Management Discussion and Analysis on Consolidated Financial Statements as at 31 March 2006 Fiscal year 2005/06

You should read the following discussion together with the 31 March 2006 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". In the following discussion, actual and comparative information presented is prepared on the basis of IFRS accounting policies.

1 OVERVIEW

1.1 Introduction

We serve the power generation market through our Power Turbo-Systems / Power Environment Sector and our Power Service Sector, and the rail transport market through our Transport Sector. We design, supply and service a complete range of technologically advanced products and systems for our customers, and possess a unique expertise in systems integration and through-life maintenance and service.

We believe the power and transport markets in which we operate 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 in service and systems.

We believe we can capitalise on our long-standing expertise in these two markets to achieve competitive differentiation. We are strategically well positioned for the following reasons:

- we are one of the top players in all major market segments ;
- we benefit from one of the largest installed bases of equipment in power generation and rolling stock, which enable us to develop our service business ;
- we are a recognised technology leader in most of our fields of activity, providing best-in-class technology ; and
- we have global reach, with a presence in around 70 countries worldwide.

1.2 Status of our action plan and main events of fiscal year 2005/06

On 12 March 2003, we presented our new strategy and action plan to overcome an insufficient level of profitability and cash generation which comprised three elements:

- disposing some of our businesses to focus our activities on the Power and Transport markets ;
- improving operational performance and adapting our industrial base to market conditions ; and
- strengthening our financial base.

In fiscal year 2005/06, we achieved very significant progress on these three directions. Our disposal programme is almost completed, the problems experienced with the GT24/26 are now resolved, our restructuring programme is in its final stage of implementation and our new organisation has enabled us to better manage and control our projects.

The results of these actions are translated into our operational performance as we have achieved or exceeded all the targets we had set for ourselves :

- on a comparable basis our order intake at €15,290 million has increased by 8% ;
- sales stand at €13,413 million or a 8% increase on a comparable basis ;
- operating margin, which does not take into account Marine as this activity is treated as a discontinued operation, stands at 5.6% versus 3.6% last year above our objective of 5.0% in IFRS and significantly above our original target of 6% in French GAAP. If Marine had not been treated as discontinued operation, the operating margin would have stood at 5.3% versus 2.5% last year, still above our stated target ; and
- free cash flow (as defined in paragraph 2.2.1 below) has improved from €77 million to €525 million ((€136)million and €410 million respectively if including the free cash flow of Marine).

Our financial situation has been strengthened further. Our gearing has reduced from 104% as of 1 April 2005 to 68% as of 31 March 2006 and a new bonding programme has been put in place to cover our needs until July 2008.

1.2.1 Disposal Programme

1.2.1.1 Fiscal year 2003/04

- Disposal of our Industrial Turbines Businesses

  On 26 April 2003, we signed binding agreements to sell our small gas turbines business and medium-sized gas turbines and industrial steam turbines Businesses in two transactions to Siemens AG. In the fiscal year ended 31 March 2003, the Industrial Turbines businesses generated sales of approximately €1.25 billion and had an operating margin of approximately 7%. At 31 March 2003, these businesses employed around 6,500 people.

- Disposal of our Transmission & Distribution (T&D) activities

  On 25 September 2003, we signed a binding agreement to sell our T&D activities (our T&D Sector excluding the Power Conversion Business) to Areva. This transaction closed on 9 January 2004, except for some minor businesses located in juridictions where transfer procedures were mostly completed during fiscal year 2004/05, and for a T&D publicly-listed company in India for which Areva had launched a public offer in April 2005, with ALSTOM's agreement. This operation was closed in August 2005.

1.2.1.2 *Fiscal year 2004/05*

- Disposal of our Transport activities in Valencia, Spain

  On 29 November 2004, we signed a binding agreement to sell our Transport activities based in Valencia, Spain, to Vossloh. It employs 420 people and specialises in the manufacturing of locomotives and bogies as well as non modular trains for the regional market. This transaction was closed on 31 March 2005.

- Disposal of various non-core activities in Australia

  We sold our Information Technology and Industrial Products activities in Australia during fiscal year 2004/05 in a management buy-out. These non-core activities, reported under "Corporate and other" employed around 130 people and recorded €90 million of sales in fiscal year 2003/04, a significant portion of which derived from the distribution in Australia of IT servers and software.

1.2.1.3 *Fiscal year 2005/06*

- Disposal of our FlowSystems business

  On 24 May 2005, we signed an agreement to sell our FlowSystems business to LØGSTØR RØR. The sale took place on 18 August 2005.

  The FlowSystems business is headquartered in Fredericia, Denmark, and operates in Northern and Central Europe. It manufactures and sells insulated pipe systems for district heating to approximately 40 countries and recorded sales of €150 million in 2004/05. It employs approximately 600 employees.

- Disposal of our Transport activities in Australia and New Zealand

  We signed on 2 June 2005 an agreement for the sale of ALSTOM's transport operations in Australia and New Zealand to United Group Ltd. The sale effectively took place on 16 September 2005.

  This activity includes engineering and maintenance support, road and rail infrastructure projects, and the provision of professional services and systems to the transport industry throughout Australia and New Zealand, and recorded sales of €282 million in fiscal year 2004/05. This business employs approximately 2,000 employees and operates in both countries.

- Disposal of our Power Conversion business

  On 30 September 2005, we signed a binding agreement to sell our Power Conversion business to Barclays Private Equity. The sale effectively took place on 10 November 2005.

  The business sold to Barclays Private Equity provides the energy and control for industrial processes and marine applications worldwide. Power Conversion business operates in five main markets (offshore, marine, metal industries, oil and gas and power generation), plus numerous niche markets. This business recorded sales of €506 million in fiscal year 2004/05 and employs approximately 3,145 employees.

- Disposal of our Industrial Boilers business

  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 to be sold to Austrian Energy & Environment AG includes 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 employ approximately 450 employees.

The sale of our Australian activities took place on November 2005. The closing of the disposal of the German and Czech activities is subject to the clearance by the German antitrust Authorities.

- Disposal of Marine sector

On 4 January 2006, we announced our plan to sell a 75% stake in our Marine Sector to Aker Yards.

At 31 March 2006, the effective disposal was still subject to some conditions which are expected to be fulfilled within a short period of time after that date. In the fiscal year ended 31 March 2006 the Marine business generated sales of €439 million and had an operating margin of (3)%. At 31 March 2006, this Sector employs around 3,140 people.

Upon closing, we will receive proceeds of €50 million from Aker. A further amount of up to €125 million will be paid to us in March 2010, depending on the performance of the combined shipbuilding activities.

The new company would be adequately funded to ensure the ability to independently finance its future growth. An estimated amount of €350 million would be injected by ALSTOM into the newly formed company.

In addition, it should be noted that the transaction is structured as an asset sale and that we will be retaining certain assets, liabilities and contracts, notably relating to ships delivered prior to the closing of the transaction and the LNG tankers currently under construction.

In fiscal years 2004/05 and 2005/06, we have treated our Marine activity as a discontinued operation in our financial statements and have accrued for the estimated loss resulting from the transaction.

1.2.2 Operational performance

1.2.2.1 GT24/GT26 heavy-duty gas turbines

As a consequence of the technical improvements implemented on our GT24/GT26 gas turbines, we are now back in the large gas turbine market. The successful re-marketing of the GT26 machine was demonstrated by the securing of a significant contract for three GT26 turbines in Spain for Gas Natural in January 2004. This project was successfully executed and the three units went into commercial operation in January 2006 ahead of the contractual schedule. A new order for four GT26 units in Thailand was booked during fiscal year 2004/05, and three more units were booked in fiscal year 2005/06 (one in Spain and two in Italy). Furthermore the Group has recently been selected for a further five projects in Europe comprising of seven GT26 units. We believe that these contracts signal that both technology and performance are now fully in line with customer expectations.

The commercial situation with respect to the 80 GT24/GT26 gas turbines sold more than five years ago continues to improve: as of today, 76 units are in commercial operation and contracts related to four units have been cancelled. Today, we have reached commercial settlements for all of the 76 units sold. Under all agreements where ALSTOM had an obligation or the opportunity to improve the performance levels, such upgrades have been installed and satisfactory final settlement agreements with the clients have been reached and executed (as of 31 March 2005 nine units were pending). All of the cases of client litigation or arbitration are now resolved via satisfactory commercial settlements.

The 79 machines today in service (76 as of 30 September 2005) have accumulated approximately 1,760,000 operating hours at high reliability levels.

Cash outflow related to the GT24/GT26 gas turbines over fiscal year 2005/06 at €115 million has decreased as compared with €366 million in fiscal year 2004/05.

As of 31 March 2006, we retain €263 million of related provisions and accrued contract costs compared with €379 million as of 31 March 2005.

1.2.2.2 *Restructuring*

Restructuring plans launched in fiscal year 2003/04 and 2004/05 are progressing according to schedule and we are now in a final stage of implementation, with more than 90% of the total planned headcount reduction of 11,500 achieved.

In addition, during fiscal year 2005/06, we launched new initiatives in order to further improve our operational performance and optimize our cost base. As a result, we have recorded €80 million of expenses for restructuring in fiscal year 2005/06 in addition to the €350 million recorded in fiscal years 2004/05.

In total, the cash outflow for restructuring for the fiscal year 2005/06 was €239 million, compared to €281 million for fiscal year 2004/05.

1.2.2.3 *Project and risk management organisation*

Due to the very nature of its business, ALSTOM is exposed to a variety of risks (operational, legal and financial) as described in the Risk Factors section of the financial report of the annual report for fiscal year 2005/06. Risk management is therefore a key priority of ALSTOM in our actions to improve operational performance.

More specifically, strict control throughout the life of projects have been put in place and an organisation focused on project management has been set up. At the tender stage, strict reviews and approval processes are in place within the Sectors. For large projects and the ones which include specific characteristics (cash profile, technical commitments, specific terms and conditions…), the project is subject to Corporate review and approval. Strong focus is put on project executions, and specifically on the selection of trained and competent project managers and on the implementation of efficient processes. Project offices have been created in the different Sectors to manage this population of key managers and to implement best practices throughout the organisation. All projects are reviewed monthly or quarterly at Sector level. The Corporate Risk Committee chaired by ALSTOM's Chief Executive Officer reviews monthly the evolution of the major ongoing projects portfolio.

1.2.3 Strengthening our financial base

In order to reduce our debt, increase our equity, secure our access to contract bonding to support our commercial activity, we implemented during the summer of 2004 a financial package covering the following items:

- a bonding programme aimed at covering our needs for 18 to 24 months ;
- a total capital increase of €1,748 million subscribed either in cash or by set-off against certain of our outstanding debt.

