ALSTOM

# Management Discussion and Analysis on Interim Consolidated Financial Statements as at 30 September 2005

**FIRST HALF OF FISCAL YEAR 2005/06**

You should read the following discussion together with the 30 September 2005 Interim Consolidated Financial Statements. During the periods discussed in this section, we undertook several significant transactions that affected the comparability of our financial results between periods. In order to allow you to compare the relevant periods, we present certain information both as it appears in our financial statements and adjusted for business composition and exchange rate variations to improve comparability. We describe these adjustments under "—Use and reconciliation of non-GAAP financial measures—Comparable basis" below.

## 1 MAIN EVENTS OF THE FIRST HALF OF FISCAL YEAR 2005/06

### 1.1 Transition to IFRS

The Interim Financial Statements for the six months ended 30 September 2005 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as required by the European Union regulations. Comparative figures for the first half of fiscal year 2004/05 have been restated on the same basis excluding application of IAS 32-39 and IFRS 5. The differences in accounting treatment compared with French GAAP are presented and explained in Note 27 to the Interim Consolidated Financial Statements. In the following discussion, actual and comparative information presented is prepared on the basis of IFRS accounting policies.

### 1.2 Bonding Programme

During the first half of the fiscal year 2005/06, the Group has initiated the renegotiation of its bonding programme for an extended period of two years - up to July 2008 - and for an enlarged maximum amount of €10.5 billion. This extension was signed on 4 November 2005 and to date, our banks have committed for up to €9.3 billion. This amount along with future bilateral agreements with additional banks 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 principal banks. All bonds issued beyond the initial issuing period of July 2006 and up until July 2008 will benefit from a security package consisting of €175million 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 first €700 million cash collateral would be released before December 2008.

## 1.3 Share capital modification

On 3 August 2005, ALSTOM consolidation of shares was completed through the exchange of 40 existing shares for one new share. The number of ALSTOM shares has consequently been 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.

## 1.4 Disposal programme

### 1.4.1 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. Key customers include major road and rail operators and Australian construction companies.

### 1.4.2 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 persons.

### 1.4.3 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 agreements are subject to a limited number of conditions, and it is envisaged that completion of the transactions will occur before the end of December 2005.

The business sold to Austrian Energy & Environment AG include 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 persons.

### 1.4.4 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.

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 their closing phase.

## 1.5 Specific operational issues

### 1.5.1 GT24/GT26 heavy-duty gas turbines

The commercial situation with respect to the 76 GT24/GT26 gas turbines delivered pursuant to orders through the end of fiscal year 2000/01 continues to improve. As of today, all units are in commercial operation accumulating over 1,500,000 hours at high reliability levels.

Today, commercial settlements have been reached for 74 units out of the 76 sold. The two remaining units are currently in arbitration regarding an availability claim. Out of the 74 machines where a settlement has been reached, 72 are unconditional (either in normal warranty or have had those warranty periods expire), while on two machines, the agreement remains conditional upon acceptance of upgrades of the GT's.

Cash outflow related to the GT24/GT26 gas turbines over the first half of fiscal year 2005/06 was €56 million compared with €206 million for the six month period ended 30 September 2004 and €366 million for the full fiscal year 2004/05. We expect our cash outflow related to the GT24/GT26 gas turbines issue to be around €150 million in fiscal year 2005/06, below the €200 million estimated previously.

As of 30 September 2005, we retained €286 million of related provisions, compared with €379 million as of 31 March 2005.

### 1.5.2 Restructuring

Restructuring plans launched in fiscal years 2003/04 and 2004/05 are progressing according to schedule. During the first half of fiscal year 2005/06, we have recorded €38 million for restructuring in addition to the €655 million recorded in fiscal year 2003/04 and to the €358 million recorded in fiscal year 2004/05.

The cash outflow for restructuring for the first half of the fiscal year 2005/06 was €103 million.

Out of the total planned headcount reduction of 11,500 launched within the two last fiscal years, 9,900 employees have left the Group compared to 8,000 employees as of 31 March 2005.

# 2 GENERAL COMMENTS ON ACTIVITY AND RESULTS

## 2.1 Consolidated Key Financial Figures

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

| **Total Group**<br>**Actual figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 27,488 | 27,203 | 27,077 | 2% |
| Orders received | 7,454 | 7,479 | 8,362 | (11%) |
| Sales | 6,938 | 7,211 | 6,316 | 10% |
| Income from Operations | 347 | 230 | 137 | 153% |
| Operating margin | 5.0% | 3.2% | 2.2% | N/A |
| Net profit/(loss) Group share | 136 | (386) | (242) | N/A |
| Free Cash Flow | 115 | 147 | (283) | N/A |

| **Total Group**<br>**Comparable figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 27,488 | 26,810 | 26,311 | 4% |
| Orders received | 7,454 | 7,478 | 8,277 | (10%) |
| Sales | 6,938 | 7,261 | 6,195 | 12% |
| Income from Operations | 347 | 233 | 128 | 171% |
| Operating margin | 5.0% | 3.1% | 2.1% | N/A |

### 2.1.1 General comments on activity

The power market for new equipment overall is stable, 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.

