ALSTOM
Form 6-K
November 22, 2004

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13A-16 OR 15D-16
OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2004

Commission File Number: 1-14836

ALSTOM
(Translation of registrant's name into English)

3, avenue André Malraux, 92300 Levallois-Perret, France
-------------------------------------------------------
(Address of principal executive offices)

Indicate by check mark whether the Registrant files or will file annual reports under cover of Form 20-F or Form 40-F

Form 20-F X                                    Form 40-F ____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ____                                    No X

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ____                                    No X

Indicate by check mark whether the Registrant, by furnishing the information contained in this Form, is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934

Yes ____                                    No X

If "Yes" is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b)

PRESS INFORMATION

18 November 2004

ALSTOM FIRST-HALF RESULTS 2004/05
1ST APRIL 2004 - 30 SEPTEMBER 2004

FIRST-HALF RESULTS IN LINE WITH OUR RECOVERY PLAN

- Orders received: 8.4bn, up 51% versus first half 2003/04 , on a comparable basis
- Sales: 6.4bn, down 12% on a comparable basis
- Operating margin: 3.6%, up from 1.5 % in first half 2003/04
- Net income: (315)m as compared to (624)m
- Free cash flow: (294)m as compared to (674)m

* * *

Commenting on the results Patrick Kron, Chairman & Chief Executive Officer, said:

" The financial operations successfully completed during the summer have given us the visibility and the stability needed to implement our recovery plan. Our balance sheet has been substantially strengthened through a 2 billion capital increase. We have stabilised our capital structure with the French State holding a 21.4% share. Finally, we have secured access to bonding facilities.

During this first half, we have seen positive impacts of our recovery plan:

- We have recorded a strong rebound of orders across our Sectors, despite continuing difficult market conditions in new power equipment, thus confirming the return of customer confidence. The quality of our orders also shows continuous improvement, with higher margins in line with our profitability targets.

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- New commercial successes have been achieved in recent weeks. The award of projects for Transport and Hydro in China for a total value of 1.4 billion will create a significant change of our presence in the largest global market. I am also pleased to announce that ALSTOM has been selected for a turnkey project including 4xGT26 gas turbines for a customer in Thailand, confirming, along with the order received in Spain in the beginning of 2004, that we are firmly back in the large gas turbine market.

- The improvement of our operational performance during this semester is also very encouraging. All Sectors have made progress in contract execution and our cost-reduction programmes are now well advanced.

We will continue implementing our action plan in order to meet our targets of a 6% operating margin and a positive free cash flow by March 2006. Given our achievements over the first half of the year, we are confident that these objectives can be reached."

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FIRST HALF RESULTS IN LINE WITH OUR RECOVERY PLAN

KEY FINANCIAL FIGURES

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

| TOTAL GROUP ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Variation Sept. 04/ Sept. 03 |
|---|---|---|---|---|
| Order Backlog | 27 174 | 25 368 | 27 077 | (0%) |
| Orders received | 7 439 | 9 061 | 8 362 | 12% |
| Sales | 8 854 | 7 834 | 6 402 | (28%) |
| Operating income | 132 | 168 | 233 | |
| Operating margin | 1,5% | 2,1% | 3,6% | |
| Net income | (624) | (1 212) | (315) | |
| Free Cash Flow | (674) | (333) | (294) | |

| TOTAL GROUP ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Variation Sept. 04/ Sept. 03 |
|---|---|---|---|---|
| Order Backlog | 24 650 | 25 174 | 27 077 | 10% |
| Orders received | 5 525 | 8 461 | 8 362 | 51% |
| Sales | 7 296 | 7 197 | 6 402 | (12%) |
| Operating income | 35 | 142 | 233 | |
| Operating margin | 0,5% | 2,0% | 3,6% | |

REBOUND OF ORDERS CONFIRMED

The power generation new equipment market remained low overall but growth drivers were solid in the environmental markets with strong demand for hydro equipment and environmental control systems. Power service and rail transportation markets remained healthy and the cruise-ship market has regained some activity.

The level of orders registered in the first half of fiscal year 2004/05 confirmed restored confidence from our customer base. We have booked orders for 8.4 billion, an increase of 51% compared with the first half of last year on a comparable basis. Quality of order intake continued to improve and margins on

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orders are in line with profitability targets. The book-to-bill ratio at 1.3 has significantly improved.

Our backlog on September 30th 2004 was 27.1 billion, representing approximately two years of sales.

LOW LEVEL OF SALES DUE TO PAST SLOWDOWN OF ORDER INTAKE

Sales have reached a low point at 6.4 billion in the first half of fiscal year

2004/05, compared with 7.3 billion in the first half of fiscal year 2003/04, a decrease of 12% on a comparable basis. This decrease was due to lower levels of orders in the second half of fiscal year 2002/03 and in the first half of fiscal year 2003/04, leading to lower sales in Marine and Power Turbo-Systems/Environment. Sales in the other Sectors increased on a comparable basis.

STRONG IMPROVEMENT IN OPERATING INCOME

Operating income and operating margin were 233 million and 3.6% in the first half of fiscal year 2004/05 versus 132 million and 1.5% respectively over the same period in the previous year. On a comparable basis, operating income and operating margin were 35 million and 0.5% in the first half of fiscal year 2003/04. Improvement has been recorded in all our Sectors with the exception of Marine. The impact of a lower level of sales was more than offset by better contract execution.

NET LOSS REDUCED

Net loss was (315) million compared with (624) million in the first half of last year. This improvement comes from the better operational performance and by the decrease in restructuring and financial charges.

FREE CASH FLOW STILL IMPACTED BY GT24/GT26 LEGACY PAYMENTS

As expected, our free cash flow was still negative at (294) million in the first half of fiscal year 2004/05 ; it includes a 206 million cash outflow on GT24/GT26, 122 million of restructuring expenses and a significant negative movement of the working capital in Marine.

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DEBT REDUCED BY 1.3 BILLION

Net debt was 2.4 billion at 30 September 2004 compared with the restated amount of 3.7 billion at 1st April 2004, including 827 million coming from the consolidation of ad hoc entities due to recent changes in accounting rules. This reduction of debt is mainly the consequence of the financial operations completed during the period.

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REVIEW BY SECTOR

1

POWER TURBO-SYSTEMS/ENVIRONMENT

Power Turbo-Systems and Power Environment Sectors are now combined to reflect the current management organisation.

Orders received in the first half of fiscal year 2004/05 amounted to 2.2 billion, an increase of 18%. Compared with last year, growth came primarily from our Hydro and Environmental Control System businesses, whereas no large order has been recorded in turbine and boiler turnkey projects. From a geographical standpoint, the main contracts booked over the period were located in the US and Asia.

In the first half of fiscal year 2004/05, sales at 1.8 billion were 28% lower than in the first half of fiscal year 2003/04 . This reflects the exceptionally low order intake booked one year ago.

Operating income was (64) million in the first half of fiscal year 2004/05, compared with (105) million in the first half and (146) million in the second half of fiscal year 2003/04. Despite under-absorption of costs due to lower sales, losses have been significantly reduced as a consequence of improved project execution.

POWER SERVICE

Orders received for the first half of fiscal year 2004/05 at 1.7 billion were 30% higher than the first half of fiscal year 2003/04. The orders booked during the period included several long term maintenance contracts, mainly in Europe and Asia.

Sales at 1.4 billion for the first half of fiscal year 2004/05 grew steadily, with an increase of 8% versus the first half of fiscal year 2003/04.

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1 All comments are made on a comparable basis (same scope and exchange rate)

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Operating income reached a record high at 232 million or 16.3% of sales in the first half of fiscal year 2004/05 compared with 191 million or 14.4% of sales in the first half of fiscal year 2003/04.

TRANSPORT

Orders received by Transport in the first half of fiscal year 2004/05 amounted to 2.9 billion, an increase of 74%, compared with the first half of fiscal year 2003/04 which was particularly low.

Several large orders have been recorded in Europe, including a metro system in Barcelona, locomotives in France and tram-trains in the Netherlands.

Sales at 2.5 billion increased by 8% in the first half of fiscal year 2004/05 compared with the first half of fiscal year 2003/04 .

The operating income for the first half of fiscal year 2004/05 amounted to 119 million or 4.8% of sales compared with (31) million in the first half 2003/04 and 98 million in the second half of 2003/04. This steady increase was due to the improvement of our project execution while the first half of last year was impacted by significant losses in relation to our US Transport business.

MARINE

Orders received during the first half of fiscal year 2004/05 reached 1.1 billion mainly comprising of two cruise ships and a LNG tanker.

Sales were low at 274 million in the first half of fiscal year 2004/05, as for most of the period, no cruise-ship was under construction. The main deliveries in the first half of the year included a cruise-ship in May, and the fore half of a naval assault ship in July.

Operating income was negative in the first half of fiscal year 2004/05 by (34) million. Adjustment of our production capacity is currently being implemented but the low level of activity during the first half generated significant under-absorption of charges.

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POWER CONVERSION

Orders received in the first half of fiscal year 2004/05 amounted to 300 million, an increase of 38% compared with the first half of fiscal year 2003/04. This improvement came mainly from the UK with the booking of one major order.

Sales at 257 million in the first half of fiscal year 2004/05 increased by 20% compared with the first half of fiscal year 2003/04.

Operating income reached 17 million in the first half of fiscal year 2004/05, a strong increase compared to the first half of fiscal year 2003/04, mainly due to the success of cost reduction programmes and better project execution.

PROGRESS ON OPERATIONS

RESTRUCTURING PLANS

The restructuring plans announced in fiscal year 2003/04 are progressing according to schedule; out of the planned 8,400 headcount reduction, 6,300 have left the Group at end of September 2004.

Additional plans concerning 1,000 positions have been announced since March 2004, including one in Switzerland to adapt capacity in Power Turbo-Systems/Environment, as well as other more limited adjustments in various locations.

GT24/GT26

The commercial situation with respect to the 76 GT24/GT26 gas turbines sold a few years ago continues to improve: as of today, 75 units are in commercial operation and 1 is in commissioning. These units have accumulated over 1'100'000 hours at a high reliability level. Today, we have concluded commercial settlements for 65 units, of which 50 are unconditional (as compared to 42 unconditional at March 2004).

The risks related to this GT24/GT26 issue have been further reduced. The corresponding cash outflow is down to 206 million in the first half of fiscal

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year 2004/05, a better than anticipated level and significantly below the 394 million spent during the same period of last year.

