Annual report
2006/07

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ALSTOM

Annual report
2006/07

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ALSTOM

2006/**07**

CONTENTS

1 GROUP ACTIVITY 4

Overview 6
Sector review 16
Operating and financial review 41

2 FINANCIAL INFORMATION 58

Consolidated financial statements 59
Statutory accounts 126

3 RISKS 142

Risk factors 143
Certain legal risks 144
Environmental, health and safety risks 145
Insurance 146

4 CORPORATE GOVERNANCE 148

The Board of Directors and its Committees 150
The Executive Committee 158
The Disclosure Committee 159
Chairman's report 160
Independent Auditors' report 175
Compensation of executive and non-executive Directors and members of the Executive Committee 176
Interests of the officers and employees in the share capital 181
Independent Auditors 186

5 ADDITIONAL INFORMATION 188

Information on the Group and the holding Company 189
Information on the share capital 195
Social and environmental Information 205
Organisation chart as at 31 March 2007 211
Information on the Annual Financial Report 212
Information on the "Document de Référence" 214

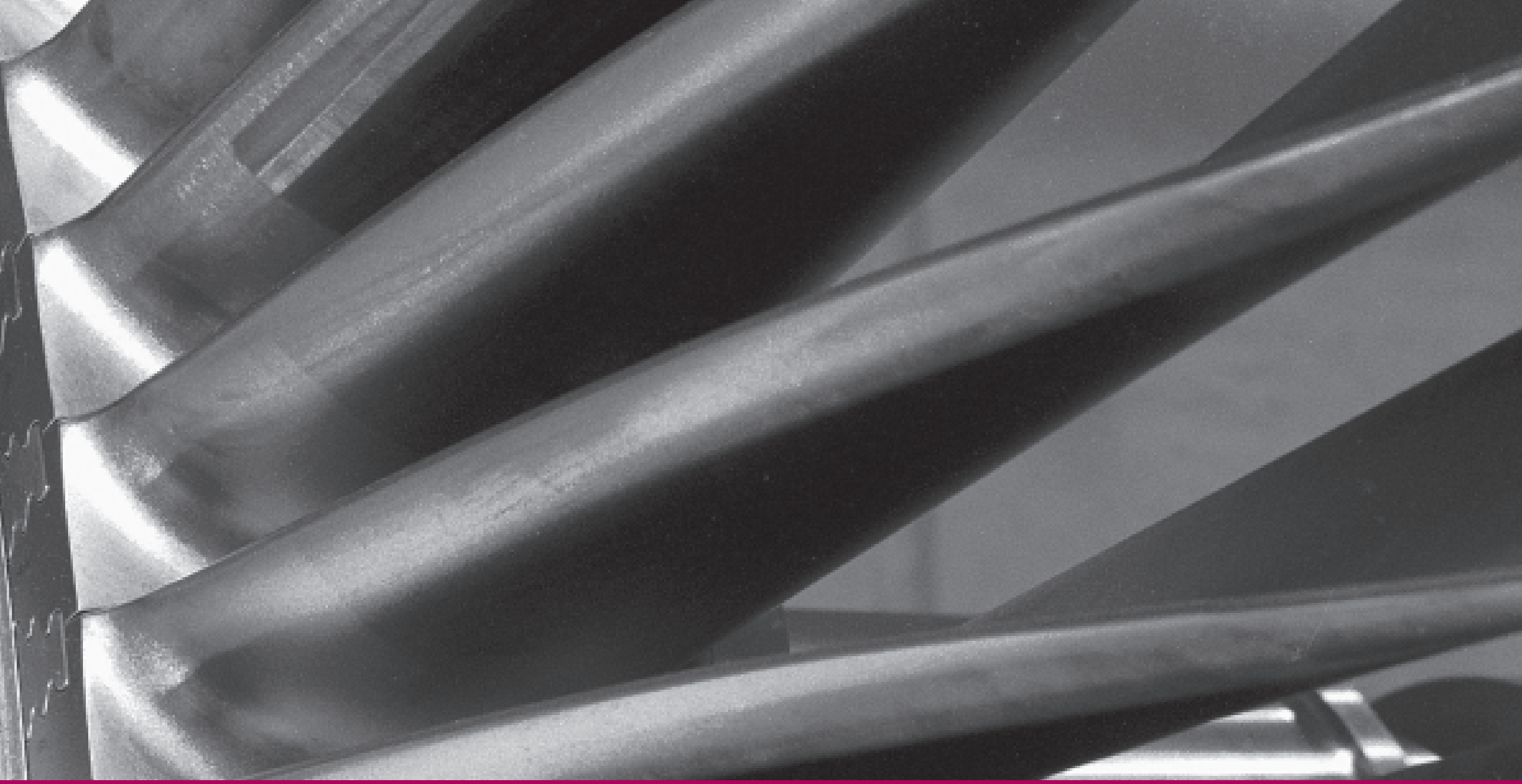
1 | GROUP **ACTIVITY**

6 **Overview**

6 Group general organisation
7 Main events of fiscal year 2006/07
10 General comments on activity and results
15 Outlook

16 **Sector review**

16 Power Sectors
34 Transport Sector
40 Corporate & others



41 Operating and financial review

41 Income statement
43 Balance sheet
45 Liquidity and capital resources
46 Maturity and liquidity
47 Impact of exchange rate and interest rate fluctuations
49 Pensions and other employee benefits
51 Off-balance sheet commitments and contractual obligations
52 Use and reconciliation of non-GAAP financial measures
56 Report of the Independent Auditors on the profit forecasts

Overview

GROUP GENERAL ORGANISATION

ALSTOM serves the power generation market through its Power Systems Sector and its Power Service Sector, and the rail transport market through its Transport Sector. ALSTOM designs, supplies and services a complete range of technologically advanced products and systems for its customers, and possesses a unique expertise in systems integration and through-life maintenance and service. In fiscal year 2006/07, orders amounted to €19 billion and sales to €14 billion. On 31 March 2007, the backlog amounted to €32 billion.

ALSTOM believes the power and transport markets in which the Group operates are sound, offering:

- solid long-term growth prospects based on customers' need to expand essential infrastructure systems in developing economies and to replace or modernise them in the developed world; and
- attractive opportunities to serve the existing installed base.

ALSTOM believes it can capitalise on its long-standing expertise in these two markets to achieve competitive differentiation. ALSTOM is strategically well positioned for the following reasons:

- the Group benefits from one of the largest installed bases of equipment in power generation and rolling stock, which enables it to develop its service activities;
- ALSTOM is a recognised technology leader in most of its fields of activity, providing best-in-class technology; and
- ALSTOM has global reach, with a presence in around 70 countries worldwide.

An international network coordinates the presence of ALSTOM throughout the world. This network supports Sectors in market intelligence and project finance.

On 31 March 2007, ALSTOM had a total of approximately 65,000 employees worldwide.

MAIN EVENTS OF FISCAL YEAR 2006/07

Partnership with Bouygues

During fiscal year 2006/07, ALSTOM and Bouygues entered into an agreement for broad commercial and operational cooperation, which Bouygues decided to strengthen by becoming a long-term shareholder of ALSTOM.

On 26 April 2006, Bouygues agreed with the French State to purchase the 21.03% stake owned by the French State in ALSTOM since July 2004. This transaction was finalised on 26 June 2006. Subsequently Bouygues acquired additional ALSTOM shares in the stock market, and holds 25.35% of ALSTOM share capital as at 1 May 2007.

Since 26 April 2006, ALSTOM and Bouygues have been progressively stepping up their cooperation. At a commercial level, the sales networks of both companies are cooperating to maximise their strengths on their markets and develop together, whenever required, integrated projects as opportunities arise. Bouygues and ALSTOM can provide a joint response to market demands by offering solutions that combine Bouygues' civil engineering with ALSTOM's equipment. Both companies agreed that this cooperation should not be exclusive and that they will continue to work with the most suitable partners and suppliers for each project. At an operational level, ALSTOM and Bouygues work together on the improvement of project execution by sharing best practices in organisation and project management and on the preparation of standard guidelines to optimise costs on common projects.

On 31 October 2006, ALSTOM and Bouygues completed the set up of a 50% - 50% joint venture in ALSTOM's hydro power equipment business, thus enabling ALSTOM to fulfill the commitment it made towards the European Commission in 2004 to set up a joint venture in this sector.

Very strong commercial activity

During fiscal year 2006/07, the Group booked €19,029 million of new orders, a 34% increase from previous fiscal year on a comparable basis.

The Group fully benefited from its good positioning in a sound power market. Power Systems sold 20 gas turbines including 13 GT26 as well as 3 major coal power plants and received a key order for the conventional island of the next-generation EPR nuclear power plant in France. Power Service signed several major contracts for Operation and Maintenance as well as for various upgrades of plants, gas turbines, steam turbines and boilers.

Transport achieved a high level of order intake in a competitive environment, booking significant orders for regional trains, metros and tramways over the world, as well as several maintenance contracts.

As a consequence, ALSTOM's orders in hand amount to €32,350 million at 31 March 2007, up 22% from last year on a comparable basis and represent 27 months sales.

Efficient human resources management

The Group set human resources management as one of its top priorities to ensure continuous success.

Recruitment has been particularly important over this financial year to support the Company's strong order intake. Over the year, 8,700 employees have been recruited, including 4,100 engineers and managers. Training efforts were also a crucial part of ALSTOM's active human resources management.

Project risk management being a key priority for ALSTOM to improve its operational performance, the Group concentrated on the selection of project managers and on the implementation of efficient processes. Project offices in each Sector manage this population of key managers and implement best practices throughout the organisation.

Focus on research and development

As part of its strategic priorities, the Group focused on research and development to set the ground for future growth through constant innovation and maintained leadership. Its R&D efforts during fiscal year 2006/07 increased materially and addressed the major challenges faced today by its industries, including:
- for the Power Sectors: improving the performance of existing gas turbines and developing clean power technologies (increased plants efficiency, CO_2 capture…);
- for the Transport Sector: implementing new standards (European Rail Traffic Management System) and preparing the next generation of very high speed trains (AGV).

Under the "French Excellence in Very High-Speed Transport", a programme led jointly by ALSTOM, the French railway operator SNCF and the French railway infrastructure provider RFF, the "V150" train broke the world rail speed record on 3 April 2007, reaching 574.8 km/h on the new high-speed line to Eastern France and Germany.

Enhancing the Group's financial base

RENEGOTIATION OF THE BONDING PROGRAMME

On 24 July 2006, the Group renegotiated the conditions of its bonding programme, covering its needs from July 2006 to July 2008. Under this amended agreement, bonding costs have been further reduced and the programme is now unsecured, subject to adjustments pending on certain profitability and liquidity targets (see Note 27 of the Consolidated Financial Statements). The €700 million cash collateral paid by the Company to secure its first programme was released as of 31 March 2007.

IMPROVED CREDIT FLEXIBILITY

During fiscal year 2006/07, the Group reimbursed a total of €526 million of bonds, including €226 million of bonds maturing 26 July 2006, and, in anticipation, €300 million of bonds redeemable on 28 July 2008, 13 March 2009 and 3 March 2010.

At the same time, the Group increased the amount of its syndicated credit line, from €700 million to €1,000 million and extended its maturity to March 2012.

PENSION PLANS DISCRETIONARY FUNDING AND OPTIMIZATION

During fiscal year 2006/07, the Group dedicated €300 million to the funding of its employees' pension plans in Germany, in order to proactively manage its pensions assets and liabilities. In agreement with plans' stakeholders, it was also decided to reduce the equity share of the worldwide plans' assets from 50% at 31 March 2006 to 38% at 31 March 2007, in order to optimize pensions risk management.

ALSTOM'S STOCK BACK IN THE CAC 40 INDEX

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

Acquisitions initiated

POWER SYSTEMS

Wuhan Boiler Company Limited

On 14 April 2006, ALSTOM signed an agreement with Wuhan Boiler Group Co., Ltd for the acquisition of its subsidiary, Wuhan Boiler Company Limited, in which it holds a majority stake. According to this agreement, ALSTOM will acquire a 51% share in Wuhan Boiler Company Limited ("WBC") from Wuhan Boiler Group and, as required by Chinese stock exchange rules, will launch a general offer to the public holders of 42% of the share capital of WBC listed on the Shenzhen stock exchange market. The acquisition is still in process and the general offer is yet to take place after receipt of the approval from Chinese regulatory authorities.

WBC is based on a single site in Wuhan (Hubei Province in China) and its activities include engineering and manufacturing of boilers for steam power plant applications. In 2006, WBC's sales amounted to approximately €200 million and the company employed 2,500 people.

Atomenergomash nuclear joint venture

On 2 April 2007, ALSTOM signed in Moscow a framework agreement with Russia's Atomenergomash to establish a joint venture dedicated to manufacturing the conventional islands included in nuclear power plants using Russian technology for the nuclear island. The future joint venture, of which Atomenergomash will hold 51% and ALSTOM 49%, will be located in Podolsk, close to Moscow, and will manufacture the conventional island of nuclear power plants based on ALSTOM's "Arabelle" half-speed turbine technology.

POWER SERVICE

Power Systems Manufacturing (PSM)

On 22 March 2007, ALSTOM acquired the assets and liabilities of Power Systems Manufacturing, LLC (PSM). Based in Florida, USA, PSM is a high-tech company with a leading position as independent provider of improved gas-turbine parts and low-Nox upgrade solutions for gas turbines. PSM employs over 100 people and its sales amounted to approximately $70 million in 2006, with an EBITDA margin above 25%.

This acquisition extends ALSTOM's technology leadership in providing customers with gas turbine efficiency upgrades and low-emission solutions in after-market sales.

Shenzhen Strongwish

On 24 August 2006, ALSTOM completed the acquisition of Shenzhen Strongwish, a Chinese company specialised in the design and delivery of remote monitoring and diagnostic services. Shenzhen Strongwish was created in 1998 and has grown rapidly ever since. The company employs around 100 highly skilled people in Shenzhen and in five regional offices over China.

Qingdao Sizhou

On 29 March 2007, ALSTOM acquired Quingdao Sizhou Electric Power Equipment Company Limited and Quingdao Sizhou Boiler Auxiliary Company Limited, both companies being markets leaders in China for boiler auxiliaries with a strong focus on ash handling system and the related service business, a critical element of the coal power generation process.

The deal provides ALSTOM with a strong base to become a full local service provider, serving the market through a sales network, supply chain and field service resources all located close to the customer. The company employs 1,100 employees including 170 engineers. The company generated sales of more than €50 million in 2006. Quingdao Sizhou's market position and developed customer base provides ALSTOM with a unique opportunity to further build a presence in the rapidly growing Chinese power service market.

TRANSPORT

Schweizerische Bundesbahnen SBB Cargo AG rail maintenance joint venture

On 19 February 2007, ALSTOM entered into an agreement to set up a joint venture with Schweizerische Bundesbahnen SBB Cargo AG on its maintenance service business for shunting locos, service vehicles and tank wagons. This joint venture extends ALSTOM's service offering for the Transport Sector in Europe. ALSTOM is to own 51% of the joint venture that is located in Biel, Switzerland.

Finalization of disposals

MARINE SECTOR

On 31 May 2006, ALSTOM completed the sale to Aker Yards of its 75% interest in its Marine Sector. The sale took place through the creation of a new company comprising the shipyards in Saint-Nazaire and Lorient, 75% of which is owned by Aker Yards and 25% by ALSTOM. At 31 March 2007, ALSTOM's remaining stake was accounted for in investments and will be sold to Aker Yards by 2010 for a calculated amount depending on the new company's performance, not to exceed €125 million.

The Group has retained certain assets and liabilities, notably relating to ships delivered before the closing of the transaction and to three liquid natural gas (LNG) tankers that were still under construction when the sale was completed; these tankers were all delivered to the customer before 31 March 2007.

INDUSTRIAL BOILERS BUSINESS IN GERMANY AND IN THE CZECH REPUBLIC

On 24 October 2005, ALSTOM and Austrian Energy & Environment AG had signed agreements for the sale of the bulk of ALSTOM's Industrial Boilers business. The transaction included ALSTOM's Industrial Boiler activities in Germany, the Czech Republic and Australia. The German and Czech activities were sold in May 2006, following the sale of the Australian activities in November 2005. The Industrial Boilers business was part of the disposal programme on which ALSTOM agreed with the European Commission in 2004.

TRAIN RENOVATION BUSINESS IN THE UNITED KINGDOM

On 2 February 2007, ALSTOM sold 100% of its shareholding in Railcare Limited, a company specialising in the renovation and maintenance of rolling stock to Seckloe Limited.

European Commission

COMMITMENTS TOWARDS EUROPEAN COMMISSION EXECUTED

On 7 July 2004, the European Commission approved ALSTOM's financing plans implemented in 2003 and 2004, subject to conditions to be fulfilled by the French State and the Group. As at 31 March 2007, commitments are fulfilled as follows:

- all activities identified for disposal have been disposed of;
- ALSTOM set up a 50%-50% joint venture in its hydro activities;
- the disposal of the 21.03% French State's stake in ALSTOM and the release of its counter-guarantee on ALSTOM's bonding programme occurred more than two years ahead of schedule.

ALLEGED ANTI-COMPETITIVE PRACTICES IN THE GAS INSULATED SWITCHGEARS MARKET

On 24 January 2007, the European Commission levied several fines for a cumulated value of €65 million against ALSTOM, which includes €53 million on a joint and several basis with Areva T&D SA, on the basis of anti-competitive practices in the gas insulated switchgears market which was served by the former Transmission and Distribution business disposed of in 2004. The Group launched an appeal of this decision on 18 April 2007.

GENERAL COMMENTS ON ACTIVITY AND RESULTS

Consolidated Key Financial Figures

The following tables set out, on a consolidated basis, some of the Group's key financial and operating figures:

Total Group, actual figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	32,350	26,944	20%
Orders received	19,029	15,290	24%
Sales	14,208	13,413	6%
Income from operations	957	746	28%
Operating margin	6.7%	5.6%	
Discontinued operations	(32)	(198)	(84%)
Net profit/(loss) Group share	448	178	152%
Free cash flow	745	525	42%

Total Group, comparable figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	32,350	26,431	22%
Orders received	19,029	14,173	34%
Sales	14,208	12,432	14%
Income from operations	957	686	40%
Operating margin	6.7%	5.5%	

GENERAL COMMENTS ON ACTIVITY

The European power market proved dynamic in both gas and steam equipment and services during fiscal year 2006/07, while the sustained economic growth in Asia keeps driving a robust demand in new power equipment, mainly in coal and hydro. Concerns on dependency on gas and fuel record prices create the need for more efficient power technologies as well as for a more diversified portfolio of energy production technologies. This trend is supporting the demand in high-efficiency coal power plants worldwide. In addition, the need to comply with environmental regulations (CO_2, Nox, Sox) and the ageing of the installed base are driving the demand for environmental upgrades of existing power plants. Overall, this favourable context in Power supported the Group's high level of activity for new turnkey plants, plant improvements and associated services.

In a competitive Transport market, the Group achieved a good performance in regional trains, tramways and metros in Europe. The Asian market is also growing rapidly with a high level of activity in China in metro and mainline, along with promising potential in mass transit in India. Very high speed also represents significant opportunities for the Group, particularly in Europe and in Central/South America.

ORDERS RECEIVED AND BACKLOG

Orders received for fiscal year 2006/07, amounting to €19,029 million, were at a remarkably high level with a 34% increase compared to fiscal year 2005/06 on a comparable basis (adjusted mainly by the disposals of the Power Conversion business, the Transport activities in Australia and New Zealand, the FlowSystems business, the Industrial Boiler business and miscellaneous activities).

All Sectors contributed to this growth, with a particularly strong commercial performance in the Power Sectors:

- Power Systems order intake amounted to €9,535 million, a 65% increase on a comparable basis. The most significant orders booked for Power Systems included a 833 MW clean coal power plant in Poland, a 670 MW clean coal power station in Bulgaria, the turbine island for the new European Pressurised Reactor (ERP) nuclear power plant in Flamanville (France), a high number of GT26-based combined cycle power (in Australia, France, Italy, Spain, and the United Kingdom), various air pollution systems in North and Latin America and a high efficiency coal-fired generating plant in the United States;
- Power Service order intake, at €4,058 million, increased by 22% on a comparable basis, notably as a result of major operation and maintenance (O&M) contracts in Europe and in Middle East related to gas-fired power plants, significant upgrades for plants, steam and gas turbines, as well as substantial service contracts in Europe and in the United States.

Transport orders intake increased by 8% on a comparable basis at €5,388 million. In fiscal year 2006/07, Transport booked orders for metros in Paris, Budapest, Santo Domingo and Shanghai, for tramways in Angers, Reims, Toulouse and Algiers, for commuter trains in France, Germany, Sweden and Denmark, and for rail infrastructure projects in China and Turkey.

At 31 March 2007, the Group's total backlog reached €32,350 million, a 22% increase from €26,431 million at 31 March 2006 on a comparable basis, representing more than 27 months sales.

SALES

Sales were €14,208 million for fiscal year 2006/07 compared to €12,432 million for fiscal year 2005/06 on a comparable basis, representing a 14% increase, as a result of growing order intake in the last periods.

Sales in Power Systems grew from €4,724 million in fiscal year 2005/06 to €5,673 million in fiscal year 2006/07, i.e. a 20% increase, while Power Service grew by 18% at €3,198 million and Transport increased by 7% at €5,288 million (all figures are on a comparable basis).

INCOME FROM OPERATIONS

Income from operations in fiscal year 2006/07 amounted to €957 million, up 40% from an income from operations of €686 million in fiscal year 2005/06 on a comparable basis; operating margin improved from 5.5% to 6.7%. This progress was achieved while increasing by 30% research and development spending; at the same time selling and administrative expenses were contained.

NET PROFIT (GROUP SHARE)

Net profit (Group share) amounted to €448 million compared with €178 million in fiscal year 2005/06 up 152% on an actual basis. This increase resulted mainly from improved operational performance and lower financial expenses.

This strong increase in net income was achieved despite capital losses on past disposals incurred during fiscal year 2006/07, including the fines received from the European Commission for alleged anti-competitive practices in the gas insulated switchgears market, whereas a significant capital gain was recorded last year on the disposal of Transport activities in Australia.

FREE CASH FLOW

Free cash flow (as defined in paragraph "Use and reconciliation of non-GAAP financial measures") amounted to €745 million for fiscal year 2006/07 after an exceptional and discretionary contribution of €300 million to pension plans in Germany. Before this non-recurring event, the Group therefore generated a free cash flow of €1,045 million, compared to a free cash flow of €525 million in fiscal year 2005/06.

This increase in free cash flow resulted mainly from:

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

NET DEBT

Net debt (as defined in paragraph "Use and reconciliation of non-GAAP financial measures") was €64 million at 31 March 2007 compared with €1,248 million at 31 March 2006. This reduction of debt was mostly the consequence of the positive free cash flow and the release of the €700 million cash collateral which secured the Group's former bonding programme.

Total equity increased from €1,840 million at 31 March 2006 to €2,271 million at 31 March 2007 as a result of the Group's strong net income.

Gearing (defined as net debt over total equity ratio) was down to 3% from 68% at the end of the previous year.

Key geographical figures for fiscal year 2006/07

GEOGRAPHICAL ANALYSIS OF ORDERS BY REGION OF DESTINATION

The table below sets out the geographical breakdown of orders received by region of destination both on an actual and comparable basis.

Total Group, actual figures

Year ended 31 March (in € million)	2007	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	11,396	60%	46%	7,832	51%
North America	3,232	17%	61%	2,010	13%
South and Central America	1,157	6%	11%	1,039	7%
Asia/Pacific	2,307	12%	(18%)	2,810	18%
Middle East/Africa	937	5%	(41%)	1,599	11%
Orders received by destination	**19,029**	**100%**	**24%**	**15,290**	**100%**

Total Group, comparable figures

Year ended 31 March (in € million)	2007	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	11,396	60%	53%	7,433	52%
North America	3,232	17%	79%	1,809	13%
South and Central America	1,157	6%	13%	1,021	7%
Asia/Pacific	2,307	12%	(3%)	2,368	17%
Middle East/Africa	937	5%	(39%)	1,542	11%
Orders received by destination	**19,029**	**100%**	**34%**	**14,173**	**100%**

Orders received in Europe at €11,396 million in fiscal year 2006/07 increased by 46% on an actual basis and by 53% on a comparable basis. Europe was the Group's largest market in terms of orders received, reaching 60% of total orders (from 51% on an actual basis and 52% on a comparable basis). This evolution was mainly due to a large number of turnkey power plants orders across Europe.

North America was the Group's second largest market, representing 17% of ALSTOM's global orders received during the period at €3,232 million (from 13% during previous fiscal year both on an actual and comparable basis), boosted notably by the order of a turnkey coal-fired power plant. The order intake increased substantially by 61% on an actual basis and 79% on a comparable basis.

Orders in South and Central America increased by 11% on an actual basis (13% on a comparable basis) at €1,157 million. During fiscal year 2006/07, main orders received were for hydro projects in Ecuador and Venezuela, while Transport recorded a contract for a metro in the Dominican Republic. South and Central America accounted for 6% of total orders in 2006/07.

Orders received in the Asia/Pacific region decreased by 18% on an actual basis at €2,307 million in fiscal year 2006/07 (or 12% of total orders) due to a decrease in order intake in the Power Systems Sector where major hydro projects were recorded in China and India in fiscal year 2005/06 and to the disposal of Transport activities in Australia and New Zealand. On a comparable basis, the decrease in orders received is 3%. Main orders received in the Asia/Pacific region during 2006/07 include a turnkey power plant in Australia, as well as the supply of hydro equipment and freight locomotives in China.

Orders intake in Middle East/Africa was €937 million (5% of total orders) in 2006/07, down by 41% on an actual basis and 39% on a comparable basis. Main orders received during 2006/07 include the refurbishment of a coal-fired power plant in Bahrain and long-term service agreements for a power plant in South Africa as well as the supply of a tramway system in Algeria.

GEOGRAPHICAL ANALYSIS OF SALES BY REGION OF DESTINATION

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

Total Group, actual figures

Year ended 31 March (in € million)	2007	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	6,922	49%	10%	6,301	47%
North America	2,442	17%	12%	2,172	16%
South and Central America	854	6%	(4%)	891	7%
Asia/Pacific	2,505	18%	(9%)	2,747	20%
Middle East/Africa	1,485	10%	14%	1,302	10%
Sales by destination	**14,208**	**100%**	**6%**	**13,413**	**100%**

Total Group, comparable figures

Year ended 31 March (in € million)	2007	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	6,922	49%	18%	5,880	47%
North America	2,442	17%	21%	2,016	16%
South and Central America	854	6%	(1%)	865	7%
Asia/Pacific	2,505	18%	4%	2,403	20%
Middle East/Africa	1,485	10%	17%	1,268	10%
Sales by destination	**14,208**	**100%**	**14%**	**12,432**	**100%**

At the end of March 2007, the Group's sales in Europe increased by 10% compared to fiscal year 2005/06, and represented 49% of the Group's global sales, at €6,922 million. In the region, the increase in sales for Power Systems and Power Service was offset by a slight decrease in sales for Transport as well as by the disposal of the Power Conversion and FlowSystems businesses that were mainly serving the European market. On a comparable basis, European sales increased by 18%.

Sales in North America amounted to €2,442 million in fiscal year 2006/07, a 12% increase from previous fiscal year and a 21% increase on a comparable basis. Sales in North America represented 17% of total sales at the end of March 2007. This evolution was mainly due the growth of activities in the Power Systems and Power Service Sectors.

Sales in Central and South America amounted to €854 million (6% of total sales) in 2006/07, a 4% and 1% decrease on an actual and comparable basis respectively.

The Group's sales in Asia/Pacific decreased by 9% compared to fiscal year 2005/06 at €2,505 million, mainly due to the disposal of the Transport activities in Australia and New Zealand. On a comparable basis, sales in the region increased by 4%.

Power Service sales increased strongly in the Middle East/Africa region due to contracts in Bahrain, Libya and South Africa, explaining the major part of the Group's 14% increase in sales in this region (17% on a comparable basis) at €1,485 million in 2006/07.

GEOGRAPHICAL ANALYSIS OF SALES BY REGION OF ORIGIN

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

Total Group, actual figures

Year ended 31 March (in € million)	**2007**	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	9,912	70%	9%	9,057	68%
North America	2,409	17%	12%	2,152	16%
South and Central America	481	3%	(18%)	585	4%
Asia/Pacific	1,248	9%	(16%)	1,482	11%
Middle East/Africa	158	1%	15%	137	1%
Sales by origin	**14,208**	**100%**	**6%**	**13,413**	**100%**

Total Group, comparable figures

Year ended 31 March (in € million)	**2007**	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	9,912	70%	16%	8,547	69%
North America	2,409	17%	21%	1,997	16%
South and Central America	481	3%	(15%)	567	4%
Asia/Pacific	1,248	9%	5%	1,192	10%
Middle East/Africa	158	1%	23%	129	1%
Sales by origin	**14,208**	**100%**	**14%**	**12,432**	**100%**

By region of origin, sales in Europe increased by 9% on an actual basis (16% on a comparable basis) at €9,912 million in fiscal year 2006/07, representing 70% of total sales. France, Switzerland, Italy and Spain were the main contributors to this increase which was partly offset by the decreasing contribution of the United Kingdom while the contribution of Germany was stable. Sales from North America increased by 12% on an actual basis (21% on a comparable basis) at €2,409 million or 17% of total sales in 2006/07. South and Central American sales decreased by 18% on an actual basis (15% on a comparable basis), at €481 million. The Asia/Pacific region decreased by 16% on an actual basis due to the disposal of the Transport activities in Australia and New Zealand (corresponding to a 5% increase on a comparable basis). Sales from Middle East/Africa represented €158 million in 2006/07.

OUTLOOK

For the future, the Group aims at capitalizing on its favourable positioning in both power and rail transport markets to further focus on growth and performance improvement. Priority for the Group is to consolidate its commercial performance, to keep strengthening its project execution while executing a loaded backlog and to adapt its industrial organisation to new challenges. The Group will continue to support its future growth through adequate spending on research and development and capital expenditure that will maintain technology leadership and build new capacities. Selected partnerships and acquisitions should also boost this growth.

In this context, for fiscal year 2007/08, the Group's sales should experience a double digit increase (on a comparable basis) while its operating margin target of 7% should be exceeded, as the operating margin should be over 8% for the combined Power Sectors and of 7% for the Transport Sector.

For fiscal year 2009/10, operating margin should range between 9% and 10% for the combined Power Sectors and between 7% and 8% for the Transport Sector, leading to an operating margin for the Group over 8%.

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

More particularly, for each of the Sectors the following assumptions were taken:

- Power Systems aims to increase the profitability of its orders through selective bidding combined with product cost reductions while project execution would continue to improve. The plan also includes seizing profit opportunities on certain targeted markets, such as environmental-related projects. The Sector plans to differentiate itself through plant integration and clean coal capabilities;
- Power Service aims to develop services based on its field presence, manufacturing and technical capabilities. The Sector intends to maintain operating margin notably through cost base improvement;
- Transport's objective is to reach the targeted operating margin through growing sales, improvements in contract execution and further cost reduction based upon standardisation, sourcing and cost adjustments. The Sector plans to keep its technological edge thanks to new high-tech products under development.

The foregoing are "forward-looking statements" and as a result they are subject to uncertainties. The success of the Group's strategy and action plan, its sales, operating margin and financial position could differ materially from the goals and targets expressed above if any of the risks described in the Risk section of the annual report for fiscal year 2006/07, or other unknown risks, materialise.

Sector **review**

The activities of the Group are organised into three Sectors:
- Power Systems Sector
- Power Service Sector
- Transport Sector

Power Sectors

Together, ALSTOM's Power Systems and Power Service Sectors offer a comprehensive range of power generation solutions from integrated power plants to all types of turbines (gas, steam, hydro), generators, boilers, emission reduction systems and control systems, as well as a full range of services including plant modernisation, maintenance and operational support.

These Sectors have a common organisation called "Global Power Sales Organisation", which ensures the "one face to the Customer" principle through the coordination of commercial activities.

Offering

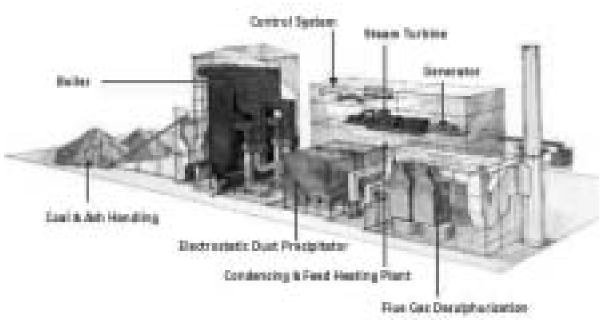
POWER SYSTEMS OFFERING

The Power Systems Sector designs, manufactures and supplies state-of-the-art products and systems to the power generation – for gas, coal, and hydro power plants - and industrial markets. It also provides conventional islands for nuclear power plants.

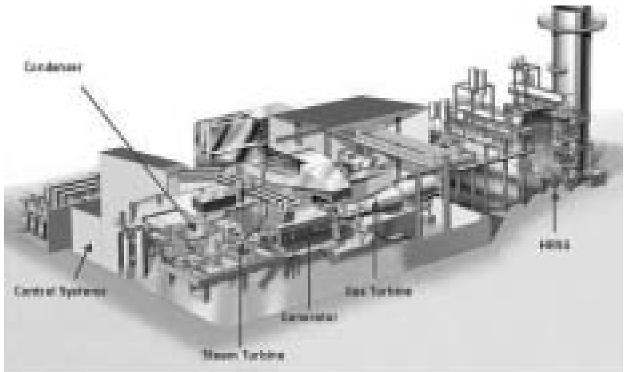
All components can be integrated in order to build the most efficient and the cleanest power solutions for the customers – from boilers and air quality control, to energy recovery systems. ALSTOM has an extensive experience in retrofitting, upgrading, refurbishing and modernising existing power plant equipment. This knowledge is of great value as the worldwide installed base is ageing and needs to operate under more and more stringent regulations.

The Power Systems Sector operates in all geographic markets:
- ALSTOM's main manufacturing sites for steam turbines and generators are located in Birr (Switzerland), Belfort (France), Beijing (China), Wroclaw (Poland);
- Boilers are mainly manufactured in Durgapur (India), Surabaya (Indonesia) and Brno (Czech Republic);
- Heat Recovery Steam Generators are mainly manufactured in Surabaya (Indonesia);
- Main manufacturing sites for gas turbines are located in Birr (Switzerland), Mannheim (Germany), Elbag (Poland);
- Hydro turbines are mainly manufactured in Grenoble (France), Baroda (India), Taubaté (Brazil), Tianjin (China);
- Turbine islands for nuclear power plant are manufactured in Belfort (France).

Coal power plant



Combined cycle power plant



Coal-fired power plants

With over a century of experience in building coal-fired power plants, ALSTOM has the expertise, the technology and the product portfolio to meet its customer's specific requirements, combining high performance and reliability, with total environmental compliance.

ALSTOM has installed more than 1,300 steam turbine and generator sets and more than 100 turnkey steam power plants, totalling 430 GW worldwide.

INTEGRATED SOLUTIONS

ALSTOM provides a comprehensive range of flexible integrated solutions for various output. The coal-fired power plants burn any quality of coal and oil, in a single or multi-unit arrangement using different types of boilers.

ALSTOM's modular concept calls up on proven pre-engineered solutions tailored to meet each specific customer need.

Due to the broad combination of different elements and technologies used in coal-fired power plants, these projects are inherently complex and require specialist expertise. ALSTOM manages large-scale and complex projects, providing the entire range of services from technical engineering and sub-contracting, construction and commissioning and services.

ALSTOM's technology provides the optimum performance for all steam cycles from 100 MW. Better performance, combined with clean technologies, significantly reduce the environmental impact of the power plant.

PRODUCTS

Steam Turbines

ALSTOM offers a comprehensive portfolio of steam turbines for all fossil fired power plant applications, with outputs up to 1,200 MW.

Turbogenerators

With a comprehensive range of turbogenerators for 40 MW to 1,200 MW fossil fired power plants, ALSTOM proposes optimal designs for the entire range providing the most economical solution in each power range.

Boilers

ALSTOM offers a broad range of equipment for boilers, including:
- suspension-fired boilers, 50 – 1,200 MW, including advanced pulverized coal technologies,
- circulating fluidised bed (CFB) boilers, 50 – 600 MW, and hybrid fluidised bed boilers, and
- boiler products for energy recovery, including air pre-heaters and coal pulverizers.

Control Systems

ALSTOM delivers state-of-the-art control systems and solutions to control, monitor and manage power plants or equipments (boilers, steam turbines...).

CLEAN COMBUSTION

ALSTOM's expertise in boiler technologies and firing systems provides the perfect blend of knowledge to ensure that each fuel burns cleanly. ALSTOM has designed a family of low-NOx tangential and wall-fired combustion systems to significantly abate emissions, such as nitrogen oxides.

ALSTOM is the world's leading supplier of air quality control systems to the power generation industry and for many other industrial applications. The wide range of post-combustion solutions addresses all of customers' existing and future emission-compliance needs for all traditional pollutants:
- Control of sulphur dioxide (SO_2): up to 98% sulphur reduction;
- Control of nitrogen oxide (NOx): up to 90%;
- Control of Particulates: ALSTOM is PM 2.5 compliant;
- Control of Mercury emissions: up to 90%.

The next step will be the capture of CO_2. ALSTOM is already testing a leading solution on an industrial scale, building on expertise of traditional pollutant control.

Gas-Fired Power Plants

ALSTOM has leading experience and knowledge in simple-cycle, co-generation and combined cycle projects for gas turbine-based power plants. Customers today operate over 100 GW of plants built by ALSTOM for various power generation and heat applications.

INTEGRATED SIMPLE CYCLE POWER PLANTS

Today, only few alternatives exist to open-cycle gas turbines, whenever power generation capacity needs to be built quickly. ALSTOM is the key supplier for many customers who are looking for reliable commitments and on-time delivery.

INTEGRATED COMBINED CYCLE POWER PLANTS

For customers who wish efficient, flexible and competitive power generating capacity, ALSTOM proposes modular combined cycle plant designs that are optimised with regards to performance, emissions and installation times. The ALSTOM-made reference modules are adaptable to various site conditions and to individual power plant requirements; in addition, the integrated plant design provides numerous advantages, such as optimised installation times, high-performance and low-emission features and high operational flexibility features.

ALSTOM's project capabilities and references also encompass special applications, for example: the co-generation for district heating, industrial processes or desalination; or the phased-construction and steam-tail add-ons to convert simple-cycle into combined cycle plants.

PRODUCTS

Gas Turbines

ALSTOM's gas turbines (ranging from 50 to 280 MW) are successfully operating in open, combined and/or co-generation applications.

ALSTOM's gas turbine products are:
- GT26 (281 MW) for 50 Hz
- GT24 (188 MW) for 60 Hz
- GT13E2 (172 MW) for 50 Hz
- GT11N2 (115 MW) for 50 and 60 Hz
- GT11NM (87 MW) for 60 Hz
- GT8C2 (56 MW) for 50 and 60 Hz

Turbogenerators

Most of ALSTOM's turbogenerators for combined cycle power plants are using simple air-cooled technology. This technology combines easy maintenance and high efficiency of nearly 99%. Continuous development enables ALSTOM to build the world's largest air-cooled turbogenerator in operation, with a 320 MW (400 MVA) rating.

Control Systems

ALSTOM offers state-of-the-art control systems including: Plant Distributed Control Systems (DCS), related monitoring and plant management functions.

HRSG (Heat Recovery Steam Generator)

ALSTOM offers a complete range of HRSGs that provide high performance in cycling operations, cost-effective construction, and efficient operations. ALSTOM has unparalleled experience in this area, from horizontal and vertical drum-type HRSGs to advanced once-through HRSGs.

Hydro Power

ALSTOM is a market leader for hydro turbines and generators and it has supplied 25% of the world's installed hydro power generation capacity. All core equipment are produced in-house.
As part of the cooperation with Bouygues, a joint venture 50%-50% in hydro -called ALSTOM Hydro- was created between ALSTOM and Bouygues. This operation was finalised on the 31 October 2006 by the purchase by Bouygues of a 50% stake in ALSTOM's Hydro activities.

ALSTOM HYDRO POWER SOLUTIONS

Water is the world's largest consistent source of renewable energy with a great potential to reduce carbon dioxide emissions and avoid further global warming.

ALSTOM Hydro today offers the world's most comprehensive range of power generation services and equipment for all kinds of hydro projects – from small to large, from single equipment to complete turnkey solutions.

ALSTOM Hydro offers the customers a single point-of-contact to coordinate and interface with all related parties (consulting engineering, civil engineering, etc.) and acts as the consortium leader for major projects (where required), taking full responsibility for the project and its optimization.

ALSTOM Hydro's power plants combine reliability with very high efficiency, converting more than 90% of the available energy into electricity.

ALSTOM Hydro has also developed a range of turnkey solutions based upon standardised electromechanical equipment for industrial and agricultural applications, to satisfy all requirements from 5 MW to 30 MW.

PRODUCTS

Turbines up to 900 MW

ALSTOM Hydro provides a full range of hydro turbines up to 900 MW to meet all industry applications, whether for new-build or refurbishment projects. The wide range of hydro turbines includes Francis turbines, Kaplan turbines, pump turbines, Pelton turbines, bulb turbines, and speed governors.

Generators up to 1,000 MVA

ALSTOM Hydro's generators produce up to 1,000 MVA for any hydro power application, including large and medium hydro generators, small generators, bulb generators, diesel generators, and excitation systems.

Hydro-Mechanical Equipment

The demand for water is rapidly increasing. But control, distribution and disposal of water require a great deal of specialized equipment. ALSTOM Hydro designs and manufactures hydro-mechanical equipment for hydro power plants as well as for waterways and irrigation systems.

Balance of Plant and Control Systems

ALSTOM Hydro's core competencies in control systems span all types of hydro power plants to optimise power production. The control systems enable fast and easy regulation so that a shortfall of generation, or a peak demand, can be satisfied within seconds.

Nuclear Power Plants

Nuclear energy is more and more on the agenda in many countries as a part of the CO_2 free energy mix required to limit global warming. ALSTOM is one of the major players in the world in the field of nuclear power stations with extensive worldwide experience and know-how in the conventional islands and services for nuclear power stations.

NUCLEAR SOLUTIONS

ALSTOM's core competencies cover all phases of implementation of the power conversion systems, starting from licensing, conventional island basic and detail design, including general layout, civil work studies, supply of equipment, engineering of electrical equipment and control, documentation and training, technical assistance to erection up to commissioning and performance testing.

PRODUCTS

Steam Turbines

ALSTOM has produced and installed over 175 steam turbines for nuclear plants, making it a clear market leader. They operate all over the world, and have demonstrated a high level of reliability and performance. ALSTOM has produced the world's largest steam turbines with four 1,550 MW units having cumulated over 200,000 hours of operation.

Turbogenerators

ALSTOM's turbogenerators for nuclear power plants are the largest turbogenerators in operation world-wide, matching the output of the biggest reactors. These generators are designed to achieve greatest reliability and life-time targets and can offer today up to 1,800 MW output.

ALSTOM has built around 30% of the world's fleet of turbogenerators for nuclear power plants.

Retrofit for the installed base

An entire generation of power plants built in the last 10 to 40 years, faces a series of existing and future emission regulations with which to comply. In order to respond to these obligations and boost power plants' efficiency, availability and extend their lifetime, ALSTOM provides them with state-of-the-art technologies, ranging from comprehensive retrofits for boilers, turbines and air quality control systems to complete plant upgrades, rehabilitation packages, and service partnerships.

Power Systems also has unique value-integration skills that combine boiler and turbine retrofits to increase the plant's economics and the environmental benefits.

ALSTOM also possesses the largest retrofit experience in the market with the retrofit of over 340 ALSTOM fleet cylinders and of over 250 third party cylinders.

POWER SERVICE OFFERING

The Power Service Sector provides a complete range of power generation services, support and equipment, to customers who operate power generation equipment in all geographic markets.

The Sector offers a portfolio of products and services that covers:
- spare parts: including re-conditioned parts, workshop repairs;
- field service: outage management, field repairs, erection, commissioning, construction, supervision;
- consultancy & support: technical services, condition assessment, consultancy, training, monitoring & diagnosis, performance analysis;
- performance improvements: upgrades, uprates, modernisation, optimisation, life-time extension; and
- service agreements: inventory management, maintenance management, long term service agreements, operation & maintenance (O&M) for all major power plant components as well as combinations of these through packaging of integrated solutions. These solutions are designed to meet specific customer requirements for asset life cycle management, performance improvements, risk management, cost management or environmental compliance.

The Power Service offering of turnkey services is particularly well suited to the growing demand on the part of electricity producers, who are looking for a long term relationship.
The Power Service Sector has more than 15,000 specialists in 25 technology-related product centres, and 200 local service centres in 70 countries around the world.

Power Service is active in every plant area:

Gas Turbines

With the ever-increasing cost of natural gas, turbine performance and sub-component lifecycle extension have become paramount concerns. Power Service is continually developing innovative upgrade solutions for gas turbines. The Sector achieves substantial thermal efficiency gains for reduced costs, and its knowledge of the latest coatings and reconditioning techniques ensures the reliability and longevity of spare parts.

Steam Turbines

Any delays in delivering spares can turn a brief turbine outage into an expensive situation. ALSTOM's process for blade manufacturing and logistics is one example of a response that has earned Power Service a reputation for one of the industry's shortest delivery time of critical parts. The Sector's record in extending existing component life cycles is also clearly established.

Generators

As the average age of power plant generators increases worldwide, maintenance, lifetime extension and failure-risk management become evermore critical. Plant operators need effective cost control for components such as rotors and stators. Power Service has developed monitoring and diagnostics systems with continuous assessment that reduce unscheduled downtime. As the global leader in component rewinding, Power Service's time-to-restart is excellent – as is its record of increasing per-unit output through upgrading and reconditioning.

Boilers

A leader in steam generation for more than a century, ALSTOM benefits from its experience, capabilities and responsive service for boiler island equipment. Power Service partners with boiler operators to meet operational challenges with products that offer reliability, performance and extended service life. Power Service's experienced technical service engineers are an invaluable asset in assessing equipment condition and ensuring optimal operation.

Balance of Plant

ALSTOM's knowledge spans the numerous disciplines required for power plant operation and maintenance. Whether mechanical, hydraulic, electrical or electronic equipment, from engineering concept to custodial care, Power Service has the people and experience the customers require.

Instrumentation, Control and Electrical Equipment

ALSTOM has invested strongly in developing innovative, cost-effective solutions. Power Service experts integrate modern control architectures into existing systems, and offer a comprehensive asset-assessment and optimisation process to ensure that every balance of plant subsystem achieves original performance and efficiency – or better.

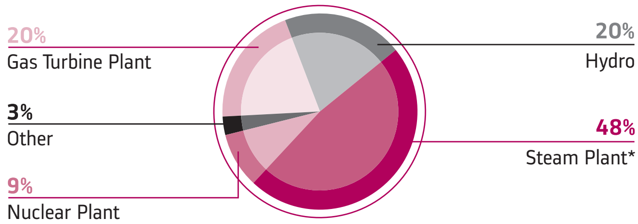
Environmental Equipment

Meeting environmental standards around the world requires responsive, innovative engineering and management. Power Service ensures on-line availability of environmental controls while balancing costs and performance. A good example is a set of cost-effective strategies for upgrades and rebuilds of precipitators and filtration systems that control costs with redesigned or revamped core components. ALSTOM solutions for particulate or sulphur-dioxide reduction systems deliver long term compliance with maximum availability and known costs.