As part of this financing package, we re-negotiated our financial covenants as described in Note 22 to our Consolidated Financial Statements.

During the fiscal year 2005/06, we have continued to strengthen our financial base in :

- extending and smoothing our debt maturities through several debt refinancing operations ;
- negotiating a new bonding programme to cover our needs till July 2008.

1.2.3.1 Share capital modification

- Share capital increases in fiscal year 2004/05

We completed in fiscal year 2004/05 a global offering of new shares by way of transferable preferential subscription rights allocated to holders of our existing shares. The 3,655,265,768 new shares issued have been subscribed to as follows:

- 3,192,826,907 shares subscribed in cash at €0.40 representing an amount of €1,277 million, including 459,610,902 new shares subscribed by the French State representing an amount of €183.8 million ; and
- 462,438,861 shares subscribed by set-off against debt from the French State and CFDI (Caisse Française de Développement Industriel), an entity guaranteed by the French State, at €0.50 per share representing a total amount of €231.2 million ; €200 million subscribed by set off against the TSDD subscribed by the French State as part of our summer 2003 financing package ; and €31.2 million subscribed by set off against part of the CFDI's holding in the PSDD.

We implemented a concurrent debt-for-equity exchange offering to holders of certain of our outstanding debt instruments through which we issued a further 480,000,000 new shares at the price of €0.50 per share representing an amount of €240 million subscribed by set-off against:

- €212 million from the part of PSDD held by our banks ;
- €18 million from our multi-currency Revolving Credit Agreement due 2006 of €722 million ; and
- €10 million from committed bilaterals.

Following the automatic reimbursement with 240,000,000 new shares of the €300 million TSDDRA on 7 July 2004 upon the European Commission approval and its participation in the above described capital increases, the French State's participation reached 21.4% of the outstanding share capital of ALSTOM.

The French State has committed to remaining a shareholder during the recovery of ALSTOM. It has committed to sell its shares at the latest 12 months following ALSTOM obtaining an investment grade rating and, or in any event, prior to July 2008.

Finally, on 6 December 2004, we completed a share capital increase reserved for our employees consisting in 49,814,644 new shares.

- Share capital modification in fiscal year 2005/06

  On 3 August 2005, the ALSTOM consolidation of shares was completed through the exchange of 40 existing shares for one new share. The number of ALSTOM shares were consequently reduced from 5,497,601,720 shares with a nominal value of €0.35 to 137,440,043 shares with a nominal value of €14.

1.2.3.2 Debt refinancing

- In fiscal year 2004/05

  In February 2005, we launched an exchange offer for €650 million of bonds due July 2006 and €250 million of Euribor-indexed Auction Rate Notes (ARN) due September 2006, to be exchanged for new 6.25% fixed-rate bonds due March 2010.

  A total of €668 million in principal amount of bonds were submitted in the exchange offer out of a total of €900 million principal amount of eligible bonds (respectively €422 million of the July 2006 bonds out of €650 million of existing bonds, and €245 million out of the €250 million of September 2006 ARN) leading after application of the exchange ratio to €695 million in principal amount of new 2010 bonds. In addition, we issued €305 million additional bonds with the same terms and conditions.

  In total, the new 6.25% bonds due March 2010 are for an amount of €1,000 million.

- In fiscal year 2005/06

  During the fiscal year 2005/06, we have continued the process of debt refinancing in order to extend our debt maturity profile and reduce our financial expenses.

  In September 2005, we issued €600 million of floating rate notes bearing a 2.20% above the 3-month Euribor coupon and redeemable at par in March 2009.

  In January 2006, we issued €400 million of floating rate notes bearing a 0.85% above the 3-month Euribor coupon and redeemable at par in July 2008.

  In February 2006, we signed a 5-year Revolving Credit Facility with a syndicate of banks for an amount of €700 million. The amount of €700 million was fully available for draw down as at 31 March 2006.

  During fiscal year 2005/06, we have reimbursed €1,062 million and cancelled undrawn credit lines for €1,202 million of syndicated and bilateral loans.

1.2.3.3 Bonding Programme

- In fiscal year 2004/05

  We have put in place an up to €8 billion committed bonding guarantee facility programme, with an initial commitment of our banks for €6.6 billion. This programme includes the bonds issued under the bonding line of €3.5 billion provided during the summer of 2003 and new bonds to be issued over a two year period up to 27 July 2006.

  Bonds under this bonding programme benefit from a €2 billion security package consisting of:

  - a first loss guarantee in the form of cash collateral provided by ALSTOM for €700 million (out of the proceeds of the capital increases described above) ; and

  - a second rank security for a total amount of €1,300 million covering second losses in excess of the cash collateral, in the form of guarantees, given on a pari passu basis by a French State-guaranteed

institution for an amount of €1,250 million, and by a group of banks for the remaining amount of €50 million.

This programme is revolving, any bond expiring releases capacity to issue new bonds within the €8 billion limit and the two year period.

The issuance of new bonds under the bonding programme mentioned above is subject to the financial covenants disclosed in the Note 22 to our Consolidated Financial Statements. The commitment of the banks in July 2004 was for an initial volume of up to €6.6 billion and was later extended to €7.3 billion thus covering our needs up to July 2006.

- In fiscal year 2005/06

  During the first half of the fiscal year 2005/06, the Group initiated the renegotiation of its bonding programme for an extended period of two years, up to July 2008. This extension was signed on 4 November 2005 and made effective on 15 November 2005. To date our banks have made available up to €9.4 billion. This amount together with bilateral agreements already obtained for €1.5 billion is expected to be sufficient to cover ALSTOM needs up to July 2008.

  Under the extended programme, all bonds issued before July 2006, will continue to benefit from the initial €2 billion security package which includes €700 million cash collateral, a €1,250 million French State Guarantee and €50 million of guarantee granted by ALSTOM banks. All bonds issued beyond the initial issuing period of July 2006 and up until July 2008 will benefit from an additional security of €175 million cash collateral. This cash collateral may be increased in the event that operating margin and headroom levels through 31 March 2008 do not reach targeted levels.

  It is expected that the initial €700 million cash collateral would be released before September 2008.

1.2.4 Approval by the European Commission and commitments

The formal investigation launched by the European Commission in September 2003 concluded on 7 July 2004 with the positive approval by the European Commission of our financing packages.

As part of this approval, we committed that acquisitions in the Transport Sector within the European Economic Area over the next four years should not exceed a certain level and that we planned to dispose of businesses representing approximately €1.5 billion in sales.

All the activities identified for disposal as part of the commitments towards the European Commission in connection with its approval of our 2004 financing package, representing approximately €1.5 billion in sales, are now either sold or in the closing phase of sale.

We also agreed to enter into a 50-50 joint venture in our Hydro Business which we intend to implement in the near future.

Finally, we committed to conclude industrial partnerships during a period of four years concerning a significant part of our activities to ensure our future development. We have concluded some partnership in the boiler activity with BHEL in India and EMAlliance in Russia. We have also agreed to develop with Ansaldo a new generation of single deck very high speed train.

1.3 Recent developments

On 26 April 2006, ALSTOM and Bouygues signed a memorandum of understanding for operational and commercial cooperation. Bouygues also agreed with the French State to purchase the 21.03% stake the French State owns in ALSTOM's equity. The purchase of shares by Bouygues, which is subject to merger control clearance by the European Commission and the closing of the ALSTOM Marine disposal, is expected to occur within a short period.

At a commercial level, the two companies are planning cooperation of their sales networks to maximise their strengths on the markets and develop together 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. It has been agreed that the cooperation between Bouygues and ALSTOM would not be exclusive ; in the interest of their customers, the two companies will continue to work with the most suitable partners and suppliers for each project.

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

Bouygues also intends to take a 50% equity share in ALSTOM's hydro power equipment business ; the corresponding terms are under discussion.

2 GENERAL COMMENTS ON ACTIVITY AND RESULTS

2.1 Consolidated Key Financial Figures

Following the announcement of the sale agreement between ALSTOM and Aker Yards on 4 January 2006, (see paragraph 1.2.1.3), our Marine Sector has been classified as a discontinued operation and is presented separately in the Consolidated Financial Statements.

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

Total Group **Actual figures** **(in €million)**	**Mar. 05**	**Mar. 06**	% Variation Mar. 05/ Mar. 06
Order backlog	25,937	26,944	4%
Orders received	14,737	15,290	4%
Sales	12,920	13,413	4%
Income from Operations	471	746	58%
Operating margin	3.6%	5.6%	
Discontinued operations	(32)	(198)	N/A
Net profit/(loss) Group share	(628)	178	N/A
Free Cash Flow	77	525	582%

Total Group **Comparable figures** **(in €million)**	**Mar. 05**	**Mar. 06**	% Variation Mar. 05/ Mar. 06
Order backlog	24,783	26,944	9%
Orders received	14,114	15,290	8%
Sales	12,429	13,413	8%
Income from Operations	430	746	73%
Operating margin	3.5%	5.6%	

2.1.1 Transition to IFRS

The Consolidated Financial Statements for fiscal year 2005/06 have been prepared in accordance with International Financial Reporting Standards (IFRS) as required by the European Union regulations. Comparative figures for the fiscal year 2004/05 have been restated on the same basis excluding application of IAS 32-39 and IFRS 5 applied from 1 April 2005. The differences in accounting treatment compared with French GAAP are presented and explained in Notes 4 and 34 to the Consolidated Financial Statements. In the following discussion, actual and comparative information presented is prepared on the basis of IFRS accounting policies.

2.1.2 General comments on activity

The power market for new equipment overall is increasing, with Asia as the dominant market and a contrasted situation elsewhere. Demand in Europe is up after the low level over the previous years while activity remains slow in the USA. The market is picking up in Latin America and remains strong in the Middle East. High oil and gas prices have favoured coal based projects including clean combustion equipment and further strengthened the hydro market. Ambitious nuclear programmes have resumed in several countries. Pushed by the need to comply with regulations, the demand for environmental upgrades of existing power plants is growing sharply. More generally, the power service market has been strong.

The Transport market was contrasted with opportunities in France, Italy, Spain and overall growth in Asia, while the German, UK and US markets were slower.

2.1.3 Orders received and backlog

Our order intake rebounded during the fiscal year 2004/05, after the low level of fiscal year 2003/04. The order intake during fiscal year 2005/06 continued to increase up by 4% on an actual basis and 8% on a comparable basis - adjusting notably for the disposal of our Power Conversion business, our Transport activities in Australia and New Zealand, our FlowSystems business, our Transport plant in Valencia (Spain) and of miscellaneous activities in Australia -. We booked €15,290 million of orders for fiscal year 2005/06 compared with €14,114 million for fiscal year 2004/05 on a comparable basis.