### 2.1.2 Orders received and backlog

We recorded a rebound of our order intake during the fiscal year 2004/05, following the difficulties of fiscal year 2003/04. The order intake during the first half of fiscal year 2005/06 was stable as compared to the second half of fiscal year 2004/05. We booked €7,454 million of orders in the first half of the fiscal year 2005/06 compared with €8,362 million for the first half of last year on an actual basis. The decrease is explained by the lack of Marine orders in the first half of the current fiscal year whereas, at 30 September 2004, Marine booked orders for two cruise ships for MSC and a LNG tanker for GDF amounting to €1,101 million. The other Sectors show growth of 4% on a comparable basis versus the first half of fiscal year 2004/05.

The most significant orders booked during the semester for Power Turbo-Systems / Power Environment include a hydro contract in India, a contract for three GT13 in Australia and a contract for a 750MW supercritical boiler in the United States. Transport booked an order for TGV Duplex in France, loco freight in China, train with variable gauge in Spain. We also recorded orders concerning metros and tramways.

At the end of September 2005, our backlog was €27,5 billion, representing approximately two years of sales.

### 2.1.3 Sales

Sales were €6,938 million in the first half of the fiscal year 2005/06, compared to €6,316 million in the first half of the fiscal year 2004/05, an increase of 10% on an actual basis. On a comparable basis - adjusting notably for the disposal of our Transport activities in Valencia (Spain), and of miscellaneous activities in Australia - the increase amounted to 12%. On a comparable basis, the main increase was in Power Turbo-Systems/ Power Environment which grew its sales from €1,820 million for the first half of the last fiscal year to €2,426 million as at 30 September 2005, a 33% increase, while Power Service and Transport also grew by 7% and 6% respectively.

### 2.1.4 Income from Operations

On an actual basis, our income from operations in the first half of fiscal year 2005/06 was €347 million or 5.0% of sales, as compared with income from operations of €137 million and operating margin of 2.2% in the first half of fiscal year 2004/05. On a comparable basis, our income from operations amounted to €128 million or 2.1% of sales in the first half of fiscal year 2004/05. This strong improvement of our operating margin is notably due to selectivity in our order intake, a reduction in our cost base and better execution of our projects.

### 2.1.5 Net profit/(loss) Group share

Net profit Group share amounted to €136 million compared with a net loss Group share of €(242) million and €(386) million in the first and second halves of fiscal year 2004/05 respectively. This improvement resulted from improved operational performance and from lower restructuring and financial expenses.

### 2.1.6 Free cash flow

Our free cash flow as defined in paragraph 2.2.1 was positive at €115 million in the first half of fiscal year 2005/06 as compared to a negative €(283) million in the first half of 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 of €(56) million, as compared with €(206) million during the first half of fiscal year 2004/05 ;
- restructuring cash outflow of €(103) million, as compared to €(122) million for the first half of fiscal year 2004/05 ;
- improvement of our change in working capital in our Power Turbo-Systems / Power Environment, Power Service and Transport Sectors (€245 million) partially offset by the expected negative change in working capital for our Marine Sector (€230 million);
- strong reduction in our cash outflow for financial and tax expenses from €(282) million in the first half of fiscal year 2004/05 to €(108)million in the first half of fiscal year 2005/06.

### 2.1.7 Net debt

Net debt, as defined in the Interim Consolidated Financial Statements as at 30 September 2005, was €1,220 million at 30 September 2005, including €250 million of capital leases, compared with the restated 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.

Total equity has increased from €1,583 million at 1 April 2005 to €1,802 million at 30 September 2005 as a result of the positive net income. Overall, gearing has improved significantly, decreasing from 104% to 68%.

## 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.

### 2.2.1 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**<br>**Actual figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** |
|---|---|---|---|
| **Net cash provided by (using in) operating activities** | **230** | **276** | **(286)** |
| Elimination of variation in sale of existing receivables | (1) | 5 | 82 |
| Capital expenditures | (123) | (169) | (96) |
| Proceeds from disposals of property | 9 | 35 | 17 |
| **Free Cash Flow** | **115** | **147** | **(283)** |

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 Capital Employed

We defined capital employed as the closing position of goodwill, intangible assets, net, property, plant and equipment, net, current assets (excluding net amount of securitisation of existing receivables, trading investments, available-for-sale investments, held-to-maturity investments and cash and cash equivalents) less current liabilities and non-current provisions.

| **Total Group**<br>**Actual figures**<br>**(in € million)** | **30 Sept. 05** | **31 March 05** |
|---|---|---|
| Non current assets (excl. Deferred tax) | 7,501 | 8,399 |
| Current assets (excl. Cash & cash equ.) | 8,490 | 8,071 |
| Financial current assets | (33) | (15) |
| Net cash proceeds from sale of trade receivables | 6 | 7 |
| Pension assets | (380) | (374) |
| Current liabilities (excl. Provisions & financial debt) | (10,885) | (10,510) |
| Current and non current provisions | (2,437) | (2,322) |
| **Capital employed** | **2,262** | **3,256** |

Capital employed by Sector and for the Group as a whole are also presented in Note 20(a) to our Interim 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.