Industry characteristics

The world's installed power generation capacity at the beginning of 2006 was estimated at around 4,230 GW. The chart below sets out the breakdown of this installed base by technology.

Installed base by technology



* 64% of Steam Plants are fuelled by coal, 19% by gas, 14% by oil, 3% others.

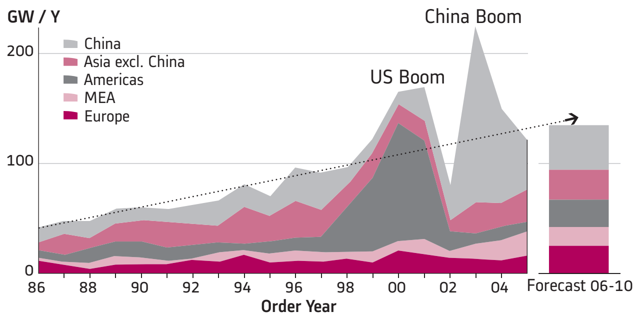
Source: ALSTOM, Utility Data Institute (UDI) – Status 1st of January 2006.

Investments needed in new power generation over the next decades are extremely important: according to IEA (International Energy Agency) (WEO 2006), they should represent at least around €140 billion per year until 2030.

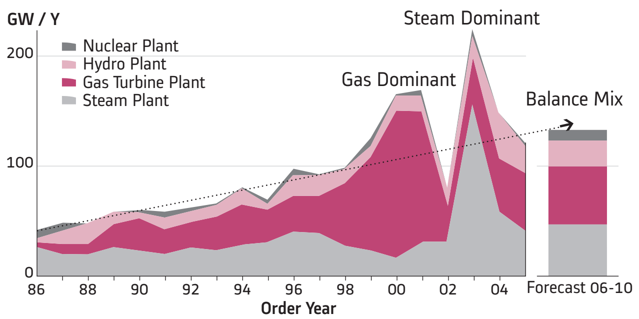
Market evolution

The graphs below show the evolution of the large power plant market by region and by technology, considering ALSTOM's scope of activity:

Market evolution



Notes: Large GTs, Large Conv STs, ST CC, Nuclear, Hydro.



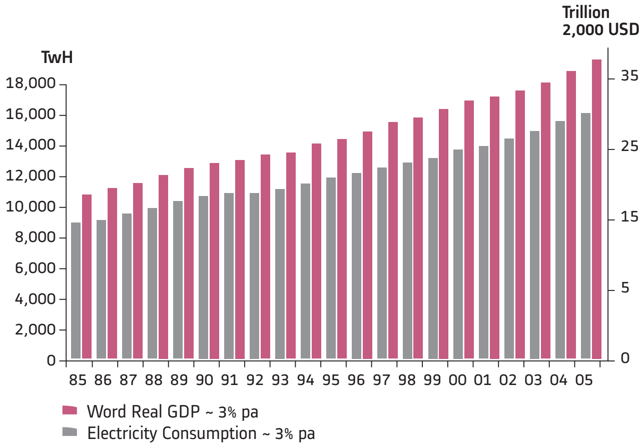
Source: ALSTOM.

Demand for power generation equipment tends to be driven by a variety of complex and inter-related factors, notably:

Economic growth

Global demand for new power plants tends to be stronger in those regions where economic growth is high. Historically, there has been a strong correlation between growth of the electricity consumption and worldwide GDP growth, although on a short-term basis, demand for power generation equipment may fluctuate significantly. Changing consumption patterns that favour electricity as a power source also drives demand for power generation equipment.

Electricity consumption growth - linked to GDP



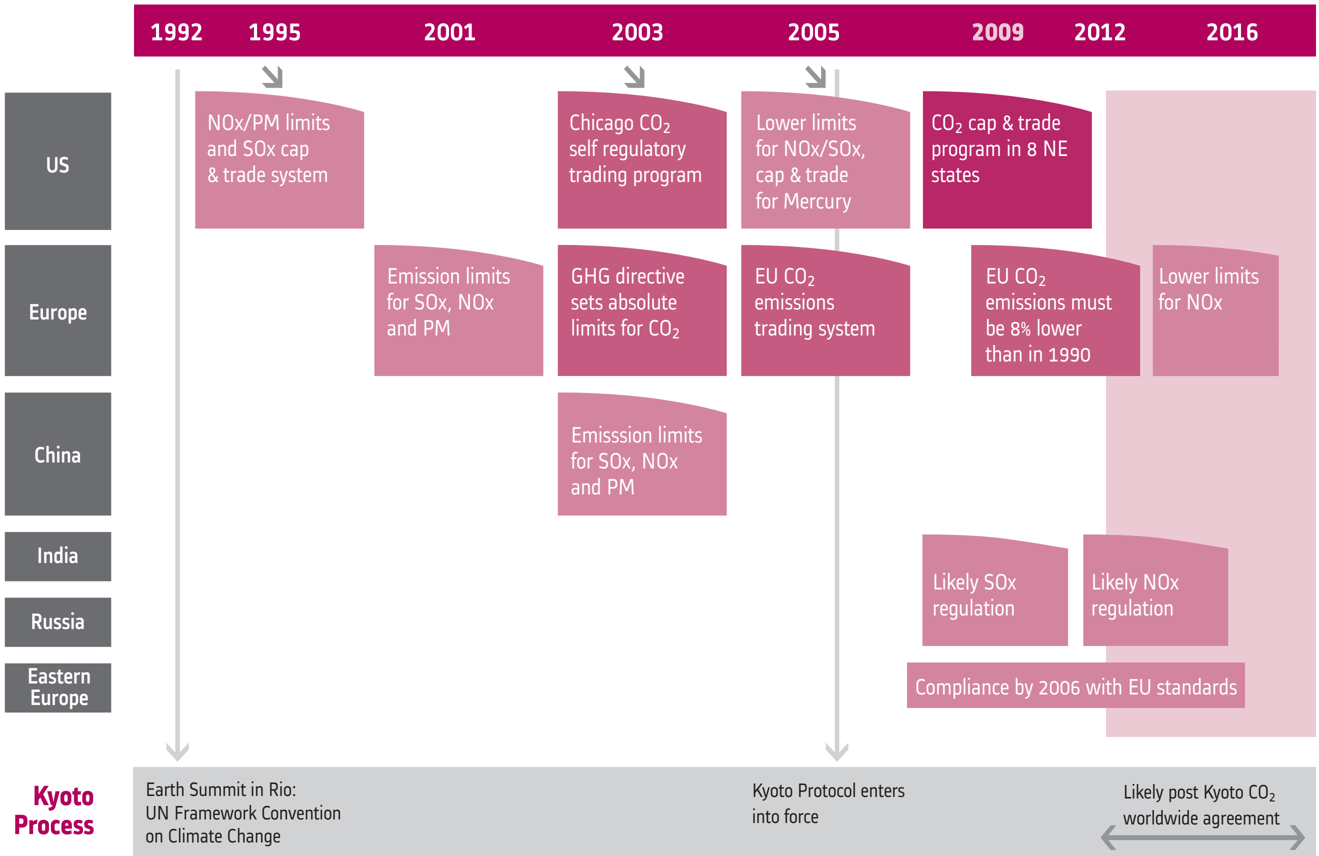
Source: ALSTOM, EIA-DOE, Worldbank.

Following a period of intense growth in power infrastructure investment in the United States from the late 1990s, 2002 saw a sharp drop in the level of new orders. In 2003 and 2004, the world economy was driven by unprecedented growth in China, and there was a surge for new power plants in the country. This market shift – decline in North America, growth in Asia – also resulted in a technology switch from gas to coal and hydroelectric power, which account for a large proportion of this region's capacity demand. Alongside continued healthy demand for conventional steam plants and hydro plants, 2005/06 also saw a high level of gas plant orders. Strong demand for gas fired technologies in the Middle East and Europe and somewhat lower order levels in China, resulted in a fairly balanced technology split. In forthcoming years, ALSTOM continues to see a balanced regional and technological mix of the large power plant market, with at least two thirds for fossil power plants (steam plants - mainly burning coal / gas plants - mainly burning gas), a strong hydro market and a smaller but growing market for nuclear. Asia is likely to remain the biggest market globally, with China and India representing key parts of it. The rest of the world market will be roughly equally distributed among the Middle East, including big projects for Combined Power & Water (IWPP), Europe – with a strong German coal market and a potential market comeback in Russia – and the Americas.

Environmental concern

Alongside energy security, environmental concerns have been the most widely debated topic over recent years. A real change in behaviour is visible, with more stringent legislations and a general consensus amongst OEM's, power producers, the public and politicians that action needs to be taken against global warming and pollution.

Environmental legislation: a main driver for change



Source : IPCC, ALSTOM.

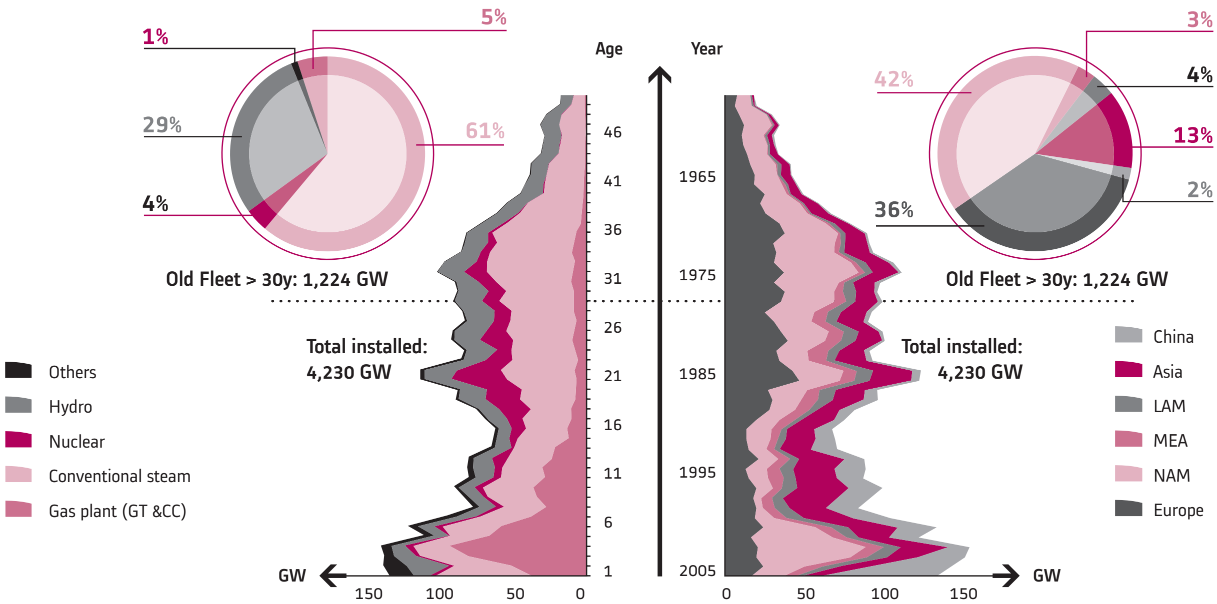
These environmental concerns have not only created increased demand for clean-coal technologies, but also for refurbishment and for the integration of environmental control systems in existing power plants - a field where ALSTOM is particularly strong. The outlook for environmental equipment market is positive, including in Asia, with current years being exceptionally strong for DeSox systems in North America and Europe due to compliance deadlines.

Ageing installed base of power plants

The ageing installed base along with more stringent environmental regulations will lead to higher demand for retrofit. Even with modest GDP growth, the increasing number of old plants reaching retirement age will still drive the market for new equipment just to maintain current levels of installed capacity. In recent years, demand for maintenance and refurbishment has been strengthened by a general trend among power producers to seek to increase performance, lower operating costs and extend the life cycles of their existing plants. This increase in demand to upgrade facilities has particularly benefited power plant manufacturers such as ALSTOM, and the Group believes that its large worldwide installed base will be a significant source of future growth for its Power Service activities, especially in Europe and in the USA.

According to the Group's analysis based on data published by Utility Data Institute (UDI - USA) and proprietary sources, ALSTOM has installed major power generation equipment in about 25% of the world's installed thermal power generation equipment. The Group considers the experience with installing and servicing this large installed base of equipment is key in securing further customer service contracts and supporting sales of the Power Service Sector in the future.

Age pyramid of world installed capacity



Note : 180 GW missing due to unknown commission year.
Source : ALSTOM, UDI.

Deregulation and liberalisation

The deregulation and liberalisation process of electricity markets transformed the customer base and also impacted demand. This was particularly visible during the boom in the USA, where demand from merchant developers, which are private power plant operators, selling electricity independently, grew very fast. However, record high fuel and carbon dioxide prices, as well as increased wholesale and retail electricity prices, have lead to a restructuring of the industry. The high energy prices have increased the threats of political intervention to cap or curb price levels, adding political risks for power companies and ultimately questioning liberalisation. Concerns regarding energy security of supply are also increasing, leading to more government intervention in power investment decisions such as for new nuclear power. A slow move towards a more balanced positioning between market-based policies and government control is recorded in several regions. Besides driving a large proportion of new investments in the past few years, liberalisation also caused price pressure on power plant costs and increased the demand for more efficient and environmentally friendly plants with higher operating profitability. In addition, the increasing number of plants built and owned by private companies that tend to outsource most of their operating and maintenance activities is also driving service market growth. Such a trend has been maintained even in a period of lower private initiatives since utilities are also adopting a strategy of cost reduction and asset optimisation.

Deregulation influences the timing of market demand and the choice of portfolio of technologies, but not the volume of the demand. Its influence on the final price of electricity is not proven yet.

Fuel price and availability

Fuel price and its availability is not a prime driver for electricity demand but it rather influences the portfolio of technologies. Recent years have been characterised by rising fuel prices and concerns about energy security. But rising energy prices is not just an oil issue - natural gas, coal and uranium prices are all directly or indirectly affected by the general rise, and questioning the right choice for investment in new power plants.

Gas prices especially have strongly increased, more than doubling compare to the end of the 90's – the time where gas turbine investments were booming in the USA. They are also far more volatile than coal or uranium prices. The rise in energy prices is general, but does not impact similarly the cost of electricity produced by the power plants: gas plants are more sensitive to fuel price changes than coal or nuclear plants. Coal is currently the world's fastest growing fuel, although China alone accounted for the lion part of the consumption growth.

This price volatility, energy security concerns, and the drive to reduce greenhouse gas emissions (GHG) have led to a comeback of nuclear power plants in the development plans of many countries.

The energy resources are not evenly distributed. The Middle East holds, by far, the largest reserves of oil and is also the world's biggest producer. The USA, Western Europe and Asia/Pacific are the biggest importers of oil. For gas, the picture is different, as Middle East still holds the largest proven reserves but Russia alone has over 25% of the world wide proven reserves and is also the biggest exporter of natural gas.

Coal is an abundant energy source in many regions, with China, India, Australia, South Africa, Russia, Western Europe and the USA all having large proven reserves.

Globally, a balanced portfolio of technology and fuel appears to be probably the best way to secure power generator companies profitability on a long term and a key path for energy security increase in a country.

Competitive position

ALSTOM Power Sectors occupy leading worldwide positions in the major part of their businesses.

POWER SYSTEMS COMPETITIVE POSITION

The Power Systems Sector occupies leading worldwide positions in all its Businesses.

In the gas turbine segment, the Sector competes against three other major groups: General Electric, Siemens and Mitsubishi Heavy Industries.

In the steam turbine segment, the Sector competes against global companies such as Siemens, Mitsubishi Heavy Industries, Toshiba and General Electric, but also against domestic suppliers like Shanghai Electric, Harbin and Dongfang in China, or BHEL in India.

In the utility boilers segment, the Sector's main competitors are Mitsubishi Heavy Industries, Babcock & Wilcox, Babcock Hitachi, Foster Wheeler and the domestic suppliers in India and China mentioned above.

In emissions control systems for electrical power producers, the main competitors are Fisia Babcock, BPI, Babcock & Wilcox, Lurgi, Siemens-Wheelabrator, Mitsubishi Heavy Industries, Babcock Hitachi, Black & Veatch and Austria Energy & Environment.
In emissions control for industry, the Sector mainly competes with Hamon, FLS Airtech, Solios, Mitsubishi, Voest Alpine, Enfil and BHA.

In the hydroelectric power market, ALSTOM Hydro's main competitors are Voith-Siemens, Andritz VATECH Hydro and IMPSA as well as Chinese domestic manufacturers Harbin and Dongfang and BHEL in India.

The Power Systems Sector's competitive strengths include:
- its unique capability to supply optimised turnkey plants by integrating all major components from in-house technology (turbine, generator, boiler, condenser, environmental systems, electrical and control systems);
- its extensive experience in heavy duty and mid-range gas turbines, with a portfolio of proven machines;
- its strong market position and extensive experience in all types of boiler technologies, including clean coal combustion;
- its size and balanced world presence;
- its leadership position in steam turbines and generators; and conventional part in nuclear island;
- its position as world leader in hydro systems and equipment, through the joint venture with Bouygues.

POWER SERVICE COMPETITIVE POSITION

Main competitors in service include other original equipment manufacturers of power generation equipment such as General Electric, Siemens-Westinghouse and Mitsubishi who mainly concentrate on servicing their own equipment, as well as a number of smaller independent and local service providers.

The Power Service Sector's competitive strengths are:
- extensive global network of local service capabilities with more than 200 local service centres in some 70 countries, throughout the world;
- large base of ALSTOM-supplied power generation equipment;
- a large service product portfolio, covering the whole plant and its systems; and
- a continuous development of innovative service products and solutions thanks to a comprehensive research and development effort.

Research & development focus

POWER SYSTEMS R&D

Power Systems has a long term R&D programme for developing and/or acquiring the best available technology that will provide efficiency, environmental and commercial benefits to power plant operators worldwide – now and in the future.

The Sector has continued to work on the performance upgrades of its GT26 and GT13 gas turbines with the development of:
- more efficient cooling systems;
- increases in turbine temperature, pressure and speed;
- advanced materials including ceramic, alloy and super-conducting; and
- improved insulation.

Another area which has seen continuous improvement is clean power. Growing levels of CO_2 and other greenhouse gases are increasingly contributing to global warming and to fundamental changes in the earth's climate. Existing power generation accounts for one third of these greenhouse gases.

The main issue today is the CO_2 emitted by existing plants. ALSTOM's primary focus is to produce cleaner power in today's fossil fuel power plants, through using advanced but proven technologies. Efficiency is the first target as improved efficiency means a lower rate of fuel used per MWh of electricity. ALSTOM's R&D centers have focused on ways to improve efficiency and performance of all types of power generating systems from fuel delivery to flue gas treatment. Innovations in boiler technology will enable new supercritical and ultra-supercritical coal-fired plants to achieve around 50% efficiency with high reliability and availability.

The Group also believes that CO_2 capture is a must and ALSTOM is at the forefront of developments to produce reliable, cost-effective solutions for CO_2 capture, retrofitable for the installed base and new built. Pilot projects have been launched in Europe and in the USA, in collaboration with main customers, for post-combustion capture and oxy-firing experiments. ALSTOM is leading the way in the race to curtail emissions for traditional pollutants.

Whilst clean power technologies for fossil fuel power generation will continue to dominate the power industry in the short to medium term, ALSTOM will continue with its philosophy of maintaining a portfolio of technologies that meets the market and environmental demands.

ALSTOM's R&D efforts are driven essentially by current and future market needs in its product areas. To ensure that this is so, the R&D resources are an integral part of its businesses. The Group has major development centers in France, Germany, Switzerland, United Kingdom and the United States. Power Systems employs over 4,000 engineers and have 22 development centres and 13 laboratories worldwide. In addition to its internal resources, ALSTOM actively seek links with the leading academic institutions to access facilities, expertise and research talent. Across the world, the Group has established relations with some forty universities where active R&D collaboration is underway.

ALSTOM has also developed partnerships with some of its customers to build demonstration plants, e.g. in the fields of enhanced plant's efficiency and carbon capture and storage. One good example is the agreement signed between ALSTOM and AEP – main coal power producer in the USA - in March 2007 to bring the CO_2 capture technology to commercial scale by 2011.

Whilst much of the technology is currently developed in Western Europe and the USA, ALSTOM is developing centres of excellence in other parts of Europe, and in India and China from where much of the demand for new power generation capacity will come in future years.

POWER SERVICE R&D

The Power Service Sector provides day-to-day services based on its knowledge in operating and maintaining power stations at world-class levels, thus reducing the customer's risk profile in terms of operational and maintenance related aspects.

R&D within Power Service has launched several programmes with the objective of creating increased value for customers. These programmes mainly focus on gas turbine upgrades, monitoring and diagnostic processes, performance and life cycle solutions, steam turbine replacement parts, and generator rewind solutions.

In the area of service for gas turbines and combined cycle power plants, Power Service R&D activities focus mainly on improvements of thermal efficiency, on lowering life cycle costs and on environmental issues for already existing power plant. Thus, the Sector not only offers solutions to keep existing power plants competitive, but also to reduce their environmental impact. With ALSTOM's environmentally friendly gas turbine burner technology, Power Service R&D develops gas turbine combustion solutions, which allow customers to meet today's environmental requirements regardless of power plant age.

In the area of monitoring and diagnostic processes, a special program focus is on the newly introduced inspection technologies targeting the application of state-of-the-art remote operating vehicles applying advanced inspection and repair methodologies.

With ALSTOM's advanced monitoring, assessment and inspection technologies such as ECORAM "CO_2–CUT", and gas turbine rotor retirement programme, Power Service can review the condition of a power plant, recommend performance improvements, life cycle extension solutions, meet environmental requirements, and increase power plant availability.

By identifying efficiency upgrades, the Sector can immediately deliver fuel savings for the plant operator, at an unchanged electricity production rate, whilst allowing compliance with the Kyoto Protocol to reduce the CO_2 impact.

In the area of steam turbine replacement parts, advancements in the manufacturing process for stationary blade profiles mean that Power Service can now meet geometric requirements for the original blade design. Combined with a superior material specification this allows for delivery of new blades with enhanced anti corrosion capabilities.

In addition, by using computational fluid dynamics analysis, the Sector can redesign blade geometry to deliver a higher efficiency level.

In the generator space, Power Service R&D has developed an economical stator rewind solution by combining ALSTOM's standard stainless steel cooling technology with low cost manufacturing capability.

Strategy

POWER SYSTEMS STRATEGY

The two pillars of the Power Systems strategy are:
- the Plant Integrator, and
- the Clean Power.

Plant Integrator

ALSTOM has a unique expertise as a plant integrator.
Plant Integrator applies to all options for supplies and services. It is a cutting edge methodology to yield significant value for customers. It is a unique way of working which consists of always looking at creating more value for customers via the search for total optimization of a power solution versus mere direct cost reduction via products compilation. It allows to:
- increase cash flow and get lowest cost,
- get more power,
- increase the installation's efficiency,
- burn less fuel,
- improve flexibility of operation.

This concept is particularly efficient for the retrofit of installed base.

Today, plant operators are facing multiple challenges in their efforts to make their plants more competitive, while complying with the different environmental regulations. In addition, market predictions say that electricity demand will continue to increase in the next decades.

Clean Power

ALSTOM stands ready to help plant operators to choose the right and balanced portfolio of energy sources, while giving them the newest technologies on hand to curtail emissions, both all traditional pollutants and CO_2. ALSTOM today is best positioned to provide the cleanest power plants: for all plants (both existing and new ones), all types of energy sources (from fossil fuels, hydro, to nuclear), and all emission types (NOx, SOx, Mercury, particulate matters).

ALSTOM offers a complete range of products designed to help power plants to either reduce pollutant and CO_2 emissions, or to produce clean electricity straight from the beginning.

In addition to these two pillars, the Power Systems Sector continues to implement an operational methodology based on the Back to Basics programme, that focuses on three key issues:
- increase intake of profitable orders, through a global sales coverage and being present where the customer is,
- improve project management excellence,
- optimise the cost base by moving it where the market is and where the labour cost is lower and the workforce flexible.

As part of this issue, the Power Systems strategy is to increase its presence in China and India, and to build its position in Russia and the emerging markets.

Another key growing trend is the use of Chinese manufacturing units or Indian engineering offices to export products or projects to other countries. For example, the ALSTOM Beizhong Power (ABP) joint venture allows the Group to build a local presence in China for the steam turbine and generator markets.

Whenever necessary, ALSTOM will strengthen its position through strategic partnerships and will observe opportunities to expand its product range. One good example is the agreement signed on 2 April 2007 with Russian group Atomenergomash to create a joint venture dedicated to manufacturing the conventional island of nuclear power plants.

POWER SERVICE STRATEGY

With a full service offering and extensive global and regional market coverage, ALSTOM is in a strong position to increase its Power Service activities in the future. The strategy pursued by the Power Service Sector aims to combine growth with performance enhancement at all levels.

This approach is guided by strategic priorities:
- be a full plant service provider and expert in optimising performance and extending the life cycle of equipment;
- continue to develop products which respond directly to customer needs;
- serve the needs of an expanding market, notably in key high growth areas such as China, India and, the Gulf States;
- broaden its activity portfolio through selective acquisitions;
- achieve best-in-class performance in terms of customer responsiveness and on-time delivery by focus on process excellence; and
- invest in the development of its people.

Key financial data

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

Power, actual figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	17,092	12,783	34%
Orders received	13,593	9,567	42%
Sales	8,871	7,932	12%
Income from operations	711	543	31%
Operating margin	8.0%	6.8%	
EBIT	674	482	40%
Capital employed	1,480	1,373	8%

Power, comparable figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	17,092	12,426	38%
Orders received	13,593	9,113	49%
Sales	8,871	7,432	19%
Income from operations	711	509	40%
Operating margin	8.0%	6.8%	

POWER SYSTEMS

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

Power Systems, actual figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	11,873	8,447	41%
Orders received	9,535	6,076	57%
Sales	5,673	5,079	12%
Income from operations	201	101	99%
Operating margin	3.5%	2.0%	
EBIT	175	75	133%
Capital employed	(648)	(439)	48%

Power Systems, comparable figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	11,873	8,074	47%
Orders received	9,535	5,783	65%
Sales	5,673	4,724	20%
Income from operations	201	85	137%
Operating margin	3.5%	1.8%	

POWER SERVICE

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

Power Service, actual figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	5,219	4,336	20%
Orders received	4,058	3,491	16%
Sales	3,198	2,853	12%
Income from operations	510	442	15%
Operating margin	15.9%	15.5%	
EBIT	499	407	23%
Capital employed	2,128	1,812	17%

Power Service, comparable figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	5,219	4,352	20%
Orders received	4,058	3,330	22%
Sales	3,198	2,708	18%
Income from operations	510	424	20%
Operating margin	15.9%	15.7%	

Comments on activity during fiscal year

ORDERS

Power Systems

After the US gas bubble of 2000 and 2001 and the Chinese coal boom of 2003 and 2004, the European market has come back strongly for both gas and steam equipment. The total global market is expected to remain active above 130 GW per annum. In addition, the need to comply with environmental regulations and the ageing of the installed base has stepped up the demand for environmental upgrades of existing power plants.

Asia remains the dominant market with about half of the world demand for new equipment. Coal and hydro are and will remain the leading energy sources in China and India, while gas prevails in the rest of Asia and Australia. The recognition of the environment as a key issue leads to a fast growing market in China for environmental control equipment. Both China and India have started ambitious nuclear programmes.

New coal projects are emerging in Central and Northern Europe, requiring more efficient clean coal combustion technologies. The environmental retrofit of existing coal power plants is also experiencing sharp growth due to the need for operators to meet the deadlines set by the European Union. The nuclear market is coming back in Europe and the Group booked a major order in France.

In North America, the demand for new equipment in high efficiency coal projects is strong. The market for environmental retrofit of coal power plants has been very solid in the last few years and is expected to remain so for some time due to Nox and Sox compliance deadlines. Nuclear is also coming back.

Power Systems has seen a reduction in order intake in Asia/Pacific for the fiscal year 2006/07 compared to the previous fiscal year which benefited from a large hydro order in India and due to the temporary cooling down of this market, in particular in South East Asia.

In Latin America, growth is seen in hydro but also in gas and coal power plants. The market has been suffering from under investment in recent years and increased investment is expected in the region in the near to medium term.

In the Middle East and Africa, the market is essentially a gas market except in South Africa where the coal market is coming back after many years of limited investment. In the Middle East, the market has cooled down this year after strong growth in the prior two years, but it is expected to recover with some diversification into conventional steam and power plants associated with desalination plants.

Orders received by the Sector for the fiscal year 2006/07 amounted to €9,535 million, 65% higher than in fiscal year 2005/06 on a comparable basis. Overall, a total of 20 gas turbines and 3 major coal power plants orders were booked. The Group also achieved a key success in nuclear with an order from EDF for the conventional island of the new generation EPR nuclear power plant in Flamanville, France.

On a regional basis, in fiscal year 2006/07, Europe represented 59% of the total order intake, North America 20% while Asia accounted for 12% of the total order intake:

- Europe increased by 128% on an actual basis (141% on a comparable basis) at €5,657 million as a result of the booking of a high number of gas-fired power plant projects as well as two coal-fired power plants in Poland and Bulgaria. ALSTOM's market share has increased in this region;
- North America increased by 120% on an actual basis (133% on a comparable basis) at €1,904 million as various air pollution systems as well as a high efficiency coal-fired generating plant were booked during 2006/07;
- In Asia/Pacific, orders received amounted to €1,099 million, a 19% decrease from 2005/06 on an actual basis (13% on a comparable basis), mainly due to India where a significant hydro project was booked in 2005/06 and Australia where two gas plants were booked in 2005/06 as compared to one in 2006/07.
- In South/Central America, orders received amounted to €585 million, stable from previous year. Orders decreased by 63% in Middle East/ Africa at €291 million, due to the slow-down of the gas market in this region.

Power Service

Power Service achieved a strong fiscal year 2006/07 reflecting a generally favourable market development of service activities and good positions on this market.

Market growth is mainly enhanced by increased power consumption with some specific regional characteristics. The underlying growth drivers are a larger installed base, an ageing fleet, liberalisation and a greater focus on environmental standards although the significance of these varies regionally.

Recent high fuel prices have also triggered a number of customers to commit to plant improvements where Power Service can provide competitive solutions.

In Europe, environmental regulation and an active CO_2 market are major factors in investment decisions. These areas are driving both efficiency-enhancing products to reduce fuel consumption as well as emissions control products. In addition, a number of utilities are following a strategy of extending plant life, thus creating opportunities to offer corresponding solutions.

In North America, customers continue to manage their power generation portfolios in response to the current market situation. This has favoured high efficiency coal generating plant and associated services. Demand for clean-coal power generation opens service opportunities. The US GT market is gaining attractiveness including potential upgrades.

In Asia and Australia, a build-up of capacity and a greater focus on environmental control will drive service opportunities. Liberalisation is also starting to generate interest in asset management services. Last year included gas turbines inspections in South Korea and Operation & Maintenance contracts in Asia which are now starting to be translated into sales.

The Middle East's growing demand for large gas turbines will open additional opportunities.

Orders received were €4,058 million in fiscal year 2006/07, 22% higher than in fiscal year 2005/06 on a comparable basis. The high level of order flow for turnkey power plants booked by Power Systems drove associated long-term Operation & Maintenance contracts. Notable successes included the USA, Italy, the United Kingdom, Spain, Germany, South America and entry into the Russian market. In addition to Operation & Maintenance contracts, significant steam turbines upgrades in North America, stator rewinds in France and in the United States have been recorded.

Orders received were €1,627 million in Europe (40% of total orders), up 11% and 16% on an actual and a comparable basis respectively from the previous year. Power Service booked €1,188 million of orders in North America (29% of total orders), a 33% increase on an actual basis (43% on a comparable basis). Orders were €508 million in Asia/Pacific (13% of total orders), down 12% from previous fiscal year on an actual basis and 9% on a comparable basis and €483 million in Africa/Middle East (12% of total orders), stable on an actual basis and up 4% on a comparable basis. Finally, orders received were €251 million in South/Central America (6% of total orders), a 230% increase on an actual basis (234% on a comparable basis).

Main orders received by the Power Sectors during fiscal year 2006/07

The most significant orders booked by Power Systems and Power Service during fiscal year 2006/07 were the following:

Country	Customer	Sector	Description
Australia	CLP / TRU	Power Systems Power Service	400 MW GT26 combined cycle power plant 12-year long-term service agreement
Bahrain	MEW	Power Service	Modernisation of a power plant
Brazil	CSA	Power Systems	490 MW GT11 combined cycle power plant
Bulgaria	AES	Power Systems	670 MW clean coal power plant
France	EDF	Power Systems	Turbine island for the new European Pressurized Reactor (EPR) nuclear power plant
France	EDF	Power Service	Maintenance of the conventional island of nuclear power plants
France	Gaz de France	Power Systems	410 MW GT26 combined cycle power plant
Germany	RWE	Power Systems Power Service	800 MW GT26 combined cycle power plant Operation and maintenance contract
Italy	Endesa	Power Systems	800 MW GT26 combined cycle power plant
Italy	Energia	Power Systems Power Service	800 MW GT26 combined cycle power plant Operation and maintenance contract
Poland	Belchatow	Power Systems	833 MW clean coal power plant
Russia	Mosenergo	Power Systems Power Service	420 MW GT26 combined cycle power plant Operation and maintenance contract
Spain	Hidrocantabrico	Power Systems	400 MW GT26 combined cycle power plant Operation and maintenance contract
Spain	Gas Natural	Power Systems Power Service	400 MW GT26 combined cycle power plant Operation and maintenance contract
United Kingdom	Centrica	Power Systems Power Service	800 MW GT26 combined cycle power plant Long-term service agreement
United Kingdom	Scottish & Southern Energy	Power Service	Generator upgrade and supply four new 500 MW inner stators
United States	Kansas City Power and Light	Power Systems Power Service	Boiler and air quality control equipment for a 850 MW advanced high-efficiency coal-fired power plant
United States	Consumers Energy	Power Service	Maintenance and construction of unit
Vietnam	Lilama	Power Systems	480 MW GT13 combined cycle power plant

In addition, Power Systems booked several air pollution systems orders in the USA, Greece and the UK and several medium size hydro projects in China and India.

SALES

Power Systems

In fiscal year 2006/07, sales in Power Systems stood at €5,673 million, 20% higher than fiscal year 2005/06 on a comparable basis, a consequence of the positive order intake development during the previous period.

All regions, except Asia/Pacific, contributed to the increase in sales. Sales in Europe increased by 68% on an actual basis (103% on a comparable basis) at €2,051 million or 36% of total sales. Sales in North America increased by 12% on an actual basis (19% on a comparable basis) at €1,119 million, reflecting the growth in the environmental control business, and represented 20% of total sales. South and Central America increased by 3% on an actual basis and by 4% on a comparable basis, corresponding to 7% of the 2006/07 global sales. Sales in Asia/Pacific decreased by 25% on an actual basis (20% on a comparable basis), representing 20% of total sales in 2006/07. Finally, sales in Middle East/Africa remained stable, contributing 17% of total sales.

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

Power Systems, actual figures

Year ended 31 March (in € million)	2007	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	2,051	36%	68%	1,218	24%
North America	1,119	20%	12%	997	19%
South and Central America	411	7%	3%	398	8%
Asia/Pacific	1,142	20%	(25%)	1,513	30%
Middle East/Africa	950	17%	0%	953	19%
Sales by destination	**5,673**	**100%**	**12%**	**5,079**	**100%**

Power Systems, comparable figures

Year ended 31 March (in € million)	2007	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	2,051	36%	103%	1,009	21%
North America	1,119	20%	19%	944	20%
South and Central America	411	7%	4%	397	8%
Asia/Pacific	1,142	20%	(20%)	1,434	30%
Middle East/Africa	950	17%	1%	940	20%
Sales by destination	**5,673**	**100%**	**20%**	**4,724**	**100%**

Power Service

Sales booked by Power Service in fiscal year 2006/07 stood at €3,198 million, an 18% increase on fiscal year 2005/06 on a comparable basis.

On a geographical basis, sales increased in North America by 16% on an actual basis and 24% on a comparable basis to €914 million or 29% of the total sales. Sales also increased in Asia/Pacific by 14% on an actual basis and 18% on a comparable basis to €596 million (18% of total sales). Middle East/African sales represented 13% of total sales at €414 million, a 49% increase on an actual basis (54% on a comparable basis). Sales in Europe were €1,176 million or 37% of total sales in 2006/07, stable from previous fiscal year on an actual basis and up 7% on a comparable basis due to the disposal of the Flow Systems business. Finally, sales in South/Central America were down by 4% on an actual basis (stable on a comparable basis) at €98 million (3% of total sales).

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

Power Service, actual figures

Year ended 31 March (in € million)	2007	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	1,176	37%	1%	1,167	41%
North America	914	29%	16%	785	27%
South and Central America	98	3%	(4%)	102	4%
Asia/Pacific	596	18%	14%	522	18%
Middle East/Africa	414	13%	49%	277	10%
Sales by destination	**3,198**	**100%**	**12%**	**2,853**	**100%**

Power Service, comparable figures

Year ended 31 March (in € million)	2007	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	1,176	37%	7%	1,101	41%
North America	914	29%	24%	735	27%
South and Central America	98	3%	(1%)	99	4%
Asia/Pacific	596	18%	18%	505	18%
Middle East/Africa	414	13%	54%	268	10%
Sales by destination	**3,198**	**100%**	**18%**	**2,708**	**100%**

INCOME FROM OPERATIONS AND OPERATING MARGIN

Power Systems

Power Systems income from operations was €201 million in fiscal year 2006/07, compared to an income from operations of €85 million in fiscal year 2005/06 on a comparable basis. The operating margin increased from 1.8% to 3.5% on a comparable basis. This improvement results mainly from the increased sales as well as from effects of the cost reduction programme implemented over the last two years and from a better performance in project execution.

Power Service

Power Service's income from operations was €510 million or 15.9% of sales in fiscal year 2006/07 compared with €424 million or 15.7% of sales for fiscal year 2005/06 on a comparable basis. Operating income increased due to higher sales, an improved mix of activities as well as cost reduction programmes.

Transport Sector

Transport Sector designs, manufactures, supplies and maintains a broad range of products, systems and services to railway customers worldwide.

Offering

Transport supplies fully integrated rail transport systems, a full range of rolling stock products as well as information and infrastructure solutions. Transport also offers services such as maintenance, renovation, spare parts supply chain management, turnkey project management, customer training and technical consulting.

Transport is a global organisation, with 32 major production and service sites around the world and a dedicated sales force on all five continents. Its main production sites are located in Belgium, Brazil, Canada, China, France, Germany, Italy, the Netherlands, Poland, Spain, the UK and the USA.

Transport's activities are summarised below :

Rolling Stock

The Rolling Stock Business encompasses the design, development, production, testing, delivering and commissioning of :

- mainline passenger trains including very high-speed (TGV™*), high-speed, and tilting trains (PENDOLINO™);
- mass transit trains including tramways, light rail vehicles (CITADIS™) and metros (METROPOLIS™);
- single and double deck suburban trains (X'TRAPOLIS™);
- regional electrical and diesel multiple units (CORADIA™);
- locomotives (PRIMA™) and freight cars.

* TGV is a trademark of SNCF.

Information Solutions

The Information Solutions' product line includes a wide range of products and solutions such as:

- main line train control and supervision systems (ATLAS™), including trackside and onboard ERTMS (European Rail Traffic Management System);
- mass transit train control and supervision systems (URBALIS™), including control centres, Automatic Train Protection (ATP) and signalling products for driverless systems;
- point machines, signal lights and interlocking;
- railroad-specific signalling products and solutions;
- passenger information systems (AGATE™ Media).

Information Solutions also covers full maintenance for signalling and train control as well as on-site assistance.

Train Life Services

The Train Life Services Business offers public and private rail transport operators a broad range of services for train life management, including:

- maintenance,
- renovation,
- technical support and assistance with documentation management,
- spare parts supply chain management.

System

The System Business offers complete turnkey solutions as well as infrastructure-related products and services.

ALSTOM can lead or participate in turnkey project management, for transit as well as mainline. The management of such projects covers designing, building, commissioning, maintaining and coordinating financial, administrative and technical issues. In doing so, ALSTOM offers a complete, integrated and optimized combination of rolling stock, information solutions, infrastructure and maintenance.

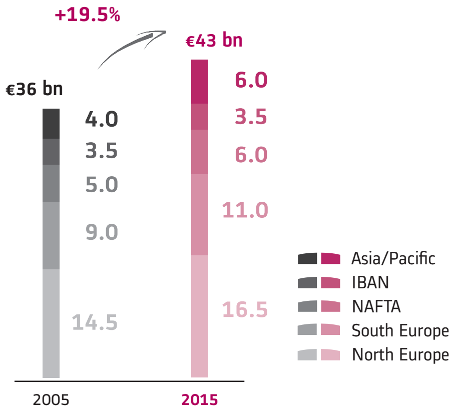
Specific products and services address needs related to main line and urban transportation, such as:

- line electrification and power supply, including sub-stations;
- track lay-out;
- station electrical and mechanical equipment (comfort, control and communication);
- infrastructure maintenance.

Industry characteristics

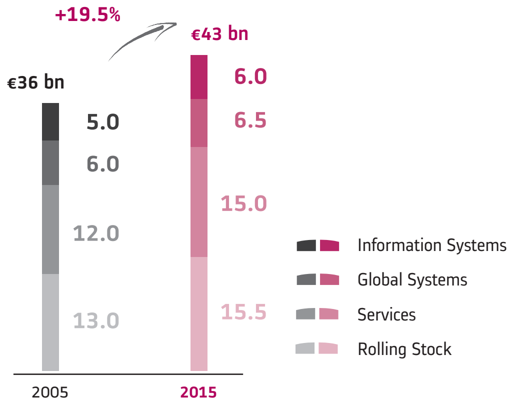
Governments are paying increasing attention to the rail sector with regards to environmental constraints, mobility, growing urbanisation, urban and suburban road congestion, as well as medium-distance air traffic saturation.

Market growth by region



Source: UNIFE-ALSTOM.

Market growth by product line



Source: UNIFE-ALSTOM.

In late 2006, the European Railway Industries Union (UNIFE) estimated the size of the global market accessible to its main members, at approximately €36 billion in 2005. This market is expected to grow at an annual rate of around 2% to €43 billion in 2015. The bulk of the growth will come from rolling stock and services, representing over 80% of the increase within the accessible market. Also Asia/Pacific will be the region generating the most additional opportunities, representing 14% of the accessible market in 2015 versus 10% in 2005.

After a low point reached in 2004, the market continued to gain momentum in 2006, with the growth driven by:

- rapid urbanisation in Asia/Pacific giving rise to increasing demands for urban, suburban and intercity rail systems;
- interoperability in Europe creating needs for train control and signalling solutions;
- upgrade of railway infrastructure in Eastern European countries;
- development of private operators entering various markets.

The main trends currently having a positive effect on the industry include:

Environmental concerns

National, regional and local political authorities are focusing on a more sustainable development approach. They are particularly concerned by greenhouse gas emissions, notably carbon dioxide, as well as noise pollution.

Environmental necessities, combined with legislation in preparation and political trends related to the Kyoto protocol, indirectly give new appeal to the rail sector which responds most appropriately to global warming and should become the backbone for a sustainable transport network worldwide.

Moreover, advertising campaigns, tax measures and the implementation of urban tolls should bring about a change in the population's behaviour, and thus contribute to the development of the rail industry.

This trend has led to technological innovations in the field of energy savings (traction systems output, clean motors, volume reduction, aerodynamics and exploitation systems optimising energy consumption).

With its broad products and services portfolio, the Transport Sector is particularly well placed to respond to this trend.

Urbanisation

With more than 50% of the world's population expected to live in urban areas by 2010, growing urbanisation, as well as the increasing need for intercity mobility, merit a great deal of attention and an important change in transport administration.

In fact, the resulting automotive traffic congestion and environmental concerns generate an increased demand for mass transit and suburban systems.

The growth of large urban centres also leads to an increasing demand for high-speed trains to connect them. This causes many railways to invest heavily in order to increase capacity and reduce journey times, at the same time increasing the competitiveness of railways versus airways.

Growing emphasis on security, reliability and efficiency

Traditional and new operators around the world are showing growing interest in the proven benefits of new train control and train management systems, including increased safety, higher capacity, lower maintenance costs and greater international harmonisation.

Opening of railway markets

In many countries, deregulation of the railway industry and privatisation of the railways have changed expectations and led to the arrival of a new breed of customers. These new rail undertakings include private operators, leasing companies and private sector infrastructure owners. While presenting major opportunities for development to suppliers such as ALSTOM, the changing nature of the customer base generates new performance expectations, e.g. in terms of train reliability or passenger comfort and features. These customers are less conscious of technical aspects and instead focus on functional needs. Customers in these deregulated markets have also shown a tendency to concentrate on their core businesses and to outsource the maintenance and service of their trains to suppliers such as ALSTOM.

European ambition

The European Union is particularly encouraging interoperability, i.e. the ability to operate rolling stocks across borders. This is giving rise to new opportunities both for the construction of new lines and for the upgrading of existing lines to new international standards. The construction of a pan-European high speed network is already well underway and will continue. The development of cross-border traffic within the EU, open to all operators after 2010, will also trigger further cooperation among European operators.

The Transport Sector is at the forefront of these developments as a market leader in the supply of European Railway Traffic Management System (ERTMS) technology, the aim of which is to achieve borderless, safe and competitive railways across Europe.

Globalisation of the rail industry

Globalisation is occurring alongside deregulation and privatisation. This has led suppliers to seek growth opportunities in new geographic zones beyond their traditional domestic markets and to establish a local commercial and/or industrial presence. The globalisation of suppliers and the resulting over-capacity led to the concentration of suppliers and increases pressure on equipment sales prices.

Competitive position

The Transport Sector has successfully established its global presence through a strategy of organic, profitable growth in new markets, complemented by targeted acquisitions and alliances.

It is present in over 40 countries which account for over 90% of the market. This customer base allows the Sector to minimise risks associated with cyclical and political changes in different countries, regions or municipalities.

Furthermore, the Transport Sector’s client portfolio includes public operators as well as private customers.

This worldwide presence is demonstrated by the sample of ALSTOM’s customer portfolio : SNCF and RATP (France), RENFE, Barcelona metro and Madrid metro (Spain), Virgin and Network Rail (UK), SNCB (Belgium), FS/Trenitalia (Italy), Deutsche Bahn (Germany), KHRC (South Korea), Amtrak, CTA-Chicago, BNSF and NYCT (USA), SJ and SL (Sweden), Santiago Metro and Valparaiso Merval (Chile), Shanghai Municipality and the Ministry of Railways (China) and Metrorex-Metro of Bucharest (Romania).