This growth is explained by the performance of our Power Sectors. Power Turbo-Systems / Power Environment orders intake increased by 16% on a comparable basis and represented 40% of ALSTOM orders received for fiscal year 2005/06 compared to 37% in fiscal year 2004/05. The most significant orders booked for Power Turbo-Systems / Power Environment included two GT13 in Oman, three GT13 in Australia, two GT26 in Italy, one GT26 in Spain, a hydro contract in India, a contract for a 750MW supercritical boiler in the United States and another for a lignite fired power plant with a net capacity of 2,100 MW in Germany. Power Service orders intake increased by 10% on a comparable basis, notably as a result of a number of operation and maintenance contracts related to gas fired power plants orders.

Transport order intake decreased slightly by 2% on a comparable basis between fiscal year 2004/05 and fiscal year 2005/06. In fiscal year 2005/06, Transport booked orders for TGV Duplex in France, locomotive for freight in China, variable gauge trains in Spain. Metro and tramway orders in Europe and South America were also recorded.

At the end of March 2006, our total backlog was €26,944 million, representing approximately two years of sales.

2.1.4 Sales

Sales were €13,413 million for fiscal year 2005/06, compared to €12,920 million for fiscal year 2004/05, an increase of 4% on an actual basis. On a comparable basis, the increase amounted to 8%. On a comparable basis, the main increase was in Power Turbo-Systems/ Power Environment which improved its sales from €4,352 million for the last fiscal year to €5,079 million as at 31 March 2006, a 17% increase, while Power Service and Transport also grew by 3% and 4% respectively.

2.1.5 Income from Operations

On an actual basis, our income from operations for fiscal year 2005/06 was €746 million or 5.6% of sales, as compared with income from operations of €471 million and operating margin of 3.6% for fiscal year 2004/05. On a comparable basis, our income from operations for fiscal year 2004/05 amounted to €430 million or 3.5% of sales. This strong improvement of our operating margin is notably due to selectivity in our order intake, a more efficient cost base and better execution of our projects.

2.1.6 Net income

On an actual basis, net income improved from a loss of €628 million to a positive €178 million. This improvement stems from an improvement of our income from operations coupled with lower restructuring, financial and tax charges. Capital gains and other non operational expenses amounted to €122 million while loss from discontinued activities amounted to €(198) million for fiscal year 2005/06.

2.1.7 Free cash flow

Our free cash flow as defined in paragraph 2.2.2.1 was positive at €525 million for fiscal year 2005/06 as compared to €77 million for fiscal year 2004/05. It resulted mainly from:

- a strong increase in cash flow due to the improvement of our profitability ;
- limited cash outflows on the GT24/GT26 gas turbines representing €115 million in 2005/06, versus €366 million the previous year ;
- restructuring cash outflow of €239 million, as compared to €281 million for fiscal year 2004/05 ;
- improvement of our working capital ;
- strong reduction in our cash outflow for financial and tax expenses, down from €473 million for fiscal year 2004/05 to €292 million for fiscal year 2005/06.

2.1.8 Net debt

Net debt, as defined in the Consolidated Financial Statements as at 31 March 2006, was €1,248 million at 31 March 2006, including €233 million of capital leases, compared with the amount of €1,651 million at 1 April 2005. This reduction of debt is mainly the consequence of the positive free cash flow and the proceeds from disposals received during the period.

As total equity increased from €1,583 million at 1 April 2005 to €1,840 million at 31 March 2006, gearing improved significantly, down from 104% to 68%.

2.2 Change in business composition and presentation of our accounts, non-GAAP measures

2.2.1 Change in business composition

Our income from operations for the two years ended 31 March 2005 and 2006 have been significantly impacted by the disposals described below ; we did not perform any significant acquisition during fiscal years 2004/05 and 2005/06.

The table below sets out our main disposals during the periods indicated. Sales are presented for the fiscal year preceding disposal.

Companies/Assets sold	Sectors	Country/ Region	% of shares sold	Sales (in €million)	Number of employees
Fiscal year 2005/06					
Power Conversion	-	Worldwide	Assets	506	3,145
Industrial Boilers	Power Turbo-System / Power Environment	Australia	Assets	73	224
Transport Australia/ N.Z.	Transport	Oceania	100%	282	2,073
FlowSystems	Power Service	Europe	Assets	145	579
Easton	Power Service	USA	100%	18	110
Fiscal year 2004/05					
Valencia plant	Transport	Spain	100%	58	420
Information Technology	Corporate	Australia	Assets	90	130

See Disposal programme section for further information.

2.2.2 Use and reconciliation of Non-GAAP financial measures

In this section, we present figures, which 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.

2.2.2.1 *Free cash flow*

We define free cash flow to mean net cash provided by (used in) operating activities less capital expenditures, 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)**	**31 Mar. 05**	**31 Mar. 06**
Net cash provided by (using in) operating activities	**194**	**785**
Elimination of variation in sale of existing receivables	87	(26)
Capital expenditures	(255)	(294)
Proceeds from disposals of property	51	60
Free Cash Flow	**77**	**525**

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

2.2.2.2 *Capital Employed*

We define capital employed as the closing position of goodwill, intangible assets, net, property, plant and equipment, net, other non current assets (excluding pension assets) and current assets (excluding trading investments, available-for-sale investments, held-to-maturity investments 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. 05**	**31 Mar. 06**
Non current assets (excl. Deferred tax)	8,399	7,230
Current assets (excl. Cash & cash equ.)	8,071	7,484
Financial current assets	(15)	(22)
Pension assets	(374)	(387)
Current liabilities (excl. Provisions & financial debt)	(10,510)	(9,903)
Current and non current provisions	(2,322)	(2,120)
Capital employed*	**3,249**	**2,282**

* The decrease in capital employed from 31 March 2005 to 31 March 2006 is partly explained by the reclassification of assets and liabilities attributable to leases of trains for €637 million to assets and liabilities held for sale.

Capital employed by Sector and for the Group as a whole are also presented in Note 25 to our Consolidated Financial Statements.

We use the capital employed measure both for internal analysis purposes as well as for external communications, 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.

2.2.2.3 *Net debt*

We define net debt as cash and cash equivalents and the sum of available-for-sale investments, held-to-maturity securities, trading investments (from 1 April 2005) and short-term investments (before 1 April 2005) included in other current assets, net of financial debt. The difference between the net debt at the beginning of the period ended 31 March 2006 (€1,651 million) and the net debt at the end of the year ended 31 March 2005 (€2,348 million) is due to the changes in accounting policies at 1 April 2005 following the application of the IAS 32-39 and IFRS 5 standards.

Total Group **Actual values** **(in € million)**	**31 Mar. 05**	**1 April 05**	**31 Mar. 06**
Cash and cash equivalent	1,404	1,404	1,301
Available for sale investments	-	13	16
Held to maturity securities	-	13	6
Short-term investments	15	-	-
Current financial debt	(486)	(483)	(360)
Non current financial debt	(3,281)	(2,598)	(2,211)
Net debt / (cash)	**2,348**	**1,651**	**1,248**

2.2.2.4 *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 communications, 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 fiscal year 2004/05 using 31 March 2006 exchange rates for orders backlog, orders received, sales and income from operations ; and

- adjustments due to changes in business composition to the same line items for fiscal year 2004/05. More particularly contributions of material activities sold since 1 April 2004 have been excluded from the comparable figures, in particular our Power Conversion business, our Transport activities in Australia and New Zealand and our FlowSystems business.

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 2004/05. No adjustment has been made on figures disclosed for fiscal year 2005/06.

in € million	31 March 2005 Actual figures	Exchange rate	Scope impact	Comp. Figures	31 March 2006 Actual figures	% Var comp. March 06/05
Power Turbo-Systems / Power Environment	7,139	191	(83)	7,247	8,447	17%
Power Service	3,669	80	(57)	3,692	4,336	17%
Transport	14,489	254	(907)	13,836	14,141	2%
Power Conversion	529	-	(529)	-	-	N/A
Corporate & Others	111	3	(106)	8	20	150%
Orders backlog	**25,937**	**528**	**(1,682)**	**24,783**	**26,944**	**9%**
Power Turbo-Systems / Power Environment	5,181	72	(12)	5,241	6,076	16%
Power Service	3,228	30	(79)	3,179	3,491	10%
Transport	5,490	28	(223)	5,295	5,184	-2%
Power Conversion	579	-	(281)	298	398	34%
Corporate & Others	259	4	(162)	101	141	40%
Orders Received	**14,737**	**134**	**(757)**	**14,114**	**15,290**	**8%**
Power Turbo-Systems / Power Environment	4,190	104	58	4,352	5,079	17%
Power Service	2,832	72	(124)	2,780	2,853	3%
Transport	5,100	70	(216)	4,954	5,128	4%
Power Conversion	536	-	(301)	235	261	11%
Corporate & Others	262	(4)	(150)	108	92	-15%
Sales	**12,920**	**242**	**(733)**	**12,429**	**13,413**	**8%**
Power Turbo-Systems / Power Environment	(107)	-	5	(102)	101	-199%
Power Service	412	3	(3)	412	442	7%
Transport	218	-	(22)	196	324	65%
Power Conversion	30	-	(18)	12	16	33%
Corporate & Others	(82)	-	(6)	(88)	(137)	56%
Income from Operations	**471**	**3**	**(44)**	**430**	**746**	**73%**
Power Turbo-Systems / Power Environment	-2.6%	N/A	8.6%	-2.3%	2.0%	
Power Service	14.5%	4.2%	2.4%	14.8%	15.5%	
Transport	4.3%	N/A	10.2%	4.0%	6.3%	
Power Conversion	5.6%	N/A	6.0%	5.1%	6.1%	
Corporate & Others	N/A	N/A	N/A	N/A	N/A	
Operating margin	**3.6%**	**1.2%**	**6.0%**	**3.5%**	**5.6%**	
Sales	12,920	242	(733)	12,429	13,413	8%
Cost of revenues	(10,886)	(219)	614	(10,491)	(11,080)	6%
R&D expenses	(405)	(1)	9	(397)	(364)	-8%
Selling expenses	(535)	(10)	37	(508)	(569)	12%
Administrative expenses	(623)	(9)	29	(603)	(654)	8%
Income from Operations	**471**	**3**	**(44)**	**430**	**746**	**73%**

A significant part of our sales and expenditures are realised and incurred in currencies other than the Euro. The principal currencies to which we had significant exposures in the fiscal year 2005/06 were the US Dollar, British Pound, Swiss Franc, Mexican Peso and Brazilian Real. Our orders received and sales have been impacted by the translation of our accounts into euros resulting from changes in value of the Euro against other currencies in fiscal year 2005/06. The impact is an increase for orders received and sales by 0.9% and 1.9% respectively compared with the fiscal year 2004/2005.