### 2.2.3 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 the first and the second halves of fiscal year 2004/05 using 30 September 2005 exchange rates for order backlog, orders received, sales and income from operations; and

- adjustments due to changes in Business composition to the same line items for the first and second halves of fiscal year 2004/05. More particularly contributions of material activities sold since 1 April 2004 have been excluded from the comparable figures, in particular 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 the first and second halves of fiscal year 2004/05. No adjustment has been made on figures disclosed for the first half of fiscal year 2005/06.

| in € million | 1st Half September 04 Actual figures | Exchange rate | Scope impact | Comp. Figures | 2nd Half March 2005 Actual figures | Exchange rate | Scope impact | Comp. Figures | Sept 05 Actual figures | % Var comp. Sept 04/05 |
|---|---|---|---|---|---|---|---|---|---|---|
| Power Turbo-Systems / Power Environment | 6,674 | 159 | 55 | 6,888 | 7,139 | 198 | 41 | 7,378 | 7,450 | 8% |
| Power Service | 3,412 | 68 | (43) | 3,437 | 3,669 | 81 | (21) | 3,729 | 4,026 | 17% |
| Transport | 14,681 | 277 | (1,156) | 13,802 | 14,489 | 304 | (884) | 13,909 | 14,277 | 3% |
| Marine | 1,624 | - | - | 1,624 | 1,266 | - | - | 1,266 | 1,122 | -31% |
| Power Conversion | 537 | 6 | (55) | 488 | 529 | 12 | (41) | 500 | 587 | 20% |
| Corporate & Others | 149 | 12 | (89) | 72 | 111 | 10 | (93) | 28 | 26 | -64% |
| **Orders backlog** | **27,077** | **523** | **(1,288)** | **26,311** | **27,203** | **605** | **(998)** | **26,810** | **27,488** | **4%** |
| Power Turbo-Systems / Power Environment | 2,194 | 14 | 7 | 2,215 | 2,987 | 60 | 8 | 3,055 | 2,346 | 6% |
| Power Service | 1,725 | 2 | (8) | 1,719 | 1,503 | 30 | (8) | 1,525 | 1,760 | 2% |
| Transport | 2,886 | 13 | (32) | 2,867 | 2,604 | 21 | (106) | 2,519 | 2,902 | 1% |
| Marine | 1,101 | - | - | 1,101 | 3 | | - | 3 | 11 | -99% |
| Power Conversion | 300 | - | (7) | 293 | 279 | 8 | (8) | 279 | 321 | 9% |
| Corporate & Others | 156 | 7 | (81) | 82 | 103 | 6 | (12) | 97 | 114 | 39% |
| **Orders Received** | **8,362** | **36** | **(121)** | **8,277** | **7,479** | **126** | **(126)** | **7,479** | **7,454** | **-10%** |
| Power Turbo-Systems / Power Environment | 1,779 | 19 | 22 | 1,820 | 2,411 | 44 | 22 | 2,477 | 2,426 | 33% |
| Power Service | 1,423 | 3 | (17) | 1,409 | 1,409 | 33 | (9) | 1,433 | 1,505 | 7% |
| Transport | 2,452 | 12 | (53) | 2,411 | 2,648 | 40 | (53) | 2,635 | 2,553 | 6% |
| Marine | 274 | - | - | 274 | 333 | | - | 333 | 159 | -42% |
| Power Conversion | 256 | - | (22) | 234 | 280 | 5 | (22) | 263 | 230 | -2% |
| Corporate & Others | 132 | 7 | (92) | 47 | 130 | 6 | (16) | 120 | 65 | 38% |
| **Sales** | **6,316** | **41** | **(162)** | **6,195** | **7,211** | **128** | **(78)** | **7,261** | **6,938** | **12%** |
| Power Turbo-Systems / Power Environment | (84) | - | 3 | (81) | (23) | (1) | 4 | (20) | 37 | -145% |
| Power Service | 191 | (1) | (2) | 188 | 221 | 3 | 1 | 225 | 221 | 18% |
| Transport | 98 | 1 | (9) | 90 | 120 | 1 | 2 | 123 | 155 | 73% |
| Marine | (34) | () | - | (34) | (69) | | - | (69) | (22) | -36% |
| Power Conversion | 15 | () | (3) | 12 | 15 | 1 | (4) | 12 | 14 | 19% |
| Corporate & Others | (49) | | 2 | (47) | (34) | (1) | (3) | (38) | (58) | 25% |
| **Income from Operations** | **137** | **-** | **(9)** | **128** | **230** | **3** | **-** | **233** | **347** | **171%** |
| Power Turbo-Systems / Power Environment | -4.7% | 0.0% | 13.6% | -4.5% | -1.0% | -2.3% | 18.2% | -0.8% | 1.5% | |
| Power Service | 13.4% | -39.9% | 10.0% | 13.3% | 15.7% | 9.0% | -10.7% | 15.7% | 14.7% | |
| Transport | 4.0% | 10.0% | 17.8% | 3.7% | 4.5% | 2.5% | -3.8% | 4.7% | 6.1% | |
| Marine | -12.3% | N/A | N/A | 12.3% | -20.7% | 323.7% | N/A | -20.7% | -13.6% | |
| Power Conversion | 5.8% | N/A | 13.6% | 5.0% | 5.4% | 18.9% | 18.2% | 4.6% | 6.1% | |
| Corporate & Others | N/S | N/S | N/S | N/S | N/S | N/S | N/S | N/S | N/S | |
| **Operating margin** | **2.2%** | **3.9%** | **5.5%** | **2.1%** | **3.2%** | **2.5%** | **1.4%** | **3.1%** | **5.0%** | |
| Sales | 6,316 | 41 | (162) | 6,195 | 7,211 | 128 | (78) | 7,261 | 6,938 | 12% |
| Cost of revenues | (5,376) | (37) | 141 | (5,272) | (6,190) | (116) | 74 | (6,232) | (5,810) | 10% |
| R&D expenses | (206) | (1) | 2 | (205) | (202) | (1) | 2 | (201) | (163) | -21% |
| Selling expenses | (271) | (2) | 4 | (269) | (277) | (5) | 2 | (280) | (286) | 6% |
| Administrative expenses | (326) | (1) | 6 | (321) | (312) | (3) | | (315) | (332) | 3% |
| **Income from Operations** | **137** | **-** | **(9)** | **128** | **230** | **3** | **-** | **233** | **347** | **171%** |