As customer confidence increases with these positive developments, we have been selected for a new turnkey combined cycle project with associated long term maintenance agreement including 4 GT26 in Thailand ; we expect to book the corresponding order in the coming weeks.

OUTLOOK

On a comparable basis, orders for fiscal year 2004/05 should exceed the level of fiscal year 2003/04, while sales should be down by approximately 5% as compared to fiscal year 2003/04. Based on the encouraging performance of the first half 2004/05, we reiterate our forecast for the full year 2004/05 of an operating margin between 3.5% and 4% and a free cash flow at approximately (400) million.

We confirm our previously announced objectives for March 2006 to reach a 6 % operating margin and a positive free cash flow.

- ends -

A FULL COPY OF THE MD&A DOCUMENT IS AVAILABLE ON ALSTOM'S WEBSITE, TOGETHER WITH A FULL SET OF ACCOUNTS AND NOTES (WWW.ALSTOM.COM).

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FORWARD-LOOKING STATEMENTS

This press release contains, and other written or oral reports and communications of ALSTOM may from time to time contain, forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Examples of such forward-looking statements include, but are not limited to (i) projections or expectations of sales, orders received, income, operating margins, dividends, provisions, cash flow, debt or other financial items or ratios, (ii) statements of plans, objectives or goals of ALSTOM or its management, (iii) statements of future product or economic performance, and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends", "aims", "plans", "are confident" and "will" and similar expressions are intended to identify forward looking statements but are not exclusive means of identifying such statements. By their very nature, forward-looking statements involve risks and uncertainties that the forecasts, projections and other forward-looking statements will not be achieved. Such statements are based on management's current plans and expectations and are subject to a number of important factors that could cause actual results to differ materially from the plans, objectives and expectations expressed in such forward-looking statements. These factors include: (i) the inherent difficulty of forecasting future market conditions, level of infrastructure spending, GDP growth generally, interest rates and exchange rates; (ii) the effects of, and changes in, laws, regulations, governmental policy, taxation or accounting standards or practices; (iii) the effects of currency exchange rate movements; (iv) the effects of competition in the product markets and geographic areas in which ALSTOM operates; (v) the ability to increase market share, control costs and enhance cash generation while maintaining high quality products and services; (vi) the timely development of new products and services; (vii) the results of ALSTOM's restructuring and cost reduction programmes; (viii) continued validity of ALSTOM's new Bonding Facility to obtain bonds in amounts that are sufficient to meet the needs of our business; (ix) the timing of and ability to meet the cash generation and other initiatives of the new action plan; (x) the results of the investigations by the United States Securities and Exchange Commission's ("SEC") and the French Autorite des Marches Financiers ("AMF"); (xi) the outcome of the putative class action lawsuit filed against ALSTOM and certain of its current and former officers; (xii) our ability to improve operating margins in a timely manner and to progressively increase the after-sales service and maintenance in our businesses; (xiii) the availability of external sources of financing on commercially reasonable terms; (xiv) the inherent technical complexity of many of ALSTOM's products and technologies and our ability to resolve effectively, on time, and at reasonable cost technical problems, infrastructure constraints or regulatory issues that inevitably arise, including in particular the problems encountered with the GT24/GT26 gas turbines and the UK trains; (xv) risks inherent in large contracts and/or significant fixed price contracts that comprise a substantial portion of ALSTOM's business including in contract execution; (xvi) the inherent difficulty in estimating future charter or sale prices of any cruise ship in any appraisal of ALSTOM's exposure in respect of Renaissance Cruises and ships that have been seized from Festival; (xvii) the inherent difficulty in estimating ALSTOM's vendor financing risks and other credit risks, which may notably be affected by customers' payment default; (xviii) ALSTOM's ability to invest successfully in, and compete at the leading edge of, technology developments across all of its sectors; (xix) the availability of adequate cash flow from operations or other sources of liquidity to achieve management's objectives or goals, including our goal of reducing indebtedness; (xx) whether certain of ALSTOM's markets, particularly the Power Turbo-Systems/Environment Sector, recover from their currently depressed state; (xxi) the impact on customer confidence of ALSTOM's recent financial difficulties, and its ability to re-establish this confidence; (xxii) the effects of acquisitions and disposals generally and the outcome of claims

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related to ALSTOM's disposals; (xxiii) the unusual level of uncertainty at this time regarding the world economy in general; and (xxiv) ALSTOM's success in adjusting to and managing the foregoing risks.

The foregoing list is not exhaustive; when relying on forward-looking statements to make decisions with respect to ALSTOM, you should carefully consider the foregoing factors and other uncertainties and events, as well as other factors described in other documents ALSTOM files or submits from time to time with the SEC and/or the AMF, including our Annual Report for the fiscal year ended 31 March 2004. Forward-looking statements speak only as of the date on which they are made, and ALSTOM undertakes no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS

HALF-YEAR ENDED 30 SEPTEMBER 2004

MANAGEMENT DISCUSSION AND ANALYSIS
ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2004

FIRST HALF OF FISCAL YEAR 2005

YOU SHOULD READ THE FOLLOWING DISCUSSION TOGETHER WITH THE 30 SEPTEMBER 2004 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 "--CHANGE IN BUSINESS COMPOSITION AND PRESENTATION OF OUR ACCOUNTS, NON-GAAP MEASURES--COMPARABLE BASIS" BELOW.

MAIN EVENTS OF THE FIRST HALF OF FISCAL YEAR 2005

FINANCIAL PACKAGES

FINANCING PACKAGE - SUMMER 2003

We launched in summer 2003 a financing package that was fully completed in December 2003 and that comprised:

- 300 million capital increase ;
- 300 million of subordinated bonds issued by the French State, which were to be automatically reimbursable with shares upon the approval of the European Commission (TSDDRA);
- 200 million of subordinated bonds issued by the French State (TSDD);
- the issuance of 901 million of bonds mandatorily reimbursable with shares (ORA);
- a subordinated debt facility due 2008 totalling 1,563 million (PSDD), of which our banks provided 1,263 million and a French State-guaranteed institution (CFDI) 300 million ; and
- a bonding guarantee facility agreement of 3,500 million to support our commercial activity. CFDI provided counter guarantees of 65% of the aggregate amount of these bonds.

This package comprised as well some short-term liquidity rolled over until January 2005. For more details on this financing package, see our Annual Report 2003/04.

FINANCING PACKAGE - SUMMER 2004

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

- a bonding programme aiming at covering our needs for the next 18 to 24 months ;

- a total capital increase of 4,135,265,768 new shares representing a total amount of 1,748 million of new capital subscribed either in cash or by set-off against certain of our outstanding debt .

As part of this financing package, we have re-negotiated some financial covenants described in Note 15a(4) to our Interim Consolidated Financial Statements.

BONDING PROGRAMME TO COVER OUR NEEDS FOR 18 TO 24 MONTHS

We have put in place a 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 2003 and new bonds to be issued over a two year period. The bonds under this new programme benefit from a 2 billion guarantee package consisting of :

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

- o a second rank security for a total amount of 1,300 million covering second losses in excess of the cash/cash equivalent collateral, in the form of guarantees, given by a French State-guaranteed institution for 1,250 million, and the remainder ( 50 million) by a group comprising our core banks.

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

The initial commitment of our core banks for a volume of up to 6,600 million, on which final documentation was signed in August 2004, is expected to cover our forecasted bonding needs for approximately 18 months. Other banks have committed for an additional of around 200 million.

SHARE CAPITAL INCREASES

We implemented 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 as follows:

- o 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;

- o 462,438,861 shares subscribed by set -off against debt from the French State and CFDI, 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 03' 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:

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

Following the automatic reimbursement with 240,000,00 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 of ALSTOM.

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

APPROVAL BY THE EUROPEAN COMMISSION AND COMMITMENTS

The formal investigation launched by the European Commission on 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 have committed not to make acquisitions in the Transport Sector within the European Union over the next four years above a certain level and to dispose of businesses representing approximately 1.5 billion in sales. Half of our disposal commitment is to be fulfilled by selling the following activities:

- our freight locomotive business in Valencia, Spain ;
- our Transport Sector's activities in Australia and New Zealand ; and
- our industrial boilers business, which is part of our Power Turbo-Systems/Environment Sector.

The rest of our commitment, representing 800 million of annual sales will be fulfilled by disposing of activities yet to be identified.

We also agreed to enter into a 50-50 joint venture in our Hydro business.

Finally, we committed to implementing, within the next four years, industrial partnerships concerning a significant part of our activities to ensure our future development.

DISPOSAL PROGRAMME

During the first half of fiscal year 2005, we have received 97 million of proceeds from disposals of businesses of which:

- 53 million from the sale of our Industrial Turbines businesses of which 27 million received in April 2004 from the transfer of our activities in the US and 26 million from the escrow account. 784 million of proceeds net of cash sold and costs incurred were previously received in fiscal year 2004, with an additional 125 million held in escrow to cover certain post-closing adjustments and indemnities. Of the 62 million to be released to us on 3 May 2004 from the escrow account we have received to date 26 million and agreed to use 20 million to cover some post-closing adjustments, the remainder of 16 million being still claimed and under discussion with the buyer. The second part of the escrow, 63 million, should be received on 2 May 2005 ;

- 44 million from the sale of our T&D activities of which 14 million from the transfer of our Belgian and Chinese units and 30 million from the escrow account funded at closing.

DISPOSAL OF OUR TRANSMISSION & DISTRIBUTION (T&D) ACTIVITIES

The process to dispose of the T&D Sector was announced on 12 March 2003. 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 for gross proceeds of 957 million, subject to closing adjustments.

This transaction was closed on 9 January 2004, except for some minor businesses located in jurisdictions where transfer procedures were on-going. As of 31 March 2004, we had received proceeds net of cost incurred of 632 million from Areva, and a further 89 million were held in escrow to cover closing adjustments and the value of the businesses still to be transferred. Of this amount, 30 million were released to ALSTOM in the first half of fiscal year 2005 and an additional 28 million were released in October 2004.

In addition 188 million of cash sold and other closing adjustments were claimed from Areva, of which it paid 10 million in the first half of fiscal year 2005 and a further 16 million in October 2004. An expert has been jointly designated by Areva and ALSTOM with respect to the remainder of this amount as provided in the sale and purchase agreement. We expect the expert to issue its report in the next months.

