half of fiscal year 2006/07, sales in Power Turbo-Systems / Power Environment stood at €2,732 million, 21% higher than the first half of fiscal year 2005/06 on a comparable basis, a consequence of the order intake development during the previous fiscal years.

All regions contributed to the increase in sales compared to the first half of fiscal year 2005/06. Sales in Europe increased by 25%, and represented 27% of total sales. North American sales increased by 11%, reflecting the growth in the environmental control business, and represented 19% of the total sales. South and Central America's share has increased to reach 8% of global sales while sales in Asia/Pacific increased by 5%. Finally, the Middle East / Africa's contribution remained stable at 22%.

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

Power Turbo-Systems / Power Environment **Actual figures** **(in € million)**	First Half **Sept. 06**	% of contrib	First Half **Sept. 05**	% of contrib
Europe	739	27%	592	24%
North America	530	19%	476	20%
South and Central America	218	8%	168	7%
Asia / Pacific	649	24%	621	26%
Middle East / Africa	596	22%	569	23%
Sales by destination	**2,732**	**100%**	**2,426**	**100%**

3.1.3 Income from operations and operating margin

Power Turbo-Systems / Power Environment income from operations was €83 million in the first half of fiscal year 2006/07, compared with an income from operations of €27 million in the first half of fiscal year 2005/06 on a comparable basis. The operating margin grew from 1.2% to 3.0% on a comparable basis. This improvement results from a better performance in project execution and a more efficient cost base coupled with volume increase.

3.2 Power Service

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

Power Service **Actual figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	5,176	4,026	29%
Orders received	2,364	1,760	34%
Sales	1,484	1,505	(1%)
Income from Operations	238	220	8%
Operating margin	16.0%	14.6%	N/A
EBIT	234	218	7%
Capital employed	1,897	1,789	6%

Power Service **Comparable figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	5,176	3,937	31%
Orders received	2,364	1,664	42%
Sales	1,484	1,416	5%
Income from Operations	238	211	13%
Operating margin	16.0%	14.9%	N/A

3.2.1 Orders received

For the first half of fiscal year 2006/07, the sustained demand in new plant business drove a high level of long-term Operation & Maintenance agreements. Notable successes included Italy, United Kingdom and Spain. Generally, the market is strong with some specific regional characteristics. The underlying growth drivers are a growing installed base, an ageing fleet and an increasing 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.

In Asia and Australia, we see a build-up of capacity and a greater focus on environmental control that will drive service opportunities. Liberalisation is also starting to generate interest in asset management services.

The Middle East has seen strong growth in gas that will lead to future service opportunities.

Orders received were €2,364 million in the first half of fiscal year 2006/07, 42% higher than in the first half of fiscal year 2005/06 on a comparable basis. The order intake included major Operation and Maintenance contracts in Europe and in the Middle East, significant steam turbines upgrades in North America, stator rewinds in France and in the United States.

By region, on an actual basis, orders were up by 54% in North America, by 49% in Europe, by 164% in South and Central America and down by 20% in Asia.

3.2.2 Sales

Sales booked by Power Service in the first half of fiscal year 2006/07 stood at €1,484 million, a 5% increase as compared with the first half of fiscal year 2005/06 on a comparable basis.

On a geographical basis, sales increased strong in North America where they represented 26 % of the total as compared to 24% one year earlier. Sales in Europe were down by 8% due to the disposal of the FlowSystems business and represented 41% of global Power Service sales. Sales increased in Asia / Pacific and in Middle East / Africa by respectively 10% and 7%.

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

Power Service **Actual figures** **(in € million)**	First Half **Sept. 06**	% of contrib	First Half **Sept. 05**	% of contrib
Europe	602	41%	657	44%
North America	390	26%	365	24%
South and Central America	35	2%	65	4%
Asia / Pacific	315	21%	285	19%
Middle East / Africa	142	10%	133	9%
Sales by destination	**1,484**	**100%**	**1,505**	**100%**

3.2.3 Income from operations and operating margin

Power Service's income from operations was €238 million or 16.0% of sales in the first half of fiscal year 2006/07 compared with €211 million or 14.9% of sales for the first half of fiscal year 2005/06 on a comparable basis. Operating margin increased due to an improved mix of activities, the positive evolution of several operation and maintenance contracts as well as cost reductions.

3.3 Transport

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

3.3.1 Orders received

During the first half of fiscal year 2006/2007, the global Transport market continued to show modest growth.

Transport **Actual figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	14,468	14,277	1%
Orders received	2,241	2,902	(23%)
Sales	2,370	2,553	(7%)
Income from Operations	151	155	(3%)
Operating margin	6.4%	6.1%	N/A
EBIT	130	128	2%
Capital Employed	55	290	(81%)

Transport **Comparable figures** **(in € million)**	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	14,468	14,177	2%
Orders received	2,241	2,744	(18%)
Sales	2,370	2,406	(1%)
Income from Operations	151	143	6%
Operating margin	6.4%	5.9%	N/A

In Europe, the market was contrasted with a solid demand in rolling stock in Spain, Germany and France and in infrastructure in the United Kingdom while Italy and Scandinavia were slow. Mediterranean area has been buoyant, especially in Algeria.