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 the first half of 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 the first half of fiscal year 2005/06. The impact is a slight increase for orders received and sales compared with the first half of fiscal year 2004/05 and an increase of 1.7% for the orders received and 1.8% for the sales compared with the second half of fiscal year 2004/05.

## 2.3 Key geographical figures for the first and the second halves of fiscal year 2004/05, and for the first half of fiscal year 2005/06

### 2.3.1 Geographical analysis of orders

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

| **ALSTOM**<br>**Actual figures**<br>**(in € million)** | First Half<br>**Sept. 05** | % of contrib | 2nd Half<br>**Mar. 05** | % of contrib | First Half<br>**Sept. 04** | % of contrib |
|---|---|---|---|---|---|---|
| Europe | 3,086 | 41% | 2,341 | 31% | 5,075 | 61% |
| North America | 1,137 | 15% | 1,039 | 14% | 1,156 | 14% |
| South and Central America | 575 | 8% | 215 | 3% | 256 | 3% |
| Asia/Pacific | 2,012 | 27% | 2,717 | 36% | 1,572 | 19% |
| Middle East/ Africa | 644 | 9% | 1,167 | 16% | 303 | 3% |
| **Orders received by destination** | **7,454** | **100%** | **7,479** | **100%** | **8,362** | **100%** |

Europe remained the largest market in terms of orders received, although its share decreased from 61% in the first half of fiscal year 2004/05, including a large order for two cruise ships and major European orders for Transport, to 41% of the total in the first half of fiscal year 2005/06.

The North American region remained stable as the decrease in orders received by Power Turbo-Systems/ Power Environment was balanced by the increase in orders received by Power Service.

Activity in South and Central America increased substantially with Transport orders in Chile and in Venezuela and a Power Turbo-Systems/Environment order in Venezuela for a hydro project.

The increase in Asia/Pacific region, compared to the first half 2004/05 was mainly due to China in our Transport sector as well as India in our Power Turbo-Systems / Power Environment.

The contribution of the Middle East/Africa region increased from 3% in first half of fiscal year 2004/05 to 9% in first half of fiscal year 2005/06, as a result of significant Transport orders in the region.

### 2.3.2 Geographical analysis of sales by region of destination

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

| **ALSTOM**<br>**Actual figures**<br>**(in € million)** | First Half<br>**Sept. 05** | % of contrib | 2nd Half<br>**Mar. 05** | % of contrib | First Half<br>**Sept. 04** | % of contrib |
|---|---|---|---|---|---|---|
| Europe | 3,362 | 48% | 4,043 | 56% | 3,328 | 53% |
| North America | 1,026 | 15% | 1,023 | 14% | 923 | 14% |
| South and Central America | 415 | 6% | 249 | 4% | 298 | 5% |
| Asia/Pacific | 1,405 | 20% | 1,322 | 18% | 1,151 | 18% |
| Middle East/ Africa | 730 | 11% | 574 | 8% | 616 | 10% |
| **Sales by destination** | **6,938** | **100%** | **7,211** | **100%** | **6,316** | **100%** |

While European sales slightly decreased in the first half of fiscal year 2005/06 compared to the first half of fiscal year 2004/05, all other geographical areas experienced growing sales and more specially Asia/Pacific with strong outlets in China, India and a number of other countries in the zone.

### 2.3.3 Geographical analysis of sales by region of origin

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

| **ALSTOM** **Actual figures** **(in € million)** | First Half **Sept. 05** | % of contrib | 2nd Half **Mar. 05** | % of contrib | First Half **Sept. 04** | % of contrib |
|---|---|---|---|---|---|---|
| Europe | 4,761 | 68% | 5,199 | 72% | 4,652 | 73% |
| North America | 1,018 | 15% | 1,026 | 14% | 864 | 14% |
| South and Central America | 280 | 4% | 203 | 3% | 169 | 3% |
| Asia/Pacific | 818 | 12% | 702 | 10% | 595 | 9% |
| Middle East/ Africa | 61 | 1% | 81 | 1% | 36 | 1% |
| **Sales by origin** | **6,938** | **100%** | **7,211** | **100%** | **6,316** | **100%** |

Europe's share of total sales by origin decreased at 68% in first half of fiscal year 2005/06. North America remained a stable contribution region for ALSTOM while Asia/Pacific region represented 12% of our sales by region of origin, a higher level supported by the strong development of the markets in this area.