Based on sales, ALSTOM is the world leading provider of railway equipment and services. In particular, the Transport Sector is number 1 in very high-speed trains, number 2 in tramways, and metros and is among the leaders for electrical and diesel multiple units, traction systems, information systems, power supply systems and track work. ALSTOM’s main competitors in the field of rail transport are Bombardier and Siemens.

The Tranport Sector’s key competitive factors are multiple :

- full life cycle cost competitiveness, including product availability;
- performance achievement, especially product reliability and speed;
- passenger comfort and features;
- time to market;
- technological leadership (TGV™, PENDOLINO™ tilting train, ERTMS signalling, URBALIS™, APS catenary-less tramway...);
- customer centric, service- and assistance-focused organisation with a strong global network of engineering, manufacturing and service locations.

Research & development focus

The Transport Sector continued its R&D efforts in 2006/07 with the clear ambition to develop reference solutions for each of its platforms and sub-systems. Specifically this year, the R&D focused on:

- AGV, the fourth generation of ALSTOM's High Speed Train: delivery of major sub-systems and components started for the assembly of Pegase, a 7-car AGV prototype dedicated to the validation of this new train starting March 2008.
- CORADIA™ Continental, a regional platform for the northern European markets: with optimised traction system, ONIX 253 SRD, and standardized TCMS.
- X04, the new Tramway platform: while capitalizing on CITADIS™ strength, this product will allow ALSTOM to gain an edge in markets where old networks set specific requirements, such as increased robustness to run on lesser quality tracks.
- URBALIS™ Evolution, ALSTOM's standard transit signalling and train management solution: the Transport Sector has already secured business with the standard solution (eg. Beijing line 2 and airport link), yet, it invests further to improve the product.
- ATLAS™, ALSTOM's main line signalling solution compliant with the new European interoperability standards: its successful deployment on Roma-Napoli confirms the Sector's position as technology leader on this market.

From a technology standpoint, the Transport Sector has, on the one hand, further investigated light weight materials for structural applications. A full composite bogie has been successfully tested, and a composite AGV inter-circulation will soon undergo on line validation. On the other hand, the Sector is about to test on line its prototype ONIX 400, its last generation traction converter, based on its power electronics integration technologies, leading to major weight, volume and cost improvements.

ALSTOM's technical expertise is most visible with its excellence in very high speed trains, as demonstrated with the speed record achieved on last 3 April at 574.8 km/h.

Strategy

The Transport Sector's strategy is based on the combination of selectivity, with a focus on enhanced profitability, and growth. At the same time, the Sector is adjusting its strategic profile in order to anticipate structural changes in the market, to take advantage of targeted growth opportunities, and to build on its strengths. In deploying this strategy, the Sector is more specifically revising its business model from one of selling products and services separately, to one of partnering with its customers, fully satisfying them with extended offers, focusing on optimised global performance and costs. The Sector is also adapting its offering to changes in the market place, such as the development of private operators, Public Private Partnerships and concessions, or increased urbanization and heighten environmental concern. In doing so, the Sector should rebalance its sales distribution towards a higher portion of Information Systems, Services, and complete Rail Systems.

On the geographical side, the Transport Sector redeploys its organization to take advantage of high regional growth potential, e.g. in Asia and Europe; and develop a growth strategy in main lines and mass transit for China.

Additionally, the Sector intends to establish strategic partnerships to access new opportunities and share project risks; and complete its strategic positioning via targeted acquisitions.

With regards to product development, the Transport Sector will further standardise its products and optimise its costs. The Sector will also apply extra resources to develop the signalling, infrastructure and service activities; and develop new high tech products such as the AGV for more demanding expectations.

Furthermore, the Transport Sector will take advantage of the strong points in its product portfolio, especially in high speed and very high speed trains, mass transit trains and information solutions, as well as its expertise in railways systems integration and turnkey projects.

The Transport Sector's key aim is to deliver its contracts with full client satisfaction and turn the Sector into a customer centric organization, in order to become recognised by clients worldwide as the solution provider of reference.

Key financial data

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

Transport, actual figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	15,239	14,141	8%
Orders received	5,388	5,184	4%
Sales	5,288	5,128	3%
Income from operations	350	324	8%
Operating margin	6.6%	6.3%	
EBIT	277	256	8%
Capital employed	(40)	125	n/a

Transport, comparable figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	15,239	13,986	9%
Orders received	5,388	5,011	8%
Sales	5,288	4,957	7%
Income from operations	350	314	11%
Operating margin	6.6%	6.3%	

Comments on activity during fiscal year

ORDERS

The European market had contrasted features. Whereas demand in Italy slowed down, the Spanish market remained at a very high level and is expected to remain strong for very high speed, infrastructure and signalling. Demand increased in regional trains (Germany, the Netherlands, Sweden), signalling (UK), and remained at a high level in urban systems (France, Germany, Hungary).

In Asia/Pacific, the Chinese market proved very active, particularly in mass transit and in mainline where rolling stock and infrastructure continue to grow. In India, the mass transit market is emerging, with significant opportunities arising.

In the Americas, the USA market continued to grow in all segments of rolling stock and signalling; this is supported in part by increasing federal funding in mass transit. The Latin American market remained roughly stable, with a large number of isolated opportunities such as a major Very High Speed Line project in Argentina.

In other regions, the Group experienced a high market level in Algeria, with the first significant tram project, and a growing activity in the Arabic peninsula.

Orders received in fiscal year 2006/07 amounted to €5,388 million compared with €5,011 million on a comparable basis, showing an 8% increase.

Transport received the following major orders during fiscal year 2006/07:

Country	Description
France	CORADIA™ regional trains for the French railway operator SNCF
Turkey	Track work and signalling project for the trans-Bosphorus rail link
China	PRIMA™ freight locomotives + electrification of a high-speed line
Algeria	Turnkey CITADIS™ tramway in Algiers
Sweden	CORADIA™ regional trains for Skanetrafiken
Hungary	METROPOLIS™ metro in Budapest
United Kingdom	Maintenance for locomotives operated on Virgin's West Coast Main Line
Germany	CORADIA™ regional trains for the German railway operator, Deutsche Bahn
France	CITADIS™ tramways in Orleans
The Netherlands	REGIO CITADIS™ tram-trains for a new light rail link between The Hague and Zoetermeer
France	CITADIS™ tramways in Reims

As a percentage of total orders received, Europe continued to represent the biggest share of the Transport Sector order intake with 76% of total orders or €4,111 million, with a 12% increase from last fiscal year on both an actual and a comparable basis. Orders received decreased by 16% in North America on an actual basis (11% on a comparable basis) to €140 million (3% of total order intake) and by 14% in South/Central America on an actual and a comparable basis to €320 million (6% of total order intake). In Asia/Pacific, orders received amounted to €653 million (12% of total order intake) in fiscal year 2006/07, showing a 2% decrease on an actual basis but a 30% increase on a comparable basis (due to the disposal of the Transport activities in Australia and New Zealand). Finally, in Africa/Middle East, orders received were €163 million (3% of total order intake) representing a 45% decrease on an actual and a comparable basis due to a high level of orders received in metro in this region in fiscal year 2005/06.

SALES

Sales in Transport increased by 7% in fiscal year 2006/07 on a comparable basis, at €5,288 million. The following table sets out, on an actual and a comparable basis, the geographical breakdown of sales by destination:

Transport, actual figures

Year ended 31 March (in € million)	**2007**	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	3,695	70%	(2%)	3,756	73%
North America	409	8%	14%	358	7%
South and Central America	343	6%	(7%)	369	7%
Asia/Pacific	720	14%	22%	590	12%
Middle East/Africa	121	2%	120%	55	1%
Sales by destination	**5,288**	**100%**	**3%**	**5,128**	**100%**

Transport, comparable figures

Year ended 31 March (in € million)	**2007**	% of contrib.	Variation 2006/07 vs. 2005/06	2006	% of contrib.
Europe	3,695	70%	(2%)	3,759	76%
North America	409	8%	21%	337	7%
South and Central America	343	6%	(7%)	368	7%
Asia/Pacific	720	14%	67%	432	9%
Middle East/Africa	121	2%	98%	61	1%
Sales by destination	**5,288**	**100%**	**7%**	**4,957**	**100%**

During fiscal year 2006/07, Europe showed major contributions from France, Italy, Spain and the United Kingdom. Even if sales in Europe decreased slightly to €3,695 million, Europe continued to be the main contributor of the Sector's sales with a 70% share of the total turnover. Sales in Asia/Pacific increased to €720 million (14% of total sales), a 22% increase from 2005/06 on an actual basis and a 67% increase on a comparable basis (after adjusting for the disposed Transport activities in Australia and New Zealand). Sales in North America increased to €409 million (8% of total sales), up 14% from 2005/06 on an actual basis and 21% on a comparable basis. Sales in South/Central America decreased to 6% of total sales or €343 million, down 7% from previous fiscal year on an actual and a comparable basis.

INCOME FROM OPERATIONS AND OPERATING MARGIN

The Transport income from operations for fiscal year 2006/07 amounted to €350 million or 6.6% of sales, as compared to €314 million or 6.3% of sales for previous fiscal year on a comparable basis. This improvement comes primarily from better project management and continuous cost reduction, notably as a result of manufacturing efforts and standardisation.

Corporate & others

Corporate & others comprise all units accounting for Corporate costs, the International Network and, for fiscal year 2006/07, entities in India which are not reported by Sectors. During fiscal year 2005/06, Corporate & others also included the Power Conversion activity, which was disposed of on 10 November 2005.

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

Corporate & others, actual figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	19	20	n/a
Orders received	48	539	n/a
Sales	49	353	n/a
Income from operations	(104)	(121)	n/a
EBIT	(224)	(11)	n/a
Capital employed	(248)	784	n/a

Corporate & others, comparable figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Order backlog	19	19	0%
Orders received	48	49	(2%)
Sales	49	43	14%
Income from operations	(104)	(137)	(24%)

Corporate & others' income from operations was €(104) million for fiscal year 2006/07, compared with an income from operations of €(137) million for fiscal year 2005/06 on a comparable basis, which included € (40) million of expenses related to the Group's free shares programme.

Operating and financial review

INCOME STATEMENT

Total Group, actual figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Sales	14,208	13,413	6%
Cost of sales	(11,586)	(11,080)	5%
R&D expenses	(456)	(364)	25%
Selling expenses	(567)	(569)	0%
Administrative expenses	(642)	(654)	(2%)
Income from operations	**957**	**746**	**28%**
Operating margin	6.7%	5.6%	

Total Group, comparable figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Sales	14,208	12,432	14%
Cost of sales	(11,586)	(10,260)	13%
R&D expenses	(456)	(351)	30%
Selling expenses	(567)	(521)	9%
Administrative expenses	(642)	(614)	5%
Income from operations	**957**	**686**	**40%**
Operating margin	6.7%	5.5%	

Sales

Sales were €14,208 million for fiscal year 2006/07, compared to €13,413 million for fiscal year 2005/06 on an actual basis, an increase of 6%.

On a comparable basis (adjusting mainly for the disposal of the Power Conversion business, the Industrial Boilers business, the FlowSystems business, the Transport activities in Australia and New Zealand, the Transport plant in Valencia (Spain) and of miscellaneous activities in Australia) sales increased by 14%. The three Sectors contributed to this sales increase on a comparable basis with sales in Power Systems increasing by 20% from €4,724 million in fiscal year 2005/06 to €5,673 million in fiscal year 2006/07, Power Service sales growing by 18% from €2,708 million to €3,198 million and Transport sales up 7% from €4,957 million to €5,288 million.

Selling and Administrative expenses

Selling and administrative expenses were €1,209 million in fiscal year 2006/07 compared to €1,223 million in fiscal year 2005/06 on an actual basis.

On a comparable basis, selling expenses increased by 9% in fiscal year 2006/07 as a result of intense tender activity and the implementation of stronger commercial organisations in all Sectors and countries. Administrative expenses increased by 5% on a comparable basis between fiscal year 2005/06 and fiscal year 2006/07 mainly due to development costs of specific projects aiming at improving future performance such as the Sourcing and Standardisation programmes in Transport or the Customer Relationship Management tool in Power Service.

Research and development expenses

Research and development expenses were €456 million in fiscal year 2006/07 from €364 million in fiscal year 2005/06 on an actual basis. This represents a major increase of 25% on an actual basis and of 30% on a comparable basis.

Before impact of capitalisation and amortisation, the research and development expenses increased from €349 million in fiscal year 2005/06 to €440 million in fiscal year 2006/07, up 26% on an actual basis. This increase relates, for the Transport Sector, to developments in the new generation of very high speed train (AGV) and in the ERTMS programme and, for the Power Systems Sector, to developments in new steam and gas turbines and new programmes in several key areas of research such as clean combustion.

Income from operations

Income from operations for fiscal year 2006/07 was €957 million or 6.7% of sales, as compared with income from operations of €746 million and operating margin of 5.6% for fiscal year 2005/06 on an actual basis. On a comparable basis for fiscal year 2005/06, income from operations amounted to €686 million or 5.5% of sales. This strong improvement of the operating income (+28% on an actual basis, +40% on a comparable basis) is notably due to a high level of activity, a continuous selectivity of projects, an improved cost base and better execution of projects.

Total Group, actual figures

Year ended 31 March (in € million)	2007	2006	% Variation March 07/March 06
Income from operations	**957**	**746**	**28%**
Restructuring costs	(68)	(80)	(15%)
Pension costs	(72)	(61)	18%
Other non operating income (expense)	(90)	122	n/a
Earnings before interest and tax	**727**	**727**	**0%**
Financial income (expense)	(111)	(222)	(50%)
Income tax charge	(145)	(125)	16%
Share in net income (loss) of equity investments	-	(1)	(100%)
Discontinued operations	(32)	(198)	(84%)
Minority interest	9	(3)	n/a
Net income	**448**	**178**	**152%**

Earnings Before Interest and Tax (EBIT)

EBIT was €727 million in fiscal year 2006/07, the same level as the previous fiscal year on an actual basis.

This stability in EBIT between fiscal year 2005/06 and fiscal year 2006/07 is the result of a combination of contrasted evolutions:

- increase in income from operations from €746 million to €957 million;
- expenses of €(90) million in fiscal year 2006/07, comprising mainly net capital losses on disposal of investments/activities (including fines received from the European Commission related to the former Transmission & Distribution business disposed of in 2004), compared with an income of €122 million in fiscal year 2005/06 as a result of net capital gains on disposal of investments/activities;
- higher pension costs, from €(61) million in fiscal year 2005/06 to €(72) million in fiscal year 2006/07;
- lower restructuring costs, from €(80) million in fiscal year 2005/06 to €(68) million in fiscal year 2006/07.

Financial expenses

The reduction of net financial expenses at €(111) million in fiscal year 2006/07, half of the level of the previous year, was mainly due to the reduction in debt level after reimbursements made and the increased level of cash and cash equivalents during fiscal year.

Financial charges included fees paid for bonding and other financing facilities, which amounted to €(11) million in fiscal year 2006/07 compared with €(75) million in 2005/06.

Income tax charge

The income tax charge for fiscal year 2006/07 was €(145) million compared with €(125) million in fiscal year 2005/06. The fiscal year 2006/07 income tax charge included a current income tax charge of €(168) million and a deferred income tax credit of €23 million.

Discontinued operations

Discontinued operations consist of the Marine activities. At 31 March 2007, the discontinued operations contribution amounted to €(32) million. As at 31 March 2006, the discontinued operations contribution included €(198) million of net losses.

Net profit Group share

As a result of stable EBIT, lower financial expenses, and lower net loss from discontinued operations partly offset by higher tax charges, net profit amounted to €448 million (Group share), a sharp increase compared with the €178 million net profit for the previous year.

BALANCE SHEET

Total Group, actual figures

Year ended 31 March (in € million)	**2007**	2006	Variation March 07/March 06
Goodwill	3,510	3,323	187
Intangible assets, net	1,191	1,197	(6)
Tangible assets, net	1,370	1,361	9
Equity method investments and other investments, net	34	99	(65)
Other non-current assets, net	1,245	1,250	(5)
Deferred tax	1,280	1,249	31
Non-current assets	**8,630**	**8,479**	**151**
Working capital assets	9,008	7,462	1,546
Marketable securities and other current financial assets	197	22	175
Cash and cash equivalents	1,907	1,301	606
Current assets	**11,112**	**8,785**	**2,327**
Assets held for sale	-	1,144	(1,144)
Assets	**19,742**	**18,408**	**1,334**

Year ended 31 March (in € million)	**2007**	2006	Variation March 07/March 06
Equity	2,271	1,840	431
Non-current and current provisions	2,061	2,120	(59)
Accrued pension and retirement benefits	512	792	(280)
Financial debt current and non-current	2,822	2,571	251
Deferred tax	47	39	8
Other current liabilities	12,029	9,903	2,126
Liabilities directly associated with assets held for sale	-	1,143	(1,143)
Liabilities	**19,742**	**18,408**	**1,334**

Goodwill and intangible assets

Net goodwill increased to €3,510 million at 31 March 2007 compared to €3,323 million at 31 March 2006, following the acquisitions completed during the period.

The Group requested an independent third party evaluation as part of its annual impairment tests of goodwill. The valuation as at 31 March 2007 supported the Group's opinion that the goodwill is not impaired.

Net intangible assets amounted to €1,191 million at 31 March 2007 compared to €1,197 million at 31 March 2006. They include acquired intangible assets and capitalised development costs. Acquired intangible assets mainly result from the allocation of the purchase price following the acquisition of ABB ALSTOM Power in 1999 and 2000.

Capitalised development costs represent expenses that meet IAS 38 criteria for capitalisation as described in the Consolidated Financial Statements Note 3 (j). These costs are amortised on a straight-line basis over the estimated useful life of the asset. Capitalised development expenses come from the Transport and Power Systems Sectors.

Tangible assets

Net tangible assets amounted to €1,370 million at 31 March 2007 compared to €1,361 million at 31 March 2006.

Capital expenditure excluding capitalised development expenses increased in fiscal year 2006/07, at €280 million compared to €207 million in fiscal year 2005/06. During fiscal year 2006/07, capital expenditure related to tangible assets aimed mainly to renew the Group's asset base and to expand its production capacity in high growth regions. Capital expenditure related principally to the Power Systems and the Transport Sectors and, on a geographical basis, to Europe, North America and Asia/Pacific.

Other non-current assets

Other non-current assets (net) amounted to €1,245 million at 31 March 2007 compared to €1,250 million at 31 March 2006. At 31 March 2007, other non-current assets included notably pension assets, long-term loans, deposits, and financial non-current assets directly associated to financial debt.

The net variation is principally the result of the release of the €700 million cash collateral which secured the Group's former bonding programme, offset by the €628 million of non-current financial assets directly associated to long-term leases of trains and associated equipment for a London Underground operator.

Working capital

Working capital (defined as current assets excluding cash and cash equivalent less current liabilities excluding current financial liabilities and including non current provisions) at 31 March 2007 was €(5,082) million compared with €(4,561) million at 31 March 2006. This improvement, which benefited from the high order intake, also reflects the results of stronger working capital management.

Deferred tax assets

Net deferred tax assets amounted to €1,233 million at 31 March 2007 compared with €1,210 million at 31 March 2006.

At 31 March 2007, the Group reviewed the recoverability of these deferred tax assets by jurisdiction, on the basis of its 3 year-business plan, extrapolated when needed. This review led to a cumulative valuation allowance on deferred tax assets of €926 million at 31 March 2007 compared with €919 million at 31 March 2006. At 31 March 2007, the Group is satisfied as to the recoverability of its net deferred tax assets.

Current and non-current provisions

At 31 March 2007, the current and non-current provisions were €2,061 million compared with €2,120 million at 31 March 2006. This net decrease included a decrease in provisions on completed contracts for €27 million and in restructuring provisions for €43 million.

Equity attributable to the equity holders of the parent and minority interests

Equity at 31 March 2007 was €2,271 million, including minority interests, compared with €1,840 million at 31 March 2006. This variation is mainly due to the net income of the period for €439 million (Group share and minority interests) and to share-based payments for €15 million.

Financial debt

The gross financial debt was €2,822 million at 31 March 2007, compared with €2,571 million at 31 March 2006, or a €251 million increase. Main variations of financial debt relate to the €512 million decrease of bonds from previous fiscal year, offset by €185 million of new commitments related to options (mainly related to the joint venture set up in the hydro business) and the inclusion of €628 million of other obligations under long-term rentals related to the lease of trains and associated equipment for a London Underground operator.

LIQUIDITY AND CAPITAL RESOURCES

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

Total Group, actual figures

Year ended 31 March (in € million)	**2007**	2006
Net cash provided by operating activities - before changes in net working capital	565	627
Changes in net working capital	524	158
Net cash provided by operating activities	**1,089**	**785**
Net cash provided by investing activities	118	26
Net cash used in financing activities	(596)	(403)
Decrease in cash and cash equivalents - discontinued operations	-	(215)
Transfer to/from assets held for sale	29	(317)
Net effect of exchange rate	(30)	24
Other changes	(4)	(3)
Increase (decrease) in cash and cash equivalents	**606**	**(103)**

Net cash provided by operating activities

Net cash provided by operating activities was €1,089 million in fiscal year 2006/07 compared to €785 million in fiscal year 2005/06.

Net cash provided by operating activities before changes in net working capital was €565 million in fiscal year 2006/07. It represents the cash generated by the Group's net income after elimination of non-cash items (as provisions are included in the definition of the working capital, provisions are not part of the elimination of non-cash items) and before working capital movements. In fiscal year 2006/07, it included the €300 million exceptional and discretionary contribution to the Group's pension plans.

Total changes in net working capital were €521 million (€524 million for net working capital resulting from operating activities), under the following main movements:

- an increase of €282 million in inventories;
- an increase of €635 million in trade receivables and other current assets;
- a decrease of €59 million in provisions;
- an increase of €1,209 million in construction contracts in progress, net liabilities;
- an increase of €288 million in trade payables and other current liabilities.

The net cash provided by operating activities was €785 million in fiscal year 2005/06.

Net cash provided by investing activities

Net cash provided by investing activities was €118 million in fiscal year 2006/07. This amount mainly comprised:

- capital expenditure of €(395) million, including capitalised research and development of €(115) million;
- cash expenditure for acquisition of investments (net of cash acquired) of €(232) million;
- variation in other non current assets of €727 million, mainly due to the release of the €700 million cash collateral securing the Group's former bonding programme;

Net cash provided by investing activities was €26 million in fiscal year 2005/06.

Net cash used in financing activities

Net cash used in financing activities in fiscal year 2006/07 was €(596) million. This amount included mainly the reimbursement of borrowings for €(377) million, and the variation of marketable securities and other current financial assets for €(175) million. In fiscal year 2005/06, net cash used in financing activities of €(403) million included mainly the repayment of borrowings for €(369) million.

Decrease (increase) in net debt

As a result of the above, cash and cash equivalent increased by €606 million in fiscal year 2006/07 after a decrease of €103 million in fiscal year 2005/06. The net debt decreased by €1,184 million, from €1,248 million in fiscal year 2005/06 to €64 million in fiscal year 2006/07 as described below:

Total Group, actual figures

Year ended 31 March (in € million)	**2007**	2006
(Net debt) / Net cash at the beginning of the period	**(1,248)**	**(1,651)**
Increase (decrease) in cash and cash equivalents	606	(103)
Increase (decrease) in marketable securities and other financial assets	175	(2)
(Issuance) repayment of current and non-current borrowings	335	369
(Issuance) repayment of obligation under finance leases	38	42
Net cash used in financing activities - discontinued operations	29	103
Net effect of exchange rate and other	1	(6)
(Net debt) / Net cash at the end of the period	**(64)**	**(1,248)**

MATURITY AND LIQUIDITY

The Group has a wide range of liquidity resources in order to finance its operations, including mainly bonds and borrowings under revolving credit facilities.

Additional sources include customer deposits and advances, and proceeds from the sale of trade receivables, including future trade receivables. In the past, the Group also used the issuance of commercial paper, securities, including debt securities and preferred shares, as well as asset disposals, as a source of liquidity.

The following table sets forth, in nominal values, the list of ALSTOM's drawn and undrawn lines of credit and financial debt obligations (including future receivables securitised) and, as part of these, the available credit lines as of 31 March 2007:

Total Group, nominal values

Year ended 31 March (in € million)	2006	**2007**	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Bonds reimbursable with shares	5	3	-	3	-	-	-	-
Subordinated notes	5	-	-	-	-	-	-	-
Bonds	2,224	1,700	-	900	800	-	-	-
Other borrowing facilities	106	125	69	23	5	12	3	13
Commitments related to options and earn-out	-	185	-	-	185	-	-	-
Derivatives relating to financing activities	-	7	7	-	-	-	-	-
Accrued interest	33	9	9	-	-	-	-	-
Obligations under finance leases	233	815	40	43	46	47	53	586
Financial debt	**2,606**	**2,844**	**125**	**969**	**1,036**	**59**	**56**	**599**
Undrawn credit lines	700	1,000	-	-	-	-	1,000	-
Total lines of credit	**3,306**	**3,844**	**125**	**969**	**1,036**	**59**	**1,056**	**599**

Instrument

(in € million)	Maturity	Nominal amount	Nominal interest rate
Bonds	July 2008	370	Euribor 3M + 0.9%
Bonds	March 2009	530	Euribor 3M + 2.2%
Bonds	March 2010	800	6.3%
Revolving credit facility	March 2012	1,000	Undrawn

Total available unused credit lines together with cash and cash equivalents available at parent company and marketable securities amounted to €2,815 million at 31 March 2007, compared to €1,650 million at 31 March 2006.

These amounts consisted of:
- available credit lines at Group level for €1,000 million at 31 March 2007 compared with €700 million at 31 March 2006;
- cash available at parent company level of €1,815 million at 31 March 2007, compared with €950 million at 31 March 2006.

The Group parent company, has access to some cash held by wholly-owned subsidiaries through the payment of dividends or pursuant to intercompany loan arrangements. However, local constraints can delay or restrict this access. Furthermore, while the Group parent company has the power to control decisions of subsidiaries of which it is the majority owner, its subsidiaries are distinct legal entities and their payment of dividends and granting of loans, advances and other payments to the parent company 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. The Group's policy is to centralise liquidity of subsidiaries at the parent company level when possible. The cash and cash equivalents available at subsidiary level were €351 million and €267 million at 31 March 2006 and 31 March 2007 respectively.

IMPACT OF EXCHANGE RATE AND INTEREST RATE FLUCTUATIONS

The Group's policy is to use derivatives, such as forward foreign exchange contracts or interest rate derivatives, in order to hedge exchange rate fluctuations and interest rate fluctuations. Policy does not permit speculative market positions.

ALSTOM has a centralised treasury policy in order to better control the company's financial risks.

The Senior Vice-President Funding and Treasury (who reports to the Chief Financial Officer) has global responsibility for foreign exchange risk, interest rate management, and cash management. He manages a team of more than 20 people located in Levallois Headquarters, which forms the Corporate Treasury and is organised with a Front-Office, a Middle-Office and a Back-Office to ensure segregation of duties. A network of Country Treasurers supports Corporate Treasury in the countries where the Group has a significant presence.

Corporate Treasury acts as an in-house bank for subsidiaries by providing hedging, funding and deposits, maintaining internal current accounts and managing an inter-company payment netting system. The Group has implemented cash pooling structures to centralise cash on a daily basis in the countries where local regulations permit it.

Exchange rate risks

In the course of its operations, the Group is exposed to currency risk arising from tenders for contracts to be paid in foreign currency, and from awarded contracts or "firm commitments" under which revenues are denominated in foreign currency. The principal currencies to which the Group has significant exposure in fiscal year 2006/07 were the US Dollar, the British Pound and the Swiss Franc. ALSTOM policy is to eliminate currency risk with the most appropriate instruments then risks related to firm commitments and tenders are hedged as follows:
- by using forward contracts for firm commitments;
- by using foreign exchange derivative instruments for tenders, usually pursuant to strategies involving combinations of purchased and written options; or
- and from time to time when available by entering into specific insurance policies, such as with Coface in France or Hermes in Germany.

The Group does not hedge its net assets invested in foreign operations. It monitors its market positions closely and regularly analyse market valuations. It also has in place counter-party risk management guidelines. All derivative transactions, including forward exchange contracts, are designed and executed by the central corporate treasury department, except in some specific countries where restrictive regulations prevent centralised execution.

Interest rate risks

See Note 33 to the Consolidated Financial Statements for discussion of interest rate risks and of sensitivity to interest rate variation.

Value of financial instruments

At 31 March 2007 and 31 March 2006, the nominal and fair value of foreign exchange instruments are detailed as follows:

Derivative instruments qualifying for hedge accounting

	At 31 March 2007				At 31 March 2006			
	Purchased		Sold		Purchased		Sold	
(in € million)	Nominal	Fair value	Nominal	Fair value	Fair value	Fair value	Nominal	Fair value
British pound	87	-	399	(4)	2	-	375	1
Brazilian real	-	-	58	(7)	33	(8)	29	1
Polish zloti	276	4	301	(4)	149	-	252	(2)
Swedish krona	310	(3)	234	3	227	(3)	279	2
US dollar	607	(88)	1,884	166	713	(64)	2,462	104
Australian dollar	116	2	150	(8)	163	(4)	150	3
Singapore dollar	39	-	24	-	16	-	39	-
Swiss franc	1,807	(38)	1,520	34	1,889	(21)	2,139	31
Other	458	-	475	4	345	3	297	2
Total	**3,700**	**(123)**	**5,045**	**184**	**3,537**	**(97)**	**6,022**	**142**

Derivative instruments not qualifying for hedge accounting

	At 31 March 2007				At 31 March 2006			
	Purchased		Sold		Purchased		Sold	
(in € million)	Nominal	Fair value	Nominal	Fair value	Fair value	Fair value	Nominal	Fair value
Currency option contracts - US dollar	23	-	72	-	1	-	34	-
Currency option contracts - Other currencies	16	-	6	-	-	-	19	-
Forward contracts - US dollar	-	-	158	8	146	(3)	193	4
Forward contracts - Swiss franc	-	-	135	1	95	2	9	-
Forward contracts - Swedish krona	-	-	23	-	71	1	8	-
Forward contracts - Other currencies	-	-	125	(3)	56	(1)	41	-
Total	**39**	**-**	**519**	**6**	**369**	**(1)**	**304**	**4**

At 31 March 2007, the nominal value of derivative instruments by maturity is as follows:

Derivative instruments qualifying for hedge accounting

(in € million)	Total	< 1 year	1-5 years	> 5 years
British pound	487	408	75	4
Brazilian real	58	49	9	-
Polish zloti	577	315	262	-
Swedish krona	544	421	123	-
US dollar	2,491	1,698	788	5
Australian dollar	265	145	120	-
Singapore dollar	63	55	8	-
Swiss franc	3,327	2,463	864	-
Other	933	792	142	(1)
Total	**8,745**	**6,346**	**2,391**	**8**

Derivative instruments not qualifying for hedge accounting

(in € million)	Total	< 1 year	1-5 years	> 5 years
Currency option contracts - US dollar	95	95	-	-
Currency option contracts - Other currencies	22	22	-	-
Forward contracts - US dollar	159	146	12	1
Forward contracts - Swiss franc	135	120	15	-
Forward contracts - Swedish krona	23	19	4	-
Forward contracts - Other currencies	124	94	29	1
Total	**558**	**496**	**60**	**2**

PENSIONS AND OTHER EMPLOYEE BENEFITS

The Group provides various types of post-employment and other long-term benefits to its employees, including retiree medical benefits to some retired employees in certain countries, principally in the United States. The type of benefits offered to an individual employee is related to local legal requirements as well as to operating practices of the specific subsidiaries. The Group also provides other long-term employee benefits such as jubilee awards and deferred compensation scheme.

The retirement plans are categorized in two different types by design and accounting treatment: defined-contribution and defined-benefit plans. The Group's global policy on employee benefits promotes defined contribution plans over defined benefit schemes. Many defined benefit schemes have been closed to new members and defined contribution plans have been introduced for new entrants.

Defined contribution plans

For defined-contribution plans, the Group pays contributions to independently administered funds at a fixed percentage of employees' pay. These contributions are recorded as operating expenses.

Defined benefit plans

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

The Group participates in multi-employer and single employer defined benefits plans. Multi-employer defined benefit plans are accounted for as defined contribution plans, mainly in the United States and in Canada. For single employer defined benefit plans, benefits are normally based on an employee's pensionable remuneration and length of service.

These plans are predominantly funded. Some plans, such as post-employment medical benefits plans, are unfunded. Plan assets related to funded plans are invested mainly in bonds and equities. Components of these assets are disclosed in Note 26 to the Consolidated Financial Statements.

Expected costs of providing retirement pensions under defined benefit plans, as well as costs of other post-employment benefit plans, are charged to the profit and loss account over the periods benefiting from the employees' services.

VALUATION OF THE DEFINED BENEFIT OBLIGATION

The Group uses the Projected Unit Credit method to determine the present value of its future obligations (Defined Benefit Obligation – "DBO") and the related current and past service costs.

Financial and demographic assumptions used are determined at measurement date (usually at 31 March) as being appropriate for the plan and the country in which it is situated.

The main assumptions made are listed below:

- discount rate;
- inflation rate;
- rate of salary increases;
- long-term rate of return on plan assets;
- mortality rates; and
- employees turnover rates.

Certain assumptions used are discussed in Note 26 to the Consolidated Financial Statements.

This actuarial value of future obligations of the employer fluctuates annually, depending upon the following:

- increases related to the acquisition by the employees of one additional year of benefit rights ("service cost");
- increases in the present value of the DBO which arises because the benefits are one year closer to their payment dates ("interest cost");
- decreases related to the benefits paid during the year;
- actuarial gains and losses created during the year (as explained below);
- changes in obligations related to plan amendments;
- changes due to curtailments or settlements applied on the plans; and
- changes in scope ("Business combinations/disposals").

The change in the DBO is disclosed in Note 26 to the Consolidated Financial Statements.

VALUATION OF PLAN ASSETS

The fair value of the assets held by each plan is the amount that the plan could reasonably expect to receive in a sale of the assets. This is compared with the DBO and the difference is referred to as the "funded status" of the plan.

Changes in the fair value of assets and funded status are disclosed in Note 26 to the Consolidated Financial Statements. During 2006/07, the Group contributed a €300 million exceptional and discretionary funding of pension plans in Germany. In agreement with stakeholders of the plans (in the USA and in the UK), it was also decided to reduce the equity share of plans' assets. As a result, global equity share of all plans' assets decreased from 50% to 38% at 31 March 2007, in order to reduce financial risks relating to pensions.

ACTUARIAL GAINS AND LOSSES AND PAST SERVICE COSTS

A number of factors can trigger actuarial gains and losses:

- differences between the assumptions used and the actual experience (for instance, an actual return on assets differing from the expected rate of return at the beginning of the year) and
- changes in long-term actuarial assumptions (inflation rate, discount rate, rate of salary escalation, mortality table, etc).

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

As of 31 March 2007, actuarial losses unrecognised were €898 million, a decrease of €152 million since March 2006.

The introduction of a defined benefit plan or changes resulting from plan amendments may increase/decrease the obligations. Such event triggers a "past service cost" which is recognised immediately in the case of vested benefits, or amortised on a straight-line basis over the average period until the benefits become vested in case of non-vested benefits. The unrecognised past service costs amounted to €24 million (positive effect) at 31 March 2007, the same amount as at 31 March 2006.

Total unrecognized items were €846 million at 31 March 2007 and €1,028 million at 31 March 2006.

TOTAL BENEFIT EXPENSE

The following table shows the composition of the total benefit expense for fiscal years 2005/06 and 2006/07:

Total Group, actual figures

Year ended 31 March (in € million)	2007	2006
Service cost	(84)	(85)
Multi-employer contributions and defined contributions	(106)	(90)
Income from operations	**(190)**	**(175)**
Amortisation of actuarial losses (gains)	(66)	(68)
Amortisation of unrecognised past service cost	(7)	3
Other	1	4
Other income (expense)	**(72)**	**(61)**
Interest cost	(208)	(215)
Expected return on plan assets	200	200
Financial income (expense)	**(8)**	**(15)**
Benefit expense	**(270)**	**(251)**

OFF-BALANCE SHEET COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table sets forth the off-balance sheet commitments, which are further discussed in Note 31 to the Consolidated Financial Statements:

Total Group, actual figures

Year ended 31 March (in € million)	2007	2006
Guarantees related to contracts	4,972	4,816
Guarantees related to Vendor financing	362	432
Commitments to purchase fixed assets	3	8
Other guarantees	177	242
Off-balance sheet commitments	**5,514**	**5,498**

Guarantees related to contracts

The overall amount given as guarantees on contracts increased from €4,816 million at 31 March 2006 to €4,972 million at 31 March 2007.

Vendor Financing Exposure

In the past years, the Group provided financial support to institutions which finance some of its customers and also, in some cases, directly to its customers for the purchases of its products. This financial support is referred to as "Vendor Financing". The Group has not provided any Vendor Financing guarantees to its customers since fiscal year 1998/99.

The following table set forth the Group's Vendor Financing exposure, which is discussed further in Note 31 to the Consolidated Financial Statements:

Total Group, actual values

Year ended 31 March (in € million)	**2007**	2006
Marine	55	126
Transport	307	306
Vendor financing exposure	**362**	**432**

USE AND RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

This section presents non-GAAP financial indicators.

Under the rules of the Autorité des marchés financiers ("AMF"), a non-GAAP financial indicator is a numerical measurement of historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measurement calculated and presented in accordance with GAAP in the consolidated income statement, consolidated balance sheet or consolidated statement of cash flows; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measurement so calculated and presented. In this regard, GAAP refers to International Financial Reporting Standards.

Free cash flow

Free cash flow is defined as net cash provided by (used in) operating activities less capital expenditure, net of proceeds from disposals of tangible and intangible assets, and increase (decrease) in existing receivables considered as a source of funding of the activity. In particular, free cash flow does not include the proceeds from disposals of activity.

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

Total Group, actual figures

Year ended 31 March (in € million)	**2007**	2006
Net cash provided by (used in) operating activities	**1,089**	**785**
Elimination of variation in sale of existing receivables	34	(26)
Capital expenditure	(395)	(294)
Proceeds from disposals of tangible and intangible assets	17	60
Free cash flow	**745**	**525**

ALSTOM uses the free cash flow measure both for internal analysis purposes as well as for external communication as the Group believes it provides more accurate insight into the actual amount of cash generated or used by operations.

Capital employed

Capital employed is defined as the closing position of goodwill, intangible assets, property, plant and equipment, other non current assets (excluding pension assets and financial non-current assets directly associated to financial debt) and current assets (excluding marketable securities and other current financial assets, and cash and cash equivalents) minus current and non-current provisions and current liabilities (excluding current financial debt).

Total Group, actual figures

Year ended 31 March (in € million)	2007	2006
Non-current assets (excl. deferred tax & financial non-current assets directly associated to financial debt)	6,696	7,230
Current assets (excl. cash & cash equivalent)	9,205	7,484
Marketable securities and other current financial assets	(197)	(22)
Prepaid pensions and other employee benefit costs	(422)	(387)
Current liabilities (excl. current provisions & current financial debt)	(12,029)	(9,903)
Current and non-current provisions	(2,061)	(2,120)
Capital employed	**1,192**	**2,282**

Capital employed by Sectors and for the Group as a whole is also presented in Note 6 to the Consolidated Financial Statements.

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

Net debt

Net debt is defined as current and non-current financial debt less cash and cash equivalents, marketable securities and other current financial assets, and financial non-current assets directly associated to financial debt.

Total Group, actual values

Year ended 31 March (in € million)	2007	2006
Cash and cash equivalents	1,907	1,301
Marketable securities and other current financial assets	197	22
Financial non-current assets directly associated to financial debt	654	-
Current financial debt	(125)	(360)
Non-current financial debt	(2,697)	(2,211)
Net debt / (cash)	**64**	**1,248**

Comparable basis

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 the accounts into Euro following the variation of foreign currencies against the Euro. The Group uses figures prepared on a comparable basis both for internal analysis and for external communication, as it believes they provide means by which to analyse and explain variations from one period to another. However, these figures, provided on a comparable basis, are not measurements of performance under IFRS.

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

- restatement of the actual figures for fiscal year 2005/06 using 31 March 2007 exchange rates, as stated in the Consolidated Financial Statements, for order backlog, orders received, sales and income from operations, and
- adjustments due to changes in Business composition to the same line items for fiscal year 2005/06, in order to reflect the same scope of activity as during fiscal year 2006/07.

The following table sets out the estimated impact of changes in exchange rates and in business composition ("Scope impact") for all indicators disclosed in this document both on an actual basis and on a comparable basis for fiscal year 2005/06. No adjustment has been made on figures disclosed for fiscal year 2006/07:

	31 March 2006				31 March 2007	
(in € million)	Actual figures	Exchange rate	Scope impact	Comp. Figures	Actual figures	% Var. comp. March 07/06
Power Systems	8,447	(185)	(188)	8,074	11,873	47%
Power Service	4,336	(144)	160	4,352	5,219	20%
Transport	14,141	(155)	-	13,986	15,239	9%
Corporate & others	20	-	(1)	19	19	0%
Orders backlog	**26,944**	**(484)**	**(29)**	**26,431**	**32,350**	**22%**
Power Systems	6,076	(103)	(190)	5,783	9,535	65%
Power Service	3,491	(85)	(76)	3,330	4,058	22%
Transport	5,184	(13)	(160)	5,011	5,388	8%
Corporate & others	539	(4)	(486)	49	48	(2%)
Orders received	**15,290**	**(205)**	**(912)**	**14,173**	**19,029**	**34%**
Power Systems	5,079	(101)	(254)	4,724	5,673	20%
Power Service	2,853	(71)	(74)	2,708	3,198	18%
Transport	5,128	(22)	(149)	4,957	5,288	7%
Corporate & others	353	(3)	(307)	43	49	14%
Sales	**13,413**	**(197)**	**(784)**	**12,432**	**14,208**	**14%**
Power Systems	101	(6)	(10)	85	201	137%
Power Service	442	(13)	(5)	424	510	20%
Transport	324	4	(14)	314	350	11%
Corporate & others	(121)	-	(16)	(137)	(104)	(24%)
Income from operations	**746**	**(15)**	**(45)**	**686**	**957**	**40%**
Power Systems	2.0%	n/a	3.9%	1.8%	3.5%	
Power Service	15.5%	n/a	6.8%	15.7%	15.9%	
Transport	6.3%	n/a	9.4%	6.3%	6.6%	
Corporate & others	n/a	n/a	n/a	n/a	n/a	
Operating margin	**5.6%**	**7.6%**	**5.7%**	**5.5%**	**6.7%**	
Sales	13,413	(197)	(784)	12,432	14,208	14%
Cost of sales	(11,080)	159	661	(10,260)	(11,586)	13%
Selling expenses	(569)	9	39	(521)	(567)	9%
R&D expenses	(364)	5	8	(351)	(456)	30%
Administrative expenses	(654)	9	31	(614)	(642)	5%
Income from operations	**746**	**(15)**	**(45)**	**686**	**957**	**40%**

Contributions of material activities sold since 1 April 2006 have been restated in the comparable figures for fiscal year 2005/06. In particular, but not only, the Industrial Boilers business for Power Systems, the FlowSystems business for Power Service, activities in Australia and New Zealand for Transport and the Power Conversion business for Corporate & others have been restated. In addition, orders in hand from activities acquired during fiscal year 2006/07 have been restated in the comparable figures for fiscal year 2005/06. Fiscal years 2005/06 and 2006/07 disposals decreased orders received and sales by 6.0% and 5.8% respectively compared with fiscal year 2005/06.

DISPOSALS

The following tables show the main activities which were disposed of during fiscal year 2005/06 and fiscal year 2006/07 and were retreated in comparable figures. Sales and employees figures shown in the tables relate to the last fiscal year before the disposal of the activity.

Fiscal year 2006/07

Activities	Related Sector	Fiscal year 2006/07	
		Sales	Employees
Industrial Boilers/Germany	Power Systems	€200 million	127
Industrial Boilers/Czech Republic	Power Systems	€20 million	183

Fiscal year 2005/06

Activities	Related Sector	Fiscal year 2005/06	
		Sales	Employees
Power Conversion	Power Conversion	€506 million	3,145
Industrial Boilers/Australia	Power Systems	€73 million	224
Transport Australia/New Zealand	Transport	€282 million	2,073
FlowSystems	Power Service	€145 million	579
Easton	Power Service	€18 million	110

The Marine Sector was treated as discontinued activity in both fiscal year 2005/06 and fiscal year 2006/07.

EXCHANGE RATES

A significant part of the Group's sales and expenses is realised and incurred in currencies other than the euro. Main currencies to which the Group had significant exposure in fiscal year 2006/07 were the US dollar, British pound, Swiss franc, Brazilian real, Indian rupee and Chinese yuan.

Orders received and sales have been affected by the translation of the accounts into euros resulting from changes in value of the euro against other currencies in fiscal year 2006/07. The impact is a decrease in orders received and sales by 1.3% and 1.5%, respectively, compared with fiscal year 2005/06.

REPORT OF THE INDEPENDENT AUDITORS ON THE PROFIT FORECASTS

This is a free translation into English of the Independent Auditors' reports signed and issued in the French language and is provided solely for the convenience of English speaking readers. Such report should be read in conjunction and construed in accordance with French law and French auditing professional standards.

To the Chairman of the Board,

In our capacity as Independent Auditors of ALSTOM ("the Company") and in accordance with EU Regulation N°809/2004, we hereby report on the profit forecasts for the Company, which are included in Section 1 of its "Document de Référence" dated 30 May 2007.

In accordance with the requirements of EU Regulation N°809/2004 and relevant CESR guidance, management is responsible for the preparation of these forecasts together with the material assumptions on which they are based.

It is our responsibility to provide an opinion on these forecasts, in terms defined by Appendix 1, Paragraph 13.3 of EU Regulation N°809/2004.

We conducted our work in accordance with French professional standards. This work consisted in assessing the procedures implemented by management for the preparation of the profit forecasts and performing such procedures as to enable us to assess whether the basis of accounting applied are consistent with the accounting policies used for the preparation of the Company's consolidated financial statements. Our work also consisted in collecting information and making the necessary enquiries in order to obtain reasonable assurance that the profit forecasts have been properly prepared on the basis of the assumptions stated.

It should be noted that actual profits are likely to differ from the profit forecasts since anticipated events frequently do not occur as expected and the variations could be material. Consequently, we do not express any opinion on the possibility that such events will occur.

In our opinion :

- the profit forecasts have been properly prepared on the basis stated;
- the basis of accounting applied in the preparation of these profit forecasts is consistent with the accounting policies used by the Company for the preparation of the consolidated financial statements as at 31 March 2007.

This report is intended for the sole purpose of the registration of the "Document de Référence" with the French Stock Exchange Regulatory Body (AMF), and may not be used for any other purpose.