2.2.3 Key geographical figures for fiscal year 2004/05 and fiscal year 2005/06

2.2.3.1 Geographical analysis of orders

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

ALSTOM	Actual figures		Comparable figures		Actual figures	
in €million	Mar. 05	% of contrib	Mar. 05	% of contrib	Mar. 06	% of contrib
Europe	6,333	43%	6,090	43%	7,832	51%
North America	2,193	15%	2,191	16%	2,010	13%
South and Central America	471	3%	494	4%	1,039	7%
Asia/Pacific	4,270	29%	3,899	28%	2,810	18%
Middle East/ Africa	1,470	10%	1,440	10%	1,599	10%
Orders received by destination	**14,737**	**100%**	**14,114**	**100%**	**15,290**	**100%**

Europe remained the largest market in terms of orders received, its share increased from 43% in fiscal year 2004/05 to 51%. This evolution was mainly due to the performance of our Power Turbo-Systems / Power Environment Sector. Its orders intake in Europe increased from €958 million in fiscal year 2004/05 to €2,485 million in fiscal year 2005/06 on a comparable basis.

Order intake slightly decreased in North America due to a decline in orders for Power Turbo-Systems/ Power Environment Sector.

Activity in South and Central America increased substantially as a result of Transport booking orders in Chile and in Venezuela and Power Turbo-Systems / Power Environment booking a large hydro project in Venezuela.

The decrease in Asia/Pacific region, compared to fiscal year 2004/05 was mainly due to the reduction of orders in China in our Transport Sector, after the record high level registered in 2004/05, as well as in our Power Turbo-Systems / Power Environment Sector which benefited in 2004/05 from a large number of Hydro projects.

The share of the Middle East/Africa region remained stable, as the increase of Transport orders in the region was offset by the decrease in orders received by Power Turbo-Systems / Power Environment Sector.

2.2.3.2 Geographical analysis of sales by region of destination

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

ALSTOM	Actual figures		Comparable figures		Actual figures	
in €million	Mar. 05	% of contrib	Mar. 05	% of contrib	Mar. 06	% of contrib
Europe	6,786	53%	6,563	53%	6,301	47%
North America	1,945	15%	1,993	16%	2,172	16%
South and Central America	534	4%	612	5%	891	7%
Asia/Pacific	2,465	19%	2,117	17%	2,747	20%
Middle East/ Africa	1,190	9%	1,144	9%	1,302	10%
Sales by destination	**12,920**	**100%**	**12,429**	**100%**	**13,413**	**100%**

While European sales slightly decreased in fiscal year 2005/06 compared to fiscal year 2004/05 on a comparable basis, all other geographical areas experienced growing sales and in particular Asia/Pacific with strong outlets in China, India and a number of other countries in the area.

2.2.3.3 *Geographical analysis of sales by region of origin*

The table below sets out, on actual and comparable basis, the geographical breakdown of sales by region of origin.

ALSTOM	Actual figures		Comparable figures		Actual figures	
Actual figures, in €million	Mar. 05	% of contrib	Mar. 05	% of contrib	Mar. 06	% of contrib
Europe	9,244	72%	8,918	72%	9,057	68%
North America	1,890	15%	1,941	16%	2,152	16%
South and Central America	372	3%	454	4%	585	4%
Asia/Pacific	1,297	10%	994	8%	1,482	11%
Middle East/ Africa	117	1%	122	1%	137	1%
Sales by origin	**12,920**	**100%**	**12,429**	**100%**	**13,413**	**100%**

Europe's share of total sales by origin decreased by 4% in fiscal year 2005/06. North America increased slightly while Asia/Pacific region increased its share by 3%, on a comparable basis, representing 11% of our sales by region of origin, a higher level supported by the strong development of the markets in this area.

2.3 Sector review

2.3.1 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)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	7,139	8,447	18%
Orders received	5,181	6,076	17%
Sales	4,190	5,079	21%
Income from Operations	(107)	101	N/A
Operating margin	(2.6%)	2.0%	
EBIT	(331)	75	N/A
Capital employed	(439)	(439)	0%

Power Turbo-Systems / Power Environment **Comparable figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	7,247	8,447	17%
Orders received	5,241	6,076	16%
Sales	4,352	5,079	17%
Income from Operations	(102)	101	N/A
Operating margin	(2.3%)	2.0%	

2.3.1.1 Orders received

After the US gas bubble in 2000/2001 and the Chinese boom in 2003/2004, the market for new equipment is expected to stand around 100-120 GW/annum in the coming years. Pushed by the need to comply with regulations, the demand for environmental upgrade of existing power plants is increasing sharply.

Asia is the dominant market with more than 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 has led to a fast growing market in China for environmental control equipment. Both China and India have re-launched ambitious nuclear programs.

In Europe, after a low point in 2004, the market for new equipment has rebounded during fiscal year 2005/06 due to the demand for gas plants mainly in Southern Europe. New coal projects are emerging in Central Europe, requiring more efficient clean coal combustion technologies. The environmental retrofit of existing coal power plants in this area is also experiencing sharp growth due to the need for operators to meet the 2008 deadline fixed by the European Union.

In the USA, the demand for new equipment is re-starting essentially with new coal plants, mainly constituted by high efficiency coal projects like the Comanche 750 MW supercritical boiler contracted by Power Turbo-Systems / Power Environment. The market for environmental retrofit of coal power plants was growing in 2005 and is expected to grow further in the coming years.

After a low point in 2003/2004, the market for new equipment in Latin America is taking off again pushed by hydro projects - Power Turbo-Systems / Power Environment contracted the La Vueltosa project in Venezuela - but also some gas projects in Argentina, Chile, Venezuela and Mexico.

In Middle East and Africa, the market is essentially a gas market, with some large oil projects in Saudi Arabia. In 2005, the demand for gas power plants has remained high, pushed by the strong electricity demand and desalination plants projects.

On an actual basis, orders received by the Sector for fiscal year 2005/06 were 17% higher than in fiscal year 2004/05 (+16% on a comparable basis).

On a regional basis, in fiscal year 2005/06, Asia represented 22% of the total order intake, North America 14% while Europe accounted for 41% of the order intake. Compared to fiscal year 2004/05, orders decreased during fiscal year 2005/06 by 38% in Asia, and by 20% in North America. These decreases were mainly due to China in Asia where a number of Hydro projects were booked in 2004/05 and to the USA in North America. Conversely, in comparison to fiscal year 2004/05, orders sharply increased in South America and did represent 10% of total orders received compared to 4% in fiscal year 2004/05, and Europe increased by 163% as a result of a number gas fired power plan projects in Spain and Italy as well as coal fired power plants in Germany.

2.3.1.2 *Sales*

In fiscal year 2005/06, sales in Power Turbo-Systems / Power Environment stood at €5,079 million, 17% higher than the fiscal year 2004/05 on a comparable basis, as a consequence of the rebound of order intake during fiscal year 2004/05.

All regions except Europe contributed to the increase in sales compared to fiscal year 2004/05. Sales in Europe have decreased and thus represented 24% of total sales compared to 35% for fiscal year 2004/05. The increase of sales in North America reflected the growth in the environmental control business, and represented 20% of the total sales. The South and Central America share increased sharply while Asia/Pacific increased its share from 22% to 30% on a comparable basis, reflecting progress in Japan and Australia. Finally, Middle East/Africa has stabilised its contribution at around 20%.

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

Power Turbo-Systems / Power Environment	Actual figures		Comparable figures		Actual figures	
in €million	Mar. 05	% of contrib	Mar. 05	% of contrib	Mar. 06	% of contrib
Europe	1,487	35%	1,559	36%	1,218	24%
North America	706	17%	739	17%	997	20%
South and Central America	206	5%	256	6%	398	8%
Asia/Pacific	966	23%	974	22%	1,513	30%
Middle East/ Africa	825	20%	824	19%	953	19%
Sales by destination	**4,190**	**100%**	**4,352**	**100%**	**5,079**	**100%**

2.3.1.3 *Income from operations and operating margin*

Power Turbo-Systems / Power Environment income from operations was €101 million for fiscal year 2005/06, compared with an income from operations of €(107) million for fiscal year 2004/05 on a actual basis. The operating margin improved from (2.6%) to 2.0% on an actual basis. This strong improvement results from the increased sales coupled with the impact of the restructuring programme implemented over the last two years and a better performance in project execution.

2.3.2 Power Service

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

Power Service **Actual figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	3,669	4,336	18%
Orders received	3,228	3,491	8%
Sales	2,832	2,853	1%
Income from Operations	412	442	7%
Operating margin	14.5%	15.5%	
EBIT	365	407	12%
Capital employed	1,875	1,812	(3%)

Power Service **Comparable figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	3,692	4,336	17%
Orders received	3,179	3,491	10%
Sales	2,780	2,853	3%
Income from Operations	412	442	7%
Operating margin	14.8%	15.5%	

2.3.2.1 Orders received

The Power Service market remained robust in fiscal year 2005/06. We have developed customer focused strategies for each of our main product ranges that are designed to increase market penetration. The changing market conditions caused by energy price increases and further liberalisation of markets have led us to adopt different approaches to our customers, particularly with respect to upgrading existing equipment.

Growth in Europe is mainly due to on-going power plant modernisation needs generated by requests for efficiency improvements and environmental compliance requirements.

In North America, the power demand was stable but the aging power plant installed base will lead to increased demand for services. In a context of increased gas price, operators are optimising their fleet utilisation, triggering increased demand for boiler, steam turbine and generator services.

In Asia, demand is growing due to existing plants upgrade needs, increasing installed capacities, on-going market liberalisation and need for compliance with tougher environmental regulations.

Orders received were €3,491 million for fiscal year 2005/06, 10% higher than in fiscal year 2004/05 on a comparable basis. The order intake includes a number of long term operation and maintenance contracts related to gas fired plant contracts. There is also strong activity in the small to medium size service projects.

On a regional basis, in fiscal year 2005/06, Europe represented 42% of the total order intake, North America 26%, Asia 16% while Africa and the Middle East accounted for 14% of the order intake. Compared to fiscal year 2004/05, orders increased during fiscal year 2005/06 by 16% in Europe, by 14% in North America and by 42% in Africa and the Middle East, as a result of a number of O&M contracts booked in that region. Conversely orders received in Asia decreased by 20% as a result of large O&M contracts booked during fiscal year 2004/05.