DISPOSAL OF OUR FREIGHT LOCOMOTIVE BUSINESS IN VALENCIA, SPAIN

We have signed with Vossloh a Memorandum of Understanding (MOU) regarding the sale of our Transport freight activities in Spain. This document sets out both the general principles of the sale contract to be negotiated and a timeframe during which the parties expect the relevant documents to be signed. The signature of a binding agreement should follow and the closing of this operation will be subject to customary conditions including approval by the companies' boards and the relevant anti-trust authorities.

The sale of this business in Spain is part of the commitments made in connection with the European Commission's approval of our financing packages, as announced in May 2004.

This factory, located north of Valencia, was built in 1990 and currently employs 420 people. It specialises in the manufacture of locomotives and bogies as well as non-modular trains for the regional market.

DISPOSAL OF ONE SPECIAL PURPOSE ENTITY IN THE TRANSPORT SECTOR

Following a new accounting pronouncement effective 1st April 2004, we have consolidated several Special Purpose Entities with of the effect of increasing our debt by 827 million as of 1st April 2004. See Note 2 to our Interim Consolidated Statements.

During the first half of fiscal year 2004, we have sold one of these Special Purpose Entities in the Transport Sector. This disposal has decreased our amended financial debt by 243 million. The net effect on our debt as at 30 September 2004 is an increase by 558 million after taking into account the reimbursement of 26 million during the first half of the year.

PROGRESS ON SPECIFIC OPERATIONAL PROBLEMS

GT24/GT26 HEAVY-DUTY GAS TURBINES

The commercial situation with respect to the 76 GT24/GT26 gas turbines sold prior to the end of fiscal year 2001 (four from the 80 initially ordered were cancelled) continues to improve. As of today, 75 units are in commercial operation, one is in commissioning. These 75 units have accumulated over 1,100,000 hours at high reliability level.

Today, commercial settlements have been reached for 65 units out of the 76 sold. Under agreements covering to date 15 of the units, the Group is committed to or otherwise has the opportunity to make upgrade improvements within agreed time periods. The other units in commercial operation are either in normal warranty or have had those warranty periods expire. All cases of court litigation which affected seven units as of March 2003 are now resolved via satisfactory commercial settlements. There are commercial disputes involving contractual arbitration ongoing with respect to two projects for which the customers have accepted the turbines (10 machines), but allege that contractual penalties are due in amounts contested by the Group.

Cash outflow related to the GT24/GT26 gas turbines over the first half of fiscal year 2005 was 206 million compared with 766 million for the full fiscal year 2004. We expect our cash outflow related to the GT24/GT26 gas turbines issue to be around 400 million in fiscal years 2005, below the 500 million as estimated previously.

As of 30 September 2004, we retained 543 million of related provisions compared with 738 million as of 31 March 2004, both after taking into account an exposure, which we consider will be mitigated by appropriate action plans. The exposure to be mitigated estimated initially at 454 million had been reduced to 234 million as of 31 March 2004 and to 108 million as of 30 September 2004.

RESTRUCTURING

Restructuring plans under execution are progressing well. During fiscal year 2004 and the first half of fiscal year 2005, the workforce in the current portfolio of activities has been reduced through restructuring plans by approximately 6,300 employees out of the planned 8,400 headcount reduction. New plans have been launched and announced since March 2004 for approximately 1,000 positions in addition to the 8,400 workforce reduction previously announced. These new plans include notably a reduction of 550 employees in Power Turbo-Systems/Environment in Switzerland announced in October 2004, the rationalisation of our bogies activities in Transport and some other adjustments in various locations.

GENERAL COMMENTS ON ACTIVITY AND RESULTS

KEY FINANCIAL FIGURES

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

| TOTAL GROUP ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Va Se S |
|---|---|---|---|---|
| Order backlog | 27,174 | 25,368 | 27,077 | |
| Orders received | 7,439 | 9,061 | 8,362 | |
| Sales | 8,854 | 7,834 | 6,402 | ( |
| Operating income | 132 | 168 | 233 | |
| Operating margin | 1.5% | 2.1% | 3.6% | |
| Net income | (624) | (1,212) | (315) | |
| Free Cash Flow | (674) | (333) | (294) | |

| TOTAL GROUP COMPARABLE FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Va Se S |
|---|---|---|---|---|
| Order backlog | 24,650 | 25,174 | 27,077 | |
| Orders received | 5,525 | 8,461 | 8,362 | |
| Sales | 7,296 | 7,197 | 6,402 | ( |

| | | | |
|---|---|---|---|
| Operating income | 35 | 142 | 233 |
| Operating margin | 0.5% | 2.0% | 3.6% |

ORDERS RECEIVED AND BACKLOG

The power generation new equipment market remains overall low, but is marked by huge domestic demand in China and growth drivers remain solid in the environmental markets with a strong demand for hydro and environmental products. Demand for service for power equipment and the rail transportation market remain strong. The cruise-ship market starts to resume.

We have registered 8,362 million of orders in the first half of fiscal year 2005, an increase of 51% compared with the first half of last year on a comparable basis with an increase in all our Sectors. The level of orders received in this first half is stable compared with the level registered in the second half of last year on a comparable basis demonstrating a continuous order recovery after the difficult first six months of fiscal year 2004.

Our backlog was 27.1 billion, representing approximately two years of sales.

SALES

Sales were 6,402 million in the first half of fiscal year 2005, compared with 8,854 million in the first half of the fiscal year 2004, a decrease of 28% on an actual basis. This decrease was due principally to the disposal of our Industrial Turbines businesses and T&D activities, as well as to the impact on the sales coming from the lower levels of orders in the second half of fiscal year 2003 and in the first half of fiscal year 2004 in Marine and Power Turbo-Systems/Environment. Sales in other Sectors increased on actual and comparable bases. Overall, on a comparable basis, sales decreased by 12%.

OPERATING INCOME

On an actual basis, operating income and operating margin were 233 million and 3.6% respectively in the first half of fiscal year 2005, as compared with operating income of 132 million and operating margin of 1.5% in first half of fiscal year 2004. On a comparable basis, mainly when excluding the favourable effect of T&D last year before its disposal to Areva, our operating income at 233 million in the first half of fiscal year 2005 strongly improved compared with 35 million and 142 million respectively in the first and second halves of fiscal year 2004. This increase despite a lower level of sales is notably due to a better performance in the execution of our contracts as compared to the unexpected charges related to contract execution in the last fiscal year.

NET INCOME/LOSS

Net loss after goodwill amortisation was (315) million compared with (624) million and (1,212) million in the first and second halves of last year respectively. This improvement comes from the improvement of our operational performance as well as the decrease in our restructuring, financial and tax charges.

FREE CASH FLOW

Our free cash flow was (294) million in the first half of fiscal year 2005 as a result of cash outflow related to GT24/GT26 gas turbines legacy, high restructuring expenses and negative change in the Marine working capital requirements in the first half of the year. Improvement as compared with (1,007) million for the last full fiscal year mainly stems from lower cash outflow related to GT24/GT26 gas turbines and an improved profitability.

RECENT DEVELOPMENTS

PROJECTS FOR NEW GT 26 GAS TURBINES

We have been selected for a new turnkey combined cycle project with associated long term operation maintenance agreement including 4 GT26 gas turbines in Thailand. This confirms with the order for 3 GT26 signed during last fiscal year in Spain that we are back in the market for this range of products with competitive equipment and attractive service proposals. We expect to book the corresponding order in the coming weeks.

ORDERS IN CHINA

We were recently awarded projects representing a total amount of 1.4 billion for Power and Transport in China. These awards confirmed our strong and lasting presence in China as well as our ability to serve the needs of this market, based notably on strong partnerships with Chinese industrial groups. We expect to book these orders in the coming months.

OUTLOOK

For internal planning purposes, we have set a number of financial objectives. On a comparable basis, we aim to exceed in fiscal year 2005 the level of orders received in fiscal year 2004. On the basis of our assessment of current market conditions and backlog, we forecast that our sales (on a comparable basis) would decrease by approximately 5% in fiscal year 2005 when compared with fiscal year 2004, reflecting the lower level of orders received in fiscal years 2003 and 2004 mainly in power equipment markets. We aim to reach an operating margin between 3.5% and 4% in fiscal year 2005.

Based on the progress to date of our action plan and the positive results of the first half of fiscal year 2005, we confirm our financial objectives set for fiscal year 2006 in our Annual Report 2003/04, notably our objective to reach a 6% operating margin and a positive free cash flow in March 2006.

Our ability to meet these objectives depends on a number of factors, including notably the results of our restructuring and cost reduction programmes, recovery in our Power Turbo-Systems/Environment Sector, definitive resolution of our GT24/GT26 gas turbine issues, the improvement of operating margin in the Transport Sector, the proper execution of our large contracts and the progressive growth in our businesses of the more profitable after-sales service and maintenance.

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 our Interim Consolidated Financial Statements as at 30 September 2004 and in our Annual Report for 2003/04 in "Risk Factors", or other unknown risks, materialise.

CHANGE IN BUSINESS COMPOSITION AND PRESENTATION OF OUR ACCOUNTS, NON-GAAP MEASURES

CHANGES IN BUSINESS COMPOSITION

Our results of operations for fiscal year 2004 and the first half of fiscal year 2005 have been significantly impacted by the main disposals described below.

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. On 30 April 2003, we announced the closing of the sale of the small gas turbines business. On 1 August 2003, we announced that we had completed the major part of the disposal of the medium gas turbines and industrial steam turbines businesses. All other minor sites of our Industrial Turbines businesses have since been transferred to Siemens following the completion of legal procedures relating to competition laws and transfer procedures in certain jurisdictions.

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 was closed on 9 January 2004, except for some minor businesses located in jurisdictions where transfer procedures have been completed in the first half of fiscal year 2005 or are on-going.

COMBINATION OF POWER-TURBO SYSTEMS AND POWER ENVIRONMENT

Following the operational merger of Power Turbo-Systems and Power Environment into a single management and organisation, and to reflect this in our disclosure, these two Sectors are now presented as a single one. Historical data have been combined as well to reflect this change.

USE AND RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

From time to time in this section, we disclose figures, which are non- GAAP financial indicators. Under the rules of the United States Securities and Exchange Commission ("SEC") and the Autorite des Marches 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 generally accepted accounting principles in France.