Neuilly-sur-Seine, 30 May 2007

The Independent Auditors

DELOITTE & ASSOCIÉS	ERNST & YOUNG ET AUTRES
Dominique Descours	Gilles Puissochet

2 FINANCIAL **INFORMATION**

59 **Consolidated financial statements**

59 Consolidated income statements
60 Consolidated balance sheets
62 Consolidated statements of cash flows as at 31 March 2007
63 Consolidated statements of recognised income and expenses
64 Consolidated statement of changes in shareholders' equity and minority interests
65 Notes to the consolidated financial statements
125 Independent Auditors' report on the consolidated financial statements

126 **Statutory accounts**

126 Income statements
127 Balance Sheets
128 Notes to the statutory financial statements
137 Five-year summary
138 Appropriation of the net income of fiscal year 2006/07
138 Comments on ALSTOM's statutory accounts
139 Independent Auditors' report on statutory financial statements
140 Independent Auditors' special report on regulated related-party agreements and commitments

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements

Year ended 31 March (in € million)	Note	2007	2006	2005*
Sales	**(6)**	**14,208**	**13,413**	**12,920**
Of which products		*10,225*	*9,773*	*9,127*
Of which services		*3,983*	*3,640*	*3,793*
Cost of sales		(11,586)	(11,080)	(10,886)
Selling expenses		(567)	(569)	(535)
Research and development expenditure	(7)	(456)	(364)	(405)
Administrative expenses		(642)	(654)	(623)
Income from operations	**(6)**	**957**	**746**	**471**
Other income	(8)	18	233	67
Other expenses	(8)	(248)	(252)	(589)
Earnings before interest and taxes	**(6)**	**727**	**727**	**(51)**
Financial income (expenses), net	(9)	(111)	(222)	(381)
Pre-tax income (loss)		**616**	**505**	**(432)**
Income tax charge	(10)	(145)	(125)	(163)
Share in net income (loss) of equity investments		-	(1)	-
Net profit (loss) from continuing operations		**471**	**379**	**(595)**
Net profit (loss) from discontinued operations	**(11)**	**(32)**	**(198)**	**(32)**
Net profit (loss)		**439**	**181**	**(627)**
Attributable to:				
- Group share		448	178	(628)
- Minority interests		(9)	3	1
Earnings per share (in €)				
From continuing and discontinued operations				
- Basic	(12)	3.17	1.27	(5.76)
- Diluted	(12)	3.10	1.26	(5.76)
From continuing operations				
- Basic	(12)	3.40	2.68	(5.47)
- Diluted	(12)	3.34	2.65	(5.47)
From discontinued operations				
- Basic	(12)	(0.23)	(1.41)	(0.29)
- Diluted	(12)	(0.22)	(1.39)	(0.29)

* Restated in accordance with IFRS, with the exception of IAS 32-39 and IFRS 5 applied from 1 April 2005 (see Note 4. B).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheets

(in € million)	Note	**At 31 March 2007**	At 31 March 2006	At 1 April 2005*	At 31 March 2005**
Assets					
Goodwill	(13)	3,510	3,323	3,417	3,417
Intangible assets	(13)	1,191	1,197	1,222	1,222
Property, plant and equipment	(14)	1,370	1,361	1,707	1,707
Associates and other investments	(15)	34	99	118	118
Other non-current assets	(16)	1,245	1,250	1,290	1,935
Deferred taxes	(10)	1,280	1,249	1,204	1,207
Total non-current assets		**8,630**	**8,479**	**8,958**	**9,606**
Inventories	(17)	1,770	1,488	1,654	1,654
Construction contracts in progress, assets	(18)	2,858	2,229	2,601	2,601
Trade receivables	(19)	2,886	2,291	2,323	2,392
Other current assets related to operating activities	(20)	1,494	1,454	1,619	1,398
Marketable securities and other current financial assets	(21)	197	22	26	26
Cash and cash equivalents		1,907	1,301	1,404	1,404
Total current assets		**11,112**	**8,785**	**9,627**	**9,475**
Assets held for sale	(30)	-	1,144	637	-
Total assets		**19,742**	**18,408**	**19,222**	**19,081**

(in € million)	Note	At 31 March 2007	At 31 March 2006	At 1 April 2005 *	At 31 March 2005 **
Liabilities					
Equity attributable to the equity holders of the parent		2,229	1,782	1,515	1,398
Minority interests		42	58	68	68
Total equity		**2,271**	**1,840**	**1,583**	**1,466**
Bonds reimbursable with shares		**-**	**-**	**-**	**133**
Non-current provisions	(25)	549	581	680	680
Accrued pension and other employee benefit costs	(26)	512	792	824	824
Non-current borrowings	(27)	1,922	2,018	2,355	2,401
Non-current obligations under finance leases	(27)	775	193	243	867
Deferred taxes	(10)	47	39	59	59
Total non-current liabilities		**3,805**	**3,623**	**4,161**	**4,831**
Current provisions	(25)	1,512	1,539	1,642	1,642
Current borrowings	(27)	85	320	445	448
Current obligations under finance leases	(27)	40	40	38	51
Construction contracts in progress, liabilities	(18)	7,239	5,401	5,520	5,484
Trade payables		2,976	2,872	3,316	3,437
Other current liabilities	(28)	1,814	1,630	1,880	1,589
Total current liabilities		**13,666**	**11,802**	**12,841**	**12,651**
Liabilities directly associated with assets held for sale	(30)	-	1,143	637	-
Total liabilities		**19,742**	**18,408**	**19,222**	**19,081**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

** Restated in accordance with IFRS, with the exception of IAS 32-39 and IFRS 5 applied from 1 April 2005 (see Note 4. B).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows as at 31 March 2007

Year ended 31 March (in € million)	Note	**2007**	2006	2005*
Net profit (loss) from continuing operations		**471**	**379**	**(595)**
Depreciation, amortisation and share-based payments		352	424	497
Changes in prepaid and accrued employee defined benefit costs	(26)	(325)	-	9
Net (gains) losses on disposal of non-current assets and investments		90	(147)	(51)
Share in net income (loss) of associates (net of dividends received)		-	1	-
Changes in deferred taxes	(10)	(23)	(30)	145
Net cash provided by operating activities - before changes in net working capital		**565**	**627**	**5**
Changes in net working capital	**(22)**	**524**	**158**	**189**
Net cash provided by operating activities - continuing operations		**1,089**	**785**	**194**
Proceeds from disposal of tangible and intangible assets		17	60	51
Capital expenditure		(395)	(294)	(255)
Decrease (increase) in other non-current assets	(16)	727	16	(361)
Cash expenditure for acquisition of investments, net of net cash acquired		(232)	(13)	-
Cash proceeds (expenditure) from sale of investments, net of net cash sold		1	257	928
Net cash provided by investing activities - continuing operations		**118**	**26**	**363**
Capital increase		-	6	2,022
Issuance (conversion) of bonds reimbursable with shares		-	-	(19)
Issuance (repayment) of current and non-current borrowings		(377)	(369)	(2,310)
Issuance (repayment) of obligations under finance leases		(38)	(42)	(41)
Decrease (increase) in marketable securities and other current financial assets	(21)	(175)	6	-
Dividends paid including minorities		(6)	(4)	(5)
Net cash used in financing activities - continuing operations		**(596)**	**(403)**	**(353)**
Decrease in cash and cash equivalents - discontinued operations	(11) (30)	-	(215)	(198)
Transfer to/from assets held for sale	(11) (30)	29	(317)	-
Net effect of exchange rate variations		(30)	24	15
Other changes		(4)	(3)	34
Increase (decrease) in cash and cash equivalents		**606**	**(103)**	**55**
Cash and cash equivalents at the beginning of the period		**1,301**	**1,404**	**1,349**
Cash and cash equivalents at the end of the period		**1,907**	**1,301**	**1,404**
Cash paid for income taxes		170	85	92
Cash paid for net interest		87	171	204
Net debt variation analysis				
Increase (decrease) in cash and cash equivalents		606	(103)	55
Increase (decrease) in marketable securities and other financial assets		175	(2)	(24)
(Issuance) repayment of current and non-current borrowings		335	369	2,310
(Issuance) repayment of obligations under finance leases		38	42	41
Net cash used in financing activities - discontinued operations		29	103	(13)
Net effect of exchange rate and other		1	(6)	1
Decrease (increase) in net debt		1,184	403	2,370
(Net debt) / net cash at the beginning of the period**		(1,248)	(1,651)	(4,718)
(Net debt) / net cash at the end of the period**		(64)	(1,248)	(2,348)

* Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005 (see Note 4. B).

** The net debt corresponds to financial debt (see Note 27) less cash and cash equivalents, marketable securities and other current financial assets (see Note 21) and non-current financial assets directly associated to liabilities included in financial debt (see Note 16).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of recognised income and expenses

Year ended 31 March (in € million)	**2007**	2006	2005*
Net income (loss) for the year	**439**	**181**	**(627)**
Fair value gains (losses), gross of tax			
- on available-for-sale financial assets	-	-	-
- on cash flow hedges	-	-	-
Currency translation adjustments	(5)	52	(19)
Recognition of actuarial gains (losses) in equity	-	-	-
Tax effect	(9)	-	-
Total income and expenses recognised directly in equity	**(14)**	**52**	**(19)**
Total recognised income and expenses for the year	**425**	**233**	**(646)**
Attributable to:			
- Equity holders of the parent	436	227	(648)
- Minority interests	(11)	6	2

* Restated in accordance with IFRS, with the exception of IAS 32-39 and IFRS 5 applied from 1 April 2005 (see Note 4. B).

Consolidated statement of changes in shareholders' equity and minority interests

(in € million, except for number of shares)	Note	Number of outstanding shares	Capital	Additional paid-in capital	Retained earnings	Translation adjustments	Equity attributable to the equity holders of the parent	Minority interests	Total equity
At 1 April 2004		**1,056,657,572**	**1,321**	**64**	**(1,383)**	**-**	**2**	**66**	**68**
Total income and expense recognised in equity		-	-	-	-	(20)	(20)	1	(19)
Net income (loss) for the period		-	-	-	(628)	-	(628)	1	(627)
Total recognised income and expense		**-**	**-**	**-**	**(628)**	**(20)**	**(648)**	**2**	**(646)**
Conversion of ORA	(23)	15,473,425	14	5	-	-	19	-	19
Conversion of TSDDRA	(23)	240,000,000	300	-	-	-	300	-	300
Capital decrease		-	(1,175)	(64)	1,239	-	-	-	-
Capital increase	(23)	4,185,080,412	1,464	261	-	-	1,725	-	1,725
Impact first application IAS 32/39		-	-	112	5	-	117	-	117
At 1 April 2005*		**5,497,211,409**	**1,924**	**378**	**(767)**	**(20)**	**1,515**	**68**	**1,583**
Total income and expense recognised in equity		-	-	-	-	49	49	3	52
Net income (loss) for the period		-	-	-	178	-	178	3	181
Total recognised income and expense		**-**	**-**	**-**	**178**	**49**	**227**	**6**	**233**
Conversion of ORA	(23)	1,121,044	10	(10)	-	-	-	-	-
Consolidation of shares	(23)	(5,360,161,677)	-	-	-	-	-	-	-
Change in scope		-	-	-	-	-	-	(16)	(16)
Share-based payments		-	-	-	40	-	40	-	40
At 31 March 2006		**138,170,776**	**1,934**	**368**	**(549)**	**29**	**1,782**	**58**	**1,840**
Total income and expense recognised in equity		-	-	-	-	(12)	(12)	(2)	(14)
Net income (loss) for the period		-	-	-	448	-	448	(9)	439
Total recognised income and expense		**-**	**-**	**-**	**448**	**(12)**	**436**	**(11)**	**425**
Conversion of ORA	(23)	444,925	6	(2)	(8)	-	(4)	-	(4)
Change in scope and other		-	-	-	-	-	-	1	1
Dividends paid to minority interests		-	-	-	-	-	-	(6)	(6)
Share-based payments		1,500	-	-	15	-	15	-	15
At 31 March 2007	**(23)**	**138,617,201**	**1,940**	**366**	**(94)**	**17**	**2,229**	**42**	**2,271**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

Notes to the consolidated financial statements

66 Note 1. Description of business
66 Note 2. Basis of preparation of the consolidated financial statements
67 Note 3. Summary of accounting policies
76 Note 4. Impacts of first-time adoption of IFRS
78 Note 5. Changes in consolidated companies
79 Note 6. Sector and geographical data
84 Note 7. Research and development expenditure
84 Note 8. Other income and other expenses
85 Note 9. Financial income (expenses)
85 Note 10. Taxation
87 Note 11. Discontinued operations
88 Note 12. Earnings per share
89 Note 13. Goodwill and intangible assets
91 Note 14. Property, plant and equipment
92 Note 15. Associates and other investments
93 Note 16. Other non-current assets
94 Note 17. Inventories
94 Note 18. Construction contracts in progress
94 Note 19. Trade receivables
95 Note 20. Other current assets related to operating activities
95 Note 21. Marketable securities and other current financial assets
96 Note 22. Working capital
97 Note 23. Equity
99 Note 24. Share-based payments
104 Note 25. Provisions
104 Note 26. Pension and other employee benefits
107 Note 27. Financial debt
111 Note 28. Other current liabilities
111 Note 29. Employee benefit expense and headcount
112 Note 30. Assets held for sale and liabilities directly associated
113 Note 31. Off-balance sheet commitments and other obligations
115 Note 32. Contingencies
118 Note 33. Market-related exposures
122 Note 34. Related parties
122 Note 35. Subsequent events

NOTE 1. DESCRIPTION OF BUSINESS

ALSTOM ("the Group") serves the power generation market through its Power Systems and Power Service Sectors, and the rail transport market through its Transport Sector. The Group designs, supplies, and services a complete range of technologically-advanced products and systems for its customers, and possesses a unique expertise in systems integration and through-life maintenance and services.

The main activities of the Group are described in Note 6.

NOTE 2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Following the coming into force of the European Reporting Regulation n°1606/2002, companies listed in the European Union are required to adopt International Financial Reporting Standards (IFRS/IAS) as endorsed by the European Union in the preparation of their consolidated financial statements covering periods beginning on or after 1 January 2005.

In compliance with IFRS 1 on first-time adoption of IFRS, the opening balance sheet at 1 April 2004 and the consolidated financial statements for the fiscal year ended 31 March 2005 have been restated in accordance with IFRS standards endorsed by the European Union at the date of preparation of the consolidated financial statements for the year ended 31 March 2006, with the exception of IAS 32-39 and IFRS 5 standards applied from 1 April 2005.

ALSTOM consolidated financial statements for the year ended 31 March 2007 have been prepared using:

- the IAS/IFRS standards and interpretations applicable for annual periods beginning on or prior to 1 April 2005;
- the accounting policies and measurement methods as set out in Note 3;
- the historical cost convention, with the exception of certain assets and liabilities in accordance with applicable IFRS standards. Categories of assets and liabilities concerned are mentioned in Note 3.

The consolidated financial statements are presented in euro, and have been authorised for issue by the Board of Directors held on 11 May 2007.

A. NEWLY EFFECTIVE STANDARDS AND INTERPRETATIONS

The following standards and interpretations become effective for the preparation of consolidated financial statements at 31 March 2007:

- Amendment to IAS 19 "Employee benefits: actuarial gains and losses, group plans and disclosures"
  The option providing for the elimination of the corridor method and for the recognition of actuarial gains and losses directly in equity has not been used for the preparation of the year-end consolidated financial statements at 31 March 2007.
  Additional requirements regarding disclosures have been fulfilled in the notes to the consolidated financial statements for the year ended 31 March 2007.
- IAS 21 revised "Effect of changes in foreign exchange rates"
  This revision, which modifies the accounting treatment of exchange differences related to investments in foreign operations, has no significant impact on the year-end consolidated financial statements at 31 March 2007.
- Amendment to IAS 39 on fair value option
  This amendment limits the ability for an entity to designate any financial asset or financial liability as "at fair value" through profit or loss. The Group does not use fair value option at 31 March 2007.
- Amendment to IAS 39 on cash flow hedge with respect to future intra-group transactions
  The implementation of this amendment has no impact on the year-end consolidated financial statements at 31 March 2007 since, starting from the implementation of IAS 39 on 1 April 2005, fair value hedge accounting has been applied to intra-group firm commitments, provided that the foreign currency risk affects the consolidated income statement; forecast intra-group transactions that have not yet turned into firm commitments are not hedged.
- IFRIC 4 "Determining whether an arrangement contains a lease"
  IFRIC 4 provides guidance to determine whether arrangements that do not take the legal form of a lease should nonetheless be accounted for in accordance with IAS 17 "Leases". The implementation of this interpretation has no significant impact on the year-end consolidated financial statements at 31 March 2007.
- IFRIC 7 "Applying the restatement approach under IAS 29 financial Reporting in hyperinflationary economies".
  The implementation of this interpretation has no impact on the year-end consolidated financial statements at 31 March 2007.

B. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS PUBLISHED BUT NOT YET EFFECTIVE

The Group has not opted for an early application of the following standards and interpretations which are not yet effective at the date of authorisation of the year-end consolidated financial statements for the year ended 31 March 2007:

- Amendment to IAS 1 "Capital disclosures",
- IFRS 7 "Financial instruments disclosures",
- IFRIC 8 "Scope of IFRS 2 - Share-based payments",
- IFRIC 9 "Reassessment of embedded derivatives".

The application of the amendment to IAS 1 and IFRS 7 will have no impact on the Group's financial position but will modify the disclosures in the notes to the financial statements.

Regarding IFRIC 8 and IFRIC 9, and based on current analysis, their application is expected not to have any material impact.

NOTE 3. SUMMARY OF ACCOUNTING POLICIES

A. CONSOLIDATION METHODS

Subsidiaries

Entities over which the Group exercises exclusive control are fully consolidated. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities, whether it holds shares or not.

Inter company balances and transactions are eliminated.

Results of operations of subsidiaries acquired or disposed of during the year are recognised in the consolidated income statements as from the date of acquisition or up to the date of disposal, respectively.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interests in joint ventures

Joint ventures are companies over which the Group has joint control. They are consolidated by the proportionate method with the Group's share of the joint ventures' results, assets and liabilities recorded in the consolidated financial statements.

Investments in associates

Entities in which the Group exercises significant influence, but not control, are accounted for under the equity method.

Under the equity method, investments in associates are carried, in the consolidated balance sheet, at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognised, except if the Group has a legal or implicit obligation.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

A list of the Group's major consolidated subsidiaries, joint ventures and associates with the applicable method of consolidation is provided in Note 36.

B. USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make various estimates and use assumptions regarded as realistic and reasonable. These estimates or assumptions could affect the value of the Group's assets, liabilities, equity, net profit and contingent assets and liabilities at the date of the financial statements. Management reviews estimates on an ongoing basis using currently available information.

Actual results may differ from those estimates, due to changes in facts and circumstances.

The accounting policies most affected by the use of estimates are the following:

Revenue and margin recognition on construction and long-term service contracts and related provisions

The Group recognises revenue and gross margin on construction and long-term service contracts using the percentage of completion method based on milestones; in addition, when a project review indicates a negative gross margin, the loss related to work not yet performed is immediately recognised.

Recognised revenue and margin are thus based on estimates of total expected contract revenue and cost, which are subject to revisions as the contract progresses. Total expected revenue and costs on a contract reflect management's current best estimate of the probable future benefits and obligations associated with the contract. Assumptions to calculate present and future obligations take into account current technology as well as the commercial and contractual positions, assessed on a contract-by-contract basis. The introduction of technologically-advanced products exposes the Group to risks of product failure significantly beyond the terms of standard contractual warranties applicable to suppliers of equipment only.

Obligations on contracts may result in penalties due to late completion of contractual milestones, or unanticipated costs due to project modifications, suppliers or subcontractors failure to perform or delays caused by unexpected conditions or events. Similarly, warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting failures.

Although the Group makes individual assessments on contracts, there is a risk that actual costs related to those obligations may exceed the initial estimates. Depending whether the contract is still in progress or not, estimates of contract costs and revenues at completion or provisions may then have to be re-assessed.

Appraisal of deferred tax assets

Management judgment is required to determine the Group's deferred tax assets and liabilities and the extent to which deferred tax assets can be recognised taking into account future taxable income and tax planning strategies in assessing the need for a valuation allowance.

Pension and other employee benefits

The measurement of obligations and assets related to defined benefit plans makes it necessary to use several statistical and other factors that attempt to anticipate future events. These factors include assumptions about the discount rate, the expected return on plan assets, the rate of future compensation increases as well as withdrawal and mortality rates. If actuarial assumptions materially differ from actual results, it could result in a significant change to the amount of the employee benefit expense and to the amounts of prepaid or accrued benefit costs reported in the balance sheet.

Appraisal of assets

Goodwill is tested for impairment annually on 31 March and additionally whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The discounted cash flow model used to determine the fair value of cash generating units includes a number of factors among which, estimates of future cash flows, discount rates and other variables, and then requires significant exercise of judgment.

Impairment tests performed on intangible and tangible assets are also based on the same nature of assumptions. Future adverse changes in market conditions or poor operating results from underlying assets could result in an inability to recover their current carrying value.

Inventories

Inventories and work in progress are measured at the lower of cost or net realisable value. Valuation allowance for inventories and work in progress are calculated based on an analysis of foreseeable changes in demand, technology or market conditions in order to determine obsolete or excess inventories and work in progress. If actual market conditions are less favourable than those projected, additional inventory write downs may be required.

C. SALES AND COSTS GENERATED BY OPERATING ACTIVITIES

Measurement of sales and costs

The amount of revenue arising from a transaction is usually determined by the contractual agreement with the customer.

In case of construction contracts, claims are considered in the determination of contract revenue when it is highly probable that the claim will result in additional revenue and the amount can be reliably estimated.

Conversely, penalties are taken into account in reduction of contract revenue as soon as they are probable.

Production costs include direct (such as material and labour) and indirect costs, including warranty costs. Warranty costs are estimated on the basis of contractual agreement, available statistical data and weighting of all possible outcomes against their associated probabilities. Warranty periods may extend up to five years.

Selling and administrative expenses are excluded from production costs.

Recognition of sales and costs

Whatever the type of contracts, sales are recognised only when the outcome of the transaction can be assessed reliably.

Revenue on sale of manufactured products and short-term service contracts (duration of less than one year) is recognised when the significant risks and rewards of ownership are transferred to the customer, which generally occurs on delivery or performance of the related service. All production costs incurred or to be incurred in respect of the sale are charged to cost of sales at the date of recognition of sales.

Revenue on construction contracts and long-term service agreements is recognised based on the percentage of completion method: the stage of completion is assessed by milestones which ascertain the completion of a physical proportion of the contract work or the performance of services provided for in the agreement. The excess of revenue measured according to the percentage of completion over the revenue recognised in prior periods is the revenue for the period.

Cost of sales on construction contracts and long-term service agreements is computed on the same basis. The excess of cost to be recognised over the cost of sales recognised in prior periods is the cost of sales for the period. As a consequence, adjustments to contract estimates resulting from work conditions and performance are recognised in cost of sales as soon as they occur, pro rata to the stage of completion.

When it is probable that contract costs at completion will exceed total contract revenue, the expected loss is recognised immediately as an expense.

With respect to construction contracts and long-term service agreements, the aggregate amount of costs incurred to date *plus* recognised margin *less* progress billings is determined on a contract-by-contract basis. If the amount is positive, it is included as an asset designated as "Construction contracts in progress, assets". If the amount is negative, it is included as a liability designated as "Construction contracts in progress, liabilities".

The caption "Construction contracts in progress, liabilities" also includes downpayments received from customers.

Recognition of overhead expenses

Selling and administrative expenses are expensed as incurred.

Research expenses are expensed as incurred. Development costs are expensed as incurred unless the project they relate to meets the criteria for capitalisation (see Note 3. J).

D. INCOME (LOSS) FROM OPERATIONS

Income (loss) from operations includes gross margin, administrative and selling expenses and research and development expenses. It includes in particular the service cost of employee defined benefits, cost of share-based payments, employee profit sharing, foreign exchange gains or losses associated with operating transactions, including hedge accounting impacts, and capital gains (losses) on disposal of intangible and tangible assets arising from ordinary activities.

E. OTHER INCOME AND OTHER EXPENSES

Other income includes capital gains on disposal of investments or activities and capital gains on disposal of tangible assets arising from activities disposed of or facing restructuring plans as well as any income associated to past disposals.

Other expenses include capital losses on disposal of investments or activities and capital losses on disposal of tangible assets arising from activities disposed of or facing restructuring plans as well as any costs associated to past disposals, restructuring costs, a portion of costs of employee defined benefits (amortisation of actuarial gains and losses, unrecognised prior service cost and impacts of curtailments and settlements) and impairment losses on assets.

F. FINANCIAL INCOME AND EXPENSES

Financial income and expenses include:

- interest charges and income related to the financial debt which consists of bonds, the liability component of compound instruments and other borrowings including lease-financing liabilities;
- other expenses paid to financial institutions for financing operations;
- interest charges and bank fees relating to securitisation of receivables;
- the financial component of the cost of employee defined benefits (interest cost and expected return on assets);
- dividends received from non consolidated investments;
- foreign exchange gains and losses including hedge accounting impacts associated to financing transactions;
- other income or expense from cash and cash equivalents and marketable securities.

G. TRANSLATION OF FINANCIAL STATEMENTS DENOMINATED IN FOREIGN CURRENCIES

The individual financial statements of the Group's foreign subsidiaries, joint ventures and associates are presented in their own functional currency; i.e. the currency of the primary economic environment in which the entity operates as reporting currency.

For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in euro, which is the functional currency of the Group and the presentation currency for the consolidated financial statements. Assets and liabilities of foreign subsidiaries located outside the euro zone are translated into euros at the rate of exchange of the period end, and their income statements and cash flow statements are converted at the average rate of exchange for the period. The resulting translation adjustment is included as a component of shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

H. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are initially recognised by applying to the foreign currency amount the spot exchange rate between the functional currency of the reporting unit and the foreign currency at the date of the transaction. Currency units held and assets and liabilities to be received or paid resulting from those transactions are remeasured at closing exchange rates at the end of each reporting period. Realised exchange gains or losses at date of payment as well as unrealised gains or losses deriving from remeasurement are recorded, within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

Since the Group is exposed to foreign currency volatility, it takes significant levels of forward cover relating to this exposure. These derivatives are recognised on the balance sheet at fair value at the closing date.

Providing that the relationships between the foreign currency exposure and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting.

A relationship qualifies for hedge accounting if, at the inception of the hedge, it is formally designated and documented and if it proves to be highly effective throughout the financial reporting periods for which the hedge was initially designated.

Hedging relationships could be of three types:
- cash flow hedge in case of hedge of the exposure to variability of cash flows attributable to highly probable forecast transactions;
- fair value hedge in case of hedge of the exposure attributable to recognised assets, liabilities or firm commitments;
- hedge of net investment in foreign subsidiaries.

Cash flow hedge

When cash flow hedge accounting applies, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the forecast transaction results in the recognition of a monetary item, the amounts previously recognised directly in equity are reclassified to the income statement.

Fair value hedge

When fair value hedge accounting applies, changes in the fair value of derivatives and changes in the fair value of hedged items are both recognised in the income statement and offset each other, up to the effective portion of the gain or loss on the hedging instrument.

Hedge of net investment in foreign subsidiaries

In this situation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity as “foreign currency translation adjustment”. This amount is reclassified to the income statement on disposal of the investment.

Whatever the type of hedge, the ineffective portion of the hedging instrument is recognised in the income statement.

Realised and unrealised exchange gains and losses on hedged items and hedging instruments are recorded within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

Sales and costs resulting from commercial contracts are recognised at spot rate at inception of hedge throughout the life of the related commercial contracts, provided that the corresponding hedging relationships keep on qualifying for hedge accounting.

The Group also uses export insurance contracts to hedge its currency exposure on certain long-term contracts during the open bid as well as after the award of the contracts. During the bid period, such insurance contracts are not remeasured on the balance sheet. If the commercial contract is awarded, insurance contracts are accounted for, using a similar treatment as forward foreign currency exchange contracts.

I. GOODWILL

Goodwill represents the excess of the cost of acquisition over the interest in the fair values of assets acquired and liabilities and contingent liabilities assumed in a business combination. Initial estimates of fair values are finalised within twelve months after the date of acquisition and any adjustments in these fair values are accounted for as retroactive adjustments to goodwill. Beyond this twelve-month period, any adjustment is directly recognised in the income statement.

Goodwill is not amortised but tested for impairment at least annually during the second half of the year (see Note 3. L).

J. INTANGIBLE ASSETS

Intangible assets include acquired intangible assets (such as technology, licensing agreements) and internally generated intangible assets (mainly development costs).

Acquired intangible assets

Acquired intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Useful lives can extend to twenty years due to the long-term nature of the contracts and activities involved. The amortisation expense is recorded in cost of sales, research and development expenses, selling expenses or administrative expenses, based on the function of the underlying assets.

Internally generated intangible assets

Research expenditure are expensed as incurred. Development costs are expensed as incurred unless the project they relate to meet the following criteria for capitalisation:
- the project is clearly defined and its related costs are separately identified and reliably measured,
- the technical feasibility of the project is demonstrated,
- the intention exists to complete the project and to use or sell it,
- adequate financial resources are available to complete the project,
- it is probable that the future economic benefits attributable to the project will flow to the Group.

Development costs capitalised are amortised on a straight-line basis over the estimated useful life of the asset. The amortisation charge is reported in research and development expenditure.

K. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When an item of property, plant and equipment is made up of components with different useful lives, the total cost is allocated between the various components which are then separately depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of each component. The useful lives most commonly used are the following:

	Estimated useful life in years
Buildings	15-30
Machinery and equipment	7-12
Tools, furniture, fixtures and others	3-7

Useful lives are reviewed on a regular basis and changes in estimates, when relevant, are accounted for on a prospective basis. The depreciation expense is recorded in cost of sales, selling expenses or administrative expenses, based on the function of the underlying assets.

Property, plant and equipment acquired through finance lease arrangements or long-term rental arrangements that transfer substantially all the risks and rewards incidental to ownership are capitalised. They are recognised at their fair value at the inception of the lease, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a financing obligation. Lease payments are apportioned between finance charges and reduction in the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the term of the relevant lease, when shorter.

Leases that do not transfer substantially all risks and rewards incidental to ownership are classified as operating leases. Rentals payable are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

L. IMPAIRMENT OF GOODWILL, TANGIBLE AND INTANGIBLE ASSETS

Goodwill, intangible assets having an indefinite useful life and intangible assets not yet available for use are tested for impairment annually or when there are indications that they may be impaired.

Tangible and intangible assets having a definite useful life are tested for impairment only if there are indications of impairment.

The impairment test methodology is based on a comparison between the recoverable value of each of the asset with its net carrying value. The recoverable amount is the higher of fair value less costs to sell and value in use. The recoverable value of an asset is individually assessed unless the asset does not generate cash inflows independent of those from other assets or groups of assets. These groups of assets are designated as cash-generating units.

With respect to goodwill and internally generated or acquired technology, the identified cash generating units are the reportable segments as detailed in Note 6.

The valuation performed is based upon the Group's internal three-year business plan prepared as part of its annual budget exercise at Sector level. Cash flows beyond this period are estimated using a steady or declining growth rate for the subsequent years. The recoverable amount is the sum of the discounted cash flows and of the discounted terminal residual value. Discount rates are determined using the weighted-average cost of capital of each Sector.

Recoverable values are significantly impacted by estimates of future prices of products and services, the evolution of costs, economic trends in the local and international Sector, the expectations on long-term development of emerging markets and other factors. They also depend on the discount rates and perpetual growth rates used.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognised immediately in the income statement.

In case of an impairment loss attributable to a cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other non current assets of the unit on a pro rata basis of the carrying amount of each asset in the unit. The impairment loss is immediately recognised in the income statement.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

When an impairment loss not allocated to goodwill subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

M. FINANCIAL ASSETS

Financial assets include loans and deposits, long-term rental receivables, investments, debt securities, derivative financial instruments with a positive marked to market and receivables.

Loans and deposits

Loans are initially measured at their fair value, plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Deposits are reported as financial assets when their initial maturity is more than three months and as cash and cash equivalents in case of demand deposits or when the initial maturity is less than three months.

If there is any indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded as a financial expense. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported as a financial income.

Investments and debt securities

Investments in non-consolidated companies are designated as available-for-sale financial assets under IAS 39 classification. They are initially measured at their fair value, plus directly attributable transaction costs and subsequently measured at fair value.

The fair value of listed securities corresponds to the market value at the balance sheet date. A valuation model is used in case of unlisted securities. Changes in fair value are directly recognised in shareholders' equity until the security is disposed of or is determined to be impaired. On disposal or in case of significant or prolonged decline in the fair value, the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit and loss for an investment in an equity instrument are not reversed through profit and loss. Conversely, if, in a subsequent period, the fair value of an investment in a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in profit or loss, the impairment loss is reversed with the amount of the reversal recognised in profit or loss.

Investments in non-consolidated companies, whose fair value cannot be determined reliably, are measured at cost. Any impairment loss recognised for such investment is not reversed in a subsequent period, except when disposed of.

All debt securities that the Group has the expressed intention and ability to hold to maturity are designated as held-to-maturity financial assets under IAS 39 classification. They are therefore measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect amounts expected not to be recoverable. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the investment's carrying value and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed through profit and loss in subsequent periods when an increase in the investment's recoverable amount can be objectively related to an event occurring after the impairment was recognised.

Marketable securities are securities held for trading which cannot be considered as cash and cash equivalents (see Note 33). They are designated as financial asset at fair value through profit or loss under IAS 39 classification. Changes in fair value are therefore reported as financial income or expense.

Derivative financial instruments

Derivative financial instruments are recognised and remeasured at fair value (see Note 3. H for foreign currency hedging instruments and Note 3. S for interest rate hedging instruments).

Receivables

Receivables are initially recognised at fair value, which in most cases is represented by the nominal value. If there is any subsequent indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded within income from operations. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported within income from operations.

N. INVENTORIES

Raw materials and supplies, work in progress and finished products are stated at the lower of cost, using the weighted average cost method, or net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory cost comprises direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their existing location and condition.

O. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

P. TAXATION

Deferred taxes are calculated for each taxable entity for temporary differences arising between the tax value and book value of assets and liabilities and are accounted for using the balance sheet method. Deferred tax liabilities are recognised for all taxable temporary differences with the exception of taxable temporary differences arising from investments in subsidiary or associates, and investments in joint ventures, which are not recognised when the Group is able to control their reversal and it is probable that these temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax is calculated at the enacted tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Q. PROVISIONS

As long as a construction contract or a long-term service agreement is in progress, obligations attributable to such a contract are taken into account in the assessment of the margin to be recognised and are therefore reported within the accounts "Construction contracts in progress, assets" or "Construction contracts in progress, liabilities".

At completion date, such obligations are recognised as distinct liabilities when they satisfy the following criteria:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of economic resources will be required to settle the obligation; and
- such outflow can be reliably estimated.

These liabilities are presented as provisions when they are of uncertain timing or amount. When this uncertainty is dispelled, they are presented as trade payables or other current liabilities.

Obligations resulting from transactions other than construction contracts and long-term service agreements are directly recognised as provisions as soon as the above-described criteria are met.

Where the effect of the time value of money is material, provisions are measured at their present value.

Restructuring provisions are made when plans reduce or close facilities, or reduce the workforce have been finalised and approved by the Group management and have been announced before the balance sheet date, resulting in an obligation of the Group to third parties. Restructuring costs include employees' severance and termination benefits and estimated facility closing costs. In addition to such provisions, restructuring costs may include asset write-off related to the concerned activities.

R. FINANCIAL LIABILITIES

Financial liabilities include bonds and borrowings, obligations under finance leases, derivative financial instruments with a negative marked to market and payables.

Bonds and borrowings

Bonds and interest-bearing bank loans are initially recognised at fair value, less any transaction costs directly attributable to the issuance of the liability. Bond issuance costs and premiums are not included in the initial cost, but are taken into account in calculating amortised cost under the effective interest rate method. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Renegotiations of the terms of borrowings and similar operations are recorded as an extinction of the former liability with recognition of a new liability only if there are substantial differences between the old and new terms. When this is the case, the costs borne for renegotiation are included in the financial expenses for the period when the negotiation took place, as a component of the gain or loss on extinction of the former liability.

Certain financial instruments (such as bonds reimbursable with shares) include both a financial debt component and a shareholders' equity component. Those components are classified separately as financial debt and equity instruments.

The measurement of the debt component at date of issuance is represented by the present value of future cash flows for a similar instrument with the same conditions (maturity, cash flows), but without an option or an obligation for conversion or redemption in shares. This liability is subsequently remeasured at amortised cost, using the effective interest rate.

The equity component is the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component.

Derivative financial instruments

Derivative financial instruments are recognised and remeasured at fair value (see Note 3. H for foreign currency hedging instruments and Note 3. S for interest rate hedging instruments).

Payables

Payables are initially recognised at fair value, which in most cases is represented by the nominal value. They are subsequently remeasured at amortised cost.

S. INTEREST RATE DERIVATIVES

The Group may enter into hedges for the purposes of managing its exposure to movements in interest rates. Derivatives are recognised on the balance sheet at fair value at the closing date.

Providing that the relationships between the interest rate exposure and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting.

Fair value or cash flow hedge accounting is applied to fixed and floating rate borrowings respectively.

In the case of fair value hedge relationships, the remeasurement of the fixed rate borrowing is offset in the income statement by the movement in the fair value of the derivative.

In the case of cash flow hedge relationships, the change in fair value of the derivative is recognised directly in equity. When the forecast transaction results in the recognition of a monetary item, the amounts previously recognised directly in equity are reclassified to the income statement.

T. SHARE-BASED PAYMENTS

The Group issues equity-settled and cash-settled share-based payments to certain employees. In accordance with IFRS 2, only options granted after 7 November 2002 and not fully vested at 1 January 2005 are measured and accounted for as employee costs.

Equity-settled share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based conditions) using the binomial pricing model. The cumulative recognised expense is based on the fair value at grant date and on the estimated number of shares that will eventually vest (including the effect of non market-based vesting conditions). It is recorded in income from operations throughout the vesting period with a counterpart in equity.

Cash-settled share-based payments

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

The Group may also provide employees with the ability to purchase the Group's ordinary shares at a discounted current market value. In that case, the Group records an expense, based on its estimate of the discount related to shares expected to vest.

U. PENSION AND OTHER EMPLOYEE BENEFITS

The Group provides various types of post-employment and other long-term benefits to its employees including post-retirement medical benefits to some retired employees in certain countries principally in the United States. The type of benefits offered to an individual employee is related to local legal requirements as well as operating practices of the specific subsidiaries. The Group also provides other long-term employee benefits such as jubilee awards and deferred compensation scheme.

Post-employment defined benefit plans

For single employer defined benefit plans, the Group uses the Projected Unit Credit Method to determine the present value of its obligations and the related current and past service costs. This method considers best estimate actuarial assumptions including the probable future length of the employees' service, the employees' final pay, the expected average life span and probable turn-over of beneficiaries.

Most defined benefit pension liabilities are funded through separate pension funds. Plan assets related to funded plans are invested mainly in equity and debt securities. Other supplemental pension plans sponsored by the Group for certain employees are paid from the Group's assets as they become due. Post-employment medical benefits plans are predominantly unfunded.

At year end, the Group reviews plan assets and obligations. The effects of any change in actuarial assumptions together with the differences between forecast and actual experience are assessed. If the cumulative of these differences exceeds 10% of the greater of the defined benefit obligations or the market value of plan assets, on a plan by plan basis, the unrecognised gains/losses in excess are amortised over the average remaining service life of active employees (corridor method).

The estimated cost of providing defined benefits to employees is accrued during the years in which the employees render services. In the income statement, the service cost element of benefit costs is included in the income from operations. The amortisation of actuarial net losses (gains) as well as unrecognised prior service cost and the impacts of curtailments and settlements are recognised in other expenses. Financial elements of the benefit cost such as interest cost and asset returns are included in financial income (expenses).

The Group also participates in multi-employer defined benefit plans, which are accounted for as defined contribution plans (see below), mainly in the United States and Canada.

Post-employment defined contribution plans

For defined contribution plans, the Group pays contributions to independently administered funds at a fixed percentage of employees' pay. These contributions are recorded as operating expenses.

Other long-term employee benefits

The accounting method used when recognising obligations arising from other long-term employee benefits is similar to the method used for post employment defined benefits, except that prior service cost and actuarial gains/losses are recognised immediately and no corridor is applied.

V. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell and are not amortised or depreciated anymore.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Amounts included in the income statement and cash flow statement related to these discontinued operations are presented separately for the current year and all prior years presented in the financial statements if they are material.

W. EARNINGS PER SHARE

Basic earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period, increased by the weighted average number of bonds reimbursable with shares to be converted.

Diluted earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period, increased by the weighted average number of bonds reimbursable with shares to be converted and by the effect of any other dilutive instruments.

X. BORROWING COSTS

The Group does not capitalise interest expense attributable to the acquisition, construction or production of assets. Borrowing costs are recognised as an expense in the period in which they are incurred.

Y. EXCHANGE RATES USED FOR THE TRANSLATION OF MAIN CURRENCIES

	At 31 March 2007		At 31 March 2006		At 31 March 2005	
(€ for 1 monetary unit)	Average	Closing	Average	Closing	Average	Closing
British pound	1.474594	1.471021	1.465784	1.435956	1.463325	1.452433
Swiss franc	0.629045	0.615498	0.643819	0.632871	0.650036	0.645745
US dollar	0.774747	0.750863	0.825792	0.826173	0.791901	0.771367
Brazilian real	0.360684	0.368202	0.360145	0.377223	0.278889	0.287584
Indian rupee	0.017185	0.017446	0.018647	0.018509	0.017626	0.017673
Chinese yuan	0.098198	0.097300	0.101717	0.103029	0.095632	0.093300

NOTE 4. IMPACTS OF FIRST-TIME ADOPTION OF IFRS

A. OPTIONS TAKEN AT FIRST-TIME ADOPTION OF IFRS ON 1 APRIL 2004 (TRANSITION DATE)

IFRS 1 – First-time Adoption of International Financial Reporting Standards – permits certain exceptions to the retrospective application of IFRS at the transition date. Accordingly, the Group prepared the opening balance sheet at 1 April 2004 using the following options :

- the Group has elected not to retrospectively apply IFRS 3 – Business combinations;
- the Group has elected to adopt the complete retrospective application of IAS 19 – Employee benefits – a portion of actuarial gains and losses on post-employment defined benefit plans existing is thus left unrecognised at the transition date;
- the Group has elected not to apply the exemption allowing fair value of property, plant and equipment and other intangible assets at the transition date to be used as their deemed cost;
- the cumulative translation differences at 1 April 2004 have been set to zero through a transfer to retained earnings;
- IFRS 2 – Share-based payments – has been applied for all plans granted after 7 November 2002 and not fully vested at 1 January 2005.

B. FIRST-TIME APPLICATION OF IAS 32-39 AND IFRS 5 STANDARDS ON 1 APRIL 2005

As permitted by IFRS 1, the comparative information related to the year ended 31 March 2005 has been prepared in accordance with all IFRS standards and interpretations effective and endorsed by the European Union for annual periods beginning on 1 April 2005, with the exception of:

- IFRS 5 "Non current assets held for sale and discontinued operations"
- IAS 32 "Financial instruments: disclosure and presentation",
- IAS 39 "Financial instruments: recognition and measurement".

Those three standards have been adopted from 1 April 2005. The impact of their first application on the balance sheet is presented below:

(in € million)	At 31 March 2005	IAS 32/39	IFRS 5	At 1 April 2005
Assets				
Total non-current assets	**9,606**	**2**	**(650)**	**8,958**
Out of which				
- Other non-current assets	1,935	5	(650)	1,290
- Deferred taxes	1,207	(3)	-	1,204
Total current assets	**9,475**	**139**	**13**	**9,627**
Out of which				
- Trade receivables	2,392	(69)	-	2,323
- Other current assets	1,424	208	13	1,645
Assets held for sale	**-**	**-**	**637**	**637**
Total assets	**19,081**	**141**	**-**	**19,222**
Liabilities				
Total equity	**1,466**	**117**	**-**	**1,583**
Bonds reimbursable with shares	**133**	**(133)**	**-**	**-**
Total non-current liabilities	**4,844**	**(46)**	**(637)**	**4,161**
Out of which				
- Non-current financial debt	3,281	(46)	(637)	2,598
Total non-current liabilities	**12,638**	**203**	**-**	**12,841**
Out of which				
- Current financial debt	486	(3)	-	483
- Construction contracts in progress, liabilities	5,484	36	-	5,520
- Trade payables	3,437	(121)	-	3,316
- Other current liabilities	1,589	291	-	1,880
Liabilities directly associated with assets held for sale	**-**	**-**	**637**	**637**
Total liabilities	**19,081**	**141**	**-**	**19,222**

Impact of application of IAS 32-39

The impact of the application of the IAS 32-39 standards is detailed as follows:

(in € million)	Recognition of equity and debt components of ORA	Remeasurement of financial debt using effective interest rate	Immediate recognition in equity of transaction costs on equity instruments	Adoption of hedge accounting	Reclassification of investments	IAS 32/39
Assets						
Total non-current assets	**(1)**	**-**	**3**	**(5)**	**5**	**2**
Out of which						
- Other non-current assets	-	-	-	-	5	5
- Deferred taxes	(1)	-	3	(5)	-	(3)
Total current assets	**(3)**	**(60)**	**(8)**	**215**	**(5)**	**139**
Out of which						
- Trade receivables	-	-	-	(69)	-	(69)
- Other current assets	(3)	(60)	(8)	284	(5)	208
Total assets	**(4)**	**(60)**	**(5)**	**210**	**-**	**141**
Liabilities						
Capital						
Paid-in capital	117	-	(5)	-	-	112
Retained earnings	4	(1)	-	2	-	5
Total equity	**121**	**(1)**	**(5)**	**2**	**-**	**117**
Bonds reimbursable with shares	**(133)**	**-**	**-**	**-**	**-**	**(133)**
Total non-current liabilities	**10**	**(56)**	**-**	**-**	**-**	**(46)**
Out of which						
- Non-current financial debt	10	(56)	-	-	-	(46)
Total current liabilities	**(2)**	**(3)**	**-**	**208**	**-**	**203**
Out of which						
- Current financial debt	(2)	(1)	-	-	-	(3)
- Construction contracts in progress, liabilities	-	-	-	36	-	36
- Trade payables	-	-	-	(121)	-	(121)
- Other current liabilities	-	(2)	-	293	-	291
Total liabilities	**(4)**	**(60)**	**(5)**	**210**	**-**	**141**

Recognition of equity and debt components of bonds reimbursable with shares ("ORA")

Bonds reimbursable with shares issued by the Group during the year ended 31 March 2004 constitute a compound financial instrument which, in accordance with IAS 32 must be broken down between its equity component and its debt component.

Remeasurement of financial debt using effective interest rate

Under French GAAP, bank fees related to debt issues were booked as an asset in the balance sheet and amortised on a straight-line basis through financial result over the life of the debt instrument. Under IFRS, such fees are booked as a reduction of financial debt and amortised over the life of the debt instrument according to the effective interest method.

Immediate recognition in equity of transaction costs on equity instruments

Under French GAAP, transaction costs related to equity instruments were booked as an asset in the balance sheet and amortised on a straight-line basis over five years. Under IFRS, such costs are debited directly to equity.

The negative impact on equity represents the portion of costs not yet amortised under French GAAP at 31 March 2005.

Adoption of hedge accounting

Hedge accounting rules elected by the Group are described in Note 3. H of the present notes.