2.3.2.2 Sales

Sales booked by Power Service in fiscal year 2005/06 stood at €2,853 million, a 3% increase as compared with fiscal year 2004/05 on a comparable basis (1% on an actual basis). On a geographical basis, sales increased in Europe on a comparable basis and decreased in North America and represent respectively 41%

and 28% of total sales. The situation in the Americas was due to the reduced order intake last year in the construction and erection market in the USA and to an increased customer selectivity in Mexico. Sales slightly decreased in Asia/Pacific and represents 18% of total sales as compared with 20% in fiscal year 2004/05.

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

Power Service	Actual figures		Comparable figures		Actual figures	
in €million	Mar. 05	% of contrib	Mar. 05	% of contrib	Mar. 06	% of contrib
Europe	1,149	41%	1,064	38%	1,167	41%
North America	784	28%	818	29%	785	28%
South and Central America	93	3%	102	4%	102	4%
Asia/Pacific	555	20%	541	19%	522	18%
Middle East/ Africa	251	9%	255	9%	277	10%
Sales by destination	**2,832**	**100%**	**2,780**	**100%**	**2,853**	**100%**

2.3.2.3 *Income from operations and operating margin*

Power Service's income from operations was €442 million or 15.5% of sales in fiscal year 2005/06 compared with €412 million or 14.8% of sales for fiscal year 2004/05 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.

2.3.3 Transport

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

Transport Actual figures (in €million)	Mar. 05	Mar 06	% Variation Mar. 05/ Mar. 06
Order backlog	14,489	14,141	(2%)
Orders received	5,490	5,184	(6%)
Sales	5,100	5,128	1%
Income from Operations	218	324	49%
Operating margin	4.3%	6.3%	
EBIT	145	256	77%
Capital Employed*	932	125	(87%)

Transport Comparable figures (in €million)	Mar. 05	Mar 06	% Variation Mar. 05/ Mar. 06
Order backlog	13,836	14,141	2%
Orders received	5,295	5,184	(2%)
Sales	4,954	5,128	4%
Income from Operations	196	324	65%
Operating margin	4.0%	6.3%	

* The decrease in capital employed from 31 March 2005 to 31 March 2006 is partly explained by the reclassification of assets and liabilities attributable to leases of trains for €637 million to assets and liabilities held for sale.

2.3.3.1 Orders received

During fiscal year 2005/06, the global Transport market continued to show modest growth at high level. In Europe, the market remained contrasted with continuous sound demand in Southern Europe, while Germany and the UK were slow. The market in Spain was buoyant as the country continued the expansion of its high speed network whilst supplementing its regional and commuter train fleets. Equally, the Italian market was very active, both in respect of rolling stock and railway infrastructure. Strong demand was also recorded in France for very high speed and regional train fleets, and a new demand for locomotives has started to emerge as the market opens for private freight operators. Transport is well placed in these countries and has recorded several major contracts including variable gauge trains in Spain and Minuetto regional trains in Italy. Significant orders for very high speed trains were placed during the year in France.

The market in China continued its rapid development, both in terms of main line and mass transit. The contract signed in October 2004 for freight locomotives came into force during the first half of fiscal year 2005/06.

The market in Latin America, although small in relation to the global market, showed significant growth and provided Transport with a number of important contracts. In contrast, however, the market in North America declined as the placement of several contracts was postponed.

Globally in the mass transit area, the tramway market remained active. ALSTOM was awarded contracts for tramways for the cities of Darmstadt, Braunschweig and Gera (Germany), Tunis (Tunisia), Dublin (Eire) and Florence (Italy). Meanwhile, in a globally stable market, metro contracts for the cities of Buenos Aires (Argentina), Santiago (Chile), Caracas (Venezuela), Sao Paulo (Brazil) and Milan (Italy) were awarded.

The High Speed and Very High Speed markets continued to live up to their growth potential. Orders of particular note, which were won by Transport, include double-deck TGVs for SNCF in France, Lanzaderas High Speed trains together with variable gauge High Speed trains for RENFE in Spain, electrification of High Speed lines around Bologna (Italy) and sub-stations for part of the Madrid-Barcelona line in Spain.

In the area of Information Solutions, the most important orders came from the expansion of ERTMS in Europe - both for on-board and wayside equipment. The emerging market for signalling and control systems for low density freight lines was evidenced by an important contract from MRS in Brazil.

Orders received by Transport in fiscal year 2005/06 amounted to €5,184 million compared with €5,490 million for fiscal year 2004/05, on an actual basis and to €5,295 million on a comparable basis. The actual variation is mainly due to the disposal of activities in Australia, in New Zealand and in Valencia, Spain (€161 million in fiscal year 2005/06 prior to their disposal vs €375 million in fiscal year 2004/05).

As a percentage of total orders received, Europe continued to represent the biggest share of Transport Sector's order intake with 71% of the total orders received while Asia/Pacific and the Americas represented 13% and 10%, compared with 19% and 7% respectively last year. The decrease in Asia is due to the exceptional level of orders in China recorded in 2004/05.

2.3.3.2 *Sales*

Sales in Transport increased by 1% in fiscal year 2005/06 compared with fiscal year 2004/05 on an actual basis and by 4% on a comparable basis.

In fiscal year 2005/06, Europe continued to be the main contributor to the sales of the Sector (including major contributions from France, Italy and the United Kingdom) with a share of 73%. Asia's share slightly increased on a comparable basis. South and Central America have increased in volume by 52% on a comparable basis and increased their share from 5% to 7% as a result of the Santiago metro contracts being delivered and the Caracas metro.

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

Transport	Actual figures		Comparable figures		Actual figures	
in €million	Mar. 05	% of contrib	Mar. 05	% of contrib	Mar. 06	% of contrib
Europe	3,789	74%	3,774	76%	3,756	73%
North America	377	7%	397	8%	358	7%
South and Central America	214	4%	242	5%	369	7%
Asia/Pacific	638	13%	486	10%	590	12%
Middle East/ Africa	82	2%	55	1%	55	1%
Sales by destination	**5,100**	**100%**	**4,954**	**100%**	**5,128**	**100%**

2.3.3.3 *Income from operations and operating margin*

The income from operations of Transport for fiscal year 2005/06 amounted to €324 million or 6.3% of sales significantly above the €218 million and 4.3% recorded last year on an actual basis. This improvement came primarily from improved project management, as well as increased sales, better mix and further cost reduction.

2.3.4 Marine

This Sector is in the process of being sold of to Aker Yards. In restated fiscal year 2004/05 and in 2005/06, Marine Sector is treated in the Consolidated Financial Statements as a discontinued operation. The following information highlights what would have been Marine's contribution if the Sector was not treated as a discontinued operation (Please refer to section 1.2.1 Disposal programme for further details).

Marine **Actual figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	1,266	1,950	54%
Orders received	1,104	1,143	4%
Sales	607	439	(28%)
Income from Operations	(104)	(15)	N/A
Operating margin	(17.1%)	(3.4%)	
EBIT	(15)	(202)	N/A
Capital employed	(293)	N/A	N/A

Marine **Comparable figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	1,266	1,950	54%
Orders received	1,104	1,143	4%
Sales	607	439	(28%)
Income from Operations	(104)	(15)	N/A
Operating margin	(17.1%)	(3.4%)	

2.3.4.1 Orders received

In the cruise ship market where our Marine Sector was the most active, eleven new cruise ships were ordered in 2005, the same number as in 2004. Three cruise vessels were ordered during the first quarter of 2006.

The letter of intent for two 1,650 cabin cruise ships signed with MSC in June 2005 was converted into an order in December 2005. A further contract was signed in March 2006 for one 1,275 cabin cruise ship, sistership to the MSC Opera. It will enter into force as soon as MSC has finalised its financing.

At the end of March 2006, the Marine backlog included two 1,275 cabin cruise ships and two 1,650 cabin cruise ships for MSC, two LNG tankers for Gaz de France, one LNG tanker for NYK, one yacht , one roll in roll out ferry and one small tanker for Conseil Général du Morbihan.

2.3.4.2 Sales

Sales amounted to €439 million in the fiscal year 2005/06 compared to €607 million in the fiscal year 2004/05. This 28% decrease is mainly linked to the low level of orders obtained in the three previous years.

Marine delivered in April 2005 the front part of an assault ship built for the French Navy in association with DCN and an oceanographic ship in July 2005.

Marine	Actual figures		Comparable figures		Actual figures	
in €million	Mar. 05	% of contrib	Mar. 05	% of contrib	Mar. 06	% of contrib
Europe	583	96%	583	96%	417	95%
North America	1	0%	1	0%	-	0%
South and Central America	14	2%	14	2%	17	4%
Asia/Pacific	9	1%	9	1%	5	1%
Middle East/ Africa	-	0%	-	0%	-	0%
Sales by destination	**607**	**100%**	**607**	**100%**	**439**	**100%**

2.3.4.3 *Income from operations and operating margin*

As regards the three LNG tankers under construction, technical solutions for the problems encountered in 2005 were agreed upon by the stakeholders in July 2005. These technical solutions are currently being implemented, although uncertainties remain, notably due to the concurrent ramp up of workload of the three ships which are scheduled for delivery in the course of the fiscal year 2006/2007.

The operating loss was €(15) million in the fiscal year 2005/06, compared with a loss of €(104) million in the fiscal year 2004/05. Last year result was impacted by a €50 million provision related to technical problems encountered on the containment system on the GDF LNG tankers under construction.

2.3.5 Power Conversion

This business was sold to Barclays Private Equity in September 2005. Since 1 November 2005, this business is deconsolidated. (Please refer to section 1.2.1 Disposal programme for further details). The following table sets out some key financial data for our Power Conversion Business:

Power Conversion **Actual figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	529	-	N/A
Orders received	579	398	N/A
Sales	536	261	N/A
Income from Operations	30	16	N/A
Operating margin	5.6%	6.1%	
EBIT	16	14	N/A
Capital Employed	42	N/A	N/A

Power Conversion **Comparable figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	-	-	N/A
Orders received	298	398	34%
Sales	235	261	11%
Income from Operations	12	16	33%
Operating margin	5.1%	6.1%	

On an comparable basis, orders received for fiscal year 2005/06 increased by 34% compared with fiscal year 2004/05. This increase mainly came from Asia and Russia.

On an comparable basis, sales in fiscal year 2005/06 increased by 11% compared with fiscal year 2004/05 as a result of the good performances in Germany.

The income from operations for fiscal year 2005/06 increased from €12 million to €16 million on a comparable basis.

2.3.6 Corporate and Others

"Corporate and Other" 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.