# 3 SECTOR ANALYSIS

## 3.1 Power Turbo-Systems / Power Environment

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

| **Power Turbo-Systems / Power Environment**<br>**Actual figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 7,450 | 7,139 | 6,674 | 12% |
| Orders received | 2,346 | 2,987 | 2,194 | 7% |
| Sales | 2,426 | 2,411 | 1,779 | 36% |
| Income from Operations | 37 | (23) | (84) | N/A |
| Operating margin | 1.5% | (1.0%) | (4.7%) | N/A |
| EBIT | 11 | (227) | (104) | N/A |
| Capital employed | (571) | (439) | (269) | 112% |

| **Power Turbo-Systems / Power Environment**<br>**Comparable figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 7,450 | 7,378 | 6,888 | 8% |
| Orders received | 2,346 | 3,055 | 2,215 | 6% |
| Sales | 2,426 | 2,477 | 1,820 | 33% |
| Income from Operations | 37 | (20) | (81) | N/A |
| Operating margin | 1.5% | (0.8%) | (4.5%) | N/A |

### 3.1.1 Orders received

After the Chinese boom of 2003/2004, and the US gas bubble of 2000/2001, the market for new equipment is back to its 1999 level, and is expected to stabilise around 100GW/annum in the coming years. Pushed by the need to comply with regulations, the demand for environmental upgrade of existing power plants is growing sharply.

Asia is the dominant market with 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 leads to a fast growing market in China for environmental control equipment. Both China and India have started ambitious nuclear programs.

Power Turbo-Systems / Power Environment has been successful in securing major contracts in Asia during the first half of this fiscal year: the Subansiri 2000MW hydro power plant in India, the turbogenerator set of the Lingao2 nuclear power station in China, and the Braemar gas turbines in Australia.

In Europe, after a low point in 2004, the market for new equipment is expected to rebound 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 is also experiencing there a sharp growth due to the need for operators to meet the 2008 deadline fixed by the European Union. Power Turbo-Systems / Power Environment has secured several retrofit contracts during the first semester, the most important one being Aberthaw in the UK.

In the USA, the demand for new equipment remains very low, 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 is growing in 2005 and expected to grow further in the coming years. Power Turbo-Systems / Power Environment won several environment equipment orders, the largest one being the Belews Creek contract.

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 is expected to remain high, pushed by the strong electricity demand and desalination plants.

On an actual basis, orders received by the Sector for the first half of fiscal year 2005/06 were 7% higher than in the first half of fiscal year 2004/05 (+6% on comparable basis).

On a regional basis, in the first half of fiscal year 2005/06, Asia represented 37% of the total order intake, North America 23% while Europe accounted for 22% of the order intake. Comparing the first half of the current exercise to that of fiscal year 2004/05, orders increased by 15% in Asia, by 19% in Middle East/Africa. Orders also increased in South America. Conversely, in comparison to the first half of fiscal year 2004/05, orders in North America and Europe were down by 18% and 7% respectively.

### 3.1.2 Sales

In the first half of fiscal year 2005/06, sales in Power Turbo-Systems / Power Environment stood at €2,426 million, 33% higher than the first half of fiscal year 2004/05 on a comparable basis, as a consequence of the rebound of order intake during fiscal year 2004/05.

All regions contributed to the increase in sales compared to the first half of fiscal year 2004/05. Sales in Europe have increased by 13%, but represented 24% of total sales against 30% for the first half of 2004/05. North America sales have increased by 83%, reflecting the growth in the environmental control business, and represent 20% of the total sales. South and Central America share remained stable at 7% while Asia/Pacific increased its share from 23% to 26% representing a 49% increase reflecting progress on large gas turbines plants ordered during the fiscal year 2004/05. Finally, Middle East/Africa has decreased its contribution from the exceptionally high 25% to 23%.

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

| **Power Turbo-Systems / Power Environment<br>Actual figures<br>(in € million)** | First Half<br>**Sept. 05** | % of contrib | 2nd Half<br>**Mar. 05** | % of contrib | First Half<br>**Sept. 04** | % of contrib |
|---|---|---|---|---|---|---|
| Europe | 592 | 24% | 961 | 40% | 526 | 30% |
| North America | 476 | 20% | 446 | 19% | 260 | 15% |
| South and Central America | 168 | 7% | 82 | 3% | 124 | 7% |
| Asia/Pacific | 621 | 26% | 549 | 23% | 417 | 23% |
| Middle East/ Africa | 569 | 23% | 373 | 15% | 452 | 25% |
| **Sales by destination** | **2 426** | **100%** | **2 411** | **100%** | **1 779** | **100%** |

### 3.1.3 Income from operations and operating margin

Power Turbo-Systems / Power Environment income from operations was €37 million in the first half of fiscal year 2005/06, compared with an income from operations of €(81) million in the first half of fiscal year 2004/05 on a comparable basis. The operating margin improved from (4.5%) to 1.5% on a comparable 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.