Following the adoption of fair value hedge accounting for foreign currency hedging relationships, current assets and liabilities existing under French GAAP have been remeasured in accordance with the new rules and the following new items have been recognised:

- derivative instruments: additional other current assets and liabilities amounting to €264 million and €192 million, respectively;
- changes in the fair value of unrecognised firm commitments: additional other current assets and liabilities amounting to €40 million and €148 million, respectively.

Reclassification of investments

A portion of securities previously classified as short-term investments under French GAAP has been reclassified to non-current assets.

Impact of application of IFRS 5

At 1 April 2005, assets and liabilities attributable to leases of trains and associated equipment of the Transport Sector have been classified as group of assets held for sale and presented separately in the balance sheet as they were expected to be sold within twelve months. These leases relate to a 1995 agreement with London Underground (Northern Line) to which the Group leases trains and associated equipment for a period of 30 years starting 1997 and makes them available to this operator.

The proceeds of disposal were expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the date of the classification of these operations as held for sale.

NOTE 5. CHANGES IN CONSOLIDATED COMPANIES

The main changes in the scope of consolidated companies for the years ended 31 March 2007, 31 March 2006 and 31 March 2005 are the following:

YEAR ENDED 31 MARCH 2007

- On 29 March 2007, the Group acquired Quingdao Sizhou Electric Power Equipment Limited and Quingdao Sizhou Boiler Auxiliary Company Limited, two Chinese companies specialised in ash handling systems and the related service business.
- On 22 March 2007, the Group acquired the assets and liabilities of Power Systems Manufacturing, LLC (PSM), a US-based high tech company with a leading position as independent provider of improved gas-turbine parts and low-Nox upgrade solutions for gas turbines.
- On 29 September 2006, Bouygues and the Group signed a binding agreement granting Bouygues a 50% interest in ALSTOM Hydro activities for €150 million, the Group having previously subscribed €300 million convertible bonds in ALSTOM Hydro. Following clearance from all relevant anti-trust authorities, this operation was completed on 31 October 2006. In November 2009, the Group has the option to convert its bonds into ALSTOM Hydro shares. At the same date, Bouygues has the option to:
  - sell its shares back to the Group for €175 million or exchange them for 2.2 million ALSTOM shares or the equivalent in cash should the Group fail to deliver shares,
  - remain as a shareholder with the possibility to retain, through capital injection, its 50% share in ALSTOM Hydro.

  In addition, until 31 October 2009, the Group has specific rights, in particular in the event of disagreements between the shareholders. Hydro activities remain fully consolidated with no minority interests and, as disclosed in Note 27, obligations towards Bouygues are recorded as a financial liability at initial fair value plus accrued interests for €153 million at 31 March 2007
- On 24 August 2006, the Group completed the acquisition of Shenzhen Strongwish, a Chinese company specialised in the design and delivery of remote monitoring and diagnosis services.
- On 31 May 2006, the sale of 75% interests in the Marine Sector to Aker Yards was completed and this Sector has been deconsolidated from that date. The sale took place through the creation of a new company comprising the shipyards in Saint-Nazaire and Lorient, 75% of which is owned by Aker Yards and 25% by the Group. At 31 March 2007, this 25% interest is accounted for in investments. The remaining stake held by the Group will be sold to Aker Yards by 2010 through a put and call agreement, at a price of up to €125 million depending on the financial performance.

YEAR ENDED 31 MARCH 2006

- On 24 October 2005, the Group and Austrian Energy and Environment AG signed binding agreements for the sale of the Industrial Boilers business, part of the Power Systems Sector. The sale of the business was completed on 30 November 2005 in Australia and Thailand and on 31 May 2006 in Germany and Czech Republic, respectively. These activities have been deconsolidated from that date.
- On 30 September 2005, the Group signed a binding agreement to sell its Power Conversion activities to Barclays Private Equity. On 10 November 2005, the Group completed the sale and these activities have been deconsolidated from 1 November 2005.
- On 2 June 2005, the Group signed a binding agreement for the sale of its transport operations in Australia and New Zealand. On 16 September 2005, the sale was completed and this business has been deconsolidated from 1 September 2005.
- On 24 May 2005, a sale agreement related to the FlowSystems business was signed. On 18 August 2005, the Group completed the sale and the business has been deconsolidated from that date.

YEAR ENDED 31 MARCH 2005

- Pending local regulatory approvals, in particular in India, certain non significant entities of the former T&D Sector were not included in the scope of T&D entities disposed of during the year ended 31 March 2004. These transactions were authorised during the year ended 31 March 2005 and an agreement for the disposal of outstanding entities was signed. In this context, after the signature in April 2005 of a share purchase agreement, the sale of the former T&D Indian units was completed on 8 August 2005. These units have been deconsolidated from 1 August 2005.

NOTE 6. SECTOR AND GEOGRAPHICAL DATA

A. SECTOR DATA

The Group is managed through Sectors of activity and has determined its reportable segments accordingly. At 31 March 2007, the Group is organised in three Sectors, following the sale of the Marine Sector during the year.

Power Systems

Power Systems provides steam turbines, gas turbines, generators and power plant engineering, including hydro equipments and systems. It also focuses on boilers and emissions control equipment in the power generation, petrochemical and industrial markets. Finally, it serves demand for upgrades and modernisation of existing power plants.

Power Service

Power Service promotes the service activities relating to the Power Systems Sector and services to customers in all geographical markets.

Transport

Transport provides equipment, systems and customer support for rail transportation activities, including passenger trains, locomotives, signalling equipment, rail components and service.

Other Sectors

The Power Conversion business which was sold during the year ended 31 March 2006 was still included in the segmental information as at 31 March 2006 and 31 March 2005.

The Marine Sector is excluded from the Sector and geographic information following the classification of its operations as discontinued operations and the classification of its assets and liabilities as disposal group held for sale at 31 March 2006 and 31 March 2005. Marine has been deconsolidated from 31 May 2006.

Some units, not material to the Sector presentation, have been transferred between Sectors. The revised Sector composition has not been reflected on a retroactive basis.

At 31 March 2007

(in € million)	Power Systems	Power Service	Transport	Corporate & others [(1)]	Elimination	Total
Sales	5,975	3,386	5,288	49	(490)	14,208
Inter-sector elimination	(302)	(188)	-	-	490	-
Total sales	**5,673**	**3,198**	**5,288**	**49**	**-**	**14,208**
Income (loss) from operations	**201**	**510**	**350**	**(104)**	**-**	**957**
Earnings before interest and taxes	**175**	**499**	**277**	**(224)**	**-**	**727**
Financial income (expenses)						(111)
Income tax						(145)
Share in net loss of equity investments						-
Net profit from continuing operations						**471**
Net loss from discontinued operations						**(32)**
Net profit						**439**
Segmental assets [(2)]	**5,386**	**4,381**	**5,079**	**436**	**-**	**15,282**
Deferred taxes (assets)						1,280
Prepaid pension and other employee benefit costs						422
Financial assets						2,758
Total assets						**19,742**
Segmental liabilities [(3)]	**6,034**	**2,253**	**5,119**	**684**	**-**	**14,090**
Deferred taxes (liabilities)						47
Accrued pension and other employee benefit costs						512
Financial debt						2,822
Total equity						2,271
Total liabilities						**19,742**
Capital employed [(4)]	**(648)**	**2 128**	**(40)**	**(248)**	**-**	**1,192**
Capital expenditure	**124**	**65**	**157**	**49**	**-**	**395**
Depreciation and amortisation in EBIT	**113**	**64**	**123**	**47**	**-**	**347**

(1) Corporate & others includes all units bearing Corporate costs, the Group International Network and overseas entities that are not allocated to Sectors (mainly India).

(2) Segmental assets are defined as the closing position of goodwill, intangible assets, property, plant and equipment, other non current assets (excluding prepaid pension and other employee benefit costs and financial non-current assets associated to financial debt) and current assets (excluding marketable securities and other current financial assets, and cash and cash equivalents).

(3) Segmental liabilities are defined as the closing position of current and non-current provisions and current liabilities (excluding current borrowings and current obligations under finance leases).

(4) Capital employed corresponds to segmental assets minus segmental liabilities. The decrease in the capital employed from 31 March 2006 to 31 March 2007 is explained for €700 million by the release of a deposits securing the Bonding Guarantee Facility (see Note 16) classified in the Sector "Corporate & others" at 31 March 2006.

At 31 March 2006

(in € million)	Power Systems	Power Service	Transport	Corporate & others [1]	Elimination	Total
Sales	5,396	3,062	5,129	376	(550)	13,413
Inter-sector elimination	(317)	(209)	(1)	(23)	550	-
Total sales	**5,079**	**2,853**	**5,128**	**353**	**-**	**13,413**
Income (loss) from operations	**101**	**442**	**324**	**(121)**	**-**	**746**
Earnings before interest and taxes	**75**	**407**	**256**	**(11)**	**-**	**727**
Financial income (expenses)						(222)
Income tax						(125)
Share in net loss of equity investments						(1)
Net profit from continuing operations						**379**
Net loss from discontinued operations						**(198)**
Net profit						**181**
Segmental assets [2]	**4,633**	**3,890**	**4,224**	**1,558**	**-**	**14,305**
Deferred taxes (assets)						1,249
Prepaid pension and other employee benefit costs						387
Current financial assets						1,323
Assets held for sale						1,144
Total assets						**18,408**
Segmental liabilities [3]	**5,072**	**2,078**	**4,099**	**774**	**-**	**12,023**
Deferred taxes (liabilities)						39
Accrued pension and other employee benefit costs						792
Financial debt						2,571
Total equity						1,840
Liabilities associated with assets held for sale						1,143
Total liabilities						**18,408**
Capital employed [4]	**(439)**	**1,812**	**125**	**784**	**-**	**2,282**
Capital expenditure	**103**	**35**	**125**	**31**	**-**	**294**
Depreciation and amortisation in EBIT	**125**	**61**	**116**	**111**	**-**	**413**

(1) Corporate & others includes all units bearing Corporate costs, the Group International Network and overseas entities in Australia, New Zealand and India that are not allocated to Sectors and Power Conversion, which was sold during the year ended 31 March 2006.

(2) Segmental assets are defined as the closing position of goodwill, intangible assets, property, plant and equipment, other non current assets (excluding prepaid pension and other employee benefit costs) and current assets (excluding trading investments, available-for-sale investments, held-to-maturity investments and cash and cash equivalents).

(3) Segmental liabilities are defined as the closing position of current and non-current provisions and current liabilities (excluding current borrowings and current obligations under finance leases).

(4) Capital employed corresponds to segmental assets minus segmental liabilities. The decrease in the capital employed from 31 March 2005 to 31 March 2006 is partly explained by the reclassification in the Transport Sector of assets and liabilities attributable to leases of trains and associated equipment from other non current assets at 31 March 2005 (included in the definition of capital employed) to assets held for sale and liabilities associated at 31 March 2006 (excluded from the definition of capital employed).

At 31 March 2005

(in € million)	Power Systems	Power Service	Transport	Corporate & others [(1)]	Elimination	Total
Sales	4,777	3,116	5,124	828	(925)	12,920
Inter-sector elimination	(587)	(284)	(24)	(30)	925	-
Total sales	**4,190**	**2,832**	**5,100**	**798**	**-**	**12,920**
Income (loss) from operations	**(107)**	**412**	**218**	**(52)**	**-**	**471**
Earnings before interest and taxes	**(331)**	**365**	**145**	**(230)**	**-**	**(51)**
Financial income (expenses)						(381)
Income tax						(163)
Share in net loss of equity investments						-
Net loss from continuing operations						**(595)**
Net loss from discontinued operations						**(32)**
Net loss						**(627)**
Segmental assets [(2)]	**4,727**	**4,028**	**4,900**	**2,426**	**-**	**16,081**
Deferred taxes (assets)						1,207
Prepaid pension and other employee benefit costs						374
Current financial assets						1,419
Total assets						**19,081**
Segmental liabilities [(3)]	**5,166**	**2,153**	**3,968**	**1,545**	**-**	**12,832**
Deferred taxes (liabilities)						59
Accrued pension and other employee benefit costs						824
Financial debt						3,767
Total equity						1,466
Bonds reimbursable with shares						133
Total liabilities						**19,081**
Capital employed [(4)]	**(439)**	**1,875**	**932**	**881**	**-**	**3,249**
Capital expenditure	**88**	**24**	**85**	**58**	**-**	**255**
Depreciation and amortisation in EBIT	**135**	**69**	**172**	**76**	**-**	**452**

(1) Corporate & others includes all units bearing Corporate costs, the Group International Network and overseas entities in Australia, New Zealand and India that are not allocated to Sectors and Power Conversion which was sold during the year ended 31 March 2006. In accordance with IFRS 5, Marine operations have been retrospectively classified as discontinued operations in the income statement for the year ended 31 March 2005 whereas the presentation of the associated assets and liabilities in the balance sheet at 31 March 2005 remains unchanged (see Note 4. B).

(2) Segmental assets are defined as the closing position of goodwill, intangible assets, net, property, plant and equipment, net, other non current assets, net (excluding prepaid pension and other employee benefit costs) and current assets, net (excluding trading investments, available-for-sale investments, held-to-maturity investments and cash and cash equivalents).

(3) Segmental liabilities are defined as the closing position of current and non-current provisions and current liabilities (excluding current borrowings and current obligations under finance leases).

(4) Capital employed corresponds to segmental assets minus segmental liabilities.

B. GEOGRAPHICAL DATA

Sales by country of destination and capital expenditure by country:

Year ended 31 March 2007

(in € million)	Sales by country of destination	Capital Expenditure*	
		Tangible	Intangible [(2)]
Euro zone [(1)]	4,676	97	99
Rest of Europe	2,246	76	28
North America	2,442	38	1
South & Central America	854	8	-
Asia & Pacific	2,505	46	-
Middle East & Africa	1,485	2	-
Total Group	**14,208**	**267**	**128**

* Excluding €115 million of capitalisation of development costs (see Note 7), capital expenditure amounts to €280 million.

Year ended 31 March 2006

(in € million)	Sales by country of destination	Capital Expenditure	
		Tangible	Intangible [(2)]
Euro zone [(1)]	4,221	65	58
Rest of Europe	2,080	37	34
North America	2,172	22	-
South & Central America	891	6	-
Asia & Pacific	2,747	66	3
Middle East & Africa	1,302	3	-
Total Group	**13,413**	**199**	**95**

Year ended 31 March 2005

(in € million)	Sales by country of destination	Capital Expenditure	
		Tangible	Intangible [(2)]
Euro zone [(1)]	4,559	83	34
Rest of Europe	2,227	49	50
North America	1,945	14	-
South & Central America	534	3	-
Asia & Pacific	2,465	19	-
Middle East & Africa	1,190	3	-
Total Group	**12,920**	**171**	**84**

(1) Euro zone includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Slovenia, Spain and Portugal.

(2) Including development costs.

NOTE 7. RESEARCH AND DEVELOPMENT EXPENDITURE

Year ended 31 March (in € million)	**2007**	2006	2005
Research and development expenditure			
Of which	(456)	(364)	(405)
- Capitalisation of developments costs (see Note 13. B)	115	87	70
- Amortisation of development costs (see Note 13. B)	(72)	(43)	(83)
Amortisation of acquired technology	(59)	(59)	(59)
Research and development expenditure before capitalisation and amortisation	**(440)**	**(349)**	**(333)**

NOTE 8. OTHER INCOME AND OTHER EXPENSES

Year ended 31 March (in € million)	**2007**	2006	2005
Capital gains on disposal of investments/activities (1)	11	221	59
Capital gains on disposal of intangible and tangible assets	-	12	8
Other	7	-	-
Other income	**18**	**233**	**67**
Capital losses on disposal of investments/activities (1)	(98)	(89)	(101)
Capital losses on disposal of intangible and tangible assets	(1)	-	-
Restructuring costs (2)	(68)	(80)	(350)
Pension and other employee benefit costs (3)	(72)	(61)	(47)
Other	(9)	(22)	(91)
Other expenses	**(248)**	**(252)**	**(589)**

(1) In the year ended 31 March 2007, capital losses mainly originate from the disposal of the Industrial Boilers business in Germany and the Czech Republic as well as the disposal of UK train heavy renovation business located in Glasgow and London. Capital losses also include costs incurred on past disposals and in particular fines imposed by the European Commission related to the T&D business (see Note 32 – Claims relating to disposals).

In the year ended 31 March 2006, capital gains mainly relate to the disposal of Transport activities in Australia and New Zealand, the sale of the Power Conversion activities and the sale of the Industrial Boilers Business in Australia. Capital losses relate to the disposal of former T&D Indian units and the FlowSystems business. They also include costs incurred or accruals and claim adjustments on past disposals.

In the year ended 31 March 2005, capital gains include the gains on disposal of activities including the freight locomotive business in Spain. Losses on disposal include costs and provisions on guarantees, claims and price adjustments on past disposals.

(2) In the years ended 31 March 2007 and 31 March 2006, restructuring costs mainly relate to plans implemented in Europe in the Transport Sector. A €7 million asset write-off was included for the year ended 31 March 2006 but none was recorded for the year ended 31 March 2007.

In the year ended 31 March 2005, the restructuring costs correspond to costs accrued for a net amount of €335 million relating to the downsizing of activities including closure of plants or activities and headcount reduction mainly in the Power Systems and Transport Sectors, and an asset write-off of €15 million.

(3) Amortisation of actuarial gains and losses and unrecognised prior service cost, plus curtailments and settlements (see Note 26).

NOTE 9. FINANCIAL INCOME (EXPENSES)

Year ended 31 March (in € million)	2007	2006	2005
Net interest expenses (1)	(75)	(122)	(198)
Securitisation expenses	-	(7)	(19)
Foreign currency gains (losses)	(14)	30	(23)
Pension and other employee benefit costs (see Note 26)	(8)	(15)	(16)
Other financial income (expenses) (2)	(14)	(108)	(125)
Financial income (expenses)	**(111)**	**(222)**	**(381)**

(1) Of which interests related to obligations under finances leases of €9 million, €14 million and €13 million for the years ended 31 March 2007, 31 March 2006 and 31 March 2005, respectively.

(2) Other financial income (expenses) include fees and commitment fees paid on guarantees, syndicated loans and other financing facilities of €11 million, €75 million and €105 million for the years ended 31 March 2007, 31 March 2006 and 31 March 2005, respectively.

NOTE 10. TAXATION

A. ANALYSIS BY NATURE

Year ended 31 March (in € million)	2007	2006	2005
Current income tax charge	(168)	(155)	(18)
Deferred income tax (charge) credit	23	30	(145)
Income tax charge	**(145)**	**(125)**	**(163)**
Effective tax rate	**24.8%**	**40.7%**	**-**

B. EFFECTIVE INCOME TAX RATE

The effective income tax rate can be analysed as follows:

Year ended 31 March (in € million)	2007	%	2006	%	2005
Pre-tax income (loss) from continuing operations	**616**		**505**		**(432)**
Pre-tax loss from discontinued operations	**(32)**		**(198)**		**(32)**
Statutory income tax rate of the parent company	34.43%		34.43%		34.93%
Expected tax (charge) credit	**(201)**	**34.4**	**(106)**	**34.4**	**162**
Impact of:					
- difference in rate of taxation	62	(10.6)	45	(14.6)	13
- reduced taxation of capital gain and disposal effects	(50)	8.6	-	-	(23)
- non recognition of deferred tax assets and change in estimate of tax assets and liabilities	111	(19.0)	(18)	5.9	(228)
- tax rate change impact on net deferred tax asset opening balance	(6)	1.0	(14)	4.6	-
- other permanent differences	(61)	10.4	(32)	10.4	(87)
Income tax charge	**(145)**		**(125)**		**(163)**
Effective tax rate	**24.8%**	**24.8**	**40.7%**	**40.7**	**-**

The Group consolidates most of its country operations for tax purposes, in particular in France, the United Kingdom, the United States and Germany.

2

Financial Information

C. DEFERRED TAXATION

The deferred tax assets and liabilities can be broken down as follows:

(in € million)	At 1 April 2005*	At 31 March 2006	Deferred income tax (charge) credit	Changes in scope of consolidation	Translation Adjustments and other changes	At 31 March 2007
Differences between carrying amount and tax basis of tangible assets	78	82	11	-	-	93
Differences between carrying amount and tax basis of intangible assets	343	314	(35)	-	(7)	272
Profit sharing, annual leave, pension and other employee benefit costs accruals not yet deductible	109	102	3	-	(4)	101
Provisions and other expenses not yet deductible	537	616	85	-	3	704
Tax loss carry forwards	1,504	1,475	105	(3)	(22)	1,555
Other	121	207	(78)	-	(9)	120
Total gross deferred tax assets	**2,692**	**2,796**	**91**	**(3)**	**(39)**	**2,845**
Unrecognised deferred tax assets	**(920)**	**(919)**	**(32)**	**-**	**25**	**(926)**
Netting by tax grouping or by legal entity	**(568)**	**(628)**	**(11)**	**-**	**-**	**(639)**
Deferred tax assets	**1,204**	**1,249**	**48**	**(3)**	**(14)**	**1,280**
Gross deferred tax liabilities	**(627)**	**(667)**	**(36)**	**-**	**17**	**(686)**
Netting by tax grouping or by legal entity	**568**	**628**	**11**	**-**	**-**	**639**
Deferred tax liabilities	**(59)**	**(39)**	**(25)**	**-**	**17**	**(47)**
Net deferred tax assets	**1,145**	**1,210**	**23**	**(3)**	**3**	**1,233**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

The Group is satisfied as to the recoverability of deferred tax assets, net at 31 March 2007 of €1,233 million, on the basis of an extrapolation of the three-year business plan, approved by the Board of Directors, which shows a capacity to generate a sufficient level of taxable profits to recover its net tax loss carry forwards and other net timing differences over a period of four to twelve years, this reflecting the long-term nature of the Group's operations.

The detail of bases of tax loss carry forwards by maturity is as follows:

Year ended 31 March (in € million)		2007	2006	2005
Expiring within	1 year	43	24	36
	2 years	128	33	26
	3 years	127	184	34
	4 years	71	218	182
	5 years and more	1,049	1,080	1,532
	Not subject to expiry	3,139	2,730	2,679
Total		**4,557**	**4,269**	**4,489**

The basis of tax loss carry forwards after valuation allowance amounts to €2,062 million at 31 March 2007 (€1,720 million at 31 March 2006); of this amount €622 million (€783 million at 31 March 2006) expire within 15 years and €1,440 million (€937 million at 31 March 2006) are not subject to expiry.

The significant losses incurred between April 2002 and March 2005 have led to a detailed review of the deferred tax assets by jurisdiction. This review took into account current and past performance, length of carry back, carry forwards and expiry periods, existing contracts in the order book, budget and three-year plan. This review led to a valuation allowance on deferred tax assets of €926 million at 31 March 2007 (€919 million at 31 March 2006 and €920 million at 31 March 2005). Most of deferred tax assets currently subject to valuation allowance remain available to be utilised in the future.

NOTE 11. DISCONTINUED OPERATIONS

Operations of the Marine Sector have been classified as discontinued operations in the years ended 31 March 2007 and 31 March 2006 and retrospectively in the year ended 31 March 2005. They are analysed as follows:

Year ended 31 March (in € million)	2007	2006	2005
Sales	**417**	**439**	**607**
Loss from operations	**(38)**	**(15)**	**(104)**
Other income (expenses)	6	(187)	89
Loss before interest and taxes	**(32)**	**(202)**	**(15)**
Net loss (1)	**(32)**	**(198)**	**(32)**

(1) Related income tax effects have not been presented as discontinued operations since companies included in the former Marine Sector are part of the French tax grouping.

The consequences of the Marine Sector's disposal were recorded at 31 March 2006. The losses recorded over the fiscal year ending 31 March 2007 are related to the three LNG tankers, the contracts of which were not part of the sale to the buyer and were finalised over the period (see Note 30).

The cash flow statement of discontinued operations is detailed as follows:

Year ended 31 March (in € million)	2007	2006	2005
Net cash used in operating activities	(90)	(199)	(204)
Net cash provided by (used in) investing activities	(196)	84	(10)
Net cash provided by (used in) financing activities	-	(103)	13
Net effect of exchange rate variations	-	(2)	3
Other changes	**(2)**	**5**	-
Decrease in cash and cash equivalents	**(288)**	**(215)**	**(198)**
Transfer to continued operations	**(29)**	-	-
Net cash (net debt) at the beginning of the period	**317**	**532**	**730**
Net cash (net debt) at the end of the period	**-**	**317**	**532**

For the year ended 31 March 2007, the €196 million net cash used in investing activities are the consequence of the disposal of Marine activities.

NOTE 12. EARNINGS PER SHARE

A. FROM CONTINUING AND DISCONTINUED OPERATIONS

The calculation of the basic and diluted earnings per share attributable to Group shares is based on the following data:

Year ended 31 March	**2007**	2006	2005*
Earnings (in € million)			
Net profit (loss) - Group share	448	178	(628)
Financial interests related to bonds reimbursable with shares, net of tax	(2)	1	-
Earnings used to calculate basic and diluted earnings per share	446	179	(628)
Number of shares			
Weighted average number of ordinary shares, including bonds reimbursable with shares to be converted, for the purposes of basic earnings per share	140,428,778	140,401,599	108,978,200
Effect of other dilutive potential ordinary shares:			
- Stock options (1)	2,664,400	1,434,534	-
- Free shares (2)	600,000	225,000	-
Weighted average number of ordinary shares used to calculate diluted earnings per share	143,693,178	142,061,133	108,978,200

* Restated in accordance with IFRS, with the exception of IAS 32-39 and IFRS 5 applied from 1 April 2005 (see Note 4. B).

(1) Stock options used to calculate the diluted earnings per share only relate to plans 7, 8 and 9 at 31 March 2007 (see Note 24), the other plans being out of the money.

(2) Pro rata temporis as at 31 March 2006 (see Note 24. F).

B. FROM CONTINUING OPERATIONS

Year ended 31 March (in € million)	**2007**	2006	2005*
Earnings used to calculate basic and diluted earnings per share	446	179	(628)
Less: loss for the period from discontinued operations	32	198	32
Earnings used to calculate basic and diluted earnings per share from continuing operations	**478**	**377**	**(596)**

* Restated in accordance with IFRS, with the exception of IAS 32-39 and IFRS 5 applied from 1 April 2005 (see Note 4. B).

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

C. FROM DISCONTINUED OPERATIONS

Based on the loss from discontinued operations of €32 million (€198 million and €32 million for the years ended 31 March 2006 and 31 March 2005, respectively) and the denominators detailed above, basic earnings per share for discontinued operations for the year ended 31 March 2007 is €(0.23) per share (€(1.41) and €(0.29) per share for the years ended 31 March 2006 and 31 March 2005, respectively) and diluted earnings per share for the discontinued operations is €(0.22) per share (€(1.39) and €(0.29) per share for the years ended 31 March 2006 and 31 March 2005 respectively).

NOTE 13. GOODWILL AND INTANGIBLE ASSETS

A. GOODWILL

(in € million)	Net value at 31 March 2006	Acquisitions/ disposals	Impairment	Translation adjustments and other changes	Transfer to assets held for sale	**Net value at 31 March 2007**
Power Systems	804	(1)	-	-	-	803
Power Service	1,992	193	-	(1)	-	2,184
Transport	527	-	-	(4)	-	523
Goodwill	**3,323**	**192**	**-**	**(5)**	**-**	**3,510**
Of which						
Gross value	3,323	192	-	(5)	-	3,510
Impairment	-	-	-	-	-	-

(in € million)	Net value at 31 March 2005	Acquisitions/ disposals	Impairment	Translation adjustments and other changes	Transfer to assets held for sale	Net value at 31 March 2006
Power Systems	818	(14)	-	-	-	804
Power Service	1,991	1	-	-	-	1,992
Transport	526	(3)	-	4	-	527
Marine	2	-	(2)	-	-	-
Power Conversion	80	(80)	-	-	-	-
Goodwill	**3,417**	**(96)**	**(2)**	**4**	**-**	**3,323**
Of which						
Gross value	3,417	(96)	-	4	(2)	3,323
Impairment	-	-	(2)	-	2	-

Increase of goodwill shown as acquisition relates mainly to the Power Service Sector acquisition of assets and liabilities of Power Systems Manufacturing on 22 March 2007. This goodwill amounts to €153 million and is the result of the preliminary allocation of the purchase price upon acquisition. Valuation of identifiable assets acquired and liabilities assumed will be taken into account during the allocation period (12 months from the acquisition date).

At 31 March 2007, the Group requested a third party expert to provide an independent report as part of its annual impairment test for goodwill. This test compares the fair value of each Sector to its carrying amount.

The main assumptions used to assess the recoverable amounts of goodwill are as follows:

	Power Systems	Power Service	Transport
Net carrying amount of goodwill at 31 March 2007 (in € million)	803	2,184	523
Value elected as representative of the recoverable value of the CGU (1)	fair value	fair value	fair value
Number of years over which cash flow estimates are used	3 years	3 years	3 years
Extrapolation period of cash flow estimates	7 years	7 years	7 years
Long term growth rate at 31 March 2007	2.00%	2.00%	2.00%
Long term growth rate at 31 March 2006	2.00%	2.00%	2.00%
Long term growth rate at 31 March 2005	1.50%	1.50%	1.50%
After tax discount rate at 31 March 2007 (2)	9.00%	9.00%	8.50%
After tax discount rate at 31 March 2006 (2)	8.50%	8.50%	8.50%
After tax discount rate at 31 March 2005 (2)	9.50%	9.50%	9.50%

(1) Cash generating units.

(2) The application of pre-tax discount rates to pre-tax cash flows leads to the same valuation of cash generating units.

The valuation supports the Group's opinion that goodwill is not impaired. Had the assessment of the fair value been made with the same growth rates and discount rates as at 31 March 2006 and 31 March 2005, no impairment loss would have had to be recognised.

At 31 March 2006, goodwill of the Marine Sector had been classified as assets held for sale (see Note 30).

B. INTANGIBLE ASSETS

(in € million)	At 31 March 2006	Acquisitions/ disposals/ amortisation	Translation adjustments and other changes	Transfer from assets held for sale	**At 31 March 2007**
Development costs	510	115	(4)	-	621
Acquired technology	1,157	-	(3)	-	1,154
Other intangible assets	64	7	24	6	101
Gross value	**1,731**	**122**	**17**	**6**	**1,876**
Development costs	(175)	(72)	-	-	(247)
Acquired technology	(326)	(59)	2	-	(383)
Other intangible assets	(33)	(1)	(16)	(5)	(55)
Accumulated amortisation and impairment	**(534)**	**(132)**	**(14)**	**(5)**	**(685)**
Development costs	335	43	(4)	-	374
Acquired technology	831	(59)	(1)	-	771
Other intangible assets	31	6	8	1	46
Net value	**1,197**	**(10)**	**3**	**1**	**1,191**

(in € million)	At 31 March 2005	Acquisitions/ disposals/ amortisation	Translation adjustments and other changes	Transfer to assets held for sale	At 31 March 2006
Development costs	436	87	(13)	-	510
Acquired technology	1,160	-	(3)	-	1,157
Other intangible assets	59	6	5	(6)	64
Gross value	**1,655**	**93**	**(11)**	**(6)**	**1,731**
Development costs	(135)	(43)	3	-	(175)
Acquired technology	(269)	(59)	2	-	(326)
Other intangible assets	(29)	(7)	(2)	5	(33)
Accumulated amortisation and impairment	**(433)**	**(109)**	**3**	**5**	**(534)**
Development costs	301	44	(10)	-	335
Acquired technology	891	(59)	(1)	-	831
Other intangible assets	30	(1)	3	(1)	31
Net value	**1,222**	**(16)**	**(8)**	**(1)**	**1,197**

Acquired intangible assets mainly result from the allocation of the cost of the acquisition of ABB ALSTOM Power in 1999 and 2000. They are representative of technology and licensing agreements.

The Group's opinion is that intangible assets are not impaired.

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

(in € million)	At 31 March 2006	Acquisitions/ depreciation/ impairments	Disposals	Changes in scope of consolidation	Translation adjustments and other changes	Transfer from assets held for sale	**At 31 March 2007**
Land	113	1	(12)	2	15	-	119
Buildings	1,173	27	(115)	3	(27)	-	1,061
Machinery and equipment	1,898	111	(54)	(15)	(37)	-	1,903
Tools, furniture, fixtures and other	551	128	(35)	6	(44)	-	606
Gross value	**3,735**	**267**	**(216)**	**(4)**	**(93)**	**-**	**3,689**
Land	(5)	(1)	3	-	(1)	-	(4)
Buildings	(527)	(55)	85	1	6	-	(490)
Machinery and equipment	(1,460)	(113)	78	11	42	-	(1,442)
Tools, furniture, fixtures and other	(382)	(42)	29	3	8	-	(384)
Accumulated depreciation and impairment	**(2,374)**	**(211)**	**195**	**15**	**55**	**-**	**(2,320)**
Land	108	-	(9)	2	14	-	115
Buildings	646	(28)	(30)	4	(21)	-	571
Machinery and equipment	438	(2)	24	(4)	5	-	461
Tools, furniture, fixtures and other	169	86	(6)	9	(35)	-	223
Net value	**1,361**	**56**	**(21)**	**11**	**(37)**	**-**	**1,370**

(in € million)	At 31 March 2005	Acquisitions/ depreciation/ impairments	Disposals	Changes in scope of consolidation	Translation adjustments and other changes	Transfer to assets held for sale	At 31 March 2006
Land	146	-	(20)	(7)	-	(6)	113
Buildings	1,390	23	(53)	(47)	8	(148)	1,173
Machinery and equipment	2,248	99	(237)	(89)	(22)	(101)	1,898
Tools, furniture, fixtures and other	695	90	(177)	(47)	13	(23)	551
Gross value	**4,479**	**212**	**(487)**	**(190)**	**(1)**	**(278)**	**3,735**
Land	(9)	(10)	1	-	7	6	(5)
Buildings	(599)	(119)	37	18	(7)	143	(527)
Machinery and equipment	(1,718)	(170)	228	72	31	97	(1,460)
Tools, furniture, fixtures and other	(446)	(58)	82	36	(17)	21	(382)
Accumulated depreciation and impairment	**(2,772)**	**(357)**	**348**	**126**	**14**	**267**	**(2,374)**
Land	137	(10)	(19)	(7)	7	-	108
Buildings	791	(96)	(16)	(29)	1	(5)	646
Machinery and equipment	530	(71)	(9)	(17)	9	(4)	438
Tools, furniture, fixtures and other	249	32	(95)	(11)	(4)	(2)	169
Net value	**1,707**	**(145)**	**(139)**	**(64)**	**13**	**(11)**	**1,361**

The amounts of tangible assets held under finance leases and included in the above data are as follows:

At 31 March (in € million)	**2007**	2006	2005
Land	13	-	2
Buildings	123	169	199
Machinery and equipment	17	22	36
Tools, furniture, fixtures and other	15	18	24
Net value of tangible assets held under finance leases	**168**	**209**	**261**

NOTE 15. ASSOCIATES AND OTHER INVESTMENTS

A. ASSOCIATES

At 31 March (in € million)	**2007**	2006	2005
Termoeléctrica del Golfo and Termoeléctrica Peñoles	-	66	66
Other	4	4	4
Total	**4**	**70**	**70**

In February 2007, the Group sold its 49.5% interest in Termoeléctrica del Golfo and Termoélectrica Peñoles for a cash consideration of €72 million.

B. OTHER INVESTMENTS

At 31 March (in € million)	2007 Gross	2007 Impairment	2007 Net	2006 Net	2005 Net	2007 % interest
Tramvia Metropolita SA [1]	8	-	8	8	8	25.35%
Tramvia Metropolita del Besos [1]	8	-	8	8	8	25.35%
Ballard Power Systems Inc [2]	-	-	-	-	7	-
Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme AS [3]	-	-	-	-	15	-
Other [4]	42	(28)	14	13	10	-
Total	**58**	**(28)**	**30**	**29**	**48**	

(1) The remaining 74.65% of interest in these two companies are held by a pool of construction companies having direct control over the companies.

(2) During the fiscal year ended 31 March 2006, the Group disposed of its 1.8% shareholding in Ballard. At 31 March 2005, the interests in Ballard Power Systems Inc were depreciated to align with the stock price on the Toronto Stock Exchange.

(3) During the fiscal year ended 31 March 2005, the Group signed a sale agreement for its 13.6% shareholding in Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme AS for a consideration close to the net book value but subject to the obtaining of approvals from external parties. These approvals were obtained subsequent to 31 March 2005.

(4) No other investment's net value exceeds €5 million.

Information on the main other investments at 31 March 2007 is based on the most recent financial statements available and is the following:

(in € million)	Net income	Share in net equity
Tramvia Metropolita SA	4	8
Tramvia Metropolita del Besos	2	9

NOTE 16. OTHER NON-CURRENT ASSETS

(in € million)	At 31 March 2007	At 31 March 2006	At 1 April 2005*
Deposits securing the Bonding Guarantee Facility [1]	-	700	700
Other long-term loans and deposits [2]	132	91	129
Prepaid pension and other employee benefit costs (see Note 26)	422	387	374
Financial non-current assets associated to financial debt [3]	654	-	-
Other	37	72	87
Other non-current assets	**1,245**	**1,250**	**1,290**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

(1) It corresponds to a cash deposit made by the Group with a third party Trustee to secure a Bonding Guarantee Facility Programme in the form of remunerated collateral of up to €8 billion put in place during the year ended 31 March 2005.

All instruments issued under that programme used to be covered by a 25% security package consisting of:

- a €700 million first loss cash collateral,
- a second loss guarantee composed of both the French State guarantee (through the CFDI – Caisse Française de Développement Industriel) and ALSTOM's main banks guarantee.

Following the releases of the underlying instruments, the second loss guarantees have been fully amortised on February 2007 triggering the release of the €700 million cash collateral.

(2) Including earn-out accounted for €60 million related to the sale of Marine Sector to Aker Yards at 31 March 2007 (see Note 5).

(3) At 31 March 2007, these non-current assets relate to receivables (€628 million) and deposits (€26 million) of long-term rental trains and associated equipment to a London metro operator. At 31 March 2006 and 1 April 2005, these non-current assets were considered as a group of assets held for sale (see Notes 30).

Financial Information 2

NOTE 17. INVENTORIES

At 31 March (in € million)	**2007**	2006	2005
Raw materials and supplies	663	582	629
Work in progress	1,291	1,134	1,154
Finished products	116	47	69
Inventories, gross	**2,070**	**1,763**	**1,852**
Valuation allowance	(300)	(275)	(198)
Inventories	**1,770**	**1,488**	**1,654**

NOTE 18. CONSTRUCTION CONTRACTS IN PROGRESS

(in € million)	**At 31 March 2007**	At 31 March 2006	At 1 April 2005*
Construction contracts in progress, assets	2,858	2,229	2,601
Construction contracts in progress, liabilities	(7,239)	(5,401)	(5,520)
Construction contracts in progress	**(4,381)**	**(3,172)**	**(2,919)**

(in € million)	**At 31 March 2007**	At 31 March 2006	At 1 April 2005*
Contract costs incurred *plus* recognised profits *less* recognised losses to date	35,197	32,593	33,968
Less progress billings	(37,084)	(33,640)	(34,994)
Construction contracts in progress before down payments received from customers	**(1,887)**	**(1,047)**	**(1,026)**
Down payments received from customers	(2,494)	(2,125)	(1,893)
Construction contracts in progress	**(4,381)**	**(3,172)**	**(2,919)**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

NOTE 19. TRADE RECEIVABLES

(in € million)	**At 31 March 2007**	At 31 March 2006	At 1 April 2005*
Trade receivables, gross	2,965	2,369	2,463
Valuation allowance	(79)	(78)	(140)
Trade receivables	**2,886**	**2,291**	**2,323**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

Trade receivables include retentions for an amount of €217 million at 31 March 2007 (€163 million at 31 March 2006).

NOTE 20. OTHER CURRENT ASSETS RELATED TO OPERATING ACTIVITIES

(in € million)	At 31 March 2007	At 31 March 2006	At 1 April 2005*
Down payments made to suppliers	385	360	339
Corporate income tax	57	122	108
Other tax	409	335	298
Prepaid expenses	85	127	171
Other receivables	308	312	399
Derivatives relating to operating activities	157	135	264
Remeasurement of off-balance sheet commitments	93	63	40
Other current assets related to operating activities	**1,494**	**1,454**	**1,619**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

NOTE 21. MARKETABLE SECURITIES AND OTHER CURRENT FINANCIAL ASSETS

(in € million)	At 31 March 2007	At 31 March 2006	At 1 April 2005*
Derivatives related to financing activities	4	-	-
Marketable securities	175	-	-
Held-to-maturity securities	18	6	13
Available-for-sale investments	-	16	13
Marketable securities and other current financial assets	**197**	**22**	**26**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

Marketable securities of €175 million have a daily liquidity. They correspond to the €175 million increase in marketable securities and other current financial assets in the consolidated statement of cash flows for the period ended 31 March 2007.

NOTE 22. WORKING CAPITAL

(in € million)	At 31 March 2007	At 31 March 2006	Variation	At 1 April 2005*
Inventories	1,770	1,488	282	1,654
Construction contracts in progress, assets	2,858	2,229	629	2,601
Trade receivables	2,886	2,291	595	2,323
Other current assets related to operating activities	1,494	1,454	40	1,619
Assets	**9,008**	**7,462**	**1,546**	**8,197**
Non-current provisions	549	581	(32)	680
Current provisions	1,512	1,539	(27)	1,642
Contruction contracts in progress, liabilities	7,239	5,401	1,838	5,520
Trade payables	2,976	2,872	104	3,316
Other current liabilities	1,814	1,630	184	1,880
Liabilities	**14,090**	**12,023**	**2,067**	**13,038**
Net working capital	**(5,082)**	**(4,561)**	**(521)**	**(4,841)**

Net working capital at 31 March 2006	**(4,561)**
Changes in net working capital resulting from operating activities**	(524)
Changes in net working capital resulting from disposals of activities***	(44)
Translation adjustments and other changes	47
Total changes in net working capital	**(521)**
Net working capital at 31 March 2007	**(5,082)**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

** See changes in net working capital in the consolidated statement of cash flows.

*** Items of working capital included in cash proceeds from sale of investments in the consolidated statement of cash flows.

NOTE 23. EQUITY

AT 31 MARCH 2007

(in € million, except for number of shares)	Number of outstanding shares	Capital	Additional paid-in capital	Retained earnings	Translation adjustments	Equity attributable to the equity holders of the parent	Minority interests	Total equity
At 31 March 2006	**138,170,776**	**1,934**	**368**	**(549)**	**29**	**1,782**	**58**	**1,840**
Total income and expense recognised in equity	-	-	-	-	(12)	(12)	(2)	(14)
Net income (loss) for the period	-	-	-	448	-	448	(9)	439
Total recognised income and expense	-	-	-	448	(12)	436	(11)	425
Conversion of ORA	444,925	6	(2)	(8)	-	(4)	-	(4)
Change in scope and other	-	-	-	-	-	-	1	1
Dividend paid to minority interests	-	-	-	-	-	-	(6)	(6)
Share-based payments	1,500	-	-	15	-	15	-	15
At 31 March 2007	**138,617,201**	**1,940**	**366**	**(94)**	**17**	**2,229**	**42**	**2,271**

At 31 March 2007, the share capital of ALSTOM amounted to €1,940,640,814, consisting of 138,617,201 ordinary shares with a par value of €14 each. For the year ended 31 March 2007, the weighted average number of ordinary shares outstanding amounted to 140,428,778 and the weighted average number of ordinary and dilutive shares stood at 143,693,178.

During the year ended 31 March 2007, 14,168,947 bonds reimbursable in shares "Obligation Remboursables en Actions" were converted into 444,925 shares at a par value of €14. The 56,876,387 bonds reimbursable with shares outstanding at 31 March 2007 represents 1,785,919 shares to be issued.

AT 31 MARCH 2006

(in € million, except for number of shares)	Number of outstanding shares	Capital	Additional paid-in capital	Retained earnings	Translation adjustments	Equity attributable to the equity holders of the parent	Minority interests	Total equity
At 1 April 2005*	**5,497,211,409**	**1,924**	**378**	**(767)**	**(20)**	**1,515**	**68**	**1,583**
Total income and expense recognised in equity	-	-	-	-	49	49	3	52
Net income (loss) for the period	-	-	-	178	-	178	3	181
Total recognised income and expense	-	-	-	178	49	227	6	233
Conversion of ORA	1,121,044	10	(10)	-	-	-	-	-
Consolidation of shares	5,360,161,677	-	-	-	-	-	-	-
Change in scope	-	-	-	-	-	-	(16)	(16)
Share-based payments	-	-	-	40	-	40	-	40
At 31 March 2006	**138,170,776**	**1,934**	**368**	**(549)**	**29**	**1,782**	**58**	**1,840**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

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

During the year ended 31 March 2006, 23,573,581 bonds reimbursable in shares "Obligation Remboursables en Actions" were converted into 390,311 shares at a par value of €0.35 before the consolidation of shares and 730,733 shares at a par value of €14 after the consolidation of shares. The 71,045,334 bonds reimbursable in shares outstanding at 31 March 2006 represented 2,230,823 shares to be issued.

AT 31 MARCH 2005

(in € million, except for number of shares)	Number of outstanding shares	Capital	Additional paid-in capital	Retained earnings	Translation adjustments	Equity attributable to the equity holders of the parent	Minority interests	Total equity
At 1 April 2004	**1,056,657,572**	**1,321**	**64**	**(1,383)**	**-**	**2**	**66**	**68**
Total income and expense recognised in equity	-	-	-	-	(20)	(20)	1	(19)
Net income (loss) for the period	-	-	-	(628)	-	(628)	1	(627)
Total recognised income and expense	-	-	-	(628)	(20)	(648)	2	(646)
Conversion of ORA	15,473,425	14	5	-	-	19	-	19
Conversion of TSDDRA	240,000,000	300	-	-	-	300	-	300
Capital decrease	-	(1,175)	(64)	1,239	-	-	-	-
Capital increase	4,185,080,412	1,464	261	-	-	1,725	-	1,725
Impact first application IAS 32-39	-	-	112	5	-	117	-	117
At 1 April 2005*	**5,497,211,409**	**1,924**	**378**	**(767)**	**(20)**	**1,515**	**68**	**1,583**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

On 7 July 2004, following the European Commission's approval, the subordinated bonds reimbursable in shares "Titres Subordonnés à Durée Déterminée Remboursables en Actions" held by the French Republic were repaid into 240,000,000 new shares at a par value of €1.25.

The ALSTOM shareholders' equity at 31 March 2004 constituted less than 50% of its share capital. Therefore, in accordance with article L. 225-248 of the French Code de commerce, the shareholders were requested and agreed, at the Extraordinary General Shareholders' Meeting held on 9 July 2004 not to liquidate the company by anticipation. Further, it was decided to reduce ALSTOM's share capital, from €1,631,815,076.25 to €456,908,221.35. This reduction in the share capital was implemented through the reduction in the nominal value of one ALSTOM ordinary share from €1.25 per share to €0.35 per share

On 12 and 13 August 2004, two simultaneous capital increases were completed :

- A capital increase with preferential subscription rights to be subscribed either in cash or by set-off against certain of the Group outstanding debt was subscribed for a total amount of €1,508 million as follows:
  - €1,277 million amount consisting of 3,192,826,907 new shares issued at €0.40 having a par value of €0.35 subscribed in cash.
  - €231 million amount consisting of 462,438,861 new shares issued at €0.50 having a par value of €0.35, subscribed by set-off against debt.
- A second capital increase which was reserved for certain Group's creditors to be subscribed by set off against certain of our outstanding debts was subscribed for a total amount of €240 million consisting of 480,000,000 new shares issued at €0.50 having a par value of €0.35.