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. Total proceeds from disposals of property, plant and equipment in our Consolidated Statements of Cash Flows include proceeds from our real estate disposal programme designed under our strategy and action plan that we eliminate from the calculation of free cash flow given that this programme is non-recurring and that we consider only the receipt of minor proceeds as part of our normal operations.

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

| TOTAL GROUP ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Ha MAR. |
| --- | --- | --- |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (731) | (327 |
| Elimination of variation in existing receivables | 144 | 123 |
| Capital expenditures | (105) | (149 |
| Proceeds from disposals of property, plant and equipment | 166 | 78 |
| Elimination of proceeds from our programme of disposal of real estate assets | (148) | (58 |
| FREE CASH FLOW | (674) | (333 |

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.

CAPITAL EMPLOYED

We define capital employed to mean net fixed assets, plus current assets (excluding net amount of securitisation of existing receivables), less provisions for risks and charges and current liabilities.

Capital employed does not represent current assets, as calculated under French GAAP. The most directly comparable financial measure to capital employed and presented in accordance with French GAAP is current assets, and a reconciliation of capital employed and current assets is presented below.

| TOTAL GROUP ACTUAL FIGURES (IN MILLION) | At 30 Sept. 2003 | At 31 200 |
| --- | --- | --- |
| Current assets | 11,031 | 8,3 |
| Cash proceeds from sale of trade receivables | 212 | |
| Current liabilities | (12,173) | (9,74 |
| Provisions for risks and charges | (3,500) | (3,48 |
| Fixed assets | 8,333 | 7,3 |
| CAPITAL EMPLOYED | 3,903 | 2,5 |

Capital employed by Sector and for the Group as a whole are also presented in Note 17 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.

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. All figures provided on a comparable basis are non-GAAP measures. 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 either French or US GAAP.

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 using 30 September 2004 exchange rates for order backlog, orders received, sales and operating income; and

- adjustments due to changes in business composition to the same line items for the first and second halves of fiscal year 2004. More particularly contributions of our Industrial Turbines businesses sold in the first half of fiscal year 2004 and our T&D activities sold as of 9 January 2004, have been excluded from the comparable figures.

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. No adjustment has been made on figures disclosed for the first half of fiscal year 2005.

| | 1ST HALF SEPTEMBER 2003 | | | | 2ND HALF MARCH 2004 | | |
|---|---|---|---|---|---|---|---|
| (IN MILLION) | ACTUAL FIGURES | Exchange Rate | Scope Impact | COMPARABLE FIGURES | ACTUAL FIGURES | Exchange Rate | Scope Impact |
| Power Turbo-Systems/ Environment | 6,479 | (66) | 0 | 6,413 | 6,448 | (13) | 0 |
| Power Service | 2,860 | (85) | 0 | 2,775 | 3,107 | (28) | 0 |
| Transport | 13,795 | (149) | 0 | 13,646 | 14,321 | (141) | 0 |
| Marine | 1,041 | 0 | 0 | 1,041 | 817 | (0) | 0 |
| Power Conversion | 564 | (3) | (2) | 559 | 495 | (4) | (0) |
| Corporate and other | 105 | 28 | 83 | 215 | 70 | (1) | 103 |
| ORDER BACKLOG - NEW ALSTOM | 28,844 | (275) | 81 | 24,650 | 25,258 | (187) | 103 |
| T&D | 2,330 | (57) | (2,273) | 0 | 110 | (7) | (103) |
| Industrial Turbines | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ORDER BACKLOG | 27,174 | (332) | (2,192) | 24,650 | 25,368 | (194) | 0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Power Turbo-Systems/ Environment | 1,881 | (16) | 0 | 1,865 | 3,226 | (3) | 0 |
| Power Service | 1,368 | (40) | 0 | 1,328 | 1,655 | 1 | 0 |
| Transport | 1,672 | (14) | 0 | 1,658 | 3,037 | 4 | 0 |
| Marine | 340 | 0 | 0 | 340 | 41 | (0) | 0 |
| Power Conversion | 224 | (1) | (4) | 218 | 210 | (0) | 4 |
| Corporate and other | 57 | 1 | 56 | 116 | 238 | (33) | 82 |
| ORDERS RECEIVED - NEW ALSTOM | 5,542 | (69) | 52 | 5,525 | 8,407 | (32) | 86 |
| T&D | 1,577 | (15) | (1,563) | 0 | 654 | 61 | (715) |
| Industrial Turbines | 320 | (2) | (318) | 0 | 0 | 0 | 0 |
| ORDERS RECEIVED | 7,439 | (86) | (1,828) | 5,525 | 9,061 | 29 | (629) |
| Power Turbo-Systems/ Environment | 2,542 | (28) | 0 | 2,514 | 2,517 | 21 | 0 |
| Power Service | 1,361 | (39) | 0 | 1,322 | 1,386 | (12) | 0 |
| Transport | 2,297 | (2) | 0 | 2,295 | 2,565 | (1) | 0 |
| Marine | 822 | 0 | 0 | 822 | 175 | (0) | 0 |
| Power Conversion | 226 | (3) | (9) | 214 | 273 | 3 | 3 |
| Corporate and other | 60 | 21 | 46 | 128 | 181 | 27 | 61 |
| SALES - NEW ALSTOM | 7,308 | (50) | 37 | 7,296 | 7,097 | 39 | 64 |
| T&D | 1,336 | (26) | (1,314) | 0 | 737 | 9 | (742) |
| Industrial Turbines | 210 | (3) | (207) | 0 | 0 | 0 | 0 |
| SALES | 8,854 | (80) | (1,485) | 7,296 | 7,834 | 48 | (678) |
| Power Turbo-Systems/Environment | (103) | (2) | 0 | (105) | (150) | 4 | 0 |
| Power Service | 196 | (5) | 0 | 191 | 221 | 8 | 0 |
| Transport | (37) | 6 | 0 | (31) | 101 | (3) | 0 |
| Marine | 4 | 0 | 0 | 4 | (23) | 0 | 0 |
| Power Conversion | 0 | 0 | 1 | 1 | 15 | (1) | 0 |
| Corporate and other | (26) | 0 | 1 | (25) | (33) | 0 | 3 |
| OPERATING INCOME - NEW ALSTOM | 34 | (1) | (2) | 35 | 131 | 8 | 3 |
| T&D | 84 | (2) | (82) | 0 | 37 | 1 | (38) |
| Industrial Turbines | 14 | 3 | (17) | 0 | 0 | 0 | 0 |
| OPERATING INCOME | 132 | 0 | (97) | 35 | 168 | 9 | (35) |

A significant part of our sales and expenditures are realised and incurred in currencies oth currencies to which we had significant exposures the first half of fiscal year 2005 were the US Franc, Mexican Peso and Brazilian Real. Our orders received and sales have been impacted by the Euros resulting from changes in value of the Euro against other currencies in the first half of a decrease of approximately 1% of the orders received and the sales compared with the first half increase compared with the second half of fiscal year 2004.

KEY GEOGRAPHICAL FIGURES FOR THE FIRST AND SECOND HALVES OF FISCAL YEAR 2004, AND FOR THE FIRST HALF OF FISCAL YEAR 2005

GEOGRAPHICAL ANALYSIS OF ORDERS

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

| TOTAL GROUP<br>ACTUAL FIGURES<br>(IN MILLION) | First Half<br>SEPT. 03 | %<br>contrib. | 2nd Half<br>MAR. 04 | %<br>contrib. | Firs<br>SEP |
|---|---|---|---|---|---|
| Europe | 3,819 | 51% | 4,433 | 49% | 5, |
| North America | 1,034 | 14% | 1,045 | 12% | 1, |
| South and Central America | 314 | 4% | 390 | 4% | |
| Asia / Pacific | 1,193 | 16% | 1,870 | 21% | 1, |
| Middle East / Africa | 1,079 | 15% | 1,323 | 15% | |
| ORDERS RECEIVED BY DESTINATION | 7,439 | 100% | 9,061 | 100% | 8, |

Europe remained the largest market in terms of orders received, representing 61% of the total compared to 51% in the first half of fiscal year 2004, mainly due to orders received by Transport and Marine. The increase in North America was mainly due to the increase in orders received by Power Turbo-Systems/Environment, which were exceptionally low last year. Activity in South and Central America remained slow. The contribution of the Middle East/Africa region decreased from 15% in first half of fiscal year 2004 down to 4% in first half of fiscal year 2005, notably as a result of the absence of major turnkey orders in the region this year whereas last year we recorded orders for gas power plants in Algeria, a steam power plant in Saudi Arabia as well as a hydro power plant in Sudan.

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.

| TOTAL GROUP<br>ACTUAL FIGURES<br>(IN MILLION) | First Half<br>SEPT. 03 | %<br>contrib. | 2nd Half<br>MAR. 04 | %<br>contrib. | Firs<br>SEP |
|---|---|---|---|---|---|
| Europe | 4,160 | 47% | 3,842 | 49% | 3, |
| North America | 1,662 | 19% | 1,339 | 17% | |
| South and Central America | 489 | 6% | 368 | 5% | |
| Asia / Pacific | 1,875 | 21% | 1,526 | 18% | 1, |
| Middle East / Africa | 668 | 8% | 759 | 10% | |
| SALES BY DESTINATION | 8,854 | 100% | 7,834 | 100% | 6, |

Although the level of sales in Europe decreased in actual terms, Europe's share of total sales increased from 47% in the first half of fiscal year 2004 to 53% in first half of fiscal year 2005. This is the result of the scope variation and a stronger decrease in sales in Americas and Asia/Pacific. North America and Asia/Pacific decreased mainly as a result of low level of sales in Power Turbo-Systems/Environment.

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.

| TOTAL GROUP ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | % contrib. | 2nd Half MAR. 04 | % contrib. | Firs SEP |
|---|---|---|---|---|---|
| Europe | 6,521 | 74% | 5,683 | 73% | 4, |
| North America | 1,332 | 15% | 1,187 | 15% | |
| South and Central America | 229 | 3% | 186 | 2% | |
| Asia / Pacific | 703 | 8% | 713 | 9% | |
| Middle East / Africa | 69 | 1% | 65 | 1% | |
| SALES BY ORIGIN | 8,854 | 100% | 7,834 | 100% | 6, |

Europe's share of total sales is stable at 74% in first half of fiscal year 2005. North America decreased mainly as a result of the low level of sales in power generation, reflecting the evolution of this market and lower deliveries in Transport.