## 3.2 Power Service

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

| Power Service<br>Actual figures<br>(in € million) | First Half<br>Sept. 05 | 2nd Half<br>Mar. 05 | First Half<br>Sept. 04 | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 4,026 | 3,669 | 3,412 | 18% |
| Orders received | 1,760 | 1,503 | 1,725 | 2% |
| Sales | 1,505 | 1,409 | 1,423 | 6% |
| Income from Operations | 221 | 221 | 191 | 16% |
| Operating margin | 14.7% | 15.7% | 13.4% | N/A |
| EBIT | 217 | 191 | 174 | 25% |
| Capital employed | 1,789 | 1,875 | 1,968 | (9%) |

| Power Service<br>Comparable figures<br>(in € million) | First Half<br>Sept. 05 | 2nd Half<br>Mar. 05 | First Half<br>Sept. 04 | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 4,026 | 3,729 | 3,437 | 17% |
| Orders received | 1,760 | 1,525 | 1,719 | 2% |
| Sales | 1,505 | 1,433 | 1,409 | 7% |
| Income from Operations | 221 | 225 | 188 | 18% |
| Operating margin | 14.7% | 15.7% | 13.3% | N/A |

### 3.2.1 Orders received

The Power Service market remained sound in the first half of fiscal year 2005/06. Growth in Europe is mainly due to on-going modernisation needs generated by requests for efficiency improvements and environmental concerns.

In North America, the power demand was stable as there are still high reserve margins of installed fleet. In a context of increased gas price, operators are optimising their fleet utilisation triggering increased demand for steam turbines and generator services.

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

We have developed product 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 and to follow up new opportunities, particularly with respect to upgrading existing equipment.

Orders received were €1,760 million in the first half of fiscal year 2005/06, 2% higher than in the first half of fiscal year 2004/05 both on an actual and on a comparable basis. The order intake includes no major long term operation and maintenance contract. This is compensated by a strong activity in the small and medium size projects.

By region, on an actual basis, orders were up by 24% in the Americas, by 25% in the Middle East and Africa, stable in Europe and down by 13% in Asia.

### 3.2.2 Sales

Sales booked by Power Service in the first half of fiscal year 2005/06 stood at €1,505 million, a 7% increase as compared with the first half of fiscal year 2004/05 on a comparable basis (6% on an actual basis). On a geographical basis, sales have increased more sharply in Europe which now represents 44% of the total as compared to 41% last year. Sales in Americas were down by 10% due to the reduced order intake last year in the construction and erection market and represent now 28% of total Power Service sales. Sales increased in Asia/Pacific and in Middle East/ Africa by respectively 13% and 32%.

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

| **Power Service** | | | | | | |
|---|---|---|---|---|---|---|
| **Actual figures** | First Half | % of contrib | 2nd Half | % of contrib | First Half | % of contrib |
| **(in € million)** | **Sept. 05** | | **Mar. 05** | | **Sept. 04** | |
| Europe | 657 | 44% | 558 | 40% | 591 | 41% |
| North America | 365 | 24% | 356 | 25% | 428 | 30% |
| South and Central America | 65 | 4% | 42 | 3% | 51 | 4% |
| Asia/Pacific | 285 | 19% | 303 | 21% | 252 | 18% |
| Middle East/ Africa | 133 | 9% | 150 | 11% | 101 | 7% |
| **Sales by destination** | **1,505** | **100%** | **1,409** | **100%** | **1,423** | **100%** |

### 3.2.3 Income from operations and operating margin

Power Service's income from operations was €221 million or 14.7% of sales in the first half of fiscal year 2005/06 compared with €188 million or 13.3% of sales for the first half of 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.

## 3.3 Transport

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

| **Transport** | | | | % Variation |
|---|---|---|---|---|
| **Actual figures** | First Half | 2nd Half | First Half | Sept. 04/ |
| **(in € million)** | **Sept. 05** | **Mar. 05** | **Sept. 04** | Sept. 05 |
| Order backlog | 14,277 | 14,489 | 14,681 | (3%) |
| Orders received | 2,902 | 2,604 | 2,886 | 1% |
| Sales | 2,553 | 2,648 | 2,452 | 4% |
| Income from Operations | 155 | 120 | 98 | 58% |
| Operating margin | 6.1% | 4.5% | 4.0% | N/A |
| EBIT | 128 | 73 | 72 | 78% |
| Capital Employed* | 296 | 939 | 1,154 | (74%) |

| **Transport** | | | | % Variation |
|---|---|---|---|---|
| **Comparable figures** | First Half | 2nd Half | First Half | Sept. 04/ |
| **(in € million)** | **Sept. 05** | **Mar. 05** | **Sept. 04** | Sept. 05 |
| Order backlog | 14,277 | 13,909 | 13,802 | 3% |
| Orders received | 2,902 | 2,519 | 2,867 | 1% |
| Sales | 2,553 | 2,635 | 2,411 | 6% |
| Income from Operations | 155 | 123 | 90 | 72% |
| Operating margin | 6.1% | 4.7% | 3.7% | N/A |

* The decrease in the capital employed from 31 March 2005 to 30 September 2005 is partly explained by the reclassification of assets and liabilities attributable to leases of trains.