The Asian Pacific market has continued its rapid development driven by China main lines and mass transit projects. The market in Latin America, although small in relation to the global market, showed a significant growth.

The market in North America remained stable at a low level.

Globally, the mass transit market remained active: ALSTOM was awarded contracts for trams or metro for the cities of Toulouse, Budapest, Milan, Orleans, Algiers, Santo Domingo, Shanghai and Seoul. The high speed and very high speed markets were stable. A major contract in the United Kingdom for the maintenance of 53 High Speed Trains was recorded.

Lastly, ALSTOM was awarded a major regional train contract in France for the supply of Coradia Duplex TER.

Orders received in the first half of fiscal year 2006/07 amounted to €2,241 million compared with €2,744 million on a comparable basis.

As a percentage of total orders received, Europe continued to represent the biggest share of our Transport sector order intake with 68%. Orders received in Middle East/ Africa increased by 8% and represented 14% of Transport total orders due to a tramway order in Algeria. Asia / Pacific and the Americas represented 7% and 11% respectively, compared with 21% and 12% last year. The decrease in Asia / Pacific was due to the disposal of the Transport activities in Australia and New Zealand and to lower orders in China compared to the first half of fiscal year 2005/06.

3.3.2 Sales

Sales in Transport decreased by 1% in the first half of fiscal year 2006/07 compared with the first half of fiscal year 2005/06 on a comparable basis.

In the first half of fiscal year 2006/07, Europe continued to be the main market for the Sector's sales, including major contributions from France, Italy and the United Kingdom, with a 73% share of total sales. Asia decreased its contribution from 16% to 13% as a result of the disposal of the Transport activities in Australia and New-Zealand . South and Central America decreased in volume by 11% and remained stable at 6% of the Sector's total.

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

Transport **Actual figures** **(in € million)**	First Half **Sept. 06**	% of contrib	First Half **Sept. 05**	% of contrib
Europe	1,727	73%	1,824	71%
North America	149	6%	155	6%
South and Central America	145	6%	163	6%
Asia / Pacific	302	13%	399	16%
Middle East / Africa	47	2%	12	1%
Sales by destination	**2,370**	**100%**	**2,553**	**100%**

3.3.3 Income from operations and operating margin

The Transport income from operations for the first half of fiscal year 2006/07 amounted to €151 million or 6.4% of sales, as compared to the €143 million or 5.9% for the same period last year on a comparable basis. This improvement comes primarily from better project management and further cost reduction, notably as a result of our manufacturing efforts.

3.4 Corporate and Others

"Corporate and Others" comprises all units accounting for Corporate costs, the International Network and the overseas entities in Australia, New Zealand and India which are not reported by Sectors and the disposed Power Conversion business.

The following table sets out some key financial data for our Corporate and Others organisation:

Corporate & Others Actual figures (in € million)	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	20	613	(97%)
Orders received	24	435	(94%)
Sales	22	295	(93%)
Income from Operations	(59)	(42)	N/A
EBIT	(78)	55	N/A
Capital Employed	756	835	(9%)

Corporate & Others Comparable figures (in € million)	First Half **Sept. 06**	First Half **Sept. 05**	% Variation Sept. 05/ Sept. 06
Order backlog	20	32	(38%)
Orders received	24	27	(11%)
Sales	22	21	5%
Income from Operations	(59)	(55)	N/A

3.4.1 Orders and Sales

Activity in Corporate and Others corresponds to activities of our former T&D sector in India.

3.4.2 Income from operations

Operating income was stable at €(59) million in the first half of fiscal year 2006/07, compared with €(55) million in the first half of fiscal year 2005/06 on a comparable basis.

4 OUTLOOK

ALSTOM has entered into a new phase of profitable growth, on the back of favourable market conditions, especially in Power.

Past years orders intake upsurge coupled with an exceptionally high level of orders during this first semester should translate into sales for fiscal year 2006/07 growing by more than 10% vs. last year on a comparable basis.

Operating income and margin should continue to improve in the second half of 2006/07. Consequently, the operating margin expected for fiscal year 2007/08 should exceed the stated target of 7%.

INFORMATION RELATED TO THE PARENT COMPANY, ALSTOM

ALSTOM, the parent company, has no industrial or commercial activity and, consequently its revenue includes mainly fees invoiced to its subsidiaries for the use of the ALSTOM name, dividends and other financial income.

Net profit amounted to €50 million for the first half of fiscal year 2006/07 and €67 million for the first half of fiscal year 2005/06.