POWER TURBO-SYSTEMS / ENVIRONMENT

POWER TURBO-SYSTEMS AND POWER ENVIRONMENT SECTORS NUMBERS ARE NOW COMBINED TO REFLECT THE MANAGEMENT ORGANISATION.

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

| POWER TURBO-SYSTEMS / ENVIRONMENT ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Var Sept Sep |
|---|---|---|---|---|
| Order backlog | 6,479 | 6,448 | 6,674 | |
| Orders received | 1,881 | 3,226 | 2,194 | 1 |
| Sales | 2,542 | 2,517 | 1,817 | (2 |
| Operating income | (103) | (150) | (64) | |
| Operating margin | (4.1%) | (6.0%) | (3.5%) | |
| EBIT | (248) | (393) | (129) | |
| Capital employed | (616) | (499) | (479) | |

| POWER TURBO-SYSTEMS / ENVIRONMENT COMPARABLE FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Var Sept Sep |
|---|---|---|---|---|
| Order backlog | 6,413 | 6,435 | 6,674 | |
| Orders received | 1,865 | 3,223 | 2,194 | 1 |
| Sales | 2,514 | 2,538 | 1,817 | (2 |
| Operating income | (105) | (146) | (64) | |
| Operating margin | (4.2%) | (5.8%) | (3.5%) | |

ORDERS RECEIVED

The global power generation market during the first half of fiscal year 2005 remained overall low in Europe and Americas, while Asia was marked by a huge demand in China and a recovery in other major countries. America, especially the over-equipped US market, showed limited activity. Europe remains globally stable. In the Asia/Pacific region, the market has shown a surge in demand led by China, with South East Asia also much more active in new power generation projects.

The regional switch from North America to Asia, particularly China, gives increasing importance to coal-based Steam and Hydro compared to Gas Turbine Plants. Increasing price volatility for fuel and electricity increases the need for diversity and flexibility of power generation products and technologies. Environmental policies are increasingly driving market requirements, favouring our environmental control solutions and equipment mainly in North America and Europe.

On an actual basis, orders received by the Sector for the first half of fiscal year 2005 were 17% higher than in the first half of fiscal year 2004 (+18% on comparable basis). The main improvements compared with the same period of last year are in the Hydro and Environmental Control System businesses, whereas orders received in our turnkey activities have decreased.

By region, orders received in the first half of fiscal year 2005 have decreased in Europe compared with the first half of fiscal year 2004. Orders have increased in the Americas, despite a continuous low market, with the South America market being particularly depressed. We had numerous successes in North America in large Boiler, Environmental Control & HRSG (Heat Recovery Steam Generators) orders. Orders have increased significantly in Asia, which provided 34% of our orders received in the first half of fiscal year 2005, of which the major part comes from China (Hydro activity mainly) and from India mainly coming from one turnkey order. Orders decreased in the Middle East and Africa after the high booking of last year.

SALES

In the first half of fiscal year 2005, sales in Power Turbo-Systems/Environment Sector were 29% lower than in the first half of fiscal year 2004 on an actual basis (28% lower on a comparable basis). This is due to the lower level of orders last year and the close out during last fiscal year of several orders from the "US bubble".

By geographical zone, compared with the first half of fiscal year 2004 and in line with the orders profile from fiscal year 2004, the Americas decreased by 47%, Europe decreased by 28%, Asia/Pacific decreased by 46%, while Middle East/Africa increased by 66%.

OPERATING INCOME AND OPERATING MARGIN

Power Turbo-Systems/Environment Sector operating income was (64) million in the first half of fiscal year 2005, compared with (103) million in the first half and (150) million in the second half of fiscal year 2004. This improvement reflected more stable results on projects this fiscal year, but remains negative mainly due to the impact of low sales on the cost base, which is affected by under-absorption of fixed charges in spite of the current restructuring plans.

POWER SERVICE

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

| POWER SERVICE ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Vari Sept Sep |
|---|---|---|---|---|
| Order backlog | 2,860 | 3,107 | 3,412 | 1 |
| Orders received | 1,368 | 1,655 | 1,725 | 2 |
| Sales | 1,361 | 1,386 | 1,427 | |
| Operating income | 196 | 221 | 232 | |
| Operating margin | 14.4% | 15.9% | 16.3% | |
| EBIT | 123 | 104 | 180 | |
| Capital employed | 2,295 | 1,921 | 1,835 | |

| POWER SERVICE COMPARABLE FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Vari Sept Sep |
|---|---|---|---|---|
| Order backlog | 2,775 | 3,079 | 3,412 | 2 |
| Orders received | 1,328 | 1,656 | 1,725 | 3 |
| Sales | 1,322 | 1,374 | 1,427 | |
| Operating income | 191 | 229 | 232 | |
| Operating margin | 14.4% | 16.7% | 16.3% | |

ORDERS RECEIVED

The power service market confirmed in the first half of fiscal year 2005 its positive trends. We are well positioned in a market growing with the need of environmental compliance, plant modernisation, coping with higher fuel prices and life-time extension of some plants. In the energy deregulation environment, we offer more and more full-service packages and innovative solutions to private financial investors who are solely cost driven.

On an actual basis, orders received for the first half of fiscal year 2005 are 26% higher than the first half of fiscal year 2004 (and 30% on a comparable basis). This high level of orders is mainly due to O&M (Operation and Maintenance) contracts, the duration of which is generally over ten years; thus the translation of the first half year's high level of orders received into sales will be spread over relatively long periods.

By geographical zone, most significant growth compared with the first half of last fiscal year was seen in the Asia-Pacific area supported by several medium sized orders awarded in Malaysia, Australia and New Zealand. Volumes in the European market have also been developing very positively this year with a number of smaller to medium sized orders booked. The Middle East region remained strong with good volumes in Iran and several other countries in the area. The Americas overall were slightly down from last year caused mainly by a slower market in South and Central America. North America held up well due to improved volumes in Gas Turbine and Generator parts and Long Term Service Agreements, partly offset by a slow-down in environment related service.

SALES

Sales booked by Power Service in the first half of fiscal year 2005 showed steady growth, with an increase on a comparable basis of 8% compared with the first half of fiscal year 2004. The greatest improvement over last year was seen in Europe, where Power Service registered an increase in sales of 16% overall, with strong volumes in Western Europe. Sales in Eastern Europe showed a positive trend in the first half of fiscal year 2005. Asia has been strongly growing compared with the same period of last year. Americas overall showed volumes, which were stable compared with last year with a moderate growth in North America offset by a reduction in Central and South America caused by a low order intake in the second half of last fiscal year.

OPERATING INCOME AND OPERATING MARGIN

Power Service operating income reached 232 million or 16.3% of sales in the first half of fiscal year 2005 compared with 196 million or 14.4% of sales in the first half of fiscal year 2004. This good achievement was due notably to strong spare parts sales as well as positive evolution of several Operation and Maintenance contracts.

TRANSPORT

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

| TRANSPORT<br>ACTUAL FIGURES<br>(IN MILLION) | First Half<br>SEPT. 03 | 2nd Half<br>MAR. 04 | First Half<br>SEPT. 04 | % Vari<br>Sept<br>Sep |
|---|---|---|---|---|
| Order backlog | 13,795 | 14,321 | 14,681 | |
| Orders received | 1,672 | 3,037 | 2,886 | 7 |
| Sales | 2,297 | 2,565 | 2,485 | |
| Operating income | (37) | 101 | 119 | |
| Operating margin | (1.6%) | 3.9% | 4.8% | |
| EBIT | (150) | (39) | 87 | |
| Capital Employed | 467 | 360 | 338 | |

| TRANSPORT<br>COMPARABLE FIGURES<br>(IN MILLION) | First Half<br>SEPT. 03 | 2nd Half<br>MAR. 04 | First Half<br>SEPT. 04 | % Vari<br>Sept<br>Sep |
|---|---|---|---|---|
| Order backlog | 13,646 | 14,180 | 14,681 | |
| Orders received | 1,658 | 3,041 | 2,886 | 7 |
| Sales | 2,295 | 2,564 | 2,485 | |
| Operating income | (31) | 98 | 119 | |
| Operating margin | (1.4%) | 3.8% | 4.8% | |

ORDERS RECEIVED

Following a decline in fiscal year 2004 caused, primarily, by an almost complete lack of new projects in North America, the completion of a major rolling stock purchasing round in the UK and significant budgetary constraints in Germany, the market in fiscal year 2005 is showing positive prospects. Southern Europe is strong, in particular in Spain as the country continues the expansion of its high speed network and enhances several of its metro systems and in Italy for rolling stock and railway infrastructure. Outside Europe, the highly promising market of China is rapidly awakening and has led to a number of recent contract announcements for ALSTOM (to be booked in the coming months).

From a product standpoint, the tramway market remains active and we have been awarded contracts for trams for Tenerife, Nice, Strasbourg, Montpellier and Madrid.

Orders received by Transport in the first half of fiscal year 2005 amounted to 2,886 million, an increase of 73% compared with the first half of fiscal year 2004. This large increase is due both to a very high level of orders in the first half of this year and to a very low level registered last year. Europe continued to represent the dominant share of the orders received.

SALES

Sales in Transport increased by 8% in the first half of fiscal year 2005 compared with the first half of fiscal year 2004 on an actual basis. This increase was mainly seen in Europe, representing 73% of sales, with Italy, Spain and Germanyand being the three main contributors to this growth.

OPERATING INCOME AND OPERATING MARGIN

The operating income of Transport for the first half of fiscal year 2005 amounted to 119 million, 4.8% of sales, compared with (37) million in the first half of fiscal year 2004. This strong increase was due to a stabilisation of our project execution while last year was impacted by major losses in relation to our US Transport business.