On 6 December 2004, a share capital increase reserved for the employees of the Group and consisting of 49,814,644 new shares issued at a par value of €0.35 was completed.

During the year ended 31 March 2005, 14,112,541 bonds reimbursable in shares "Obligation Remboursables en Actions" were converted into shares initially on the basis of one share for one bond and, as from 16 August 2004, on the basis of the adjusted ratio of 1.2559 share for one bond, resulting in the issue of 15,473,425 new shares. The 94,618,915 bonds reimbursable in shares outstanding at 31 March 2005 represented 118,831,895 shares to be issued.

NOTE 24. SHARE-BASED PAYMENTS

A. DETAIL OF STOCK OPTION PLANS

	Plan n°3	Plan n°5	Plan n°6	Plan n°7	Plan n°8	Plan n°9
Date of shareholders meeting	24 July 2001	24 July 2001	24 July 2001	9 July 2004	9 July 2004	9 July 2004
Grant date	24 July 2001	8 January 2002	7 January 2003	17 September 2004	27 September 2005	28 September 2006
Exercise price (1)	€1,320.00	€523.60	€240.00	€17.20	€35.75	€74.66
Adjusted exercice price (2)	€819.20	€325.20	€154.40	-	-	-
Beginning of exercise period	24 July 2002	8 January 2003	7 January 2004	17 September 2007	27 September 2008	28 September 2009
Expiry date	23 July 2009	7 January 2010	6 January 2011	16 September 2014	26 September 2015	26 September 2016
Number of beneficiaries	1,703	1,653	5	1,007	1,030	1,053
Number of options initially granted	105,000	105,000	30,500	2,783,000	1,401,500	1,683,750
Number of options exercised since the origin	-	-	-	(1,000)	(500)	-
Number of options cancelled	(50,238)	(47,504)	-	(124,000)	(43,000)	(7,500)
Number of options forfeited	-	-	-	-	-	-
Adjusted number of remaining options at 31 March 2007 (2)	114,293	119,803	47,489	2,658,000	1,358,000	1,676,250
Number of shares that may be subscribed by the present members of the Executive Committee	3,105	4,229	46,709	517,500	265,000	320,000

(1) The exercise price, restated following the consolidation of shares, corresponds to the average opening price of the shares during the twenty trading days preceding the day on which the options were granted by the Board (no discount or surcharge) or the nominal value of the share when the average share price is lower.

(2) Plans n°3, 5 and 6 have been adjusted in compliance with French law as a result of the completion of the operations that impacted the share capital in 2002, 2003 and August 2004.

Stock option plans 3 to 6, granted between 2001 and 2003, gradually vested by one third a year during the first three years following the grant. Stock option plans 7, 8 and 9, granted between 2004 and 2006, become vested after a period of three years. The exercise period then covers seven years for each plan.

In plan 9, the total number of options effectively exercisable will depend on the level of the Group's operating margin for the financial year 2007/08.

- if the 2007/08 Group's operating margin is above 7.5%, 1,683,750 options will be exercisable;
- if the 2007/08 Group's operating margin is between 7% and 7.5%, 1,347,000 options will be exercisable;
- if the 2007/08 Group's operating margin is below 7%, 673,500 options will be exercisable.

Plan 7 was also subject to the following granting conditions: 50% of options granted to each beneficiary were subject to exercise conditions relating to the Group's free cash flow and operating margin for fiscal year 2006. Those conditional options may be exercised only if, at the closing of fiscal year ended 31 March 2006, the Group's free cash flow is positive and the Group's operating margin is superior or equal to 5% (percentage applicable to free cash flow and operating margin under IFRS standards). At 31 March 2006, these conditions were fulfilled. Below these thresholds, the conditional options would have been partially exercisable. They would have been forfeited if the free cash flow had been negative at more than €500 million or if the operating margin had been below 5%.

B. DETAIL OF STOCK APPRECIATION RIGHTS ("SARS") PLANS

	SARs n°7	SARs n°8	Notional SARs	SARs n°9
Grant date	1 December 2004	18 November 2005	16 December 2005	28 September 2006
Exercise price [(1)]	€17.20	€44.90	€35.75	€74.66
Vesting date	17 September 2007	27 September 2008	27 September 2008	28 September 2009
Expiry date	1 April 2010	18 November 2015	1 April 2011	26 September 2016
Number of beneficiaries	114	120	120	134
Number of SARs initially granted	233,000	116,000	116,000	170,625
Additional grants	6,000	1,000	-	-
Number of SARs exercised since the origin	(5,000)	-	-	-
Number of SARs cancelled	(39,000)	(10,500)	(9,500)	(8,750)
Number of SARs forfeited	-	-	-	-
Number of remaining SARs at 31 March 2007	195,000	106,500	106,500	161,875
Terms and conditions of exercise	Exercise period: - 1 April 2008 - 1 April 2009 - 1 April 2010	SARs exercisable as from 27 September 2008	- 1/3 of SARs settled on 1 April 2009 - 1/3 of SARs settled on 1 April 2010 - 1/3 of SARs settled on 1 April 2011	60% of the options granted depending on performance conditions based on the Group operating margin at 31 March 2008

(1) The exercise price, restated following the consolidation of shares, corresponds to the average opening price of the shares during the twenty trading days preceding the day on which the options were granted by the Board (no discount or surcharge) or the nominal value of the share when the average share price is lower.

In the SARs plan 9, the number of SARs effectively settled will depend on the level of the Group's operating margin for the financial year 2007/08:

- if the 2007/08 Group's operating margin is above 7.5%, 170,625 SARs will be exercisable;
- if the 2007/08 Group's operating margin is between 7% and 7.5%, 136,500 SARs will be exercisable;
- if the 2007/08 Group's operating margin is below 7%, 68,250 SARs will be exercisable.

Plan 7 SARs was subject to the same granting conditions as stock option plan 7.

When vested, plan 7 SARs will be partially or fully settled based on the beneficiary's choice on any of the following exercise dates: 1 April 2008, 1 April 2009 and 1 April 2010. In the absence of an effective election, on each of the exercise date, one third, one half and all of the outstanding beneficiary's vested SARs will be settled on each date respectively.

C. MOVEMENTS IN STOCK OPTION PLANS AND STOCK APPRECIATION RIGHTS PLANS

Stock option plans

	Number of options	Weighted average exercise price per share in €
Outstanding at 1 April 2004	**321,389**	**506.00**
Granted	2,783,000	17.20
Exercised	-	-
Cancelled	(59,040)	286.80
Outstanding at 31 March 2005	**3,045,349**	**63.60**
Granted	1,401,500	35.75
Exercised	-	-
Cancelled	(76,906)	32.78
Outstanding at 31 March 2006	**4,369,943**	**55.17**
Granted	1,683,750	74.66
Exercised	(1,500)	23.38
Cancelled	(78,358)	94.83
Outstanding at 31 March 2007	**5,973,835**	**60.15**

As at 31 March 2007, 5,973,835 stock options are outstanding, of which 281,585 are exercisable (291,443 as at 31 March 2006).

SARs plans

	Number of SARs	Weighted average exercise price per share in €
Outstanding at 1 April 2004	**-**	**-**
Granted	239,000	17.20
Exercised	-	-
Cancelled	(5,000)	17.20
Outstanding at 31 March 2005	**234,000**	**17.20**
Granted	232,000	35.75
Exercised	(2,000)	17.20
Cancelled	(28,000)	21.15
Outstanding at 31 March 2006	**436,000**	**29.24**
Granted	171,625	74.66
Exercised	(3,000)	17.20
Cancelled	(34,750)	41.78
Outstanding at 31 March 2007	**569,875**	**42.17**

As at 31 March 2007, 569,875 SARs are outstanding, none of them yet exercisable.

D. VALUATION OF STOCK OPTION PLANS

In compliance with the transitional measures of IFRS 2 standard, only stock option plans granted after 7 November 2002 and not fully vested at 1 January 2005 are subject to a valuation, i.e. plans 6, 7, 8 and 9 only.

Share-based payment expense recorded in that respect amounts to €15 million for the year ended 31 March 2007 (€10 million for the year ended 31 March 2006 and €3 million for the year ended 31 March 2005).

The option valuation method follows a binomial mathematical model, with exercise of the options anticipated and spread over the exercise period on a straight-line basis. The volatility factor applied is an average of CAC 40 comparable companies' volatility at the grant date, which represents a value consistent with market practices and is considered more relevant given the significant volatility of the Group's share price over the last few years.

	Plan n°6	Plan n°7	Plan n°8	Plan n°9
Grant date	7 January 2003	17 September 2004	27 September 2005	28 September 2006
End of vesting period	7 January 2006	17 September 2007	27 September 2008	28 September 2009
Expected life of options	4 years	4 years	4 years	4 years
Exercise price (€)	154.40	17.20	35.75	74.66
Share price at grant date (€)	150.97	17.60	36.80	72.10
Volatility	51%	51%	34%	22%
Risk free interest rate	3.2%	3.0%	2.5%	3.5%
Average dividend yield (%)	0%	0.67%	1.33%	1.0%
Weighted average fair value (€)	63.76	7.32	10.33	12.9
Expense for the year ended 31 March 2007 (in € million)	-	7	5	3
Expense for the year ended 31 March 2006 (in € million)	1	7	2	-

E. VALUATION OF STOCK APPRECIATION RIGHTS (SARS) PLANS

The value of SARs plans is measured at the grant date using a binomial model taking into account the terms and conditions upon which the instruments were granted. The liability is accrued over the expected vesting period. Until the liability is settled, it is measured at each reporting date with changes in fair value recognised in profit and loss.

Share-based payment expense recorded in that respect amounts to €11 million for the year ended 31 March 2007 (€5 million for the year ended 31 March 2006 and €0.3 million for the year ended 31 March 2005). At 31 March 2007, liabilities related to these four SARs plans are recorded in the balance sheet for an amount of €17 million.

	SARs n°7	SARs n°8	Notional SARs*	SARs n°9
Grant date	1 December 2004	18 November 2005	27 September 2005	28 September 2006
End of vesting period	17 September 2007	27 September 2008	27 September 2008	28 September 2009
Expected life of SARs	4 years	4 years	4 years	4 years
Exercise price (€)	17.20	44.90	35.75	74.66
Share price at 31 March 2007 (€)	97.15	97.15	*	97.15
Share price at 31 March 2006 (€)	69.20	69.20	*	-
Volatility	22%	22%	22%	22%
Risk free interest rate	4.1%	4.1%	4.1%	4.0%
Average dividend yield (%)	1.0%	1.0%	1.0%	1.0%
Weighted average fair value (€)	79.4	54.4	8.0	32.5
Expense for the year ended 31 March 2007 (in € million)	8	2	-	1
Expense for the year ended 31 March 2006 (in € million)	5	-	-	-

* SARs of the Notional plan have been granted at an exercise price of €35.75 and are capped to €44.90.

F. FREE SHARES

On 17 November 2005, the Group announced the attribution of twelve free shares to all employees, or the equivalent in cash (SARs) depending on the conditions in each country. This attribution was subject to two conditions: a Group's operating margin of at least 5% and a positive free cash flow. These conditions have been fulfilled at 31 March 2006 and this attribution confirmed by the Board of Directors.

For the year ended 31 March 2006, an expense of €40 million has therefore been recorded on the following basis:

Grant date		17 November 2005
Share price at grant date (€)		44.92
Share price at 31 March 2006 (€)		69.20
Number of free shares to be granted		600,000
Number of free SARs to be granted		120,000
Expense for the year ended 31 March 2007 (in € million):		4
Of which	*Free SARs*	*4*
Expense for the year ended 31 March 2006 (in € million):		40
Of which	*Free shares*	*27*
	Free SARs	*8*
	Social charges on free shares	*4*
	Social charges on free SARs	*1*

At 31 March 2006, the portion to be settled in shares of €27 million has been recorded through equity. The remaining portion to be settled in cash and the social charges for the whole attribution of €13 million have been recorded in liabilities in the balance sheet.
At 31 March 2007, the free SARs have been revalued and cumulated liabilities recorded in the balance sheet amount to €17 million.

NOTE 25. PROVISIONS

(in € million)	At 31 March 2005	At 31 March 2006	Addition	Releases	Applied	Translation adjustments and other	**At 31 March 2007**
Warranties	602	538	209	(107)	(96)	(75)	469
Litigation and claims	1,040	1,001	607	(398)	(253)	86	1,043
Current provisions (1)	**1,642**	**1,539**	**816**	**(505)**	**(349)**	**11**	**1,512**
Tax risks and litigation	28	41	10	(5)	(2)	3	47
Restructuring (2)	440	262	76	(26)	(84)	(9)	219
Other non-current provisions	212	278	102	(59)	(41)	3	283
Non-current provisions	**680**	**581**	**188**	**(90)**	**(127)**	**(3)**	**549**
Total provisions	**2,322**	**2,120**	**1,004**	**(595)**	**(476)**	**8**	**2,061**

(1) Current provisions relate to warranties, litigations and claims on completed contracts.

(2) Relates to implementation of restructuring plans launched during previous fiscal years in order to improve operational performance and optimization of cost base. These plans are mainly located in Europe.

NOTE 26. PENSION AND OTHER EMPLOYEE BENEFITS

CHANGE IN BENEFIT OBLIGATIONS

At 31 March (in € million)	**2007**	2006	2005
Benefit obligations at beginning of year	**(4,601)**	**(4,256)**	**(4,137)**
Service cost	(84)	(85)	(80)
Plan participant contributions	(26)	(27)	(29)
Interest cost	(208)	(215)	(217)
Plan amendments	(12)	-	(5)
Business combinations / disposals	10	(3)	(17)
Curtailments	3	27	17
Settlements	-	30	102
Actuarial gains (losses) - due to experience	(60)	(12)	(58)
Actuarial gains (losses) - due to changes in assumptions	42	(282)	(216)
Benefits paid	229	225	283
Foreign currency translation	29	(3)	101
Benefit obligations at end of year	**(4,678)**	**(4,601)**	**(4,256)**
Of which:			
Funded schemes	*(4,251)*	*(3,702)*	*(3,362)*
Unfunded schemes	*(427)*	*(899)*	*(894)*

CHANGE IN PLAN ASSETS

At 31 March (in € million)	2007	2006	2005
Fair value of plan assets at beginning of year	**3,168**	**2,827**	**2,800**
Actual return on assets	299	393	286
Expected return on assets	*200*	*200*	*200*
Actuarial gains (losses) - due to experience	*99*	*193*	*86*
Company contributions	433	112	99
Plan participant contributions	26	26	28
Business combinations /disposals	3	7	19
Settlements	-	(27)	(115)
Benefits paid from plan assets	(172)	(166)	(210)
Foreign currency translation	(15)	(4)	(80)
Fair value of plan assets at end of year	**3,742**	**3,168**	**2,827**

RECONCILIATION OF FUNDED STATUS OF THE PLANS WITH ASSETS AND LIABILITIES RECOGNISED IN THE BALANCE SHEET

At 31 March (in € million)	2007	2006	2005
Funded status of the plans	**(936)**	**(1,433)**	**(1,429)**
Unrecognised actuarial losses (gain)	898	1,050	1,009
Unrecognised past service cost	(24)	(24)	(30)
Impact of asset ceiling	(28)	(2)	-
Transfer to liabilities associated with assets held for sale	-	4	-
(Accrued) prepaid benefit cost after asset ceiling	**(90)**	**(405)**	**(450)**
Of which:			
Accrued pension and other employee benefit costs	***(512)***	***(792)***	***(824)***
Prepaid pension and other employee benefit costs (see Note 16)	***422***	***387***	***374***

COMPONENTS OF PLAN ASSETS

At 31 March (in € million)	2007	%	2006	%	2005	%
Equities	1,415	37.8	1,597	50.4	1,430	50.6
Bonds	1,909	51.0	1,175	37.1	1,032	36.5
Properties	322	8.6	257	8.1	246	8.7
Other	96	2.6	139	4.4	119	4.2
Total	**3,742**	**100**	**3,168**	**100**	**2,827**	**100**

Plan assets for each individual plan are invested in accordance with statutory regulations, pension plan rules and decisions of pension fund trustees. The investment allocation has been modified to reduce exposure to equity markets. At 31 March 2007, the plan assets do not include any of the Group's capital stock.

ASSUMPTIONS (WEIGHTED AVERAGE RATES)

Actuarial assumptions used vary by business unit and country, based upon local considerations.

At 31 March (in %)	2007	2006	2005
Discount rate	4.90	4.72	5.09
Rate of compensation increase	3.18	2.68	2.97
Expected return on plan assets	6.22	6.46	7.07

Regarding the expected return on plan assets, the same basis has been applied in all countries where the Group has assets covering its pension liabilities. The expected return on plan assets is based on long-term market expectations taking into account the asset allocation of each fund.

The Group's health care plans are generally contributory with participants' contributions adjusted annually. The healthcare trend rate is assumed to be 9.2% in the year ended 31 March 2007 and reduces thereafter to an ultimate rate of 5.6% from 2011 onwards.

A 100-basis point increase in assumed healthcare cost trend rates would lead to a 5.8% increase in the service cost and a 4.4% increase in the benefit obligation for post-employment medical schemes. On the contrary, a 100-basis point decrease would lead to a 4.6% decrease of the service cost and a 4.0% decrease in the benefit obligation for such schemes.

ANALYSIS OF ACTUARIAL GAINS (LOSSES)

At 31 March (in € million)	2007	2006	2005
Actuarial gains (losses) created during the period:			
- due to change in assumptions	42	(282)	(216)
- due to experience	39	181	28
Total	**81**	**(101)**	**(188)**

The following table shows the amounts of total benefit expense for each of the three years ended 31 March 2007:

Year ended 31 March (in € million)	2007	2006	2005
Service cost	(84)	(85)	(80)
Interest cost	(208)	(215)	(217)
Expected return on plan assets	200	200	200
Amortisation of actuarial net gains (losses)	(66)	(68)	(57)
Amortisation of unrecognised past service cost	(7)	3	5
Impact of asset ceiling	-	(2)	-
Curtailments/settlements	1	6	4
Net benefit expense	**(164)**	**(161)**	**(145)**
Multi-employer contributions and defined contributions	(106)	(90)	(89)
Total benefit expense	**(270)**	**(251)**	**(234)**

Total cash spent in the year ended 31 March 2007 for defined benefit and defined contribution plans was €594 million (€261 million for the year-ended 31 March 2006), out of which €300 million attributable to an exceptional and discretionary funding of pension plans in Germany.

The company's best estimate of contributions to defined benefit and defined contribution plans expected to be paid in the year ended 31 March 2008 is approximately €260 million, of which €130 million of employer contributions with respect to defined benefits plans.

The breakdown of the benefit expense in the consolidated income statement is as follows:

Year ended 31 March (in € million)	**2007**	2006	2005
Service cost	(84)	(85)	(80)
Multi-employer contributions and defined contributions	(106)	(90)	(89)
Income from operations	**(190)**	**(175)**	**(169)**
Amortisation of actuarial net gains (losses)	(66)	(68)	(57)
Amortisation of unrecognised past service cost	(7)	3	5
Impact of asset ceiling	-	(2)	-
Curtailments/settlements	1	6	4
Other expenses (1)	**(72)**	**(61)**	**(48)**
Interest cost	(208)	(215)	(217)
Expected return on plan assets	200	200	200
Financial income (expenses) (1)	**(8)**	**(15)**	**(17)**
Total benefit expense (2)	**(270)**	**(251)**	**(234)**

(1) For the year ended 31 March 2005, differences with employee benefit costs included in other expenses (see Note 8) and employee benefit costs included in financial expenses (see Note 9) relate to Marine activities, classified in discontinued operations.

(2) At 31 March 2007, excludes the net impact of €22 million related to the disposals of the UK train heavy renovation and Industrial Boiler Business in Germany classified in capital losses on disposal of investments/activities (see Note 8). At 31 March 2006, excludes the net impact of €19 million of curtailment related to the disposal of Power Conversion activities (see Note 8).

NOTE 27. FINANCIAL DEBT

A. ANALYSIS BY NATURE

(in € million)	**At 31 March 2007**	At 31 March 2006	At 1 April 2005*
Redeemable preference shares ❶	-	-	205
Bonds reimbursable with shares	3	5	10
Subordinated notes	-	5	5
Bonds ❷	1,677	2,189	1,194
Syndicated loans ❸	-	-	998
Bilateral loans	-	-	33
Commercial paper ❹	-	-	14
Future receivables securitised	-	-	49
Other borrowing facilities ❺	126	106	245
Commitments related to options and earn-out ❻	185	-	-
Derivatives relating to financing activities	7	-	-
Accrued interests	9	33	47
Borrowings	**2,007**	**2,338**	**2,800**
Non current	*1,922*	*2,018*	*2,355*
Current	*85*	*320*	*445*
Obligations under finance leases	187	217	268
Other obligations under long-term rental ❼	628	16	13
Obligations under finance leases	**815**	**233**	**281**
Non current	*775*	*193*	*243*
Current	*40*	*40*	*38*
Total financial debt	**2,822**	**2,571**	**3,081**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

2

Financial Information

❶ On 30 March 2001, a wholly-owned subsidiary of ALSTOM Holdings issued perpetual, cumulative, non voting, preference shares for a total amount of €205 million. The preference shares had no voting rights. They were not redeemable, except at the exclusive option of the issuer, in whole but not in part, on or after the 5th anniversary of the issuance date or at any time in case of certain limited specific pre-identified events. Included in these events were changes in tax laws and the issuance of share capital. In July 2002, a share capital issuance was made, triggering the contractual redemption of the preferred shares at 31 March 2006 at a price equal to their par value together with dividends accrued but not yet paid.

At 31 March 2006, the €205 million of preferred shares were redeemed.

❷ At 31 March 2007, 31 March 2006 and 1 April 2005, remaining bonds, measured at amortised cost, are as follows:

Redemption date	31 March 2007	31 March 2006	1 April 2005
26 July 2006	-	226	231
28 July 2008	369	399	-
16 March 2009	527	595	-
3 March 2010	781	969	963
Total	**1,677**	**2,189**	**1,194**

At 31 March 2007, the Group holds two swaps of €100 million each that exchange fixed rate to floating rate (see Note 33) in order to swap 3 March 2010 bonds.

During the year ended 31 March 2007:
- €226 million of bonds were redeemed at maturity date;
- €200 million of bonds redeemable on 3 March 2010 have been bought back and cancelled;
- €70 million of bonds redeemable on 16 March 2009 have been bought back and cancelled;
- €30 million of bonds redeemable on 28 July 2008 have been bought back and cancelled.

During the year ended 31 March 2006, the Group issued:
- floating rate notes bearing a 2.20% above the 3-month Euribor coupon and redeemable at par in March 2009 for a nominal value of €600 million;
- floating rates notes bearing 0.85% above the 3-month Euribor coupon redeemable at par in July 2008 for a nominal value of €400 million.

❸ On 28 February 2006, a 2010 Revolving Credit Facility subject to the financial covenants described in Note 27 (b) has been signed for €700 million. On 22 March 2007, an amendment to the Revolving Credit Facility was signed for an increase of the amount to €1,000 million and a new maturity to 22 March 2012 with the possibility to extend the maturity to 22 March 2014. The full amount of €1,000 million is available for drawdown at 31 March 2007.

At 31 March 2006, the €700 million 2010 Revolving Credit Facility was totally available for drawdown while the subordinated debt facility and the multicurrency revolving facility syndicated in previous years had been cancelled and outstanding amounts fully repaid.

At 31 March 2005, the syndicated loans were as follows:
- 2008 Subordinated Debt Facility:
  The Facility was signed on 30 September 2003 with a syndicate of banks and financial institutions for an initial amount up to €1,563 million comprising two parts:
  - "Tranche A" : term loan of €1,200 million fully drawn down at inception;
  - "Tranche B": revolving credit facility of €363 million.

  Following the partial redemption of this loan into ALSTOM shares in August 2004, the nominal values of the term loan and of the credit facility were respectively reduced to €1,039 million and €281 million. At 1 April 2005, the outstanding portion of the loan "Tranche A" measured at amortised cost, amounted to €998 million, while the full amount of the residual credit facility was available for draw down.
- 2006 Multicurrency Revolving Credit Facility:
  This credit facility initially signed for an amount up to €1,110 million, had been subsequently reduced to € 704 million, due to a partial redemption into ALSTOM shares. At 31 March 2005, the residual credit facility was totally available for draw down.

❹ The total authorised commercial paper program was €2,500 million, its availability being subject to market conditions. At 31 March 2007 and 31 March 2006, there is no outstanding amount on this programme. At 31 March 2005, €14 million of commercial paper were outstanding on this programme.

❺ At 31 March 2005, other borrowing facilities included €94 million of borrowings borne by one special-purpose entity and which have been reimbursed in March 2006.

❻ At 31 March 2007, €185 million of commitments related to options and earn-out include a €153 million put option following the Hydro agreement. Such put option was granted in connection with the sale of 50 % Hydro activities to Bouygues during fiscal year ended 31 March 2007 (see Note 5).

❼ At 31 March 2007, the amount of €628 million relates to lease obligations on trains and associate equipment that are no longer classified as liabilities directly associated with assets held for sale (see Note 30).

Analysis of the fair value by nature

The fair value of the financial debt is estimated based on either quoted market prices for traded instruments or current rates offered to the Group for debt of the same maturity.

(in € million)	**At 31 March 2007**	At 31 March 2006	At 1 April 2005*
Redeemable preference shares	-	-	210
Bonds reimbursable with shares	3	5	10
Subordinated notes	-	5	5
Bonds	1,758	2,299	1,244
Syndicated loans	-	-	1,044
Bilateral loans	-	-	33
Commercial paper	-	-	14
Future receivables securitised	-	-	49
Commitments related to options and earn-out	185	-	-
Derivatives relating to financing activities	7	-	-
Other borrowing facilities	126	106	245
Accrued interests	9	33	47
Fair value of financial debt, excluding fair value of finance leases	**2,088**	**2,448**	**2,901**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

B. FINANCIAL COVENANTS

At 31 March 2007, the €1,000 million revolving credit facility is subject to the following financial covenants:

Covenants	Minimum interest cover (a)	Minimum consolidated net worth (b) (in € million)	Maximum net debt leverage (c)
From March 2007 to September 2013	3	1,360	3.6

(a) Ratio of EBITDA (see (d) below) to consolidated net financial expense (interest expenses including securitisation expenses less interest income but excluding interest related to obligation under finance lease, pension and other employee benefit interest cost and the consolidated net financial expense of special purpose entities which were not consolidated subsidiaries as of 31 March 2004). The interest cover at 31 March 2007 amounts to 17.7.

(b) Sum of total equity (excluding the cumulative impact of any deferred tax asset impairments arising after 31 March 2004) and of the debt component of Bonds Reimbursable with Shares "ORA" (this covenant will not apply if and as long as the Group's rating is Investment Grade). The consolidated net worth at 31 March 2007 to compare with the covenant above is €2,468 million.

(c) Ratio of total net debt (total financial debt excluding the finance lease obligations less short-term investments or trading investments and cash and cash equivalents) to EBITDA (see (d) below). The net debt leverage as at 31 March 2007 is 0.

(d) Earnings Before Interest and Tax plus Depreciation and Amortisation, less capital gains and losses on disposal of investments, as set out in Consolidated Statements of Cash Flows.

C. ANALYSIS BY MATURITY AND INTEREST RATE

Amounts presented below are based on the nominal values except for derivatives presented at fair value.

		Short term	Long term				
At 31 March 2007 (in € million)	Total	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Bonds reimbursable with shares	3	-	3	-	-	-	-
Bonds	1,700	-	900	800	-	-	-
Other borrowing facilities	125	69	23	5	12	3	13
Commitments related to options and earn-out	185	-	-	185	-	-	-
Derivatives relating to financing activities	7	7	-	-	-	-	-
Accrued interests	9	9	-	-	-	-	-
Borrowings	**2,029**	**85**	**926**	**990**	**12**	**3**	**13**
Obligations under finance leases	815	40	43	46	47	53	586
Financial debt	**2,844**	**125**	**969**	**1,036**	**59**	**56**	**599**

		Short term	Long term				
At 31 March 2006 (in € million)	Total	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Bonds reimbursable with shares	5	-	-	5	-	-	-
Subordinated notes	5	5	-	-	-	-	-
Bonds	2,224	224	-	1,000	1,000	-	-
Other borrowing facilities	106	55	12	3	3	21	12
Accrued interests	33	33	-	-	-	-	-
Borrowings	**2,373**	**317**	**12**	**1,008**	**1,003**	**21**	**12**
Obligations under finance leases	233	40	22	20	18	17	116
Financial debt	**2,606**	**357**	**34**	**1,028**	**1,021**	**38**	**128**

The nominal and effective interest rates for the bonds are as follows:

At 31 March 2007		Nominal interest rate	Effective interest rate
Bonds	July 2008	Euribor 3M + 0.9%	4.1%
	March 2009	Euribor 3M + 2.2%	5.4%
	March 2010	6.3%	7.2%

The financial debt before swaps is broken down between fixed rate and floating rate as follows:

(in € million)	**At 31 March 2007**	At 31 March 2006	At 1 April 2005*
Financial debt at fixed rate	1,895	1,565	1,656
Financial debt at floating rate	949	1,041	1,474
Financial debt	**2,844**	**2,606**	**3,130**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

D. ANALYSIS BY CURRENCY

Amounts presented below are based on nominal values except for derivative presented at fair value

(in € million)	At 31 March 2007	At 31 March 2006	At 1 April 2005*
Euro	2,020	2,415	2,820
US Dollar	40	31	132
British Pound	647	43	47
Other currencies	137	117	131
Financial debt	**2,844**	**2,606**	**3,130**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

NOTE 28. OTHER CURRENT LIABILITIES

(in € million)	At 31 March 2007	At 31 March 2006	At 1 April 2005*
Staff and associated costs	652	602	663
Corporate income tax	105	146	107
Other taxes	248	169	213
Derivatives relating to operating activities	90	87	192
Remeasurement of off-balance sheet commitments	193	159	148
Other	526	467	557
Other current liabilities	**1,814**	**1,630**	**1,880**

* Balance sheet at 1 April 2005 including the first time application of IAS 32-39 and IFRS 5 standards (see Note 4. B).

NOTE 29. EMPLOYEE BENEFIT EXPENSE AND HEADCOUNT

Year ended 31 March (in € million, except for headcount)	2007	2006	2005
Total wages and salaries	2,778	2,668	2,723
Of which executive officers	*7*	*8*	*6*
Social charges	680	642	744
Post-employment and other long-term benefit expense (see Note 26)	269	251	234
Share-based payment expense (see Note 24)	30	54	3
Total employee benefit expense	**3,757**	**3,615**	**3,704**
Staff of consolidated companies			
Managers, engineers and professionals	24,721	22,548	23,691
Other employees	41,848	42,690	45,903
Total Headcount	**66,569**	**65,238**	**69,594**

The information above includes the Marine Sector for the years ended 31 March 2006 and 31 March 2005.

NOTE 30. ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED

At 1 April 2005, assets and liabilities attributable to leases of trains and associated equipment were classified as assets held for sale and liabilities directly associated and were presented separately in the balance sheet as they were expected to be sold within twelve months. Assets held for sale and liabilities directly associated amounted to €613 million at 31 March 2006.

At 31 March 2007, these assets are no longer classified as assets held for sale. The planned disposal of the entity carrying the obligations under the long-term rental agreement was not completed. Related liabilities (€628 million) are shown as financial debt (see Note 27) and associated assets (€628 million) included in other non-current assets (see Note 16).

At 31 March 2006, other groups of assets held for sale were related to the Marine Sector following the Company's commitment to sell 75% interest in the Marine Sector to Aker Yards. Simultaneously, Marine activities were presented as discontinued operations in the income statement (see Note 11). During fiscal year ended 31 March 2007, the sale was completed. Marine activities remain presented as discontinued operations for the full year.

At 31 March 2007, the 25% interest held by the Group is accounted for in investments. The remaining stake will be sold to Aker Yards by 2010 through a put and call agreement, at a price depending on the financial performance up to €125 million.

At 31 March 2006, the major classes of assets and liabilities comprising the disposal group classified as held for sale were as follows:

(in € million)	Total at 31 March 2006
Property, plant and equipment	11
Non current assets	618
Construction contracts in progress, assets	172
Inventories, trade receivables and other current assets	38
Cash and cash equivalents	317
Assets classified as held for sale before impairment	**1,156**
Assets held for sale, impairment	**(12)**
Assets classified as held for sale after impairment	**1,144**
Provisions	124
Obligation under finance leases	615
Construction contracts in progress, liabilities	154
Trade payables and other current liabilities	250
Liabilities associated with assets classified as held for sale	**1,143**

The operations of the Marine Sector have been classified as discontinued operations for the year ended 31 March 2007, 31 March 2006 and retrospectively for the year ended 31 March 2005 (see Notes 4. B and 11).

NOTE 31. OFF-BALANCE SHEET COMMITMENTS AND OTHER OBLIGATIONS

A. OFF-BALANCE SHEET COMMITMENTS

At 31 March (in € million)	2007	2006	2005
Guarantees related to contracts ❶ *	4,972	4,816	4,789
Guarantees related to vendor financing ❷	362	432	429
Commitments to purchase fixed assets	3	8	1
Other guarantees**	177	242	119
Total	**5,514**	**5,498**	**5,338**

* The amount reported as at 31 March 2006 and as at 31 March 2005 included previously €2.7 billion of ABB parent company guarantee detailed here-below.

** Other guarantees include off-balance sheet commitments relating to obligations such as VAT payments, rentals, customs duties and insurance deductibles. These are materialised by independent undertakings but mainly support existing liabilities included in the consolidated accounts.

❶ ***Guarantees related to contracts***

Banks and insurance companies bonds

In accordance with industry practice, the above instruments can, in the normal course, extend from the tender period up to the end of the warranty period and may include guarantees on project completion, contract specific performance criteria or availability.

The guarantees are provided by banks or insurance companies by way of bank guarantees, surety bonds and stand-by letters of credit and usually are for defined amounts and periods. They are issued in favour of the customer with whom the commercial contracts have been signed. The Group provides a counter-indemnity to the bank or surety company which issues the said instrument.

Projects for which the guarantees are given are regularly reviewed by management and should payments become probable pursuant to guarantees, the necessary accruals are made and recorded in the Consolidated Financial Statements at that time.

At 31 March (in € million)	2007	2006	2005
Bid bonds	95	124	130
Performance bonds	3,967	3,569	3,353
Warranty/retention bonds	755	922	962
Other bank and insurance bonds	155	201	344
Total	**4,972**	**4,816**	**4,789**

The above figures however exclude:

- €3.6 billion at 31 March 2007 (€4.3 billion at 31 March 2006 and €3.8 billion at 31 March 2005) of advance and progress payments related to unconditional guarantees, which payments have been included in the balance sheet in the line “Construction contracts in progress, assets or liabilities”;
- €2.1 billion at 31 March 2007 (€2.3 billion at 31 March 2006 and €2.1 billion at 31 March 2005) of surety and conditional bonds where the likelihood of the commitments becoming obligations is considered to be remote.

The bonding guarantees relating to contracts, issued by banks or surety companies, amount to €10.7 billion at 31 March 2007 (€11.4 billion at 31 March 2006 and €10.7 billion at 31 March 2005).

Parent company guarantees

In the context of the Share Purchase and Settlement Agreement signed with ABB Ltd in March 2000, pursuant to which the Group purchased ABB’s 50% share in the joint venture ABB ALSTOM Power, the Group agreed to indemnify ABB with respect to parent company guarantees that it had previously issued with respect to certain power contracts, the total outstanding amount of such ABB guarantees being €1.7 billion at 31 March 2007 (€2.7 billion at 31 March 2006 and €2.7 billion at 31 March 2005). These parent company guarantees are not included in the above figures as they are related to liabilities already included in the consolidated accounts. In the same manner, guarantees given by parent or Group companies relating to liabilities included in the consolidated accounts are excluded.

Bonding lines and bonding programme

At 31 March 2007, the Group has in place both local bilateral lines in numerous countries and a global €10.5 billion Bonding Programme allowing issuance of new instruments up to July 2008.

All instruments under that programme are fully unsecured and will remain so for as long as the operating result of the company and its headroom remain above specific levels of both Operating Margin (1) and Headroom (2) on given testing dates failing which a security package in the form of a new cash collateral will be activated (the "Extended Security Package"):

Level 0: the Extended Security Package will remain at 0 if the operating margin remains above the following levels on a 12-month rolling basis:

Testing date	31 March 2007	30 September 2007	31 March 2008
Operating margin	5.75%	6.125%	6.5%

Level 1: the Extended Security Package will be raised to €175 million if the operating margin remains above the following levels on a 12-month rolling basis but below level 0 here-above:

Testing date	31 March 2007	30 September 2007	31 March 2008
Operating margin	5.5%	5.875%	6.25%

Level 2: the Extended Security Package will be raised to 5% of the then outstanding bonding programme amount if the operating margin remains above the following levels on a 12-month rolling basis but below level 1 here-above:

Testing date	31 March 2007	30 September 2007	31 March 2008
Operating margin	4.5%	4.875%	5.25%

(1) Is expressed as a percentage of income or loss from operations to sales.

(2) Cash and cash equivalents and undrawn credit lines.

Level 3: the Extended Security Package will be raised to 10% of the then outstanding bonding programme amount if the operating margin falls below the following levels on a 12-month rolling basis:

Testing date	31 March 2007	30 September 2007	31 March 2008
Operating margin	4.5%	4.875%	5.25%

If on any such testing date or as at the date falling six months after such testing date the headroom falls below €800 million, Extended Security Package level 3 will be activated. The bonding related to this programme amounted to €6.2 million at 31 March 2007.

The issuance of new bonds under the bonding programme mentioned above is also subject to the financial covenants disclosed in Note 27.

At 31 March 2007, €148 million of bonds and guarantees relating to units sold as part of disposals were still held by the Group (€88 million at 31 March 2006).

❷ ***Vendor financing***

Several years ago, the Group provided some financial support, referred to as vendor financing, to certain financial institutions financing (i) certain purchasers of its ships (for shipbuilding contracts signed up to fiscal year 1999) or (ii) certain Transport equipment. The off-balance sheet "vendor financing" amounts to €362 million at 31 March 2007.

The table below sets forth the breakdown of the outstanding off-balance sheet vendor financing by Sector:

At 31 March (in € million)	2007	2006	2005
Marine	**55**	**126**	**120**
Renaissance / Festival	-	41	38
Other	55	85	82
Transport	**307**	**306**	**309**
European metro operator (1)	260	254	257
Other	47	52	52
Total vendor financing commitments (2)	**362**	**432**	**429**

(1) Guarantees given include the requirement to deposit funds in escrow in the event of non-respect of certain covenants.

(2) Off-balance sheet figures correspond to the total guarantees and commitments, net of related cash deposits, which are shown as balance sheet items.

Marine

Renaissance / Festival

At 31 March 2007, with the termination of the guarantees provided and the current liquidation of the credit lines formerly granted for the repossession and maintenance costs of the former Renaissance and Festival ships, there remain no outstanding commitments.

Other

At 31 March 2007, the outstanding commitment corresponds to the residual value guarantee of €55 million (US$74 million) on one cruise-ship formerly granted till March 2008 by the Group.

Transport

At 31 March 2007, guarantees given as part of vendor financing arrangements in Transport Sector amount to €307 million. Included in this amount are guarantees totalling US$63 million (€47 million, €52 million and €49 million at 31 March 2007, 31 March 2006 and 31 March 2005 respectively) given with respect to equipment sold to a US train operator, and also guarantees given as part of a leasing scheme involving London Underground (Northern Line). Were London Underground Limited to decide not to extend the contract beyond 2017, and to hand the trains back, the Group has guaranteed to the lessors that the value of the trains and associated equipment, net of the £15 million non extension payment due by London Underground, should not be less than £177 million in 2017 (£177 million were equivalent to €260 million at 31 March 2007, €254 million and €257 million at 31 March 2006 and 31 March 2005, respectively). The £177 million is included in the £427 million (€628 million) amount of "Other obligations under long-term rental" within "Non-current obligations under finance leases" detailed in Note 27 A 7).

B. LEASE OBLIGATIONS

		Maturity		
(in € million)	Total	Within 1 year	1 to 5 years	Over 5 years
Long term rental (1)	628	19	103	506
Capital leases	245	31	98	116
Operating leases	233	19	129	85
Total at 31 March 2007	**1,106**	**69**	**330**	**707**
Long term rental (1)	629	16	100	513
Capital leases	291	36	112	143
Operating leases	300	44	134	122
Total at 31 March 2006	**1,220**	**96**	**346**	**778**
Long term rental (1)	650	13	86	551
Capital leases	335	46	118	171
Operating leases	403	57	183	163
Total at 31 March 2005	**1,388**	**116**	**387**	**885**

(1) Assets related to leases of trains and associated equipment to London Underground Limited (see Notes 6 and 30).

NOTE 32. CONTINGENCIES

LITIGATION

The Group is engaged in several legal proceedings, mostly contract related disputes that have arisen in the ordinary course of business. Contract related disputes, often involving claims for contract delays or additional work, are common in the areas in which the Group operates, particularly for large, long-term projects. In some cases, the amounts claimed against the Group, sometimes jointly with its consortium partners, in these proceedings and disputes are significant, ranging up to around €360 million in one particular dispute.

Some proceedings against the Group are without a specified amount. Amounts retained in respect of litigation are taken into account in the estimate of margin at completion in case of contracts in progress or included in provisions and other current liabilities in case of completed contracts when considered as reliable estimates of probable liabilities. Actual costs incurred may exceed the amount of initial estimates because of a number of factors including the inherent uncertainties of the outcome of litigation.

ASBESTOS

The Group is subject to regulations in many countries in which it operates, regarding the control and removal of asbestos-containing material and identification of potential exposure of employees to asbestos. It has been the Group's policy for many years to abandon definitively the use of products containing asbestos by all of its operating units worldwide and to promote the application of this principle to all of its suppliers, including in those countries where the use of asbestos is permitted. In the past, however, the Group used and sold some products containing asbestos, particularly in France in its former Marine Sector sold on 31 May 2006 and to a lesser extent in its other Sectors.The Group is subject to asbestos-related legal proceedings or claims including in France, the United States and the United Kingdom.

Some of the Group's subsidiaries are the subject in France of judicial civil proceedings instituted by certain employees or former employees with the aim of obtaining a court decision holding these subsidiaries liable for an inexcusable fault ("faute inexcusable") which would allow them to obtain a supplementary compensation above the payments made by the French Social Security funds of related medical costs. Although the courts of competent jurisdiction have made findings of inexcusable fault, the damages in most of these proceedings have been borne to date by the general French Social Security (medical) funds.

As for criminal law, in September 2006, one of the Group's French subsidiaries was fined €75,000 by a criminal court ("tribunal correctionnel") for breach of the law protecting employees against asbestos dust. By a provisional enforcement order, the court has also granted each defendant €10,000 as compensation for damages. The subsidiary has decided to appeal this decision, objecting to the court's qualification of ALSTOM having deliberately endangered the employees' health.

Although no assurance can be given, the Group believes that the cases where it may be required to bear the financial consequences of these civil or criminal proceedings do not represent a material exposure and therefore, no provisions have been recorded.

Certain subsidiaries of the Group were subject in the United States to various asbestos-related personal injury lawsuits alleged to involve products manufactured by Combustion Engineering, Inc. ("CE"), a US subsidiary of ABB Ltd ("ABB"), or CE's former subsidiaries and to two putative class action lawsuits asserting fraudulent conveyance claims against various ALSTOM and ABB entities in relation to CE. CE filed a plan of reorganisation in the United States Bankruptcy Court that was modified and became effective on 21 April 2006. ALSTOM believes that under the terms of the CE plan of reorganisation, it is protected against pending and future personal injury asbestos claims, or fraudulent conveyance claims, arising out of the past operations of CE.

In addition, as of 31 March 2007, the Group was also subject to approximately 19 other asbestos-related personal injury lawsuits in the United States involving approximately 474 claimants that, in whole or in part, assert claims against ALSTOM which are not related to the Power Generation Business purchased from ABB or as to which the complaint does not provide details sufficient to permit a determination to be made regarding the applicability of the ABB indemnity. Many of these lawsuits are in the preliminary stages of the litigation process and they each involve multiple defendants. The allegations in these lawsuits are often very general and therefore difficult to evaluate at preliminary stages in the litigation process. In those cases where ALSTOM's defence has not been assumed by a third party and meaningful evaluation is practicable, the Group believes that it has valid defences and, with respect to a number of lawsuits, the Group is asserting rights to indemnification against a third party. For purposes of the foregoing discussion, the Group considers a claim to no longer be pending against it if the plaintiff's attorneys have executed a notice or stipulation of dismissal or non-suit, or other similar document.

While the outcome of the existing asbestos-related cases described above is not predictable, the Group believes that those cases will not have any material adverse effect on its financial condition. It can give no assurance, however, that asbestos-related cases against it will not grow in number or that those it has at present, or may face in the future, may not have a material adverse impact on its financial condition.

PRODUCT LIABILITY

The Group designs, manufactures, and sells several products of large individual value that are used in major infrastructure projects. In this environment, product-related defects have the potential to create liabilities that could be material. If potential product defects become known, a technical assessment occurs whereby products of the affected type are quantified and studied. If the results of the study indicate that a product liability exists, provisions are recorded. The Group believes that it has made adequate provisions to cover currently known product-related liabilities, and regularly revises its estimates using currently available information. Neither the Group nor any of its businesses are aware of product-related liabilities which are expected to exceed the amounts already recognised and the Group believes it has provided sufficient amounts to satisfy its litigation, environmental and product liability obligations to the extent they can be estimated.

SEC INVESTIGATION

The Group, certain of its subsidiaries and certain current and former officers, employees and members of its Board of Directors have been involved in US regulatory investigations regarding potential securities law violations.

On 30 June 2003, the Group announced that it was conducting an internal review, assisted by external lawyers and accountants, following receipt of anonymous letters alleging accounting improprieties on a railcar contract being executed at the New York facility of ALSTOM Transportation Inc. ("ATI"), one of its US subsidiaries. The United States Securities and Exchange Commission ("SEC") and the United States Federal Bureau of Investigation ("FBI") began informal inquiries and in August 2003, the SEC issued a formal order of investigation in connection with its earlier review.

The Group has fully cooperated with the SEC and the FBI in this matter and intends to continue to do so. The Group believes that the FBI inquiry is dormant and cannot predict when the SEC's investigation will be completed or its outcome. Any adverse developments in connection with this matter, including, but not limited to, any enforcement action against the Group or any of its personnel, could result in civil or criminal sanctions against the Group or any of its personnel or could otherwise materially negatively impact its business.