### 3.3.1 Orders received

During the first half of fiscal year 2005/06, the global Transport market remained stable. In Europe, the market remained contrasted with continuous sound demand in Southern Europe, while Germany and the UK were slow. The market in Spain remained strong as the country continued the expansion of its high speed network.

Equally, the Italian market was very active, both in respect of rolling stock and railway infrastructure. Strong demand was also recorded in France. Transport is well placed in these countries and has recorded several major contracts including variable gauge in Spain and Minuetto regional trains in Italy. Several orders for Very High Speed Trains were placed during the period 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 this first half.

Globally, the Tramway market remained active and Transport has been awarded contracts for trams for the cities of Darmstadt, Braunschweig and Gera (Germany), Tunis (Tunisia), Firenze (Italy). Meanwhile, the Metro market was stable, providing Transport with contracts for the cities of Santiago and Caracas.

Orders received by Transport in the first half of fiscal year 2005/06 amounted to €2,902 million compared with €2,886 million in the first half of fiscal year 2004/05, on an actual basis and to €2,867 million on a comparable basis.

As a percentage of total orders received, Europe continued to represent the biggest share our Transport's Sector order intake with 57% of orders received, although its relative weight declined compared with the first half of fiscal year 2004/05. Asia/Pacific and the Americas represented 21% and 12% respectively, compared with 17% and 10% last year.

### 3.3.2 Sales

Sales in Transport increased by 4% in the first half of fiscal year 2005/06 compared with the first half of fiscal year 2004/05 on an actual basis and by 6% on a comparable basis.

In the first half of 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 71%. Asia has increased significantly its contribution from 13% to 16%, or a 26% increase in volume. This increase resulted from milestones achieved on our Incheon project in South Korea and followed the increase in order intake in this region in the recent years. South and Central America increased in volume by 61% and slightly increased its share from 4% to 6% as the Santiago metro contracts are being delivered.

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

| **Transport** | | | | | | |
|---|---|---|---|---|---|---|
| **Actual figures** | First Half | % of contrib | 2nd Half | % of contrib | First Half | % of contrib |
| **(in € million)** | **Sept. 05** | | **Mar. 05** | | **Sept. 04** | |
| Europe | 1,824 | 71% | 2,002 | 76% | 1,787 | 73% |
| North America | 155 | 6% | 184 | 7% | 193 | 8% |
| South and Central America | 163 | 6% | 113 | 4% | 101 | 4% |
| Asia/Pacific | 399 | 16% | 321 | 12% | 317 | 13% |
| Middle East/ Africa | 12 | 1% | 28 | 1% | 54 | 2% |
| **Sales by destination** | **2,553** | **100%** | **2,648** | **100%** | **2,452** | **100%** |

### 3.3.3 Income from operations and operating margin

The income from operations of Transport for the first half of fiscal year 2005/06 amounted to €155 million or 6.1% of sales significantly above the €90 million and 3.7% recorded for the same period of last year on a comparable basis. This improvement came primarily from improved project management, as well as volume increase, improved mix of product sales and further cost reduction.

## 3.4 Marine

The following table sets out some key financial and operating data for our Marine Sector:

| **Marine**<br>**Actual figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 1,122 | 1,266 | 1,624 | (31%) |
| Orders received | 11 | 3 | 1,101 | (99%) |
| Sales | 159 | 333 | 274 | (42%) |
| Income from Operations | (22) | (69) | (34) | (35%) |
| Operating margin | (13.6%) | (20.7%) | (12.3%) | N/A |
| EBIT | (107) | 20 | (34) | 215% |
| Capital employed | (87) | (293) | 113 | N/A |

| **Marine**<br>**Comparable figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 1,122 | 1,266 | 1,624 | (31%) |
| Orders received | 11 | 3 | 1,101 | (99%) |
| Sales | 159 | 333 | 274 | (42%) |
| Income from Operations | (22) | (69) | (34) | (35%) |
| Operating margin | (13.6%) | (20.7%) | (12.3%) | N/A |

### 3.4.1 Orders received

In the first half of fiscal year 2005/06, the global shipbuilding market has been strong. In the cruise ship market where our Marine Sector is active, five vessels were ordered since January 2005 to be compared to eleven vessels ordered for the full year 2004.

The LNG carrier market remained active, with 41 booked since January 2005 (to be compared to 69 units booked in the whole year 2004), increasing the worldwide backlog to 127 LNG tankers, to be compared with a fleet in service of 182. Main part of the orders is booked by Asian shipyards and especially Korean shipyards, although newcomers such as Chinese shipyards have entered the market since 2004.

No significant order has been recorded by our Marine Sector in the first half, while two cruise ships for Mediterranean Shipping Company (MSC) and one for a 153,000 m3 LNG tanker were booked during the comparable period of last year.

The letter of intent for two 1,650 cabin cruise ships signed in June 2005 has been converted into an order in November 2005 which will be recorded in the second half of fiscal year 2005/06.

At the end of September 2005, the Marine backlog included two 1,275 cabin cruise ships for MSC, two LNG tankers for Gaz de France, one LNG tanker for NYK, one yacht and one roll in roll out ferry.

### 3.4.2 Sales

Sales amounted to €159 million in the first half of fiscal year 2005/06 compared to €274 million in the first half of fiscal year 2004/05. This 42% decrease is mainly linked to the low level of orders obtained in the three previous years and the delay in the delivery of two LNG tankers due to technical difficulties.