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. 03 | 2nd Half<br>MAR. 04 | First Half<br>SEPT. 04 | % Vari<br>Sept<br>Sep |
|---|---|---|---|---|
| Order backlog | 1,041 | 817 | 1,624 | 5 |
| Orders received | 340 | 41 | 1,101 | 22 |
| Sales | 822 | 175 | 274 | (6 |
| Operating income | 4 | (23) | (34) | |
| Operating margin | 0.5% | (13.1%) | (12.4%) | |
| EBIT | (2) | (38) | (38) | |
| Capital employed | (593) | (580) | 111 | |

| MARINE<br>COMPARABLE FIGURES<br>(IN MILLION) | First Half<br>SEPT. 03 | 2nd Half<br>MAR. 04 | First Half<br>SEPT. 04 | % Vari<br>Sept<br>Sep |
|---|---|---|---|---|
| Order backlog | 1,041 | 817 | 1,624 | 5 |
| Orders received | 340 | 41 | 1,101 | 22 |
| Sales | 822 | 175 | 274 | (6 |
| Operating income | 4 | (23) | (34) | |
| Operating margin | 0.5% | (13.1%) | (12.4%) | |

ORDERS RECEIVED

Marine's main market, cruise ship construction, has commenced a recovery with eleven market orders for passenger ships ordered over the first months of calendar year 2004, after only five during calendar year 2003, three in calendar year 2002, and only one in calendar year 2001.

In August 2004, Mediterranean Shipping Company placed an order with Marine for two 1,275 cabin cruise ships and the contract came into force in September 2004 after the customer successfully concluded its financing arrangements.

Orders received during the first half of fiscal year 2005 reached 1,101 million comprising the two cruise ships for MSC, a 153,000 m3 LNG tanker for NYK, sister-ship of the tanker ordered in fiscal year 2004 by Gaz de France.

SALES

Sales at 274 million in the first half of fiscal year 2005 were 67% lower than in the first half of last year due to the low level of orders obtained in the three previous years. Marine delivered in May 2004 the cruise-ship MSC OPERA, and in July 2004 the fore portion of BPC MISTRAL, the first of two naval assault ships built for the French Navy in association with DCN.

OPERATING INCOME AND OPERATING MARGIN

Operating income was negative in the first half of fiscal year 2005 by (34) million. Adjustment of our capacity is currently being implemented but the low level of activity has generated over the first half of the fiscal year significant under-absorption of charges.

CAPITAL EMPLOYED

The variation of Marine capital employed in the first half of fiscal year 2005 is mainly due to the effect of the consolidation of our Special Purpose Entities.

POWER CONVERSION

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

| POWER CONVERSION<br>ACTUAL FIGURES<br>(IN MILLION) | First Half<br>SEPT. 03 | 2nd Half<br>MAR. 04 | First Half<br>SEPT. 04 | % Vari<br>Sept<br>Sep |
|---|---|---|---|---|
| Order backlog | 564 | 495 | 536 | ( |
| Orders received | 224 | 210 | 300 | 3 |
| Sales | 226 | 273 | 257 | 1 |
| Operating income | 0 | 15 | 17 | |
| Operating margin | 0.0% | 5.5% | 6.6% | |
| EBIT | (12) | (7) | 11 | |
| Capital Employed | 69 | 25 | 16 | |

| POWER CONVERSION<br>COMPARABLE FIGURES | First Half | 2nd Half | First Half | % Vari<br>Sept |
|---|---|---|---|---|

| (IN MILLION) | SEPT. 03 | MAR. 04 | SEPT. 04 | Sep |
|---|---|---|---|---|
| Order backlog | 559 | 490 | 536 | ( |
| Orders received | 218 | 215 | 300 | 3 |
| Sales | 214 | 279 | 257 | 2 |
| Operating income | 1 | 14 | 17 | |
| Operating margin | 0.5% | 5.0% | 6.6% | |

ORDERS RECEIVED

On an actual basis, orders received in the first half of fiscal year 2005 increased by 34% compared with the first half of fiscal year 2004. This increase came mainly from the UK with the booking of one major order for the Royal Navy.

SALES

On an actual basis, sales in the first half of fiscal year 2005 increased by 14% compared with the first half of fiscal year 2004 and decreased by 6% compared with the second half of fiscal year 2004 as a consequence of orders received trend in the second half of fiscal year 2004 and the level of order backlog at the end of fiscal year 2004.

OPERATING INCOME AND OPERATING MARGIN

The operating income of the first half of fiscal year 2005 has shown a strong improvement compared with the first half of fiscal year 2004 due to actions across businesses to improve performance.

CORPORATE AND OTHER

"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 and operating data for our Corporate and Other organisation:

| CORPORATE AND OTHER ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Vari Sept Sep |
|---|---|---|---|---|
| Order backlog | 105 | 70 | 149 | 4 |
| Orders received | 57 | 238 | 157 | 17 |
| Sales | 60 | 181 | 142 | 13 |
| Operating income | (26) | (33) | (37) | |
| EBIT | (32) | (220) | (84) | |
| Capital Employed | 1,342 | 1,333 | 1,836 | |

OPERATING INCOME

Operating income was (37) million in the first half of fiscal year 2005 compared with (26) million in the first half of fiscal year 2004.

CAPITAL EMPLOYED

Capital employed for Corporate was high at 1,836 million because the main part of other fixed assets not specific to a Sector is allocated to Corporate's capital employed as they are managed by Corporate; they mainly include the impact of the cash collateral for 700 million on the bonding facility and prepaid assets - pensions.

FINANCIAL STATEMENTS

INCOME STATEMENT

The following table sets out, on a consolidated basis, the elements of our operating income both on an actual and on a comparable basis for the Group as a whole:

| TOTAL GROUP ACTUAL FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Vari Sept Sep |
|---|---|---|---|---|
| SALES | 8,854 | 7,834 | 6,402 | (2 |
| Cost of sales | (7,577) | (6,727) | (5,408) | (2 |
| Selling expenses | (435) | (350) | (271) | (3 |
| R & D expenses | (239) | (234) | (166) | (3 |
| Administrative expenses | (471) | (355) | (324) | (3 |
| OPERATING INCOME | 132 | 168 | 233 | |
| OPERATING MARGIN | 1.5% | 2.1% | 3.6% | |

| TOTAL GROUP COMPARABLE FIGURES (IN MILLION) | First Half SEPT. 03 | 2nd Half MAR. 04 | First Half SEPT. 04 | % Vari Sept Sep |
|---|---|---|---|---|
| SALES | 7,296 | 7,197 | 6,402 | (1 |
| OPERATING INCOME | 35 | 142 | 233 | |
| OPERATING MARGIN | 0.5% | 2.0% | 3.6% | |

SALES

Sales were 6,402 million in the first half of the fiscal year 2005, compared with 8,854 million in the first half of the fiscal year 2004, a decrease by 28% on an actual basis. This decrease was due principally to the disposal of our Industrial Turbines businesses and T&D activities, as well as to lower levels of orders in the second half of fiscal year 2003 and in the first half of fiscal year 2004 generating lower sales in Marine and Power Turbo-Systems/Environment. Sales in other Sectors increased on actual and comparable bases. As a consequence, overall on a comparable basis, sales decreased by 12%.

On an actual basis, percentage of services in sales increased to 29% in the first half of the fiscal year 2005, compared with 25% in the first half of fiscal year 2004 and 21% in second half of fiscal year 2004, due to change in our scope of activities and the decrease of the contribution of our power equipment activity in our total sales following a decrease in orders over the past years.

No single customer represented more than 10% of our sales in any of the three periods discussed.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses were 595 million in the first half of fiscal year 2005 compared with 906 million in the first half of last year, the decrease being due principally to the disposal of our Industrial Turbines businesses and our T&D activities as well as to a reduction of costs on a comparable basis following the reorganisation of the Group and restructuring plans.

RESEARCH AND DEVELOPMENT EXPENSES

Research and Development expenses were 166 million in the first half of fiscal year 2005 compared to 239 million in first half of fiscal year 2004 and 234 million in the second half, the decrease being due principally to the disposal of our Industrial Turbines businesses and our T&D activities and to a reduction of expenses in connection with the GT24/GT26 gas turbines as the recovery programme nears conclusion.

OPERATING INCOME (LOSS) AND OPERATING MARGIN

Operating income is measured before restructuring costs, goodwill and other intangible assets amortisation, and other items including foreign exchange gains and losses, gains and losses on sales of assets, pension costs and employee profit sharing and before taxes, interest income and expenses. Operating margin is calculated by dividing the operating income by total annual sales.

On an actual basis, operating income and operating margin were 233 million and 3.6% respectively in the first half of fiscal year 2005, as compared with operating income of 132 million and operating margin of 1.5% in first half of fiscal year 2004. On a comparable basis, mainly when excluding the favourable effect of T&D last year before its disposal to Areva, this operating income at 233 million in the first half of fiscal year 2005 showed significant improvements compared with 35 million and 142 million in the first and second halves of fiscal year 2004 respectively. This increase despite a lower level of sales is notably due to a stabilisation in the execution of our contracts as compared to the first and second halves of last year when we recorded unexpected charges related to contract execution.

EARNINGS BEFORE INTEREST AND TAX (EBIT)

EBIT was 27 million in the first half of fiscal year 2005, compared with (296) million in the first half of fiscal year 2004 and (575) million in the second half of fiscal year 2004.

The improvement in EBIT in the first half of fiscal year 2005 was mainly due to:

- the improvement of our operating income;

- restructuring costs amounting to (69) million in the first half of fiscal year 2005, compared with (276) million in the first half of fiscal year 2004 and with (379) million in the second half of fiscal year 2004. The relatively low level recorded in the first half of this year is due to exceptional levels booked at the end of last year and phasing of amounts that we will record in the second half of fiscal year 2005 ;

- pension costs at (84) million in the first half of fiscal year 2005, compared with (138) million in the first half fiscal year 2004 and

(125) million in the second half of fiscal year 2004. This decrease was primarily due to scope variation and to reduced service costs as workforce and activity reduced.

FINANCIAL EXPENSES, NET

The improvement of our net financial expenses, (185) million in the first half of fiscal year 2005 compared with (220) million in the first half of fiscal year 2004 and (240) million in the second half of fiscal year 2004, was due to the decrease in net interest expenses (as a consequence of the implementation of the 2004 refinancing package), and to a lower amount of fees recorded on this year financing arrangements.

INCOME TAX

Income tax charges were (40) million for the first half of fiscal year 2005 as we recognised deferred tax charge of (38) million and a current income tax charge of (2) million. The deferred tax charge reflects the writing-off of deferred tax assets where recoverability is no longer considered probable. In the first half of fiscal year 2004, the income tax credit was 29 million, and in the second half of fiscal year 2004, the income tax charge was (280) million following significant increase in deferred tax assets valuation allowance.