UNITED STATES PUTATIVE CLASS ACTION LAWSUIT

The Group, certain of its subsidiaries and certain of its current and former Officers and Directors have been named as defendants in a number of putative shareholder class action lawsuits filed on behalf of various alleged purchasers of American Depositary Receipts and other ALSTOM securities between 3 August 1999 and 6 August 2003. These lawsuits which have been consolidated in one complaint filed on 18 June 2004, alleged violations of United States federal securities laws arising from alleged untrue statements of material facts, and/or omissions to state material facts necessary to make the statements made not misleading in various ALSTOM public communications regarding its Business, operations and prospects (in the areas of the performance of its GT24/26 turbines, certain vendor financing arrangements for the former Marine Sector's customers, and its US Transport Business, including but not limited to the matter described above), causing the allegedly affected shareholders to purchase ALSTOM securities at purportedly inflated prices.

On 22 December 2005, the United States Federal District Court dismissed large portions of the consolidated complaint, including all claims relating to its GT24/26 turbines, all claims against the Group's current Officers and Directors, all claims against ALSTOM (but not ATI) relating to its US Transport Business, and all claims brought by non U.S. investors who purchased ALSTOM securities on non-U.S. stock exchanges except for those relating to its US Transport Business. On 14 March 2006, the plaintiffs filed a second amended consolidated complaint which re-asserts, among other things, claims against ALSTOM relating to its US Transport Business. In a decision dated 29 September 2006, the Court denied the motion to dismiss of ALSTOM and ALSTOM USA and permitted the plaintiffs to proceed with the claims re-pleaded in this second complaint. The case currently is in the discovery phase.

The Group's Management has spent and may in the future be required to spend considerable time and effort dealing with these matters. While the Group intends to continue to vigorously defend the putative class action lawsuit, the Group cannot ensure that there will be no adverse outcome that could have a material adverse effect on its business, results of operations and financial condition.

ENVIRONMENTAL, HEALTH AND SAFETY

The Group is subject to a broad range of environmental laws and regulations in each of the jurisdictions in which it operates. These laws and regulations impose increasingly stringent environmental protection standards on the Group regarding, among other things, air emissions, wastewater discharges, the use and handling of hazardous waste or materials, waste disposal practices and the remediation of environmental contamination. These standards expose the Group to the risk of substantial environmental costs and liabilities, including in relation with divested assets and past activities. In most of the jurisdictions in which the Group operates, its industrial activities are subject to obtaining permits, licences and/or authorisations, or to prior notification. The Group's facilities must comply with these permits, licences or authorisations and are subject to regular administrative inspections.

The Group invests significant amounts to ensure that it conducts its activities in order to reduce the risks of impacting the environment and regularly incurs capital expenditure in connection with environmental compliance requirements. Although the Group is involved in the remediation of contamination of certain properties and other sites, it believes that its facilities are in compliance with their operating permits and that its operations are generally in compliance with environmental laws and regulations.

The Group has put in place a global policy covering the management of environmental, health and safety risks.

The procedures for ensuring compliance with environmental, health and safety regulations are decentralised and monitored at each plant. The costs linked to environmental health and safety issues are budgeted at plant or unit level and included in the consolidated income statement.

The outcome of environmental, health and safety matters cannot be predicted with certainty. There can be no assurance that the Group will not incur any environmental, health and safety liabilities in the future and the Group cannot guarantee that the amount that it has budgeted or provided for remediation and capital expenditure for environmental or health and safety related projects will be sufficient to cover the intended loss or expenditure. In addition, the discovery of new conditions and facts or future changes in environmental laws, regulations or case law may result in increased liabilities that could have a material adverse effect on its financial condition or results of operations.

CLAIMS RELATING TO DISPOSALS

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

As of 31 March 2007, the Group has received claims in connection with the disposals of certain of its activities which mainly concern its former T&D Sector including with respect to investigation by a number of national competition authorities notably the European Commission, of alleged anti-competitive arrangements among suppliers in certain T&D activities which are mentioned below.

In addition, the Group has retained liabilities in relation to the delivery of a vessel equipped with pod propulsion systems ("Pods") to Raddison Seven Seas (nka Regent Seven Seas Cruises, Inc. "Regent"). Regent brought suit in Miami, Florida, against various affiliates of the Group and Rolls Royce (as consortium partner) in relation to alleged defects. The case is being strongly contested in US Federal Court in Miami by the Group's affiliates and Rolls Royce.

ALLEGED VIOLATION OF LAWS

Although the markets of the Group are frequently fiercely competitive, there are at times allegations of anti-competitive activity due to the relatively small number of participants. In April 2006, the European Commission commenced proceedings against ALSTOM, along with a number of other companies, based on allegations of anti-competitive practices in the sale of gas-insulated switchgears, a product of its former T&D Business, following investigations that began in 2004. On 24 January 2007, the European Commission has levied a fine of €65 million against ALSTOM which includes €53 million on a joint and several basis with Areva T&D SA. ALSTOM has requested the cancellation of this decision before the European Court of first instance. Moreover, the competition authorities in Hungary and Czech Republic have ordered fines against ALSTOM with respect to the same alleged anti-competitive practices which do not exceed in total €5 million. ALSTOM has contested these decisions before the local courts.

The Group conducts a significant proportion of its business with governmental agencies and public-Sector entities. The Group actively strives to ensure compliance with all laws and regulations in particular those relating to competition and illegal payments and has established internal compliance programmes to control the risk of such illegal activities and appropriately address any problems that may arise. However, a limited number of current and former employees and agents of the Group have been or are currently being investigated with respect to alleged illegal payments in various countries. Certain of these procedures may result in fines and the exclusion of its subsidiaries from public tenders in the relevant country for a defined period.

The Group considers that there are no matters outstanding and unprovided that are capable of estimation that are likely to have a material adverse impact on the consolidated financial statements.

NOTE 33. MARKET-RELATED EXPOSURES

A. CURRENCY RISK

In the course of its operations, the Group is exposed to currency risk arising from tenders for business submitted in foreign currency, and from awarded contracts or "firm commitments" under which revenues and costs are denominated in foreign currency. The principal currencies to which the Group has significant exposure in fiscal year ended 31 March 2007 are the US dollar, the British pound and the Swiss franc.

Due to this exposure, a significant portion of the Group cash flows is denominated in foreign currencies. The Group acquires derivative financial instruments to hedge exposure on anticipated transactions and notably firm commitments. Instruments used are exchange rate guarantees obtained through export insurance companies, forward exchange contracts and options.

As an exception to the policy described above and subject to management approval, it may be decided in specific circumstances not to fully hedge identified exposure.

With respect to anticipated transactions:

- During the tender period, depending on the probability to obtain the project and market conditions, the Group generally hedges a portion of its tenders using options or export insurance contracts when possible. The guarantees granted by these contracts become firm if and when the underlying tender is accepted.
- Once the contract is signed, forward exchange contracts or currency swaps are used to adjust the hedging position to actual exposure during the life of the contract (either as the only hedging instruments or as a complement to existing export insurance contracts).

At 31 March 2007 and 31 March 2006, the nominal and fair value of foreign exchange instruments are detailed as follows:

Derivative instruments qualifying for hedge accounting (forward contracts and currency swaps)

	At 31 March 2007				At 31 March 2006			
	Purchased		Sold		Purchased		Sold	
(in € million)	Nominal	Fair value	Nominal	Fair value	Nominal	Fair value	Nominal	Fair value
British pound	87	-	399	(4)	2	-	375	1
Brazilian real	-	-	58	(7)	33	(8)	29	1
Polish zloti	276	4	301	(4)	149	-	252	(2)
Swedish krona	310	(3)	234	3	227	(3)	279	2
US dollar	607	(88)	1,884	166	713	(64)	2,462	104
Australian dollar	116	2	150	(8)	163	(4)	150	3
Singapore dollar	39	-	24	-	16	-	39	-
Swiss franc	1,807	(38)	1,520	34	1,889	(21)	2,139	31
Other	458	-	475	4	345	3	297	2
Total	**3,700**	**(123)**	**5,045**	**184**	**3,537**	**(97)**	**6,022**	**142**

Derivative instruments not qualifying for hedge accounting (forward contracts, currency option contracts)

	At 31 March 2007				At 31 March 2006			
	Purchased		Sold		Purchased		Sold	
(in € million)	Nominal	Fair value	Nominal	Fair value	Nominal	Fair value	Nominal	Fair value
Currency option contracts - US dollar	23	-	72	-	1	-	34	-
Currency option contracts - other currencies	16	-	6	-	-	-	19	-
Forward contracts - US dollar	-	-	158	8	146	(3)	193	4
Forward contracts - Swiss franc	-	-	135	1	95	2	9	-
Forward contracts - Swedish krona	-	-	23	-	71	1	8	-
Forward contracts - other currencies	-	-	125	(3)	56	(1)	41	-
Total	**39**	**-**	**519**	**6**	**369**	**(1)**	**304**	**4**

The fair value of these instruments is the estimated amount that the Group would receive or pay to settle the related agreements, valued on the basis of relevant yield curves and foreign exchange rates as at 31 March 2007 and 31 March 2006.

Export insurance contracts related to tenders are insurance contracts that are not marked to market. Export insurance contracts that hedge firm commitments are considered as acting as forward contracts and were marked to market for the purpose of the disclosure.

At 31 March 2007 the nominal value of derivative instruments by maturity is as follows:

Derivative instruments qualifying for hedge accounting (forward contracts, currency swaps)

(in € million)	Total	Within 1 year	1 to 5 years	Over 5 years
British pound	487	408	75	4
Brazilian real	58	49	9	-
Polish zloti	577	315	262	-
Swedish krona	544	421	123	-
US dollar	2,491	1,698	788	5
Australian dollar	265	145	120	-
Singapore dollar	63	55	8	-
Swiss franc	3,327	2,463	864	-
Other	933	792	142	(1)
Total	**8,745**	**6,346**	**2,391**	**8**

Derivative instruments not qualifying for hedge accounting (forward contracts, currency option contracts)

(in € million)	Total	Within 1 year	1 to 5 years	Over 5 years
Currency option contracts - US dollar	95	95	-	-
Currency option contracts - other currencies	22	22	-	-
Forward contracts - US dollar	159	146	12	1
Forward contracts - Swiss franc	135	120	15	-
Forward contracts - Swedish krona	23	19	4	-
Forward contracts - other currencies	124	94	29	1
Total	**558**	**496**	**60**	**2**

B. INTEREST RATE RISK

The Group does not have a dynamic interest rate risk management policy. However it may enter into transactions in order to hedge its interest rate risk on a case-by-case basis according to market opportunities, under the supervision of the Executive Committee.

Sensitivity to interest rates

At 31 March (in € million)	2007	< 1 year	1-5 years	> 5 years
Financial assets at floating rate	2,140	2,125	4	11
Financial assets at fixed rate	665	51	106	508
Financial assets not bearing interests	119	34	60	25
Financial assets	**2,924**	**2,210**	**170**	**544**
Financial debt at floating rate	(949)	(32)	(917)	-
Financial debt at fixed rate	(1,873)	(93)	(1,181)	(599)
Financial debt	**(2,822)**	**(125)**	**(2,098)**	**(599)**
Net position at floating rate before swaps*	1,191	2,093	(913)	11
Net position at fixed rate before swaps*	(1,208)	(42)	(1,075)	(91)
Net position not bearing interests	119	34	60	25
Net position before hedging	**102**	**2,085**	**(1,928)**	**(55)**
Net position at floating rate after swaps*	991	2,093	(1,113)	11
Net position at fixed rate after swaps*	(1,008)	(42)	(875)	(91)
Net position not bearing interests	119	34	60	25
Net position after hedging	**102**	**2,085**	**(1,928)**	**(55)**

* At 31 March 2007, the Group holds swaps from fixed rate to floating rate with a nominal value of €200 million and a fair value of €(4) million. At 31 March 2006, the Group held swaps from fixed rate to floating rate with a nominal value of €200 million and a fair value of €(1) million. At 31 March 2005, the Group held a swap from fixed rate to floating rate with a nominal value of €94 million and a fair value of €3 million.

The net short-term loan position at floating rate after swaps amounts to €2,093 million at 31 March 2007.

A 1% increase in market rates would have decreased the net interest expense before swaps by €12 million, representing 16.0% of the net interest expense for the year ended 31 March 2007.

A 1% increase in market rates would have decreased the net interest expense after swaps by €10 million, representing 13.3% of the net interest expense for the year ended 31 March 2007.

C. CREDIT RISK

Risk related to customers

The Group hedges up to 90% of the credit risk on certain contracts using export credit insurance contracts. The Group believes the risk of counterparty failure to perform as contracted, which could have a significant impact on the Group's financial statements or results of operations, is limited because the Group seeks to ensure that customers generally have strong credit profiles or adequate financing to meet their project obligations.

Risk related to cash and cash equivalents

As part of the central treasury management, 39% of cash and cash equivalents at 31 March 2007 are invested with bank counterparts of first rank noted "Investment Grade", and 61% are invested in euro monetary funds.

D. LIQUIDITY RISK

The analysis by maturity and interest rate of the Group's debt is set out in Note 27. C. Details of short-term liquidity are set out below.

The Group's available liquidity within one year at 31 March 2007, 31 March 2006 and 31 March 2005 is as follows:

At 31 March (in € million)	2007	2006	2005
Available credit line	1,000	700	1 202
Marketable securities (1)	175	-	-
Cash available at parent Company	1,640	950	796
Cash equivalents at subsidiary level (2)	267	351	608
Available liquidity	**3,082**	**2,001**	**2,606**
Financial debt to be reimbursed within one year (3)	(125)	(360)	(444)
Available credit line to be reimbursed within one year	-	-	(27)
Available liquidity for the coming year	**2,957**	**1,641**	**2,135**

(1) Marketable securities having daily liquidity.

(2) At 31 March 2007, this amount includes €205 million of cash and cash equivalents held in countries subject to legal or statutory restrictions (€229 million at 31 March 2006). Such restrictions can limit the use of such cash and cash equivalents by the parent company and the other Group's subsidiaries.

(3) See Note 27 A.

NOTE 34. RELATED PARTIES

The consideration and related benefits of the CEO and Chairman of the Board of Directors amount to €2.8 million for the year ended 31 March 2007 (€2.2 million for the year ended 31 March 2006 and €1.6 million for the year ended 31 March 2005). The consideration and related benefits comprise a fixed and a variable portion, charges related to retirement compensation and complementary pension scheme.

Directors' fees amount to €365,000 for the year ended 31 March 2007 (€342,500 for the year ended 31 March 2006 and €326,250 for the year ended 31 March 2005). The CEO and Chairman of the Board of Directors has waived his directors' fees for the years ended 31 March 2007 and 31 March 2006 (€52,500 for the year ended 31 March 2005).

NOTE 35. SUBSEQUENT EVENTS

No main subsequent events to report.

NOTE 36. MAJOR COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

The major companies of the Group are listed below and selected according to one of the following criteria:
- Significant Holding companies.
- Sales above €50 million at 31 March 2007.

Companies	Country	Ownership %	Consolidation Method
ALSTOM SA (holding)	France	-	Parent company
ALSTOM (Switzerland) Ltd.	Switzerland	100%	Full consolidation
ALSTOM Australia Holdings LTD (holding)	Australia	100%	Full consolidation
ALSTOM Beizhong Power (Beijing)	China	60%	Full consolidation
ALSTOM Belgium SA	Belgium	100%	Full consolidation
ALSTOM Brasil Energia e transporte Ltda	Brazil	100%	Full consolidation
ALSTOM Canada Inc.	Canada	100%	Full consolidation
ALSTOM Espana IB SA Holding	Spain	100%	Full consolidation
ALSTOM Ferroviaria S.p.A	Italy	100%	Full consolidation
ALSTOM GmbH (holding)	Germany	100%	Full consolidation
ALSTOM Holdings	France	100%	Full consolidation
ALSTOM Hydro (Switzerland) Ltd	Switzerland	100%	Full consolidation
ALSTOM Hydro Canada Inc.	Canada	100%	Full consolidation
ALSTOM Hydro Energia Brasil Ltda (1)	Brazil	100%	Full consolidation
ALSTOM Hydro Holding	France	100%	Full consolidation
ALSTOM Inc (holding)	United States	100%	Full consolidation
ALSTOM K.K.	Japan	100%	Full consolidation
ALSTOM LHB GmbH	Germany	100%	Full consolidation
ALSTOM Ltd	United Kingdom	100%	Full consolidation
ALSTOM Mexicana S.A. de C.V. (2)	Mexico	100%	Full consolidation
ALSTOM Mexico SA de CV (holding)	Mexico	100%	Full consolidation
ALSTOM Norway AS	Norway	100%	Full consolidation
ALSTOM NV (holding)	Netherlands	100%	Full consolidation
ALSTOM Philippines - Inc.	Philippines	100%	Full consolidation
ALSTOM Power (Thailand) Ltd.	Thailand	100%	Full consolidation
ALSTOM Power AG (holding)	Germany	100%	Full consolidation
ALSTOM Power Boiler GmbH - Stuttgart	Germany	100%	Full consolidation
ALSTOM Power Centrales	France	100%	Full consolidation
ALSTOM Power Energy Recovery GmbH	Germany	100%	Full consolidation
ALSTOM Power Environment SA	France	100%	Full consolidation
ALSTOM Power Generation AG	Germany	100%	Full consolidation
ALSTOM Power Holdings SA	France	100%	Full consolidation
ALSTOM Power Hydraulique	France	100%	Full consolidation
ALSTOM Power Hydro	France	100%	Full consolidation
ALSTOM Power Inc.	United States	100%	Full consolidation
ALSTOM Power Italia Spa	Italy	100%	Full consolidation

Companies	Country	Ownership %	Consolidation Method
ALSTOM Power Limited	Australia	100%	Full consolidation
ALSTOM Power SA	Spain	100%	Full consolidation
ALSTOM Power Service	France	100%	Full consolidation
ALSTOM Power Service (Arabia) Ltd.	United Arab Emirates	100%	Full consolidation
ALSTOM Power Service GmbH	Germany	100%	Full consolidation
ALSTOM Power Sp.z o.o.	Poland	100%	Full consolidation
ALSTOM Power Sweden AB	Sweden	100%	Full consolidation
ALSTOM Power Turbomachines	France	100%	Full consolidation
ALSTOM Projects India Ltd	India	69%	Full consolidation
ALSTOM Signalling Inc.	United States	100%	Full consolidation
ALSTOM Spa (holding)	Italy	100%	Full consolidation
ALSTOM Sweden AB (holding)	Sweden	100%	Full consolidation
ALSTOM Transport SA	France	100%	Full consolidation
ALSTOM Transportation Inc.	United States	100%	Full consolidation
ALSTOM Transporte SA	Spain	100%	Full consolidation
ALSTOM UK Holdings Ltd	United Kingdom	100%	Full consolidation
ALSTOM USA Inc (holding)	United States	100%	Full consolidation
AP O&M Ltd.	Switzerland	100%	Full consolidation
APComPower Inc.	United States	100%	Full consolidation
PT ALSTOM Power Energy Systems Indonesia	Indonesia	87%	Full consolidation
Tianjin ALSTOM Hydro Co. Ltd	China	99%	Full consolidation
West Coast Traincare	United Kingdom	100%	Full consolidation

(1) Change of name.

(2) ALSTOM Transporte SA merged into ALSTOM Power Mexico SA de CV (newly named ALSTOM Mexicana SA de CV).

Companies included in the list of major companies at 31 March 2007 for which sales were below €50 million at 31 March 2006:

Companies	Country	Ownership %	Consolidation Method
ALSTOM Beizhong Power (Beijing)	China	60%	Full consolidation
ALSTOM Philippines - Inc.	Philippines	100%	Full consolidation

Companies included in the list of major companies at 31 March 2006 for which sales are below €50 million at 31 March 2007:

Companies	Country	Ownership %	Consolidation Method
ALSTOM Australia	Australia	100%	Full consolidation
ALSTOM Controls Ltd	United Kingdom	100%	Full consolidation
ALSTOM NL Service Provision Ltd	United Kingdom	100%	Full consolidation
ALSTOM Power Asia Pacific Sdn Bhd	Malaysia	100%	Full consolidation
ALSTOM Power Conversion GmbH	Germany	100%	Full consolidation
ALSTOM Transport BV	The Netherlands	100%	Full consolidation
Eukorail Limited	South Korea	100%	Full consolidation

Please refer to Note 5 for further explanation regarding Hydro entities.

A list of all consolidated companies is available upon request at the head office of the Group.

Independent Auditors' report on the consolidated financial statements

This is a free translation into English of the Independent Auditors' report signed and issued in the French language and is provided solely for the convenience of English speaking readers. Accounting principles and auditing standards and their application in practice vary from one country to another. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted other than IFRS as endorsed by the European Union. In addition, the procedures and practices followed by the Independent Auditors in France with respect to such consolidated financial statements included in a prospectus may differ from those generally accepted and applied by Independent Auditors in other countries. Accordingly, the French consolidated financial statements and the Independent Auditors' report, of which a translation is presented in this document for convenience only, are for use by those knowledgeable about IFRS accounting procedures, French auditing standards and their application in practice.
The Independent Auditors' report includes for the information of the reader, as required under French law in any Independent Auditor's report, whether qualified or not, an explanatory paragraph separate from and presented below the audit opinion discussing the Independent Auditors' assessment of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account caption or on information taken outside of the consolidated financial statements.
Such report should be read in conjunction and construed in accordance with French law and French auditing professional standards.

Year ended 31 March 2007

To the Shareholders,

In accordance with our appointment as Independent Auditors by your Annual General Meeting, we hereby report to you, for the year ended 31 March 2007 on the audit of the accompanying consolidated financial statements of ALSTOM.

The consolidated financial statements have been approved by your Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion as expressed below.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as at 31 March 2007 and the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L.823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

- As indicated in Note 13 of the consolidated financial statements, ALSTOM has requested a third party valuer to review the value of goodwill by using the discounted cash flows methodology, derived from the strategic plans prepared by all Sectors and approved by the management of the Group. We have examined the report prepared by the third party valuer which describes the assumptions made, the tests performed and the valuations which justify the fact that goodwill is not impaired as at 31 March 2007. In addition, we have compared the data used by the valuer with the forecasts prepared by ALSTOM.
- As indicated in note 10, ALSTOM recorded as at 31 March 2007 net deferred tax assets of €1,233 million resulting from tax losses carried forward and other timing differences and supported by the capacity of the Group to generate sufficient taxable income. We have examined the assumptions used by ALSTOM, which support the recognition of deferred tax assets in the Group's consolidated balance sheet.
- ALSTOM records assets and liabilities related to retirement, termination and post-retirement benefit obligations according to the principles described in Note 26 which lead to the recognition in the consolidated income statements of the costs related to those obligations during the working life of the employees, in conformity with IAS19. As at 31 March 2007, the application of this method generates a partial recognition of these total obligations due to unrecognised actuarial losses amounting to €898 million. The major part of these obligations has been the subject of external actuarial valuations that we have examined.
- As described in Notes 3.b, 3.c, 25, 31, and 32 of the consolidated financial statements, ALSTOM makes significant accounting estimates, notably when determining the margin at completion on each contract, determined on the basis of the latest information available. Those estimates are recorded in the balance sheet under "construction contracts in progress, assets", "construction contracts in progress, liabilities" and for contracts completed in "current provisions". We have examined the processes used by ALSTOM in this respect and have considered the data and assumptions on which these estimates are based.

All the points mentioned in the paragraphs above are based on forecasts which are, by nature, uncertain and that the final outcome can, as a consequence, materially differ from the initial forecasts.

The assessments were made in the context of our audit of the consolidated financial statements as at 31 March 2007, taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

III. SPECIFIC PROCEDURES

We have also performed procedures in accordance with the professional standards applicable in France on the information given in the group management report of the Board of Directors. We have no comment to make as to the fair presentation of this information, nor its consistency with the consolidated financial statements.

Neuilly-sur-Seine, 15 May 2007

The Independent Auditors

ERNST & YOUNG ET AUTRES	DELOITTE & ASSOCIÉS
Gilles Puissochet	Dominique Descours

STATUTORY ACCOUNTS

Income statements

Year ended 31 March (in € million)	Note	2007	2006	2005
Management fees and other operating income		77	63	60
Reversal of provisions and valuation allowances		-	1	2
Total operating income (I)		**77**	**64**	**62**
Administrative costs and other operating expenses		(39)	(35)	(41)
Addition in provisions, amortisation and valuation allowances		(3)	(3)	(2)
Total operating expenses (II)		**(42)**	**(38)**	**(43)**
Net operating income (I - II)		**35**	**26**	**19**
Dividends		-	-	-
Reversal of impairment losses		2,608	6,198	2,420
Interest income and related income		196	195	261
Total financial income (III)		**2,804**	**6,393**	**2,681**
Addition in impairment losses and amortisation		(18)	(45)	(2,271)
Interest expenses and related expenses		(142)	(145)	(190)
Total financial expenses (IV)		**(160)**	**(190)**	**(2,461)**
Net financial income (III - IV)		**2,644**	**6,203**	**220**
Current income (I - II + III - IV)	**(5)**	**2,679**	**6,229**	**239**
Net exceptional income (V)		**(7)**	**133**	**(146)**
Income tax (VI)	(6)	29	36	(10)
Total income (I + III + V)		**2,874**	**6,590**	**2,597**
Total expenses (II + IV + VI)		**(173)**	**(192)**	**(2,514)**
Net profit		**2,701**	**6,398**	**83**

Balance Sheets

Net value at 31 March (in € million)	Note	2007	2006	2005
Assets				
Fixed assets				
Intangible fixed assets (net)	(7)	5	7	9
Financial assets	**(8)**			
Investments (Net)		9,217	6,609	411
Advances to subsidiary (net)		3,865	4,270	4,326
Total Fixed Assets (I)		**13,087**	**10,886**	**4,746**
Current assets				
Other receivables	(9)	29	32	5
Cash		-	-	8
Deferred charges	(10)	33	51	97
Total current assets (II)		**62**	**83**	**110**
Total assets (I + II)		**13,149**	**10,969**	**4,856**

Shareholders' equity, provisions and liabilities

Shareholders' equity				
Share capital	(11)	1,941	1,935	1,924
Capital surplus		280	267	245
Legal reserve		193	-	-
Restricted reserve		9	-	-
General reserve		5,491	-	-
Retained earnings		673	(32)	(115)
Net profit		2,701	6,398	83
Net shareholders' equity (I)		**11,288**	**8,568**	**2,137**
Other shareholders' equity				
Bonds reimbursable with shares	(12)	80	100	136
Total other shareholders' equity (II)		**80**	**100**	**136**
Provisions for risks and charges				
Provision for risks and charges	(13)	44	35	168
Total provisions (III)		**44**	**35**	**168**
Liabilities	(14) (15)			
Bonds		1,709	2,241	1,240
Borrowings		-	5	1,122
Trade payables		7	15	32
Tax, social security debts		3	-	1
Other payables		18	5	20
Total liabilities (IV)		**1,737**	**2,266**	**2,415**
Total shareholders' equity, provisions and liabilities (I + II + III + IV)		**13,149**	**10,969**	**4,856**

Notes to the statutory financial statements

NOTE 1. BASIS OF PREPARATION OF THE STATUTORY FINANCIAL STATEMENTS

ALSTOM (the Company), the parent company of ALSTOM Group, is a "société anonyme" organised under the laws of France and prepares its financial statements using accounting principles generally accepted in France:

- going concern;
- cut-off between accounting periods; and
- consistency of accounting methods.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

A. SUMMARY OF ACCOUNTING POLICIES

The accounts as at 31 March 2007 have been prepared in accordance with the provisions of the following body of rules applicable in France:

- the Parliament Act dated 30 April 1983 and its relating Decree dated 29 November 1983; and
- the 1999 French Chart of Accounts as described by the Regulation 1999-03 issued by the "Comité de la Réglementation Comptable" (CRC) and completed by other subsequent regulations which amend the Chart of Accounts.

B. INVESTMENTS AND ADVANCES

Investments are recorded at acquisition cost, including external transaction costs, if any.

When the recoverable value of the investment is lower than the book value, an impairment loss is recognised to cover the difference. The year-end valuation is made based on useful value defined as the value of the investment to the Company employing a number of valuation methods, including return on assets, fair value and other methods, as appropriate.

C. CAPITAL INCREASE

Share capital is recorded at the nominal share price. If a difference exists with the effective cash received, this difference is recorded in Capital surplus line (shares premium minus costs). In the absence of share premium, costs are recorded as intangible fixed assets which are amortised over a period of five years.

D. PROVISIONS

Provisions are raised according to provisions of the CRC regulation 2000-06 and include post-employment benefits.

E. BONDS AND BORROWINGS

Borrowings are recorded at the nominal value. Transaction costs are recorded as expenses to be amortised over the duration of the borrowings (limited to five years maximum).

Financial instruments (swaps) are used to cover interest rate risks on bonds.

F. TAX CONSOLIDATION

The Company is the leader of a French tax group.

Each company calculates its income tax charge on the basis of its own tax results for the year.

NOTE 3. MAIN EVENTS

A €2.6 billion reversal of an impairment loss recognised in previous financial years for ALSTOM Holdings has been recorded.

NOTE 4. SUBSEQUENT EVENTS

No main subsequent events to report.

NOTE 5. CURRENT INCOME

A. NET OPERATING INCOME

Operating income stems mainly from €76 million management fees invoiced to the companies of the ALSTOM Group for the use of the ALSTOM name.

Administrative costs and other operating expenses include management fees invoiced by ALSTOM Holdings, external operating expenses, the gross remuneration of the Chairman and Chief Executive Officer (€2,227,665 for the financial year ended 31 March 2007) and Directors fees (€365,000).

B. NET FINANCIAL INCOME

The net financial income amounts to €2,644 million and is made up of:
- €196 million interest income out of which €180 million from ALSTOM Holdings;
- €2,608 million reversal of impairment on ALSTOM Holdings investments;
- €129 million interest expenses on bonds and borrowings;
- €13 million premium on call of bonds; and
- €18 million on amortisation of premiums and transaction costs related to bonds and borrowings.

NOTE 6. INCOME TAX

ALSTOM is the leader of a French tax group.

The €29 million tax credit is made up of:
- €31 million profit from the current year tax grouping; and
- €2 million loss from withholding taxes.

In absence of tax grouping, a €25 million income tax charge would have been recorded.

NOTE 7. INTANGIBLE FIXED ASSETS

At 31 March (in € million)	2006	Acquisitions/ disposals	Amortisation/ impairment	**2007**
Trademark registration fees				
Gross value	2			2
Impairment	-			-
Net value	**2**			**2**
Costs related to capital increase				
Gross value	11			11
Amortisation	(6)		(2)	(8)
Net value	**5**		**(2)**	**3**
Total intangible fixed assets	**7**		**(2)**	**5**

Costs related to capital increases are amortised over a period of five years. Amortisation is recorded within operating expenses.

NOTE 8. FINANCIAL ASSETS

ALSTOM Holdings is the only subsidiary of ALSTOM and owns all operating entities of the Group. Gross financial assets are made of ALSTOM Holdings shares amounting to €9,217 million and ALSTOM Holdings' advances for €3,865 million, including €9 million as accrued interests.

The cumulated impairment loss on investments outstanding at 31 March 2006 amounted to €2,608 million.

At 31 March 2007, the Group requested a third party valuer to provide an independent report as part of ALSTOM's share valuation process.

The valuation was determined primarily following the discounted cash flow methodology which captured the potential of the asset base to generate future profits and cash flow. It was based on the following factors:

- the Group's internal three-year Business Plan prepared as part of its annual budget exercise at Sector level and reviewed by external experts;
- extrapolation of the three-year Business Plan by up to 10 years; and
- the Group's Weighted Average Cost of Capital, post-tax, of 8.5% and 9.0% reflecting the different risks profiles of each Sector of the Group's Sector.

The valuation was also determined taking into account the consolidated financial debt and other assets and liabilities that were not recognised through the above discounted cash flows.

The valuation supports ALSTOM's opinion that the impairment loss needs to be reversed.

At 31 March (in € million)	2006	Impairment	Other movements	**2007**
Investments				
Gross value	9,217			9,217
Impairment	(2,608)	2,608		-
Net value	**6,609**	**2,608**		**9,217**
Advances to ALSTOM Holdings				
Gross value	4,270		(405)	3,865
Impairment	-			
Net value	**4,270**		**(405)**	**3,865**

NOTE 9. OTHER RECEIVABLES

Other receivables are due within one year:

At 31 March (in € million)	**2007**	Out of which affiliated corporations
Trade receivables	-	-
Other receivables	29	-
Total	**29**	**-**

A €26 million "Research tax credit" receivable from the French State represents the main component of other receivables.

NOTE 10. DEFERRED CHARGES

(in € million)	Amortisation during the year	Net value at 31 March 2007
Deferred charges to be amortized		
Transaction costs and premiums related to:		
- Bonds and borrowings	17	28
- Bonds reimbursable with shares	1	1
Prepaid expenses		
Insurance		2
Other		2
Total		**33**

The amortisation charge for the year ended March 2008 is estimated to €10 million.

NOTE 11. SHAREHOLDERS' EQUITY

SHARE CAPITAL

At 31 March 2007, ALSTOM's share capital amounted to €1,940,640,814 consisting of 138,617,201 shares of the same class and fully paid, with a nominal value of €14.0 per share, following the operations described below :

- the reimbursement in shares of 14,168,947 2% subordinated bonds December 2008 redeemable in Company's shares ("ORA"), which resulted in issue of 444,925 shares of €14.0 par value each; and
- the exercise of 1,500 options which resulted in issue of 1,500 shares of €14.0 par value each.

	Number	Par value
Existing shares at beginning of year	138,170,776	€14
Shares issued		
- Exercise of options	1,500	€14
- Reimbursement of 14,168,947 bonds	444,925	€14
Existing shares at year end	138,617,201	€14

At 31 March 2006, ALSTOM's share capital amounted to €1,934,390,864 consisting of 138,170,776 shares of the same class and fully paid of €14 par value each.

CHANGES IN SHAREHOLDERS' EQUITY

At 31 March (in € million)	2006	Shareholders meeting held 28 June 2006	Other entries	2007
Capital	1,935	-	6	1,941
Capital surplus	267	-	13	280
Legal reserve	-	193	-	193
Restricted reserve	-	-	9	9
General reserve	-	5,500	(9)	5,491
Retained earnings	(32)	705	-	673
Net profit	6,398	(6,398)	2,701	2,701
Net equity	**8,568**	**-**	**2,720**	**11,288**

Other entries relate to:

- the equity increase, net of transaction costs, resulting from the conversion of bonds reimbursable with shares and the exercise of options of €19 million;
- the net profit of the period of €2,701 million; and
- the restricted reserve has been created in relation with the future capital increase that will be issued for allocation of free shares.

No dividend has been distributed during this fiscal year.

NOTE 12. BONDS REIMBURSABLE WITH SHARES

643,795,472 bonds reimbursable with shares were created in December 2003 with a nominal value of €1.40 . Interest rate is 2%.

As at 31 March 2007, 586,919,085 bonds were converted into 550,927,752 shares having a par value of €0.35 before the August 2005 consolidation of shares and into 1,175,658 shares having a par value of €14 after the consolidation of shares. Share premium minus costs are recorded as capital surplus.

Outstanding bonds reimbursable with shares amount to €80 million corresponding to 56,876,387 bonds having a par value of €1.40 and accrued interests payable as at 31 December 2007.

NOTE 13. PROVISIONS FOR RISKS AND CHARGES

At 31 March (in € million)	2006	Additions	Reversal	**2007**
Pensions	-	1	-	1
Other provisions	35	8	-	43
Total	**35**	**9**	**-**	**44**

The provision related to pensions represents the obligations arising from the Chairman and Chief Executive Officer's defined benefits:

- legal retirement indemnity (€87,367);
- supplemental retirement scheme:
  This scheme provides, per year of service, a pension approximately equivalent to 1.2% of the bracket of salary above 8 times the annual ceiling of French social security capped at €2 million and is composed of a defined contribution plan and a defined benefit plan. The amount of contributions paid by ALSTOM was €19,884 for the calendar year 2006 and the defined benefit obligation is equal to €888,441 as at 31 March 2007.

NOTE 14. LIABILITIES

At 31 March (in € million)	2007	Within 1 year	1 to 5 years	Over 5 years
Financial debt				
Bonds	1,709	9	1,700	
Borrowings	-			
Trade creditors and related accounts	**7**	**7**		
Tax, social security debts	**3**	**3**		
Other liabilities	**18**	**18**		
Total	**1,737**	**37**	**1,700**	

A. BONDS

On 3 March 2005, the Company issued bonds for a principal amount of €1,000 million, listed on the Paris and Luxembourg Stock Exchange bearing a 6.25% coupon with a 5-year maturity, payable in cash or by exchange of the previous bond of €650 million or the €250 million subordinated loan. €422 million of the €650 million bond and €245 million of the €250 million subordinated loan were tendered to the offer, leading after applying the exchange ratio to €695 million of new 2010 bonds. In addition to which, the Group issued €305 million of additional bonds bearing same terms and condition.
€200 million were bought back and cancelled during this fiscal year.

On 3 March 2006, the Company issued bond for a principal amount of €400 million, listed on the Luxembourg Stock Exchange bearing a 0.85% above the 3-month Euribor coupon and redeemable at par in July 2008.
€30 million were bought back and cancelled during this fiscal year.

On 16 March 2006, the Company issued bonds for a principal amount of €600 million, listed on the Luxembourg Stock Exchange bearing a 2.20% above the 3-month Euribor coupon and redeemable at par in March 2009.
€70 million were bought back and cancelled during this fiscal year.

As a result of the above, at 31 March 2007, the Company had:

- €800 million of bonds bearing a 6.25% coupon redeemable at par on 3 March 2010;
- €530 million of bonds bearing a E3M + 2.20% coupon redeemable at par on 16 March 2009;
- €370 million of bonds bearing a E3M + 0.85% coupon redeemable at par on 28 July 2008; and
- €9 million as accrued interests.

These bonds are partially hedged by €200 million swaps from fixed rate (3.50%) to floating rate 3 months Euribor.

B. BORROWINGS

A "2010 Revolving Credit Facility" was signed on 28 February 2006 for an amount up to €700 million.

On 22 March 2007, an amendment to this Revolving Credit Facility was signed for an increase of the amount to €1,000 million and a new maturity to 22 March 2012 with the possibility to extend the maturity to 22 March 2014.

The full amount of €1,000 million is available for drawdown as at 31 March 2007.

As of 31 March 2007, the €1,000 million revolving credit facility is subject to the following financial covenants: (based on consolidation financial data)

Covenants	Minimum interest cover (a)	Minimum consolidated net worth (b) (in € million)	Maximum net debt leverage (c)
From March 2007 to September 2013	3	1,360	3.6

(a) Ratio of EBITDA (see (d) below) to consolidated net financial expense (interest expense including securitisation expenses less interest income but excluding interest related to obligation under finance lease, pension and other employee benefit cost and the consolidation net financial expense of special purpose entities which were not consolidated subsidiaries as of 31 March 2004). The interest cover at 31 March 2007 amounts to 17.7.

(b) Sum of total equity (excluding the cumulative impact of any deferred tax asset impairments arising after 31 March 2004) and of the debt component of Bonds Reimbursable with Shares "ORA" (this covenant will not apply if and as long as the Group's rating is Investment Grade). The consolidated net worth at 31 March 2007 to compare with the covenant above is €2,468 million.

(c) Ratio of total net debt (total financial debt excluding the finance lease obligation less short-term investments or trading investments and cash and cash equivalents) to EBITDA (see (d) below). The net debt leverage as at 31 March 2007 is 0.

(d) Earnings Before Interest and Tax plus Depreciation and Amortisation, less capital gains and losses on disposals of investments, as set out in Consolidated Statements of Cash Flows.

C. TRADE PAYABLE AND RELATED ACCOUNTS

Trade payable and related accounts amounted to €7 million including €3 million due to banks.

D. OTHER PAYABLES

Other payables and accrued expenses amounted to €18 million due to French entities of the tax group.

NOTE 15. ACCRUED EXPENSES

The amount of accrued expenses included in the various liability accounts are detailed in the following table:

At 31 March (in € million)	2007
Bonds (Note 14 A)	9
Trade payable	5
Tax, social security debts	3
Total	**17**

NOTE 16. OTHER INFORMATION

A. COMMITMENTS

ALSTOM, as Parent Company, has issued €431 million of guarantees made up of:

- US$ 30 million as guarantees of leases; and
- €409 million on Transport contracts.

Total available credit line at 31 March 2007 amounts to €1,000 million and corresponds to the Revolving Credit Facility signed on 28 February 2006 and modified on 22 March 2007.

B. FINANCIAL INSTRUMENTS

Two swaps of €100 million each that change the rate from fixed to floating have been undertaken with banks. They were issued at the end of March 2006. The fair values of these swaps are negative by €4 million.

Simultaneously, two swaps of €100 million each that change the rate from fixed to floating have been undertaken with ALSTOM Holdings. The fair values of these two swaps are positive by €4 million.

C. STOCK OPTIONS

Detail of the stock option plans

	Plan n°3	Plan n°5	Plan n°6	Plan n°7	Plan n°8	Plan n°9
Date of shareholders' meeting	24 July 2001	24 July 2001	24 July 2001	9 July 2004	9 July 2004	9 July 2004
Grant date	24 July 2001	8 January 2002	7 January 2003	17 September 2004	27 September 2005	28 September 2006
Exercise price (1)	€1,320	€523.60	€240	€17.2	€35.75	€74.66
Adjusted exercise price (2)	€819.20	€325.20	€154.40	-	-	-
Beginning of exercise period	24 July 2002	8 January 2003	7 January 2004	17 September 2007	27 September 2008	28 September 2009
Expiry date	23 July 2009	7 January 2010	6 January 2011	16 September 2014	26 September 2015	26 September 2016
Number of beneficiaries	1,703	1,653	5	1,007	1,030	1.053
Number of options initially granted	105,000	105,000	30,500	2,783,000	1,401,500	1 683,750
Number of options exercised since the origin	0	0	0	(1,000)	(500)	-
Number of options cancelled	(50,238)	(47,504)	0	(124,000)	(43,000)	(7.500)
Adjusted number of remaining options at 31 March 2007 (2)	114,293	119,803	47,489	2,658,000	1,358,000	1,676,250
Number of shares that may be subscribed by the members of the executive committee	3,105	4,229	46,709	517,500	265,000	320,000

(1) The exercise price, restated following the consolidation of shares, corresponds to the average opening price of the shares during the twenty trading days preceding the day on which the options were granted by the Board (no discount or surcharge) or the nominal value of the share when the average share price is lower.

(2) Plans 3, 5 and 6 have been adjusted in compliance with French law as a result of the completion of the operations that impacted the share capital in 2002, 2003 and August 2004.

Stock option plans 3 to 6, granted between 2001 and 2003, gradually vested by one third a year during the first three years following the grant.

Stock option plans 7, 8 and 9 granted between 2004 and 2006, become vested after a period of three years.

The exercise period then covers seven years for each plan.

Plan 7 was also subject to the following granting conditions: 50% of options granted to each beneficiary were subject to exercise conditions relating to the Group's free cash flow and operating margin for fiscal year 2006. Those conditional options are exercised entirely only if, at the closing of fiscal year ended 31 March 2006, the Group's free cash flow is positive and the Group's operating margin is superior or equal to 5% (percentage applicable to free cash flow and operating margin under IFRS standards). At 31 March 2006, these exercise conditions were fulfilled. Below these thresholds the conditional options would had been partially exercisable. They would have been forfeited if the free cash flow had been negative at more than €500 million or if the operating margin had been below 5%.

In plan 9, the total number of options effectively exercisable will depend on the level of the Group's operating margin for the financial year 2007/08.

- if the 2007/08 Group's operating margin is above 7,5%, 1,683,750 options will be exercisable;
- if the 2007/08 Group's operating margin is between 7 and 7,5%, 1,347,000 options will be exercisable;
- if the 2007/08 Group's operating margin is below 7% , 673,000 options will be exercisable.

	Number of options	Weighted average exercise price per share
Outstanding at 1 April 2005	**3,045,349**	**63.60**
Granted	1,401,500	35.75
Exercised	-	-
Cancelled	(76,906)	32.78
Outstanding at 31 March 2006	**4,369,943**	**55.17**
Granted	1,683,750	74.66
Exercised	(1,500)	23.38
Cancelled	(78,358)	94.83
Outstanding at 31 March 2007	**5,973,835**	**60.15**

As at 31 March 2007, 5,973,835 stock options were outstanding of which 281,585 are exercisable (291,443 as at 31 March 2006).

D. OTHER INFORMATION

The Chairman and Chief Executive Officer, in the event of termination of his mandate at the Board of Directors' initiative, and unless in the event of grave misconduct, would benefit from an indemnity equal to twice his latest gross annual remuneration, including the annual bonus and the loss of various benefits (complementary pension, company car, etc.) and keep all stock options granted to him. The same benefit would apply in case the Chairman and Chief Executive Officer decides to resign further to a take-over of ALSTOM.

E. LIST OF SUBSIDIARIES

ALSTOM Holdings is the only subsidiary of ALSTOM (100%):

Investments (gross value)	€9.2 billion
Investments (net value)	€9.2 billion
Loans and advances (gross value)	€3.9 billion
Loans and advances (net value)	€3.9 billion
Bonds and guarantees	€0
Dividends received	€0
Net equity as of 31 March 2006	€1,566 million
Net equity as of 31 March 2007	€1,728 million

Five-year summary

Information as per Article L. 232-1 of the French Commercial Code.

Year ended 31 March	2003	2004	2005	2006	**2007**
1.Capital at year end					
a) Share capital (in € thousands)	1,689,963	1,320,822	1,924,024	1,934,391	1,940,641
b) Number of outstanding issued shares	281,660,523	1,056,657,572	5,497,211,409	138,170,776	138,617,201
2. Operations and income for the year(in € million)					
a) Dividend received	-	-	-	-	-
b) Income before tax, profit sharing, provisions and valuation allowances	79.1	70.3	90.0	78.4	92.4
c) Income tax	26.8	36.6	(10.1)	35.8	29.3
d) French legal profit sharing	-	-	-	-	-
e) Net income after tax, profit sharing, provisions and valuation allowances	(7,474.1)	(1,341.1)	83.4	6,398.0	2,701.2
f) Dividends	-	-	-	-	110.9
3. Earnings per share (in €)					
a) Net earning after tax, profit sharing, but before provisions and valuation allowances	0.38	0.10	0.02	0.82	0.88
b) Net earning after tax, profit sharing, provisions and valuation allowances	(26.54)	(1.27)	0.02	46.10	19.49
c) Net dividend per share	-	-	-	-	0.80
4. Personnel					
a) Number of personnel employed during the year	-	-	-	-	-
b) Amount of gross wages and salaries for the year (in € thousand)	155	661	1,143	1,251	2,228
c) Amount of social charges for the year (Social security and other welfare benefits) (in € thousand)	52	198	421	357	540

Appropriation of the net income of fiscal year 2006/07

Information as per Article 243-bis of the French Tax Code.