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

Corporate & Other **Actual figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	111	20	N/A
Orders received	259	141	N/A
Sales	262	92	N/A
Income from Operations	(82)	(137)	N/A
EBIT	(246)	(25)	
Capital Employed	1,132	784	(31%)

Corporate & Other **Comparable figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Order backlog	8	20	N/A
Orders received	101	141	N/A
Sales	108	92	N/A
Income from Operations	(88)	(137)	N/A

Income from operations was €(137) million for fiscal year 2005/06, compared with €(82) million for fiscal year 2004/05. The variation is mainly due to one off items such as the cost of the free shares programme which has been fully accounted for and represented €40 million in fiscal year 2005/06 and to additional efforts in Group sales network.

3 OPERATING AND FINANCIAL REVIEW

3.1 Income Statement

Total Group Actual figures (in €million)	Mar. 05	Mar 06	% Variation Mar. 05/ Mar. 06
Sales	12,920	13,413	4%
Cost of sales	(10,886)	(11,080)	2%
R&D expenses	(405)	(364)	(10%)
Selling expenses	(535)	(569)	6%
Administrative expenses	(623)	(654)	5%
Income from Operations	**471**	**746**	**58%**
Operating margin	3.6%	5.6%	

Total Group Comparable figures (in €million)	Mar. 05	Mar 06	% Variation Mar. 05/ Mar. 06
Sales	12,429	13,413	8%
Cost of sales	(10,491)	(11,080)	6%
R&D expenses	(397)	(364)	(8%)
Selling expenses	(508)	(569)	12%
Administrative expenses	(603)	(654)	8%
Income from Operations	**430**	**746**	**73%**
Operating margin	3.5%	5.6%	

3.1.1 Sales

Sales were €13,413 million for fiscal year 2005/06, compared to €12,920 million for fiscal year 2004/05, an increase of 4% on an actual basis. On a comparable basis - adjusting notably for the disposal of our Power Conversion business, our Transport activities in Australia, New Zealand, our FlowSystems business, our Transport plant in Valencia (Spain) and of miscellaneous activities in Australia - the increase amounted to 8%. On a comparable basis, the main increase in sales was in Power Turbo-Systems/ Power Environment which grew from €4,352 million in fiscal year 2004/05 to €5,079 million in fiscal year 2005/06, a 17% increase, while Power Service and Transport sales also grew by 3% and 4% respectively.

3.1.2 Selling and Administrative expenses

Selling and administrative expenses were €1,223 million in fiscal year 2005/06 compared to €1,158 million in fiscal year 2004/05. On a comparable basis, selling expenses increased by 12% from fiscal year 2004/05 to fiscal year 2005/06 as a result of intense tender activity and the implementation of stronger commercial organisations in all Sectors. Administrative expenses increased by 8% on a comparable basis between fiscal year 2004/05 and fiscal year 2005/06 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. Administrative expenses remained stable as a percentage of sales.

3.1.3 Research and Development expenses

Research and development expenses were €364 million in fiscal year 2005/06, as compared to €405 million in fiscal year 2004/05. Before impact of capitalisation and depreciation, the Research and Development expenses , increased from €333 million in fiscal year 2004/05 to €349 million in fiscal year 2005/06 on an actual basis. This 5 % growth is mainly due to an increase in Transport notably related to the AGV and the ERTMS programme. Power Turbo-Systems / Power Environment Research and Development expense level remained

stable, the reduction of expenses related to the GT24/GT26 gas turbines development programme -as the technology has now been stabilised - being offset by new programmes in several key areas such as clean combustion.

3.1.4 Income from Operations

On an actual basis, our income from operations for fiscal year 2005/06 was €746 million or 5.6% of sales, as compared with income from operations of €471 million and operating margin of 3.6% for fiscal year 2004/05. On a comparable basis, our income from operations amounted to €430 million or 3.5% of sales for fiscal year 2004/05. This strong improvement of our operating margin is notably due to selectivity in our order intake, an improved cost base and better execution of our projects.

Total Group Actual figures (in €million)	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Income from Operations	**471**	**746**	**58%**
Restructuring costs	(350)	(80)	(77%)
Pension costs	(47)	(61)	30%
Other non operating income (expense)	(125)	122	N/A
Earnings Before Interest and Tax	**(51)**	**727**	**N/A**
Financial income (expense)	(381)	(222)	(42%)
Income tax charge	(163)	(125)	(23%)
Discontinued operations	(32)	(198)	N/A
Minority interest and other	(1)	(4)	N/A
Net income	**(628)**	**178**	**N/A**

3.1.5 Earnings Before Interest and Tax (EBIT)

EBIT was €727 million in fiscal year 2005/06, compared with €(51) million in fiscal year 2004/05.

The improvement in EBIT in fiscal year 2005/06 was mainly due to:

- the improvement of our income from operations ;
- the decrease of restructuring costs amounting to €(80) million in fiscal year 2005/06, compared with €(350)million in fiscal year 2004/05 ;
- the net capital gain on disposal of activities at €132 million in fiscal year 2005/06, compared with a loss of €(42) million in fiscal year 2004/05 ;
- partly offset by the increase in pension costs at €(61)million in fiscal year 2005/06, compared with €(47) million in fiscal year 2004/05.

3.1.6 Financial expenses, net

The reduction of our net financial expenses at €(222) million in fiscal year 2005/06 compared with €(381) million in fiscal year 2004/05 was due to the decrease in net interest expenses as a consequence of the reduction in our debt level and in our average interest rate. The financial charges included fees paid for bonding and other financing facilities, which amounted to €(75) million in fiscal year 2005/06 compared with €(105) million in 2004/05.

3.1.7 Income tax charge

The income tax charge for the fiscal year 2005/06 was €(125) million compared with €(163) million in fiscal year 2004/05. The fiscal year 2005/06 income tax charge included a current income tax charge of €(155) million and a deferred income tax of €30 million.

3.1.8 Discontinued operations

Discontinued operations include our Marine activities. At 31 March 2006, the discontinued operations contribution amounted to €(198) million including:

- €(15) million of loss from operations ;
- €(87) million of impairment on assets ;
- €(96) million of losses related to the disposal of the activity.

As at 31 March 2005, the discontinued operations contribution included €(32) million of net losses including an operating loss of €(104) million.

3.1.9 Net profit/(loss) Group share

As a result of improved EBIT, lower financial expenses and lower tax charges, net profit amounted to €178 million for the Group share compared with a net loss of €(628) million for fiscal year 2004/05.

3.2 Balance Sheet

Total Group **Actual figures** **(in €million)**	**Mar. 05**	**Mar 06**	Variation Mar. 05/ Mar. 06
Goodwill	3,417	3,323	(94)
Intangible assets, net	1,222	1,197	(25)
Tangible assets, net	1,707	1,361	(346)
Equity method investments and other investments, net	118	99	(19)
Other non-current assets, net	1,935	1,250	(685)
Deferred tax	1,207	1,249	42
Non-current assets	**9,606**	**8,479**	**(1,127)**
Working capital assets	8,071	7,484	(587)
Cash and cash equivalents	1,404	1,301	(103)
Current assets	**9,475**	**8,785**	**(690)**
Assets held for sale	-	1,144	N/A
Assets	**19,081**	**18,408**	**(673)**

Total Group **Actual figures** **(in €million)**	**Mar. 05**	**Mar 06**	% Variation Mar. 05/ Mar. 06
Equity	1,466	1,840	374
Bonds reimbursable with shares	133	-	(133)
Non-current and current provisions	2,322	2,120	(202)
Accrued pension and retirement benefits	824	792	(32)
Financial debt current and non-current	3,767	2,571	(1,196)
Deferred tax	59	39	(20)
Other current liabilities	10,510	9,903	(607)
Liabilities directly associated with assets held for sale	-	1,143	1,143
Liabilities	**19,081**	**18,408**	**(673)**

3.2.1 Goodwill and intangible assets, net

Net Goodwill decreased to €3,323 million at 31 March 2006 compared to €3,417 million at 31 March 2005 mainly due to the disposals of the period.

We requested an independent third party evaluation as part of our annual impairment tests of goodwill. The valuation as at 31 March 2006 supported our opinion that our goodwill were not impaired.

Net intangible assets decreased to €1,197 million at 31 March 2006 compared to €1,222 million at 31 March 2005. 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's 50% shareholding in Power.

Development costs represent expenses fulfilling criteria defined by IAS 38, as described in our Consolidated Financial Statements Note 12, and capitalised. These costs are amortised on a straight-line basis over the estimated useful life of the development asset. Transport and Power Turbo-Systems / Power Environment are the main Sectors capitalising development expenses.

3.2.2 Tangible assets, net

Net tangible assets decreased to €1,361 million at 31 March 2006 compared to €1,707 million at 31 March 2005 mainly due to the disposals of the period and to the fact that depreciation exceeded capital expenditures during fiscal year 2005/06.

Capital expenditures increased to €294 million at 31 March 2006 compared to €255 million at 31 March 2005. Capital expenditures excluding capitalised Research and Development expenses also increased in fiscal year 2005/06 at €207 compared to €185 in fiscal year 2004/05. Power-Turbo Systems / Power Environment contributed to this increase with capital expenditures growing from €51 million in fiscal year 2004/05 to €70 million in fiscal year 2005/06, mainly in China and in India. Transport also increased its capital expenditures from €52 million in fiscal year 2004/05 to €71 million in fiscal year 2005/06.

3.2.3 Other non-current assets, net

Other non-current assets net decreased to €1,250 million at 31 March 2006 compared to €1,935 million at 31 March 2005 mainly due to the reclassification of the long term rental related to leases of train to "assets held for sale". At 31 March 2006, other non-current assets mainly include the €700 million deposit securing the Bonding Guarantee Facility.

3.2.4 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 2006 was €(4,539) million compared with €(4,761) million at 31 March 2005. This improvement reflected the results of stronger working capital management.

3.2.5 Assets/liabilities held for sale

Non-current assets and disposal groups are classified as held for sale as their carrying amount will be recovered through a sale transaction rather than through continuing use. We regard the sale as highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Assets and liabilities classified as held for sale correspond to the Marine Sector and to assets and liabilities attributable to leases of trains.

3.2.6 Net deferred tax assets

Net deferred tax assets amounted to €1,210 million at 31 March 2006 compared with €1,148 million at 31 March 2005.

At 31 March 2006, we reviewed by jurisdiction the recoverability of these deferred tax assets on the basis of our business plan, extrapolated when needed. This review led to a cumulative valuation allowance on deferred tax assets of €919 million at 31 March 2006 compared with €920 million at 31 March 2005. At 31 March 2006 we are satisfied as to the recoverability of our net deferred tax assets.