GOODWILL AMORTISATION

Goodwill amortisation amounted to (114) million in the first half of fiscal year 2005 compared with (135) million in the first half of fiscal year 2004 and (121) million in the second half of fiscal year 2004. The decrease was due to the disposal of our T&D activities and, to a lesser extent, our Industrial Turbine businesses.

At 31 March 2004, we requested an independent third party evaluation as part of our annual impairment tests of goodwill and other intangible assets. The valuation supported our opinion that our goodwill and other intangible assets were not impaired. We consider that no triggering event has occurred that would lead to impairment testing at 30 September 2004.

NET INCOME (LOSS)

Net losses in the first half of fiscal year 2005 amounted to (315) million, compared with a net loss of (624) million in the first half of fiscal year 2004 and a net loss of (1,212) million in the second half of fiscal year 2004.

BALANCE SHEET

SPECIAL PURPOSE ENTITIES

Following a new accounting pronouncement effective 1st April 2004, we have consolidated several Special Purpose Entities with an effect notably of increasing our financial debt by 827 million and increasing our Property, plant and equipment by 693 million and Inventories and contracts in progress by 110 million as of 1st April 2004. See Note 2 to our Interim Consolidated Statements.

During the first half of fiscal year 2004, we have sold one of these Special Purpose Entities in the Transport Sector. This disposal has decreased our net debt by 243 million.

GOODWILL, NET

Net Goodwill decreased to 3,309 million at 30 September 2004 compared to 3,424 million at 31 March 2004 due to amortisation.

WORKING CAPITAL

Working capital (defined as current assets less current liabilities and provisions for risks and charges) at 30 September 2004 was (4,317) million compared with (4,860) million as reported at 31 March 2004 or (4,610) million as amended at 1 April 2004 to account for the impact of the consolidation of our special purpose entities.

This variation reflected primarily :

- changes in the scope of our activities ;
- an increase in inventories and contracts in progress due to the increase in activity following the increase in orders received and the consolidation for 110 million of one ship held for resale triggered by the consolidation of our SPE ;
- a decrease in trade payables partly offset by the significant increase in customers' deposits and advances. See Note 11 to our Interim Consolidated Financial Statements for more details.

CUSTOMER DEPOSITS AND ADVANCES

We record customer deposits and advances on our balance sheet upon receipt as gross customer deposits and advances. The gross amounts were 8,932 million and 8,722 million at 30 September 2004 and 31 March 2004 respectively. At the balance sheet date, we apply these deposits first to reduce any related gross accounts receivable and then to reduce any inventories and contracts in progress relating to the project for which we received the deposit or advance. Any remaining deposit or advance is recorded as "Customer deposits and advances" on our balance sheet. As of 30 September 2004, our net customer deposits and advances were 3,254 million, compared with 2,714 million as of 31 March 2004.

The impact on our cash flow of the change in customer' deposits and advances was positive by 556 million in the first half of fiscal year 2005 compared to a negative 221 million in the first half of fiscal year 2004 and after a positive 220 million in the second half of fiscal year 2004. This is due to the strong increase in our backlog in the first half of fiscal year 2005.

DEFERRED TAX ASSETS, NET

Deferred tax assets net amounted to 1,510 million at 30 September 2004 compared with 1,531 million at 31 March 2004.

At 31 March 2004, we reviewed by jurisdiction the recoverability of these deferred tax assets on the basis of the extrapolation of our business plan. We consider that as at 30 September 2004 the basis on which we concluded on the recoverability in March 2004 remains unchanged.

PENSIONS

Under French and US GAAPs, we are now reviewing accounting for the Swiss pension schemes from defined contribution to defined benefits accounting. The impact is an increase on projected benefits by 515 million and on the fair value of assets by 515 million.

PROVISIONS FOR RISKS AND CHARGES

At 30 September 2004, provisions for risks and charges totalled 3,275 million compared with 3,489 million at 31 March 2004.

This net decrease was accounted for mainly by the following :

- a decrease in provisions on contracts for 125 million, mainly resulting from application of the GT24/GT26 gas turbine provisions;
- a decrease in restructuring provisions of 58 million due to a relative low level of addition to provisions during the first half of fiscal year 2005.

SHAREHOLDERS' EQUITY

Shareholders' equity at 30 September 2004 was 1,695 million, compared with 29 million at 31 March 2004. This increase was mainly due to the capital increases described here above for a total amount of 1,749 million, to the reimbursement into shares of the TSDDRA subscribed by the French State for 300 million, reduced by the net loss for the period of (315) million.

As at 30 September 2004, 139 million of bonds mandatorily reimbursable with shares (ORA), out of the 901 million initially issued, have not yet been converted into capital.

SECURITISATION OF EXISTING RECEIVABLES

We sold selected existing trade receivables to a third party on an irrevocable, without recourse basis. The net cash proceeds from securitisation of existing trade receivables at 30 September 2004 reduced significantly to 12 million compared with 94 million at 31 March 2004.

SECURITISATION OF FUTURE RECEIVABLES

The total securitisation of future receivables at 30 September 2004 was 100 million compared with 265 million at 31 March 2004. The decrease in first half of fiscal year 2005 compared with fiscal year 2004 was mainly due to the delivery of TGV duplex and regional trains for SNCF by our Transport Sector. During the first half of fiscal year 2005, we did not enter into any new securitisation of future receivables.

FINANCIAL DEBT

Our financial debt was 3,998 million at 30 September 2004, compared with 4,372 million at 31 March 2004 and 5,199 million at 1 April 2004. Out of the components of our financial debt, borrowings decreased by 767 million and securitisation of future receivables decreased by 165 million, while other facilities increased by 558 million due to the consolidation of Special Purpose Entities net of the disposal during the period of one of these entities in the Transport Sector.

At 30 September 2004, our covenants have been respected :

- our consolidated net worth, as defined in our covenant agreement, was 1,933 million (contractually defined as the sum of 1,695 million of shareholders' equity, 69 million of minority interests, 139 million of bonds reimbursable with shares, 30 million of additional deferred tax valuation allowance in the first half of fiscal year 2005), which exceeds the 1,000 million covenant;

- our total debt was 3,452 million (contractually defined as the sum of 3,998 million our financial debt, 12 million of sale of trade receivables, minus 558 million as the net impact of the consolidation of our SPE to neutralise the effect of a new accounting pronouncement. See Note 1((4) in our Interim Consolidated Statements), which is below the 4,329 million covenant.

NET DEBT

We define net debt as financial debt less short-term investments, cash and cash equivalents.

Net debt was 2,408 million at 30 September 2004 compared with 2,906 million at 31 March 2004 and 3,733 million at 1 April 2004 amended to take into account the 827 million impact of the consolidation of the SPE. Our net debt decreased due to the capital increase (net of the cash collateral on the bonding programme accounted for in other fixed assets), the reimbursement into shares of the TSDDRA and proceeds of the disposal of investments partly offset by net cash used in operating activities. The net impact of the consolidation of Special Purpose Entities amounted to 558 million at 30 September 2004.

LIQUIDITY AND CAPITAL RESOURCES

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) | First Half SEPT. 03 | 2nd Ha MAR. 0 |
| --- | --- | --- |
| Net income after elimination of non cash items | (406) | (647 |
| Change in net working capital | (325) | 320 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (731) | (327 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 975 | 586 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (2) | 1,175 |
| | 242 | 1,434 |
| Net effect of exchange rate | 15 | (22 |
| Net effect o(pound) new accounting pronouncement | - | - |
| Other changes and reclassifications | (3) | (11 |
| DECREASE (INCREASE) IN NET DEBT | 254 | 1,401 |

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Net cash provided by operating activities is defined as the net income after elimination of non-cash items plus working capital movements. Net cash provided by (used in) operating activities was (336) million in the first half of fiscal year 2005 compared to (731) million in the first half of fiscal year 2004 and

(327) million in the second half of fiscal year 2004.

Net income after elimination of non-cash items was 20 million in the first half of fiscal year 2005. 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 (356) million. The principal movements in working capital were :

- a decrease of (82) million in sale of trade receivables (securitisation of existing receivables);
- a decrease of (103) million in contract-related provisions mainly due to the application of GT24/GT26 provisions;
- an increase of 556 million in customer deposits and advances following a continuing rebound in orders received and the resulting increase of our backlog; and
- a decrease of (376) million in trade payables and other payables and a decrease of (231) million in inventories and contracts in progress following the significant decrease in sales.

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES

Net cash used in investing activities was (263) million in the first half of fiscal year 2005. This amount comprised:

- proceeds of 17 million from disposals of property, plant and equipment;
- capital expenditures of (57) million;
- variation in other fixed assets of (563) million mainly due to the cash collateral of 700 million as a first loss for our new bonding programme put into place during the summer 2004; and o proceeds from the sale of investments, net of net cash sold for 340 million.

The cash proceeds from the sale of investment comprised the net debt sold for 243 million as part the disposal of one Special Purpose Entity in the Transport Sector that we have consolidated in our financial debt with effect as at 1st April 2004. The cash proceeds from the sale of investment also included the release of escrowed funds from the sale of our Industrial Turbine businesses and our T&D activities for 56 million and 41 million from the completion of sale of minor entities of these businesses.

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

Net cash provided by financing activities in first half of fiscal year 2005 was 1,979 million, including a capital increase for 1,749 million, and the reimbursement into shares of the TSDDRA for 300 million.

NET EFFECT OF NEW ACCOUNTING PRONOUNCEMENT

As discussed above and in Note 2 to our Interim Consolidated Financial Statements, following a new accounting pronouncement effective 1st April 2004, we have consolidated several Special Purpose Entities with an effect of increasing our financial debt by 827 million at 1st April 2004 and 558 million at 30 September 2004.

DECREASE (INCREASE) IN NET DEBT

As a result of the above, our net debt decreased by 498 million in the first half of fiscal year 2005, compared with a decrease of 254 million in the first half of fiscal year 2004 and a decrease of 1,401 million in the second half of fiscal year 2004.

Excluding the net effect of the consolidation of our Special Purpose Entities (net of the disposal of one these entities for 243 million and 26 million of reimbursement during the first half), our net debt would have decreased by 1,056 million in the first half of fiscal year 2005.