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.

### 3.4.3 Income from operations and operating margin

The operating loss reached €(22) million in the first half of fiscal year 2005/06, compared with a loss of €(34) million in the first half of fiscal year 2004/05 is due to the low level of activity.

The technical solution required to resume the completion of the tank containment system on the Gaz de France LNG tanker under construction was validated by the technology owner, the customer, and the certification authority in early July 2005. In parallel, the financial settlement was reached between the various stakeholders of the program. This permitted, in early July as planned, commencement of dismantlement of the containment system membrane of the first LNG ship and resumption of work on the second one.

## 3.5 Power Conversion

The following table sets out some key financial data for our Power Conversion Business:

| **Power Conversion Actual figures (in € million)** | First Half **Sept. 05** | 2nd Half **Mar. 05** | First Half **Sept. 04** | % Variation Sept. 04/ Sept. 05 |
|---|---|---|---|---|
| Order backlog | 587 | 529 | 537 | 9% |
| Orders received | 321 | 279 | 300 | 7% |
| Sales | 230 | 280 | 256 | (10%) |
| Income from Operations | 14 | 15 | 15 | (7%) |
| Operating margin | 6.1% | 5.4% | 5.8% | N/A |
| EBIT | 14 | 6 | 10 | 40% |
| Capital Employed | (53) | 42 | 52 | N/A |

| **Power Conversion Comparable figures (in € million)** | First Half **Sept. 05** | 2nd Half **Mar. 05** | First Half **Sept. 04** | % Variation Sept. 04/ Sept. 05 |
|---|---|---|---|---|
| Order backlog | 587 | 500 | 487 | 21% |
| Orders received | 321 | 279 | 293 | 10% |
| Sales | 230 | 263 | 234 | (2%) |
| Income from Operations | 14 | 12 | 12 | 17% |
| Operating margin | 6.1% | 4.6% | 5.0% | N/A |

### 3.5.1 Orders received

On an actual basis, orders received in the first half of fiscal year 2005/06 increased by 7% compared with the first half of fiscal year 2004/05 (10% on a comparable basis). This increase came mainly from Asia and Russia.

### 3.5.2 Sales

On an actual basis, sales in the first half of fiscal year 2005/06 decreased by 10% compared with the first half of fiscal year 2004/05 as a result of the transfer of one unit from Power Conversion to the Power Turbo-Systems / Power Environment Sector.

### 3.5.3 Income from operations and operating margin

The income from operation during the first half of fiscal year 2005/06 was slightly increasing from €12 million to €14 million on a comparable basis.

## 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**<br>**Actual figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 26 | 111 | 149 | (83%) |
| Orders received | 114 | 103 | 156 | (27%) |
| Sales | 65 | 130 | 132 | (51%) |
| Income from Operations | (58) | (34) | (49) | 18% |
| EBIT | 40 | (156) | (91) | N/A |
| Capital Employed | 888 | 1,132 | 1,658 | (46%) |

| **Corporate & Other**<br>**Comparable figures**<br>**(in € million)** | First Half<br>**Sept. 05** | 2nd Half<br>**Mar. 05** | First Half<br>**Sept. 04** | % Variation<br>Sept. 04/<br>Sept. 05 |
|---|---|---|---|---|
| Order backlog | 26 | 28 | 72 | (64%) |
| Orders received | 114 | 97 | 82 | 39% |
| Sales | 65 | 120 | 47 | 38% |
| Income from Operations | (58) | (38) | (47) | 23% |

### 3.6.1 Income from operations

Operating income was €(58) million in the first half of fiscal year 2005/06, compared with €(49) million in the first half of fiscal year 2004/05. The variation is mainly due to a number of one off items such as the cost of the consolidation of shares.

## 4 OUTLOOK

For internal purposes, we have set a number of financial objectives. Based upon the progress of our action plans and the positive results of the first half-year, the Group expects to meet or exceed these targets previously announced for the full year 2005/06. Order intake is expected to remain at the same level as last year, on a comparable basis, and sales are expected to increase by more than 7% reflecting last year's growth in order intake. Operating margin for the full fiscal year 2005/06 is expected to be at least at 5.0% under IFRS (higher than the 6.0 %* operating margin targeted for year-end under French GAAP). Net profit for the full year should exceed €250 million and free cash flow should be positive.

The operating margin of 5%, expected for fiscal year 2005/06, is based on the following targets (expressed in IFRS) by Sector: 1.5% to 2.0% in Power Turbo-Systems / Power Environment, 14.5% to 15.0% in Power Service and 6.0% to 6.5% in Transport.

Beyond the current fiscal year, we expect ALSTOM will be in a position to enter a new phase of profitable growth. We aim to further improve our operational performance targeting a 6% to 7% operating margin in March 2008 which, when combined with a strict management of our working capital, should lead to a substantial increase of our free cash flow and thus to a further reduction of our debt.

* IFRS restatements had a –1,3% impact on the operating margin in fiscal year 2004/05.

## INFORMATION RELATED TO THE PARENT COMPANY, ALSTOM

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

Net profit amounted to €67 million for the first half of fiscal year 2005/06 and €49 million for the first half of fiscal year 2004/05.