3.2.7 Current and non-current provisions

At 31 March 2006, the current and non-current provisions were €2,120 million compared with €2,322 million at 31 March 2005. This net decrease was accounted for mainly by the following movements:

- changes in the scope of our activities ;
- a decrease in provisions on contracts for €103 million, mainly resulting from €116 million of application of the GT24/GT26 gas turbines provisions ;

- a decrease in restructuring provisions of €178 million.

3.2.8 Shareholders' equity and minority interests

Total equity at 31 March 2006 was €1,840 million, including minority interests, compared with €1,583 million at 1 April 2005. This variation is due to:

- the net income of the period for €181 million ;
- a cumulative translation adjustment of €55 million ;
- and other effects for €21 million,

3.2.9 Financial debt

Our gross financial debt was €2,571 million at 31 March 2006, compared with 3,081 million at 1 April 2005, pursuant to the first application of IAS 32-39 and IFRS 5 standards.

Borrowings decreased by €299 million, securitisation of future receivables by €49 million and, other facilities by €106 million.

At 31 March 2006, we were in compliance with our covenants as follows:

- ratio of EBITDA, as defined in the Consolidated Financial Statement Note 22, to consolidated net financial expense (interest expense including securitisation expenses less interest income but excluding interest related to obligation under finance lease, pension interest cost and the consolidated net financial expense of special purpose entities which were not consolidated subsidiaries as of 31 March 2004). The interest cover at 31 March 2006 amounts to 8.7 to compare with a covenant of 3.0.

- sum of shareholders' equity (excluding the cumulative impact of any deferred tax asset impairments arising after 31 March 2004 and including Bonds Reimbursable with Shares "ORA" not yet reimbursed) and minority interests (this covenant will not apply if and for so long as ALSTOM's rating is Investment Grade). After excluding the impact of the impairment of deferred tax assets recorded since 31 March 2004 of €189 million, the consolidated net worth at 31 March 2006 to compare with the covenant above is €2,029 million to compare with a covenant of €1,360 million.

- ratio of total net debt (total financial debt less short-term investments or trading investments and cash and cash equivalents) to EBITDA. The net debt leverage as at 31 March 2006 is of 1.0 to compare with a covenant of 4.0.

3.3 Liquidity and Capital Resources

3.3.1 Consolidated statement of cash flows

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

Total Group **Actual figures** **(in €million)**	**31 Mar. 05**	**31 Mar. 06**
Net income after elimination of non cash items	5	627
Change in net working capital	189	158
Net cash provided by (used in) operating activities	**194**	**785**
Net cash provided by (used in) investing activities	363	32
Net cash provided by (used in) financing activities	(353)	(409)
Net cash provided by (used in) discontinued operations	(198)	(215)
Transfer to assets and liabilities held for sale	-	(317)
Net effect of exchange rate	15	24
Other changes and reclassifications	34	(3)
Increase (decrease) in cash and cash equivalent	**55**	**(103)**

3.3.1.1 Net cash provided by (used in) operating activities

Net cash provided by (used in) operating activities is defined as the net income after elimination of non-cash items plus working capital movements. Net cash provided by operating activities was €785 million in fiscal year 2005/06 compared to €194 million in fiscal year 2004/05.

Net income after the elimination of non-cash items was €627 million in fiscal year 2005/06. This amount represented the cash generated by net income before working capital movements. As provisions are included in the definition of our working capital, provisions are not part of the elimination of non-cash items.

Change in net working capital was €158 million. Working capital was improved by:

- a decrease of €61 million in trade receivables and other current assets ;
- a decrease of €70 million in contract-related provisions mainly due to the application of GT24/GT26 provisions ;
- an increase of €439 million in contract construction following a continuing rebound in orders received and the resulting increase of our backlog ;
- a decrease of €272 million in trade payables and other payables related.

The net cash provided by operating activities of €194 million in fiscal year 2004/05 was mainly due to the favourable change in working capital.

3.3.1.2 Net cash provided by (used in) investing activities

Net cash provided by investing activities was €32 million in fiscal year 2005/06. This amount comprised of:

- proceeds of €60 million from disposals of property, plant and equipment ;
- capital expenditures for €294 million, including Research and Development capitalised of €87 million ;
- variation in other non current assets of €22 million ; and
- cash proceeds from the sale of investments, net of net cash sold, for €257 million.

Net cash provided by investing activities was €363 million in fiscal year 2004/05. This positive variation of the net cash was mainly due to the cash proceeds from the sales of the T&D Sector (€207 million) and to the sale of a Special Purpose Entity in the Transport Sector and to the deconsolidation of two Special Purpose

Entities in the Marine Sector for a total effect of €627 million. This increase in net cash was partially offset by the variation in other fixed assets which included the €700 million of cash collateral securing the Bonding programme and the monetisation of other financial items.

3.3.1.3 *Net cash provided by (used in) financing activities*

Net cash (used)/provided by financing activities in fiscal year 2005/06 was €(409) million, compared to €(353) million in fiscal year 2004/05. This amount included the full reimbursement of the securitisation of future trade receivables for €(49) million, the repayments of borrowings for €(320) and capital lease obligations for €(42) million. In fiscal year 2004/05, the net cash used by financing activities included the capital increase detailed in section 1.2.4 for €2,022 million and the reduction of borrowings for €(2,310).

3.3.1.4 *Net cash provided by (used in) discontinued operations*

Net cash used in discontinued operations in fiscal year 2005/06 was €(215) million, compared to €(198) million in fiscal year 2004/05. This amount included the Marine free cash flow of €(115) million in fiscal year 2005/06 and €(213) million in fiscal year 2004/05.

3.3.1.5 *Decrease (increase) in net debt*

As a result of the above, our cash and cash equivalent decreased by €103 million in fiscal year 2005/06 after an increase of €55 million in fiscal year 2004/05. Our net debt decreased by €403 million in fiscal year 2005/06 after a decrease of €2,370 million in fiscal year 2004/05 as described below:

Total Group Actual figures (in €million)	**31 Mar. 05**	**31 Mar. 06**
Net debt at the beginning of the period	**(4,718)**	**(1,651)**
Increase (decrease) in cash and cash equivalent	55	(103)
Increase (decrease) in short-term investments	(24)	(2)
Issuance (payment) of short term and long term borrowings	2,310	369
Issuance (payment) of obligation under finance lease	41	42
Net cash used in financing activities - discontinued operations	(13)	103
Effect of echange rate	1	(6)
Net debt at the end of the period	**(2,348)**	**(1,248)**
IFRS restatement as at 1 April 2005	697	N/A
Net debt as at 1 April 2005	**(1,651)**	-

3.4 Maturity and Liquidity

We have a variety of sources of liquidity in order to finance our operations, including principally borrowings under revolving credit facilities, the issuance of commercial paper and asset disposals. Additional sources include customer deposits and advances and proceeds from the sale of trade receivables, including future trade receivables. In the past, we have also used the issuance of securities, including debt securities and preferred shares, as a source of liquidity.

The following table sets forth the list of our drawn and undrawn lines of credit and financial debt obligations (including future receivables securitised) and as part of these, the available lines of credit as of 31 March 2006:

Total Group Nominal values (in €million)	**Mar. 05**	**Mar 06**	**within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 year**
Redeemable preference shares	205	-						
ORA	-	5			5			
Subordinated notes	5	5	5					
Bonds	1,202	2,224	224		1,000	1,000		
Syndicated loans	1,039	-						
Bilateral loans	33	-						
Commercial paper	14	-						
Other facilities	252	106	55	12	3	3	21	12
Borrowings under finance lease	918	233	40	22	20	18	17	116
Accrued interest	50	33	33					
Future receivables securitised	49	-						
Financial debt	**3,767**	**2,606**	**357**	**34**	**1,028**	**1,021**	**38**	**128**
Undrawn credit lines	1,202	700					700	
Total lines of credit	**4,969**	**3,306**	**357**	**34**	**1,028**	**1,021**	**738**	**128**

Instrument (in €million)	**Maturity**	**Nominal amount**	**Rate**
Bonds	July 2006	224	5.0%
Bonds	July 2008	400	Euribor 3M+ 0.85%
Bonds	March 2009	600	Euribor 3M+ 2.2%
Bonds	March 2010	1,000	6.25%
Revolving credit facility	July 2011	700	Undrawn

Total available unused credit lines together with cash and cash equivalent available at parent company amounted to €1,650 at 31 March 2006, compared to €1,998 million at 31 March 2005.

These amounts consisted of:

- available credit lines at Group level for €700 million compared with €1,202 at 31 March 2005 ;
- cash available at parent company level of €950 million at 31 March 2006, compared with €796 million at 31 March 2005 .

ALSTOM, the Group parent company, can access some cash held by wholly owned subsidiaries through the payment of dividends or pursuant to intercompany loan arrangements. Local constraints can delay or restrict this access, however. Furthermore, while we have the power to control decisions of subsidiaries of which we are the majority owner, our subsidiaries are distinct legal entities and the payment of dividends and the granting of loans, advances and other payments to us by them 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. Our policy is to centralise liquidity of subsidiaries at the parent company level when possible, and to continue to progress towards this goal. The cash and cash equivalents available at subsidiary level were €608 million and €351 million respectively in March 2005 and 2006.

3.5 Impact of exchange rate and interest rate fluctuations

Our policy is to use derivatives, such as forward foreign exchange contracts, in order to hedge exchange rate fluctuations and interest rate fluctuations. Our policy does not permit any speculative market position.

We have implemented a centralised treasury policy in order to better control the company's financial risks and to optimise cash management by pooling our available cash, thereby reducing the amount of external debt required and permitting us to obtain better terms under our various financing arrangements.

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 the 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 we have a significant presence.

Corporate Treasury acts as an in-house bank for subsidiaries by providing hedging and funding, maintaining internal current accounts and managing an intercompany payments netting system. We have implemented cash pooling structures to centralise cash on a daily basis in the countries where local regulations permit.

Corporate Treasury uses the Reuters CashFlow KTP Treasury Management System for straight-through processing of treasury transactions from dealing to settlement and management of inhouse banking activity. Our Treasury Management System is interfaced with SAP for automatic generation of accounting entries. The Front Office is equipped with a Reuters Information System for realtime market data and uses a professional telephone dealing system provided by Etrali to tape all exchanges with bank's dealing rooms. A dedicated Information Technology team administers Treasury systems and guarantees back-up and contingency plans.

The Middle Office monitors the Dealing Room activity, guarantees that no open positions are maintained, and produces regular risk reporting.

3.5.1 Exchange rate risks

In the course of our operations, we are 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 we had significant exposure in fiscal year 2005/06 were the US Dollar, British Pound and Swiss Franc. We hedge risks related to firm commitments and tenders 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
- by entering into specific insurance policies, such as with Coface in France or Hermes in Germany.