MATURITY AND LIQUIDITY

The following table sets forth our outstanding financial debt obligations (including future receivables securitised) and available credit lines as of 30 September 2004:

| | AT 30 SEPTEMBER 2004 | FISCAL YEAR 2005 | FISCAL YEAR 2006 | FISCAL YEAR 2007 | FISCAL YEAR 2008 | AFTER FISCAL YEAR 2008 | MATUR |
|---|---|---|---|---|---|---|---|
| Redeemable preference shares | 205 | | (205) | | | | 31-Ma |
| Subordinated notes | 250 | | | (250) | | | 30-Se |
| Subordinated loans (PSDD) | 1,320 | | | | | (1,320) | 30-Se |
| Bonds | 650 | | | (650) | | | 26-Ju |
| Syndicated loans | 704 | | | (704) | | | 03-Au |
| Bilateral loans | 250 | | (27) | (33) | (190) | | |
| Commercial paper | 429 | (429) | | | | | |
| Future receivables securitised, net | 100 | (100) | | | | | |
| Ad-hoc entities facilities | 558 | (118) | (36) | (37) | (39) | (328) | |
| Bank overdrafts, other facilities and accrued interests(1) | 271 | (216) | (13) | (3) | (3) | (36) | |
| TOTAL | 4,737 | (863) | (281) | (1,677) | (232) | (1,684) | |
| FINANCIAL DEBT | 3,998 | | | | | | |
| AVAILABLE LINES | 739 | | | | | | |

(1) Most facilities entered into by subsidiaries have been classified as being immediately due because such facilities are generally uncommitted.

Total available unused credit lines together with cash available in the Group amounted to 2,329 million at 30 September 2004, compared with 2,249 million at 31 March 2004.

These amounts consisted of:

- Available credit lines at Group level, which comprised 420 million of commercial paper, 281 million of part B of the PSDD and 38 million of syndicated loans, for 739 million at 30 September 2004, compared with 420 million of commercial paper and 363 million of part B of the PSDD, for 783 million at 31 March 2004 ;

- o Cash available at parent company level of 576 million at 30 September 2004, compared with 532 million at 31March 2004 ; and
- o Cash and cash equivalent, short term investments available at subsidiary level of 1,014 million at 30 September 2004, compared with 934 million at 31 March 2004.

ALSTOM, the Group parent company, may readily access some cash held by wholly owned subsidiaries through the payment of dividends or pursuant to intercompany lending 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 making 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 equivalent, short term investments available at subsidiary level were 1,160 million, 934 million and 1,014 million respectively in March 2003, 2004 and September 2004.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Following the coming into force of European Regulation n° 1606/2002, European listed companies are required to adopt International Financial Reporting Standards (IFRS/IAS) in the preparation of their Consolidated Financial Statements covering periods beginning on or after 1 January 2005. Consequently, ALSTOM Consolidated Financial Statements covering the period beginning 1 April 2005 will be presented according to IFRS, together with comparative information related to the previous period converted to the same standards.

The working group set up in fiscal year 2004 has moved forward on the implementation of these new standards. Main decisions have been taken on the Group will apply the rules and implement the IFRS. A comprehensive training programme has been prepared and more than 800 accountants of the Group are currently attending training all over the world.

The Group is re-writing its Reporting and Accounting Manual to reflect IFRS. Detailed unit submissions of the opening IFRS balance sheet as at 31 March 2004 will be made in the second half of fiscal year 2005 where September 2004 comparatives will also be produced. These submissions will be subject to detailed reviews and consolidations in order to prepare for full implementation of IFRS in April 2005. The first accounts under IFRS will be the 6 month period ended 30 September 2005.

OFF BALANCE SHEET COMMITMENTS

The following table sets forth our off-balance sheet commitments, which are discussed further at Note 18 to our Interim Consolidated Financial Statements:

| TOTAL GROUP ACTUAL FIGURES (IN MILLION) | At 30 Sept. 2003 | At 31 Mar. 2004 | At 30 Sept. 2004 |
|---|---|---|---|
| Guarantees related to contracts | 8,206 | 8,169 | 7,829 |

| | | | |
|---|---|---|---|
| Guarantees related to vendor financing | 643 | 640 | 441 |
| Discounted notes receivables | 9 | 6 | 40 |
| Commitments to purchase fixed assets | - | - | 2 |
| Other guarantees | 49 | 43 | 12 |
| OFF BALANCE SHEET COMMITMENTS | 8,907 | 8,858 | 8,324 |

GUARANTEES RELATED TO CONTRACTS

The overall amount given as guarantees on contracts decreased to 7,829 million in September 2004 compared with 8,169 million in March 2004 mainly due the disposal of our T&D activities.

VENDOR FINANCING EXPOSURE

In some instances, we have 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 1999.

The following table sets forth our vendor financing exposure (defined as the total of on- and off-balance sheet) as at 30 September 2004 and 31 March 2004 :

| TOTAL ACTUAL FIGURES (IN MILLION) | EXPOSURE AT 31 MAR. 2004 | Reimburs. of cash deposit | Decrease in guarantees | Tra an adj |
|---|---|---|---|---|
| MARINE | 643 | (24) | (48) | |
| Cruiseinvest | 323 | | | |
| Festival | 185 | (24) | (48) | |
| Others | 135 | | | |
| TRANSPORT | 321 | | | |
| European metro operator | 266 | | | |
| Others | 55 | | | |
| OTHER SECTORS | 5 | | | |
| TOTAL VENDOR FINANCING EXPOSURE | 969 | (24) | (48) | |

RENAISSANCE

The vendor financing granted to Cruiseinvest relating to ships sold to Renaissance Cruises amounted to 313 million at 30 September 2004, 323 million at 31 March 2004 and 344 million at 30 September 2003. ALL the eight former Renaissance ships resumed operations on or before July 2003 and are operated by their charterers.

FESTIVAL

Further to Festival's failure to meet its financial obligations towards the owners of the three cruise-ships previously built by Marine and operated by Festival as charterer, these three ships were seized in January 2004 by the concerned financial institutions for two ships (European Vision and European Stars) and by the owner AMJ31 (guaranteed by ALSTOM) for the other ship (Mistral). Festival's financial difficulties left a large number of creditors unpaid and the three ships were sold in the first half of fiscal year 2005 by judicial auction in the Courts of their respective places of arrest. European Vision and European Stars were then acquired by MSC Cruises, and Mistral by Auro Shipping, a company belonging to ALSTOM.

The acquisition of European Vision and European Stars by MSC Cruises has decreased ALSTOM vendor financing exposure mainly by the reimbursement of a cash deposit of 24 million and the release of a guarantee of 48 million following the sale of these ships (see Notes 9 and 18a(2) to our Interim Consolidated Financial Statement).

PROVISIONS ON RENAISSANCE AND FESTIVAL

We maintained a provision of 132 million at 30 September 2004 to cover risks associated with Marine vendor financing. This decrease compared with 31 March 2004 was due to the consolidation of the SPE with a negative equity of (8) million that was covered by 8 million of the initial provision of 140 million.

IMPACT ON VENDOR FINANCING OF THE CONSOLIDATION OF THE SPE

We have consolidated during the first half of fiscal year 2005 our Special Purpose Entities. Some of them own the ships on which we have a vendor financing exposure. Nevertheless the accounting treatment of these SPE has no impact on our total exposure. Our exposure is in general limited to the guarantees given or to our investment and does not amount to total assets of these SPE. The consolidation of these SPE has increased our assets by 762 million as shown in the following table (See Note 16 to our Interim Consolidated Financial Statements), nevertheless our total contractual exposure on these assets is limited to 219 million at 30 September 2004 :

| TOTAL ACTUAL FIGURES (IN MILLION) | IMPACT ON ASSETS OF CONSO SPE | Of which maximum exposure |
|---|---|---|
| MARINE | 762 | 219 |
| Cruiseinvest | 106 | 50 |
| Festival | 249 | 120 |
| Others | 407 | 49 |
| TRANSPORT | N/A | N/A |
| European metro operator | n/a | n/a |
| Others | n/a | n/a |
| OTHER SECTORS | N/A | N/A |
| TOTAL SPE ASSETS | 762 | 219 |

In order to facilitate the reading of our Interim Consolidated Financial Statements, we present here after the reconciliation of our total exposure with the amounts disclosed in our Financial Statements after the consolidation of these SPEs :

| TOTAL ACTUAL FIGURES (IN MILLION) | Max exp.on assets conso SPE (1) | Long term loans and deposits (2) | Off B Shee |
|---|---|---|---|
| MARINE | 219 | 224 | |
| Cruiseinvest | 50 | 224 | |
| Festival | 120 | | |
| Others | 49 | | |

| | | |
|---|---|---|
| TRANSPORT | | |
| European metro operator | | |
| Others | | |
| OTHER SECTORS | | |
| TOTAL VENDOR FINANCING EXPOSURE | 219 | 224 |

We have funded Cruiseinvest by limited recourse notes for a total of 224 million (See Note 9 to our Interim Consolidated Financial Statements). Our remaining off balance sheet guarantees were 441 million as at 30 September 2004 (See Note 18a(2) to our Interim Consolidated Financial Statements).

OTHER RISKS

US TRAINS

On 30 June 2003, we announced that we were conducting an internal review, assisted by external lawyers and accountants, following receipt of anonymous letters alleging accounting improprieties on a train contract being executed at the New York facility of ALSTOM Transportation Inc. ("ATI"), one of our US subsidiaries. Following receipt of these letters the SEC began an inquiry which is still on going.

UK TRAINS

The West Coast Main Line service, using high speed tilting trains supplied by ALSTOM, was successfully launched by Virgin on 26 September 2004. Fifty-one of the fifty-three trains ordered have been delivered. Remaining work on the train build contract involves bringing two test trains to passenger service standards. Discussions to avoid litigation over this contract have now successfully concluded and an agreement has been signed with the customer, but approval of the appropriate authorities is still being sought.

CLAIMS RELATING TO DISPOSALS

From time to time the Group disposes of certain businesses or business segments. As is usual certain acquirers make claims against the Group as a result of price adjustment mechanisms and warranties generally foreseen in the sale agreements.

The Group has received a number of demands from the acquirer following the disposal of the T&D Sector, including with respect to investigation by the European Commission of alleged anti-competitive arrangements among suppliers in certain T&D activities. It is not possible to estimate the amount of potential liability of the Group with respect to these claims, which, if decided adversely, may have a material adverse impact on the consolidated financial statements.

ACCOUNTS OF 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.

Income amounted to 49 million for the first half of fiscal year 2005 and 43 million for the first half Of fiscal year 2004.