The purpose of these hedging activities is to protect us against any adverse currency movements which may affect contract revenues should the tender be successful, and to minimise the cost of having to unwind the strategy in the event of an unsuccessful tender. The decision whether to hedge tender volumes is based on the probability of the transaction being awarded to us, expected payment terms and our assessment of market conditions. Under our policy, only senior management may make such decisions.

When a tender results in the award of a contract, we hedge the resulting net cash flows mainly in the forward markets or, in some exceptional cases, by means of insurance policies. Due to the long-term nature of our business, the average duration of these forward contracts is approximately 12-14 months.

We do not hedge our net assets invested in foreign operations. We monitor our market positions closely and regularly analyse market valuations. We also have in place counter-party risk management guidelines. All derivative transactions, including forward exchange contracts, are designed and executed by our central corporate treasury department, except in some specific countries where restrictive regulations prevent centralised execution.

3.5.2 Interest rate risks

See Note 28 (b) to the Consolidated Financial Statements for discussion of our interest rate risks and of sensitivity to interest rate variation.

3.5.3 Value of financial instruments

At 31 March 2006 and 31 March 2005, the nominal and fair value of foreign exchange instruments are detailed as follows:

Derivative instruments qualifying for hedge accounting

(in € million)	**Year ended 31 March 2005**				**Year ended 31 March 2006**			
	Purchased		**Sold**		**Purchased**		**Sold**	
	Nominal	**Fair value**	**Nominal**	**Fair value**	**Nominal**	**Fair value**	**Nominal**	**Fair value**
- GBP	77	-	307	(7)	22	-	396	1
- BRL	-	-	10	(1)	33	(8)	29	1
- PLN	126	5	26	-	80	1	252	(2)
- SEK	285	(1)	87	-	227	(3)	279	2
- USD	557	(92)	1,995	130	713	(64)	2,462	104
- AUD	108	-	60	(2)	169	(4)	154	3
- SGD	13	-	89	12	16	-	39	-
- CHF	1,340	(5)	1,857	10	1,889	(21)	2,139	31
- Other	269	2	328	4	388	2	272	2
Derivative instrument qualifiying for hedge accounting	**2,775**	**(91)**	**4,759**	**146**	**3,537**	**(97)**	**6,022**	**142**

Derivative instruments not qualifying for hedge accounting

(in € million)	**Year ended 31 March 2005**				**Year ended 31 March 2006**			
	Purchased		**Sold**		**Purchased**		**Sold**	
	Nominal	**Fair value**	**Nominal**	**Fair value**	**Nominal**	**Fair value**	**Nominal**	**Fair value**
- Currency option contracts - JPY	20	2	-	-	-	-	-	-
- Currency option contracts - USD	110	17	75	(1)	1	-	34	-
- Currency option contracts - other currencies	-	-	-	-	-	-	19	-
- Forward contracts - USD	-	-	-	-	112	(1)	95	-
- Forward contract - CHF	-	-	-	-	95	2	9	-
- Forward contract - SEK	-	-	-	-	71	1	1	-
- Forward contract - Other currencies	-	-	-	-	56	(1)	41	-
- Insurance contracts	3	-	193	(2)	34	(2)	105	4
Derivative instrument not qualifiying for hedge accounting	**133**	**19**	**268**	**(3)**	**369**	**(1)**	**304**	**4**

At 31 March 2006, the nominal value of derivative instruments by maturity is as follows:
Derivative instruments qualifying for hedge accounting

(in € million)	**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
- GBP	418	332	86	-
- BRL	62	58	4	-
- PLN	332	218	114	-
- SEK	506	365	136	5
- USD	3,175	2,022	1,153	1
- AUD	323	179	143	-
- SGD	55	55	-	-
- CHF	4,028	3,745	283	-
- Other	660	586	74	-
Total	**9,559**	**7,560**	**1,993**	**6**

Derivative instruments not qualifying for hedge accounting

(in € million)	**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
Foreign exchange instruments				
- Currency option contracts - JPY	0	-	-	-
- Currency option contracts - USD	35	35	-	-
- Currency option contracts - other currencies	19	19	-	-
- Forward contracts - USD	207	104	103	-
- Forward contract - CHF	104	60	44	-
- Forward contract - SEK	72	20	52	-
- Forward contract - Other currencies	97	68	27	2
- Insurance contracts	139	47	92	-
Total	**673**	**353**	**318**	**2**

3.6 Pension accounting

The Group provides various types of retirement, termination and post-retirement benefits to our employees. The type of benefits offered to an individual employee is related to local legal requirements as well as operating practices of the specific subsidiaries and involves us in the operation of, or participation in, various retirement plans. These plans are either defined-contribution, defined-benefit or multi-employer plans.

3.6.1 Defined contribution plans

For the defined-contribution plans, we pay contributions to independently administered funds at a fixed percentage of employees' pay. The pension costs in respect of defined-contribution plans are charged in the income statement as operating expenses and represent the contributions paid by the Company to these funds.

3.6.2 Defined benefit plans

These plans mainly cover retirement and termination benefits and post-retirement medical benefits.

For the defined benefit plans, which we operate, benefits are normally based on an employee's pensionable remuneration and length of service. These plans are either funded through independently administered pension funds or unfunded. Pension liabilities are assessed annually by external professionally qualified actuaries. These actuarial assessments are carried out for each plan using the Projected Unit Credit method with generally a

measurement date of 31 March. The financial and demographic assumptions used are determined at the measurement date 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 21 to the Consolidated Financial Statements.

The assets of externally administrated defined-benefit plans are invested mainly in equity and debt securities. The components of these assets are disclosed in Note 21 to the Consolidated Financial Statements. The expected costs of providing retirement pensions under defined benefit plans, as well as the costs of other post-retirement benefit plans, are charged to the profit and loss account over the periods benefiting from the employees' services.

3.6.2.1 Valuation of the Defined Benefit Obligation

The actuarial value of the future obligations of the employer estimated with the Projected Unit Credit method (Defined Benefit Obligation – "DBO") 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 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 21 to the Consolidated Financial Statements.

3.6.2.2 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 current sale of the assets between a willing buyer and a willing seller. This is compared with the DBO and the difference is referred to as the "funded status" of the plan.
The changes in the fair value of assets and the funded status are disclosed in Note 21 to the Consolidated Financial Statements.

3.6.2.3 Actuarial gains and losses and past year 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 the long-term actuarial assumptions (inflation rate, discount rate, rate of salary escalation, mortality table etc.).

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

of the respective plan.

As of 31 March 2006, the actuarial losses unrecognised in the balance sheet were €1,050 million, an increase of €41 million since March 2005. The portion above a 10% corridor calculated scheme by scheme, is amortise over the average remaining working lives of participants in these plans.

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 at 31 March 2006.
In respect of "other long-term employee benefits" as defined under paragraph 126 of IAS19, actuarial gains and losses and past service cost are recognised immediately and no corridor is applied.

3.6.2.4 *Pension cost*

The following table shows the composition of the total benefit expense for the fiscal year 2004/05 and 2005/06:

Total Group **Actual values** **(in €million)**	**Mar. 05**	**Mar. 06**	Variation Mar. 05/ Mar. 06
Service Cost	(80)	(85)	(5)
Multi employer contributions and defined co	(89)	(90)	(1)
Income from Operations	**(169)**	**(175)**	**(6)**
Amortisation of actuarial net loss (gain)	(57)	(68)	(11)
Amortisation of unrecognised past service co	5	3	(2)
Other	4	4	-
Other income (expense)	**(48)**	**(61)**	**(13)**
Interest cost	(217)	(215)	2
Expected return on plan assets	200	200	-
Financial income (expense)	**(17)**	**(15)**	**2**
Benefit expense	**(234)**	**(251)**	**(17)**

3.7 Off balance sheet commitments and contractual obligations

The following table sets forth our off balance sheet commitments, which are discussed further at Note 26 to the Consolidated Financial Statements:

Total Group **Actual values** **(in €million)**	**31 Mar. 05**	**31 Mar. 06**
Guarantees related to contracts	7,526	7,572
Guarantees related to Vendor financing	429	432
Discounted notes receivables	5	-
Commitments to purchase fixed assets	1	8
Other guarantees	114	242
Off balance sheet commitments	**8,075**	**8,254**

- Guarantees related to contracts
  The overall amount given as guarantees on contracts decreased from €7,572 million in March 2006 to €7,526 million in March 2005, stable over the period due to the disposal of some activities and the orders intake increase.

- Vendor Financing Exposure
  In some instances, we have in the past years provided financial support to institutions which finance some of our customers and also, in some cases, directly to our customers for their purchases of our products. We refer to this financial support as “Vendor Financing”. We have not committed to provide any Vendor Financing guarantees to our customers since fiscal year 1998/99.

  The following table set forth our Vendor Financing exposure, which are discussed further at Note 26 to the Consolidated Financial Statements:

Total Group **Actual values** **(in €million)**	**31 Mar. 05**	**31 Mar. 06**
Marine	120	126
Transport	309	306
Vendor financing exposure	**429**	**432**

4 OUTLOOK

We believe the power generation market will continue to grow in the coming years, mainly pushed by the service market and the demand for environmental upgrade of existing power plants. We expect the market for new equipments to stand around 100-120 GW/annum in the coming years.

In the coming years, we foresee a growth in the overall market for rail transportation with a continuing strong market in Europe and opportunities in Asia and Latin America.

In this context, ALSTOM should continue to grow its sales and improve its profitability both in the combined power Sectors and in the Transport Sector.

For internal planning purposes, we have set a target for fiscal year 2007/08, following our current accounting methods, of a 7% operating margin for the Group, which assumes reaching a 8% operating margin for the combined power Sectors and a 7% operating margin for Transport.

These targets are based on a number of assumptions and actions, including the correct execution of the contracts in our backlog, the intake of profitable orders and the optimisation of our cost base.

More particularly, for each of the Sectors we took the following assumptions:

- Power Turbo-Systems / Power Environment: We aim to increase the profitability of our order through selective bidding combined with product cost reductions while we would continue to improve project execution. Our plan also includes seizing profit opportunities on certain targeted markets, such as environmental-related projects. We plan to differentiate ourselves through plant integration capabilities ;
- Power Service: We aim to develop our services based on our field presence, manufacturing and technical capabilities. We intend to maintain our operating margins notably through cost base improvement ;
- Transport: Our 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. We plan to keep our 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 our strategy and action plan, our sales, operating margin and financial position could differ materially from the goals and targets expressed above if any of the risks we describe in the Risk Factors section of the financial report of the annual report for fiscal year 2005/06, or other unknown risks, materialise.