It will be proposed to next shareholders' meeting the following appropriation of the net income for the fiscal year ended 31 March 2007 which amounts to €2,701,189,691.79:

Income for the financial year	€2,701,189,691.79
Amount previously carried forward	€672,734,656.24
Allocation to the legal reserve	€624,995.00
Distributable income	€3,373,299,353.03
Dividend paid*	€110,893,760.80
General reserve	€2,000,000,000.00
Balance carried forward	€1,262,405,592.23

* Dividends paid to 136,617,201 shares comprising the share capital.

As a result, it will be proposed to distribute a dividend of €0.80 per share eligible to dividend in respect of such fiscal year 2006/07.

This dividend gives right to an allowance of 40% for individuals domiciled in France for tax purpose in compliance with conditions set forth under Article 158 paragraph 3 sub-paragraph 2 of the French General Tax Code.

The dividend would be paid in cash from 5 July 2007. Should the Company hold any of its own shares at such date, the amount of the dividend pertaining to such shares would be carried forward. Each non-consolidated share of €0.35 par value outstanding at the date of payment will receive 1/40th of this dividend.

No dividends were distributed for the previous three fiscal years.

Comments on ALSTOM's statutory accounts

Information as per Article L.225-100 of the French Commercial Code.

ALSTOM is the holding company of the ALSTOM Group. ALSTOM's investments consist exclusively of the shares of ALSTOM Holdings.

ALSTOM centralises a large part of the external financing of the Group and directs the funds to its subsidiary ALSTOM Holdings through loans and a current account. Fees from its indirect subsidiaries for the use of the ALSTOM name are ALSTOM's main other source of revenue.

INCOME STATEMENT

ALSTOM's net profit amounted to €2,701 million and mainly comprised:

- operating result of €35 million made of ALSTOM's name fees minus administrative costs and other operating expenses;
- financial profit of €2,644 million including a reversal of impairment loss on ALSTOM Holdings' investments of €2,608 million; and
- income tax profit of €29 million including the year tax Group profit of €31 million.

BALANCE SHEET

The balance sheet amounts to a total of €13,149 million, the main elements of which are as follows:

- Assets:
  - The ALSTOM Holdings' investments gross value totalling €9,217 million; and
  - advances to ALSTOM Holdings amounting to €3,865 million;
- Liabilities:
  - a financial debt of €1,709 million including three bonds of €800 million, €530 million and €370 million; and
  - bonds reimbursable with shares of €80 million.

The net equity amounts to €11,288 million and is made of :

- €1,941 million in capital and €280 million in shares premiums;
- €5,693 million in reserves;
- €673 million in retained earnings; and
- the result of this financial year amounting to €2,701 million.

Independent Auditors' report on statutory financial statements

This is a free translation into English of the Independent Auditors' report on the statutory financial statements signed and issued in the French language and is provided solely for the convenience of English speaking readers. Accounting principles and auditing standards and their application in practice vary from one country to another. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices followed by the Independent Auditors in France with respect to such financial statements included in a prospectus may differ from those generally accepted and applied by Independent Auditors in other countries. Accordingly, the French financial statements and the Independent Auditors' report, of which a translation is presented in this document for convenience only, are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.
The Independent Auditors' report includes for the information of the reader, as required under French law in any Independent Auditor's report, whether qualified or not, an explanatory paragraph separate from and presented below the audit opinion discussing the Independent Auditors' assessment of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the statutory financial statements taken as a whole and not to provide separate assurance on individual account caption or on information taken outside of the statutory financial statements.
Such report should be read in conjunction and construed in accordance with French law and French auditing professional standards.

Year ended 31 March 2007

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 March 2007, on:
- the audit of the accompanying annual financial statements of ALSTOM,
- the justification of our assessments,
- the specific verifications and information required by law.

These annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at 31 March 2007 and the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

II. JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of article L. 823-9 of French Commercial Code relating to the justification of our assessments, we hereby inform you that our assessments covered the appropriateness of the accounting policies applied in addition to the reasonableness of the material estimates used, particularly regarding the valuation of investments and related advances.

As indicated in the notes to the financial statements, the valuation of investments and related advances can lead to the recognition of a provision, when the useful value, determined through a number of valuation methods, is lower than the book value (Note 2-b – Summary of accounting policies – "Investments and advances").

We have examined the assumptions and the methodology used to perform the impairment test as described in Note 8 – "Financial assets" and the report prepared by a third party valuer and used by the Company to assess the enterprise value of the ALSTOM Group, as well as the useful value of investments and related accounts held by ALSTOM Holdings, since ALSTOM Holdings holds directly or indirectly all the subsidiaries within the Group. In addition, we have compared the data used by the valuer with forecasts prepared by ALSTOM.

The assessments were thus made in the context of the performance of our audit of the financial statements of ALSTOM as at 31 March 2007, taken as a whole and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

III. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.
We have no matters to report regarding:
- the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements,
- the fair presentation of the information given in the management report in respect of remuneration and benefits granted to the relevant company officers and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in current function.

In accordance with French law, we have ensured that the required information concerning acquisitions of equity interests and controlling interests and the identity of the principal shareholders has been properly disclosed in the management report.

Neuilly-sur-Seine, 15 May 2007

The Independent Auditors

ERNST & YOUNG ET AUTRES	DELOITTE & ASSOCIÉS
Gilles Puissochet	Dominique Descours

Independent Auditors' special report on regulated related-party agreements and commitments

Free translation into English of a French language original report prepared for convenience purpose only. Auditing standards and their application in practice vary from one country to another. Accordingly, the Independent Auditors' report - of which a translation is presented in this document for convenience only – are for use by those knowledgeable about French auditing standards and their application in practice. Such report should be read in conjunction and construed in accordance with French law and French auditing professional standards.

Year ended 31 March 2007

To the shareholders,

In our capacity as Independent Auditors of your company, we hereby report to you on the agreements and commitments with certain related parties.

In accordance with Article L. 225-40 of French company law (Code de commerce), we have been advised of the agreements and commitments that were authorized by your board of directors.

We are not required to ascertain whether any other agreements or commitments exist, but to inform you, on the basis of information provided to us, of the terms and conditions of those indicated to us. We are not required to comment as to whether they are beneficial or appropriate. It is your responsibility, in accordance with Article R. 225-31 of French company law (Code de commerce), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify that the information provided to us is consistent with the documentation from which it has been extracted.

With Bouygues
Director concerned: Georges Chodron de Courcel
Nature and purpose: agreement for industrial, commercial and financial cooperation.

Conditions
ALSTOM and Bouygues signed an agreement for industrial, commercial and financial cooperation on April 26, 2006.

The purpose of this agreement is to develop cooperation between the commercial networks of the two groups and, where possible, to realize integrated projects combining the civil engineering activities of the Bouygues group with the equipment activities of the ALSTOM group.

This agreement also comprises a project for the creation of a parity joint company having the activity of hydraulic electricity production that was the subject of an agreement signed on September 29, 2006 between Bouygues, ALSTOM Holdings, ALSTOM Power Centrales, and ALSTOM Hydro Holding.

Neuilly-sur-Seine, 15 May 2007

The Independent Auditors

ERNST & YOUNG ET AUTRES	DELOITTE & ASSOCIÉS
Gilles Puissochet	Dominique Descours

3 RISKS

143 Risks

143 Risk factors

144 Certain legal risks

145 Environmental, health and safety risks

146 Insurance

Risks

The section hereunder presents the main risks and risk factors to which the Group is confronted. During fiscal year 2006/07, a risk assessment process has been completed to identify Group risks including those specific to each Sector, to evaluate the likelihood and potential impact of such risks and to improve risk monitoring, in particular through action plans specific to each identified risk. This assessment process, which results in a cartography of risks, is presented in section "Corporate governance – Chairman's report pursuant to article L. 225-37 of the French Commercial Code – Internal control procedures".

RISK FACTORS

Risks in relation to our competitive position

We operate in competitive markets.

We face strong competition in our markets, both from large international competitors and local players. This competition may result in a pressure on selling prices and payment terms. As a consequence, we have adopted several costs reduction and innovation programmes. Although, we believe we compete effectively in most of our major markets, there can be no assurance that we will be able to continue to do so.

Risks in relation to contract execution

Our financial performance could be adversely impacted by a limited number of long-term contracts and various factors affecting contract execution, some of which are beyond our control.

Each year, approximately one-third of our business is conducted under a limited number of major long-term contracts. At 31 March 2007, our ten largest projects in terms of order backlog represented approximately 17.2% of our total order backlog and our ten largest customers accounted for 20.3% of our sales. Generally, the revenue, cash flow and profitability of a project may vary significantly in accordance with the progress of that project and depending on a variety of factors, some of which are beyond our control, such as unanticipated technical problems with equipment being supplied, postponement or delays in contract implementation, financial difficulties of customers, withholding of payment by customers, performance defaults by or financial difficulties of suppliers, subcontractors or consortium partners with whom we are jointly liable, and unanticipated costs due to project modifications. As a result of this variability, the profitability of certain of our contracts may significantly impact our income and cash flows in any given period.

While we have established risk control procedures for tenders and contracts in progress, we can give no assurance that these and other initiatives will be sufficient to avoid problems in the future, and certain of our projects may be subject to delays, cost overruns, or performance shortfalls which may lead to the payment of penalties or damages. There can be no assurance that we can profitably complete our fixed price contracts.

Changes in the cost of and conditions of our access to raw materials and certain manufactured goods can affect our operating margins.

In the course of our business, we use raw materials and manufactured goods in amounts which vary according to the project and which may represent up to one third of the contract price. Given the significant increases in overall prices of raw materials as well as difficulties and delays in the delivery of certain manufactured goods, we cannot ensure that these cost increases and/or late deliveries will necessarily be absorbed by increases in contract prices ensuring the profitability of our contracts. These factors could create a negative pressure on margins and adversely affect our results and financial position.

If we are unable to manage our working capital effectively, or if we apply existing provisions more quickly than expected, our cash flow may vary greatly.

The structure of our projects may result in payment of expenses before realisation of revenue. As a result, the structure of customer deposits and advances is particularly important in our long-term project activity. Taking customer advances serves in part to provide us with working capital to finance the execution of our projects. For more information regarding customer deposits and advances (see Notes 18 and 19 to the consolidated financial statements for the fiscal year ended 31 March 2007). Our ability to negotiate and collect customer advances is therefore an important element of our strategy, as it provides us with cash flow and allows us to manage our working capital. If we are not successful, significantly increased cash flow variations may require us to materially increase our debt.

Risks in relation to our technologies

Our products incorporate advanced and complex technologies and sometimes require modifications after they have been delivered.

We design, manufacture and sell several products of large individual value that are used in major infrastructure projects. We are required to introduce new, highly sophisticated and technologically complex products on increasingly short time scales. This necessarily limits the time available for testing and increases the risk of product defects and their financial consequences. We occasionally discover the need to fine tune or modify products after we begin manufacturing them or after our customers begin operating them. Because we produce some of our products in series, we may need to make such modifications during the production cycle. At the same time, when we sell our products or enter into maintenance contracts, we are increasingly required to accept onerous contractual penalties, in particular related to performance, availability and delay in delivering our products, as well as after-sales warranties. Our contracts may also include clauses allowing the customer to terminate the contract or return the product if performance specifications or delivery schedules are not met. As a result of these contractual provisions and the time needed for the development, design and manufacturing of new products, problems encountered with our products may result in material unanticipated expenditures, including without limitation additional costs related to securing replacement parts and raw materials, delays and cost overruns in manufacturing, delivering and implementing modified products and the related negotiations or litigation with affected clients. For example, we have encountered in the past significant difficulties in the introduction of our GT24/GT26 gas turbines.

In instances where such problems occur, we cannot ensure that the total costs that we ultimately incur will not exceed the amount that we have provisioned. Further, given the technical sophistication of many of our products, we can give no assurance that we will not encounter new problems or delays in spite of the technical validation processes implemented within the Group. Any such problems or delays could cause our products to be less competitive than those of our competitors and have a material adverse impact on our results and financial position.

Risks in relation to human resources

The development of our business will require recruiting a significant number of managers and specialists, which may be difficult to achieve.

There is significant competition in the employment market with respect to the highly qualified managers and specialists, which are needed by our businesses. The success of our development plans will depend in part on our ability to retain our employee base and recruit and integrate additional managers and skilled employees. We can give no assurance that we will be successful in developing our employee base as needed to accompany our business development.

Risks in relation to disposals

The business disposals that we make may result in increased costs related to retained liabilities.

We have disposed of a large number of our businesses and we may continue to dispose some of our businesses. As is customary, we have made and will make certain warranties regarding the businesses being sold. In some cases, we have retained certain contracts and liabilities. As a result, we may be required to bear increased costs on retained contracts and liabilities and to pay indemnities or purchase price adjustments to the acquirer, which could have a material adverse effect on our results and financial position. In particular, we have received claims, some of which involving significant amounts, following the disposal of our former T&D and Marine Sectors. For more information, see Note 32 to the consolidated financial statements for the fiscal year ended 31 March 2007.

Risks in relation to financial markets

We are exposed to a variety of market risks, including currency exchange risk, interest rate risk and credit risk, which may notably result in increased deficit of our pension plans.

Detailed information regarding our exposure to currency exchange risks, interest rate risks and credit risks is provided in Section "Group activity – Impact of exchange rate and interest rate fluctuations" and in Note 33 to the consolidated financial statements for the fiscal year ended 31 March 2007.

Pursuant to certain of our defined benefit schemes, notably in the United Kingdom and the United States, we are committed to providing cash to cover any differences between the market value of the plan's assets and required levels for such schemes over a defined period. Our projected benefit obligations are based on certain actuarial assumptions that vary from country to country, including, in particular, discount rates, long-term rates of return on invested plan assets, rates of increase in compensation levels and rates of mortality. If actual results were to differ from these assumptions our pension, retirement and other post-employment costs would be higher or lower. Our results and cash flows may, therefore, be unfavourably or favourably impacted by these obligations. Further details on the methodology used to assess pension assets and liabilities together with the annual pension costs are included in Note 26 to the consolidated financial statements for the fiscal year ended 31 March 2007.

CERTAIN LEGAL RISKS

Although our markets are fiercely competitive, there are at times allegations of anticompetitive activity due to a relatively small number of participants. For example, the European Commission levied a fine concerning anti-competitive arrangements among suppliers of Gas Insulated Switchgear relating to our former T&D Business. For more information, see Note 32 to the consolidated financial statement for the fiscal year ended 31 March 2007. Any adverse development of investigations or procedures relating to anti-competitive activity may have a material adverse impact on our reputation, as well as on our results and financial position due notably to the significant amount of fines that can be ordered in this area.

We conduct a significant proportion of our business with governmental agencies and public-sector entities. A limited number of current and former employees and agents of the Group have been or are currently being investigated with respect to alleged illegal payments in various countries. Certain of these procedures may result in fines and the exclusion of our subsidiaries from public tenders in the relevant country for a defined period. We can give no assurance that these procedures will not have a material adverse commercial effect on the subsidiaries or the Group as a whole.

We actively strive to ensure compliance with all laws and regulations, and in particular those relating to competition rules and prohibited payments. As part of this effort, we have recently updated and widely communicated within the Group our Code of Ethics, which prescribes strict compliance with rules of conduct to prevent in particular anti-competitive activities and corruption and which recalls the role of employees and the alert procedure within the Group. During fiscal year 2006/07, we have conducted several training programmes to increase awareness of our managers towards potential risks linked to illegal activities. We generally have established internal control procedures to control the risks linked to illegal activities and we actively strive to ensure that we appropriately address any problems that may arise. However, given the extent of our activities worldwide, we cannot be assured that such difficulties will not arise or that such difficulties will not have a material adverse effect on our reputation and/or our results and financial situation position.

For more information on the internal control system put in place within the Group, see "Chairman's report – Internal control procedures".

With respect to other legal risks, see Note 32 to the consolidated financial statements for the fiscal year ended 31 March 2007.

ENVIRONMENTAL, HEALTH AND SAFETY RISKS

We are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which we operate. These laws and regulations impose increasingly stringent environmental protection standards on us regarding, among other things, air emissions, wastewater discharges, the use and handling of hazardous waste or materials, waste disposal practices and the remediation of environmental contamination. These standards expose us to the risk of substantial environmental costs and liabilities, including in relation with divested assets and past activities. In most of the jurisdictions in which we operate, our industrial activities are subject to obtaining permits, licences and/or authorisations, or to prior notification. Our facilities must comply with these permits, licences or authorisations and are subject to regular inspections by competent authorities.

We invest significant amounts to ensure that we conduct our activities in order to reduce the risks of impacting the environment and regularly incur capital expenditures in connection with environmental compliance requirements. Although we are involved in the remediation of contamination of certain properties and other sites, we believe that our facilities are in compliance with their operating permits and that our operations are generally in compliance with environmental laws and regulations.

We have put in place a global policy covering the management of environmental, health and safety risks. Detailed information regarding this policy is provided in "Environmental, Health and Safety management policy (EHS)" below. The procedures ensuring compliance with environmental, health and safety regulations are decentralised and monitored at each plant. The costs linked to environmental health and safety issues are budgeted at plant or unit level and included in the consolidated income statement.

The outcome of environmental, health and safety matters cannot be predicted with certainty and there can be no assurance that we will not incur any environmental, health and safety liabilities in the future and we cannot guarantee that the amount that we have budgeted or provided for remediation and capital expenditures for environmental or health and safety related projects will be sufficient to cover the intended loss or expenditure. In addition, the discovery of new conditions or facts or future changes in environmental laws, regulations or case law may result in increased liabilities that could have a material effect on our financial condition or results of operations. We have booked provisions of €14 million to cover environmental risks.

Environmental, Health & Safety management policy

We recognise our obligation to our stakeholders, employees, customers, suppliers and the communities at large in which we operate, to provide a safe workplace and safe products, to minimise the impact of our operations on the environment and to protect our industrial and commercial assets.

To this end, we have put in place a global policy covering the management of Environment, Health and Safety risks at an individual operating unit level, to achieve a high level of performance including strict compliance of local norms and regulations. The global policy is designed and co-ordinated at corporate level and is adapted and implemented locally. We rely on independent specialists on risk analysis, ALLIANZ and URS, to carry out the Corporate EHS annual audit programme of our manufacturing sites around the world. In addition to this, and in order to spread our EHS risk control system, we have started an internal auditors accreditation programme. Both internal and external auditors support the operating units in the creation of specific action and improvement plans. The completion of the action plan is measured and followed up through a monthly corporate reporting process. Through our programme, we seek primarily to:

- develop products and services that have an acceptable impact on the environment along the product life cycle from manufacturing through product use and at the end of their useful lives;

- evaluate the environmental impact of new industrial processes prior to their implementation as well as the discontinuation of existing processes or the disposal of existing sites;
- improve technology in order to reduce the consumption of energy and natural resources and to minimise waste and pollution; and
- promote the application of our environmental management principles to our sub-contractors and suppliers.

Additional Health and Safety Programmes are implemented at each of our operating units. Such programmes typically cover health and safety issues, both at the design stage of the workplace and product equipment through to their implementation and use, as well as Accident and Occupational Illness Prevention Programmes.

Our Asset and Business Interruption Management Programmes are designed to minimise exposure to loss or damage to our assets and to ensure Business continuity. This includes exposure to fire, breakdown and natural catastrophes as well as theft or deliberate damage.

The EHS coordination guarantees the consistency of the prevention programmes at a central level. The EHS performance indicators are gathered on a monthly basis by our reporting system covering all the Business and operational centres in view of guiding the risk management approach.

During fiscal year 2006/07, 55 EHS audits were carried out by ALLIANZ and URS as well as by our accredited internal auditors. They have been reviewed by the local Managing Directors in order to validate the suggested areas of improvement. The cost of these external audits amounted to €380,000 in fiscal year 2006/07.

INSURANCE

Our policy is to purchase insurance policies covering risks of a catastrophic nature from insurers presenting excellent solvency criteria. The amount of insurance purchased varies according to our estimation of the maximum foreseeable loss, both for property damage & business interruption and liability insurance. This estimate is made within the framework of Industrial Risk Management Audits that we conduct for property damage and depends on the evaluation of the maximum legal risk considering the various activities of our Group for our civil liability. The risks assessment process conducted in 2006 and updated in 2007, which results in a cartography of risks, has allowed us to confirm that the appropriate level of insurance was purchased for insurable risks.

The main risks covered by our main insurance policies are the following:

- property damage and business interruption caused by fire, explosion, natural events or other named perils as well as machinery breakdown;
- liability incurred because of damage caused to third parties by our operations, products and services, with customary exclusions and limits;
- transit, covering transportation risks from start to discharge of goods at warehouse, construction site or final destination, with customary limits and exclusions; and
- construction and installation, covering risks during execution of contracts, subject to certain customary conditions and declarations.

In addition to Group policies, we purchase, in the various countries where we are present, policies of insurance of a mandatory nature or designed to cover specific risks such as automobile, worker's compensation or employer's liability.

Our main Group Insurance Policies, including limits on coverage and premiums, are described in greater detail below. This presentation is a summary of the policies in effect as of March 31, 2007, and does not reflect all restrictions and limits applicable to our policies. The scope and terms of our policies are determined on an annual basis. For reasons of confidentiality and protection of the interests of the Company, it is not possible to describe exhaustively all policies.

Property damage and business interruption

The insurance programme covers accidental damage and consequent business interruption caused by fire, explosions, smoke, impact of vehicles and aircraft, storm, hail, snow, riot, civil commotion, water damage and natural events to industrial, commercial and administrative sites of the Group named in the policies:

- the programme has an overall limit of €410 million per event;
- sub-limits apply in particular for natural events (these sub-limits vary according to the insured sites and the type of events) for machinery breakdown and accidental events other than those named in the policy;
- coverage is subject to usual limitations and exclusions, in particular: war, civil war, terrorism, nuclear reaction and certain natural events normally insured in national pools.

Civil liability resulting from operations or products and services

The Group Insurance Programme covers the financial consequences of liability of the Group because of damages caused to third parties because of our operations or products and services:

- the programme has 4 layers of insurance for an overall limit of €600 million per event and in annual aggregate. Sub-limits are applicable;
- the policy is subject to usual limitations and exclusions of policies of this type, in particular, war, nuclear reactions, work accidents, Directors and Officers liability, automobile liability, consequences of contractual obligations more onerous than trade practice, as well as damages caused by products such as asbestos, formaldehyde, lead, organic pollutants as well as those caused by toxic mould, magnetic fields and electronic viruses.

Transport insurance

The policy covers damages to transported goods irrespective of the mode of transportation: sea, land or air, anywhere in the world; coverage is extended to war risks (however, some territories are excluded);

- the policy limit is €70 million; sub-limits are applicable notably during storage at packers or sub-contractors;
- the policy is subject to limitations and exclusions generally applicable to policies of this type.

Damage during installation and construction

A Construction and Installation Policy covers damage to equipment being installed by the Company for contracts having values of less than €100 million; this policy applies differently according to the Sectors of the Group and according to the countries involved:

- the insurance limit is €100 million; sub-limits apply;
- the policy is subject to customary limitations and exclusions; in particular it excludes war, radioactive contamination and terrorism (except France);
- specific policies are put in place for contracts exceeding €100 million in value or to cover contracts not covered in the above-described policy.

We benefit from a re-insurance vehicle (through a captive cell of an insurance company) which we used in previous years to self-insure property damage and liability risks. This vehicle was not used since calendar year 2004. All risks previously self-insured through this captive cell have been transferred to insurers or retained through deductibles.

4 CORPORATE GOVERNANCE

150 The Board of Directors and its Committees

150 The Board of Directors

158 The Audit Committee

158 The Nominations and Remuneration Committee

158 The Executive Committee

159 The Disclosure Committee

160 Chairman's report pursuant to article L. 225-37 of the French Commercial Code

160 Conditions of preparation and organisation of the work of the Board of Directors

166 Limitations on the Chairman and Chief Executive Officer's powers

166 Compensation of executive and non-executive Directors ("mandataires sociaux")

168 Internal control procedures

175 Independent Auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code

176 Compensation of executive and non-executive Directors ("mandataires sociaux") and members of the Executive Committee

176 Compensation of executive and non-executive Directors ("mandataires sociaux")

180 Compensation of members of the Executive Committee

181 Interests of the officers and employees in the share capital

181 Stock options plans

183 Free allocation of shares

185 Employee profit-sharing

185 Summary of the operations of corporate officers or persons mentioned in article L. 621-18-2 of the French monetary and financial code on the securities of the Company performed during fiscal year 2006/07

186 Independent Auditors

186 Independent Auditors

186 Deputy Auditors

187 Independent Auditors' fees

187 Audit charter

The Company is implementing the fundamental principles of corporate governance provided in the report published in October 2003 (the "AFEP/MEDEF Report"), which consolidated the recommendations of the Viénot report (issued in 1995 and 1999) and Bouton report (issued in 2002).

The procedures of the Board of Directors and the two Board Committees created in 1998 (the Audit Committee and the Nominations and Remuneration Committee) follow most of the recommendations of the AFEP/MEDEF Report. Annexed to the Internal Rules and Regulations of the Board is the Director's Charter, which defines the Directors' rights and obligations. These Internal Rules and Regulations are updated following the annual evaluations of the functioning of the Board and the Board Committees, and to take into consideration the changes in the regulatory framework.

The Company has been operating since the time of its flotation in accordance with a code of conduct on insider information designed to prevent insider trading which defines the situations in which certain individuals must refrain from carrying out transactions involving the Company's shares. This code which applies to the Directors, officers and employees of the Group was amended during the fiscal year.

For several years now, the Company has operated under a Code of Ethics, which applies to every ALSTOM Director, officer and employee worldwide. This Code which includes ALSTOM's essential rules of ethics, is designed to promote ethical conduct; every Director, officer and employee of the Company is expected to know the Code of Ethics and comply with it. This Code was modified during the fiscal year and widely communicated within the Group together with the Group's values.

In 2003, a "Disclosure Committee" (Comité de l'information) was created on the initiative of the Chairman and Chief Executive Officer and the Chief Financial Officer. The members of this Committee, which is not a Board Committee, consist of top Company executives and a representative of each Group Sector. Its general role is to review the content of the Company's financial information documents before they are disclosed to the shareholders and the markets, and to ensure that controls and other procedures are in place to allow financial information to be recorded and reported on a timely basis so that adequate and appropriate information is collected and communicated to the Chairman and Chief Executive Officer, the Chief Financial Officer and other Management members, to ensure the reliability of the Group financial information. The Internal Rules and Regulations of this Committee were ratified by the Audit Committee and, pursuant to these Internal Rules and Regulations, similar Committees have been set up in each Group Sector.

The Internal Rules and Regulations of the Board of Directors and its Committees, the Director's Charter and the Code of Ethics are available on the ALSTOM Internet site.

The Board of Directors **and its Committees**

THE BOARD OF DIRECTORS

The Board of Directors is composed of ten members, of whom three are non-French nationals and five are independent. Since 2002, the Directors are appointed for a four-year period.

As of 11 May 2007, 6, 145 shares were held by the Directors altogether.

Composition as of 30 May 2007

Patrick KRON

Chairman and Chief Executive Officer
Born on 26 September 1953 in Paris, France.
Nationality: French.
Professional address (1):
ALSTOM - 3 avenue André Malraux - 92300 Levallois-Perret.

Appointed on 24 July 2001 as a Director.
Directorship will expire at the end of the General Meeting called in 2007 to consider the accounts for the fiscal year 2006/07. Renewal of directorship for another 4-year period has been proposed to this General Meeting convened on 26 June 2007.

Number of ALSTOM shares held: 358.
Number of ALSTOM shares hold through ALSTOM FCPE: 149.

Other current directorships and positions:

In France:
Director of Bouygues;
Director of the choral Society "Les Arts Florissants".

In foreign countries:
Within the ALSTOM Group:
Director of ALSTOM UK Holdings Ltd and of ALSTOM Ltd.

Past directorships (held during the past five years):

Chief Executive Officer of Imerys (7 May 1998 - 31 December 2002);
Member of the Supervisory Board of Imerys (5 May 2003 - 3 May 2005);
Director of Imerys (3 May 2005 - 2 May 2006);
Member of the Supervisory Board of Vivendi Universal (28 April 2005 - 13 December 2006).

(1) The professional address is only mentioned for active directors.

Biography:

Mr Patrick Kron is a graduate of École Polytechnique and the Paris École des Mines. He started his career in the French Ministry of Industry where he served from 1979 to 1984 before joining the Pechiney Group. From 1984 to 1988, Patrick Kron held operational responsibilities in one of the Group's most important factories in Greece, becoming manager of this Greek subsidiary. From 1988 to 1993, he occupied several senior operational and financial positions within Pechiney, first managing a group of activities in the processing of aluminium and eventually as President of the Electrometallurgy Division. In 1993, he became a member of the Executive Committee of the Pechiney Group and was appointed Chairman of the Board of the Carbone Lorraine Company from 1993 to 1997. From 1995 to 1997, he ran the Food and Health Care Packaging Sector of Pechiney and held the position of Chief Operating Officer of the American National Can Company in Chicago (USA). From 1998 to 2002, Patrick Kron was Chief Executive Officer of Imerys before joining ALSTOM. He has been Chief Executive Officer of ALSTOM since 1 January 2003 and Chairman and Chief Executive Officer since 11 March 2003. Mr Patrick Kron was awarded the *"Légion d'honneur"* on 30 September 2004.

Jean-Paul BÉCHAT*

Born on 2 September 1942 in Montlhéry, France.
Nationality: French.
Professional address:
SAFRAN - 2 boulevard du Général Martial Valin - 75724 Paris Cedex 15.

Appointment as a Director renewed on 9 July 2004, and will expire at the end of the General Meeting to be called in 2008 to consider the accounts for the fiscal year 2007/08.
First mandate: 14 May 2001 - 9 July 2004.

Number of ALSTOM shares held: 1,450.

Other current directorships and positions:

In France:
Chief Executive Officer of Safran;
Director of Sogepa.

Mr Béchat is a member of GIFAS Council (Groupement des Industries Françaises Aéronautiques et Spatiales).

* Independent Director.

In foreign countries:
Mr Béchat is a member of ASD Council (Aerospace and Defence Industries Association of Europe).

Past directorships (held during the past five years):

In France:
Chairman and Chief Executive Officer of Snecma (4 June 1996 - 11 May 2004);
Chief Executive Officer of Sagem (18 March 2005 - 11 May 2005);
Director of France Télécom (22 May 1998 - 25 February 2003);
Director of Natexis Banques Populaires (18 November 1998 - 27 May 2004);
Director of Aéroports de Paris (9 July 2004 - 26 June 2005);
Director of CEA (3 March 2000 - 12 November 2001).

In foreign countries:
–

Biography:

Mr Jean-Paul Béchat is a graduate of École Polytechnique and has a Master degree in Science from Stanford University (USA). In 1965, Mr Béchat started his career at SNECMA and, from June 1996 till March 2005, he was Chairman and Chief Executive Officer of the Group. Since May 2005, Mr Béchat is the honorary Chairman of GIFAS and a member of the Board of ASD; he is also member of the Advisory Board of Banque de France, of MEDEF Executive Committee, of UIMM Committee and of the Board of SOGEPA. Mr Béchat is Honorary Fellow of the Royal Aeronautical Society, member of the Association Aéronautique et Astronautique de France (AAAF) and member of the International Academy of Astronautics (IAA). He is also officer of the "Légion d'honneur" and of the National Order of Merit.

Candace BEINECKE

Born on 26 November 1946 in the United States.
Nationality: American.
Professional address:
Hughes Hubbard & Reed LLP – One Battery Park Plaza, New York, NY 10004-1482, USA.

Appointed on 24 July 2001 as a Director.
Directorship will expire at the end of the General Meeting called in 2007 to consider the accounts for the fiscal year 2006/07. Renewal of directorship for another 4-year period has been proposed to this General Meeting convened on 26 June 2007.

Number of ALSTOM shares held: 88.

Other current directorships and positions:

In France:
–

In foreign countries:
Chair of Hughes Hubbard & Reed LLP, New York, USA since 1999;
Chairperson of the Board of Arnhold & S. Bleichroeder Advisors First Eagle Funds, Inc., a public mutual fund family;
Member of the Board of Directors of Rockefeller Financial Services, Inc. and Rockefeller & Co., Inc.;
Director, Vice-Chair and member of the Executive Committee of the Partnership for New York City.

Past directorships (held during the past five years):

In France:
–

In foreign countries:
Director of First Eagle SoGen, Inc., USA;
Director of First Eagle SoGen Variables Funds, Inc., USA;
Trustee of First Eagle Funds, USA.

Biography:

Candace K. Beinecke, Chair of Hughes & Reed LLP, was named to her current position in 1999, the first woman to chair a major New York law firm. Ms Beinecke is also a practicing partner in Hughes Hubbard's Corporate Department. Ms Beinecke serves as Chairperson of Arnhold & S. Bleichroeder Advisors LLC First Eagle Funds, Inc., ranked among the leading US public mutual fund families. Candace is a member of the Board of Directors of Rockefeller Financial Services, Inc. and Rockefeller & Co., Inc. She also serves as a Director, Vice-Chair and Executive Committee member of the Partnership for New York City, as a member of the Board of Advisors, Yale Law School Center for the Study of Corporate Law, and as a Director of the Merce Cunningham Dance Foundation and the Jacob's Pillow Dance Festival (1989-2005). She has been included in the 2007 edition of The Best Lawyers in America, is a member of the Women's Forum and received a Women in Power and Influence award from NYC NOW in 2000.

Olivier BOUYGUES

Born on 14 September 1950 in Suresnes, Hauts-de-Seine in France.
Nationality: French.
Professional address:
Bouygues - 32, avenue Hoche - 75378 Paris cedex 08

Appointed on 28 June 2006 as a Director. Directorship will expire at the end of the General Meeting to be called in 2010 to consider the accounts for the fiscal year 2009/10.

Number of ALSTOM shares held: 1,000

Other current directorships and positions:

In France:
Deputy Chief Executive Officer of Bouygues;
Chief Executive Officer of SCDM;
Standing representative of SCDM at the Board of SCDM Energie;
Chairman of SAGRI-E and SAGRI-F;
Director of Cefina;
Manager of SIR and SIB.

Within Bouygues Group:
Standing representative of SCDM at the Board of Bouygues;
Chairman of the Board and Director of Finagestion;
Director of TF1, Bouygues Telecom, Colas, Bouygues Construction, and Eurosport.

In foreign countries:
Within Bouygues Group:
Chairman and Chief Executive Officer and Director of SECI (Ex Saur Energie de Côte d'Ivoire);
Director of Compagnie Ivoirienne d'Electricité (CIE), of Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), and of Société Sénégalaise des Eaux.

Past directorships (held during the past five years):

In France:
Deputy Chief Executive Officer of SCDM in 2002;
Director of Actiby in 2004;
Director of Novasaur (in 2006);
Chief Executive Officer of Saur and Director of Stereau, Coved and Saur International in 2001, 2002, 2003, and 2004;
Director of Esso in 2001 and 2002.

In foreign countries:
–

Biography:

Graduate of École Nationale Supérieure du Pétrole (ENSPM). Mr Olivier Bouygues joined the Bouygues group in 1974. He began his career in the Group's civil works branch. From 1983 to 1988, he worked at Bouygues Offshore as Director of the Cameroon subsidiary Boscam and then Director for the France Works and Special Projects division. From 1988 to 1992, he held the post of Chairman and CEO of Maison Bouygues catalogue homes unit. In 1992, he was appointed Group Executive Vice-President for Utilities Management, a division covering the French and international activities of Saur. In 1997, Bouygues and Saur acquired Cise, thus creating France's third largest utilities management group. Saur was sold to PAI partners in 2005. In 2002, Olivier Bouygues was appointed Deputy Chief Executive Officer of Bouygues.

Georges CHODRON DE COURCEL

Born on 20 May 1950 in Amiens, France.
Nationality: French.
Professional address:
BNP Paribas - 3 rue d'Antin - 75002 Paris.

Appointment as a Director renewed on 28 June 2006 and will expire at the end of the General Meeting to be called in 2010 to consider the accounts for the fiscal year 2009/10.
First mandate: 3 July 2002 - 28 June 2006.

Number of ALSTOM shares held: 491.

Other current directorships and positions:

In France:
Chief Operating Officer of BNP Paribas;
Director of Bouygues;
Director of Société Foncière, Financière et de Participations;
Director of Nexans;
Member of the Supervisory Board of Lagardère.
Non-voting Director of Safran and Scor.

Within BNP Paribas group:
Chairman of BNP Paribas Emergis SAS;
Chairman of Compagnie d'Investissement de Paris SAS;
Chairman of Financière BNP Paribas SAS;
Director of Verner Investissements SAS;
Non-voting Director of Exane (a subsidiary of Verner).

In foreign countries:
Director of Erbé SA (Belgium).
Within BNP Paribas group:
Chairman of BNP Paribas (Switzerland) SA;
Chairman of BNP Paribas UK Holdings Ltd;
Director of BNP Paribas ZAO (Russia);
Director of BNL (Italy).

Past directorships (held during the past five years):

In France:
Member of the Supervisory Board of Sagem, Permanent representative of CIP at FFP (Société Foncière, Financière et de Participations) and Sommer SA, non-voting Director of SCOR Vie.

Within BNP Paribas group:
Director of Capstar Partner SAS.

In foreign countries:
Within BNP Paribas group:
Chairman of BNP Paribas Bank Polska;
Chairman and Director of BNP US Funding;
Director of BNP Paribas Canada;
Director of BNP Paribas Peregrine Limited (Malaysia);
Director of BNP Paribas Prime Peregrine Holdings Limited (Malaysia);
Director of BNP Paribas Securities Corp (United States);
Director of BNP Paribas UK Holdings Limited.

Biography:

Mr Georges Chodron de Courcel graduated in 1971 from École Centrale de Paris and had a degree in Economics in 1972. He began his career with Banque Nationale de Paris where he has had a succession of responsibilities. After having spent 6 years in Corporate Banking, he was named Head of Equity Research ant then Head of Asset Management. In 1989, he was appointed Director of Corporate Finance and Chief Executive Officer of Banexi. In January 1991, he became Head of Capital Markets and in September 1996, was appointed Chief Executive International and Finance of BNP. After the merger with Paribas in 1999, he has been named Head of Corporate and Investment Banking and was Member of the Executive Committee, then Chief Operating Officer in June 2003.

Pascal COLOMBANI *

Born on 14 October 1945 in Neuilly-sur-Seine, France.
Nationality: French.
Professional address:
AT Kearney - 7 place d'Iéna - 75016 Paris.

Appointed as a Director on 9 July 2004.
Directorship will expire at the end of the General Meeting to be called in 2008 to consider the accounts for the fiscal year 2007/08.

Number of ALSTOM shares held: 95.

Other current directorships and positions:

In France:
Associate Director of A.T. Kearney;
Non-executive Director of Rhodia;
Non-executive Director of Technip;

Member of the French Academy of Technologies.

In foreign countries:
Non-executive Director of British Energy Group plc.

Past directorships (held during the past five years):

In France:
Chairman of the Supervisory Board of Areva (2001-2003);
Director of EDF (2000-2003);
Director of Cogema (2000-2003);
Chairman and Chief Executive Officer of CEA (2000-2002)
Director of Framatome (2000-2001);
Chairman of the Board of École Normale Supérieure de Cachan (2001-2003);
Chairman of the Board of the French Association for the Advancement of Science (AFAS) (2003-2006);
Non-executive Director of the French Institute of Petroleum (IFP) (2001-2006).

In foreign countries:
–

Biography:

Mr Pascal Colombani is a graduate of École Normale Supérieure and holds a doctorate in Nuclear Physics. His career has been balanced between research and industry: he started as a research associate at the French Centre for National Research (CNRS) before joining Schlumberger where he spent almost twenty years in various management positions in Europe, the USA, and Japan. In this last position, while President of Schlumberger KK in Tokyo, he also initiated the implantation of an R&D centre in Beijing. Director of Technology at the French Ministry of Research from 1997 to 1999, he became Chairman and Chief Executive Officer of the French Atomic Energy Commission (CEA) in 2000, where he initiated new programmes in nuclear, defence, and microelectronics and the restructuring of the CEA industrial holdings, resulting in the creation of Areva, the nuclear engineering conglomerate. He chaired the Board of Areva until 2003. Pascal Colombani is an Associate Director and Senior Advisor on Innovation, High Technology and Energy at A.T. Kearney, the management consultancy. He is also member of the Boards of Rhodia, British Energy Group plc, and Technip. He is a member of the French Academy of Technologies.

James B. CRONIN*

Born on 14 October 1937 in Greenford, United Kingdom.
Nationality: British.

Appointment as Director renewed on 28 June 2006 for a four-year period.
First mandate: 14 May 2001 – 3 July 2002.
Second mandate: 3 July 2002 – 28 June 2006.

Number of ALSTOM shares held: 446.

Other current directorships and positions:

In France:
–

In foreign countries:
Director of ALSTOM SA (Proprietary) Limited.

Past directorships (held during the past five years):

In France:
–

In foreign countries:
–

Biography:

Mr James B. Cronin was appointed Managing Director and member of the Board of GEC ALSTHOM N.V. in 1989 and has been ALSTOM Deputy Chief Executive Officer until June 2000.

* Independent Director.

Gérard HAUSER*

Born on 29 October 1941 in Paris, France.
Nationality: French.
Professional address:
Nexans - 16 rue de Monceau - 75008 Paris.

Appointment as a Director renewed on 9 July 2004. Directorship will expire at the end of the General Meeting to be called in 2008 to consider the accounts for the fiscal year 2007/08.
First mandate: 11 March 2003 – 9 July 2004.

Number of ALSTOM shares held: 1,043.

Other current directorships and positions:

In France:
Chairman and Chief Executive Officer of Nexans;
Director of Aplix;
Director of Ipsen;
Director of Faurecia.

In foreign countries:
–

Past directorships (held during the past five years):

In France:
Chairman and Chief Executive Officer of Alcatel Cable France;
Chairman of Alcatel Cables & Components;
Chairman of Saft;
Director of Framatome;
Director of Electro Banque.

In foreign countries:
Director of Liban Cables;
Member of the Supervisory Board of Alcatel Deutschland GmbH;
Director of Alcatel Maroc.

Biography:

From 1965 till 1975, Mr Hauser covered several high-duty positions in the Philips Group. From 1975 till 1996, he worked for the Pechiney Group, as Chairman and Chief Executive Officer of Pechiney World Trade first and of Pechiney Rhénalu later; he was later appointed Senior Executive Vice President of American National Can and member of the Group Executive Board. Mr Hauser joined Alcatel Cable France in 1996 and became President of its Cable and Component Sector in 1997. In 2000, he was appointed Chairman and Chief Executive Officer of Nexans.

James WILLIAM LENG*

Born on 19 November 1945 in Sunderland, England
Nationality: British.
Professional address:
Second Floor, 30 Millbank
London SW1P 4WY England.

Appointed on 18 November 2003 as a Director.
Directorship will expire at the end of the General Meeting called in 2007 to consider the accounts for the fiscal year 2006/07. Renewal of directorship for another 4-year period has been proposed to this General Meeting convened on 26 June 2007.

Number of ALSTOM shares held: 25.

Other current directorships and positions:

In France:
–

In foreign countries:
Deputy Chairman of Corus Group plc ;
Non-Executive Director of Corus Group plc;
Non-Executive Director of Hanson plc;
Nominated Executive of Convenience Food System Holdings B.V. ;
Director of Pregis Holding I Corporation;
Director of Pregis Holding II Corporation;
Chairman of Doncasters Group Limited;
Deputy Chairman of Tata Steel limited;

Governor of the National Institute of Economic and Social Research;
Fellow of the Institute of Marketing.

Past directorships (held during the past five years):

In France:
–

In foreign countries:
Chief Executive of Laporte plc (1 October 1995/30 June 2001);
Vice President of Chemical Industries Association Limited (19 November 1998/30 June 2001);
Chairman of Doncasters Group Limited (3 August 2001/9 June 2003);
Deputy Chairman of Corus Group plc (22 April 2002/1 June 2003);
Chairman of Corus Group plc (1 June 2003/23 April 2007);
Non-Executive Director of JP Morgan Fleming Mid Cap Investment Trust plc (27 January 2003/30 April 2004);
Non-Executive Director of IMI plc (1 December 2002/13 May 2005);
Non-Executive Chairman of IMI plc (1 January 2005/13 May 2005);
Non-Executive Director of Lennox Managements Limited (6 April 2004/19 January 2006);
Non-Executive Director of Pilkington plc (11 September 1998/16 June 2006);
Chairman of Laporte Group Pension Trustees Ltd (4 July 2001/19 March 2007).

* Independent Director.

Biography:

Mr James W. Leng was appointed as a non-executive Director of ALTSOM in November 2003. He is also Deputy Chairman of Tata Steel limited and Corus Group plc, Chairman of Doncasters Group Limited, and a non-executive Director of Hanson plc where he is Senior Independent Director. He was the Chief Executive of Laporte plc from 1995 until June 2001. In May 2005, he retired as a Director and Chairman of IMI plc.

Olivier POUPART-LAFARGE

Born on 26 October 1942 in Angers, France.
Nationality: French.
Professional address:
Bouygues – 32, avenue Hoche - 75378 Paris cedex 08

Appointed on 28 June 2006 as a Director.
Directorship will expire at the end of the General Meeting called in 2010 to consider the accounts for the fiscal year 2009/10.

Number of ALSTOM shares held: 1,000.

Other current directorships and positions:

In France:
Deputy Chief Executive Officer of Bouygues;
Chief Executive Officer of SCDM;
Director of BIC.

Within Bouygues Group:
Director of Bouygues, Bouygues Telecom, Colas and TF 1;
Standing representative of Bouygues at the Board of Bouygues Construction, and of Bouygues Immobilier.

In foreign countries:
–

Past directorships (held during the past five years):

In France:
Director of SCDM in 2001 and 2002;
Director of Saur in 2001, 2002, 2003 and 2004

In foreign countries:
–

Biography:

Graduate of École des Hautes Études Commerciales (HEC). Mr Olivier Poupart-Lafarge joined the Bouygues group in 1974. Head of the financial department for two years, he was appointed manager of the international finance department in 1976, then company secretary for the international building branch in 1980, and international finance director in 1983. In 1984, he took over as the Group's Executive Vice-President for Strategy and Finance, and was then appointed Deputy Chief Executive Officer in June 2002.

To the Company's knowledge, no member of the Board of Directors:

- has been convicted for fraud during the last five years and/or has been the subject of any official public investigation and/or sanction by statutory or regulatory authorities;
- has been associated in his/her capacity of manager in any bankruptcy, receivership or liquidation for the past five years;
- has been disqualified by a court from acting as a member of an administrative, management or supervisory body of an issuer or from acting in the management or conduct of the Business of any issuer for the past five years.

To the Company's knowledge, no family relationships among the members of the Company's Board of Directors exists.

Furthermore, to the Company's knowledge there is no conflict of interest between any duty of the members of the Board of Directors and their private interests and/or other duties.

In case of conflict of interests, according to the Director's Chart annexed to the Board of Directors' Internal Rules and Regulations, any Director must inform the Board as soon as he/she is aware of any, even potential, conflict of interests and he/she must abstain from participating to discussions on the conflicting subject matter and from voting on the resolution thereby. In case of permanent conflict of interest, the Director must resign.

To the Company's knowledge, no settlement or agreement has been reached with shareholders, clients, suppliers or others to appoint a member of the Board of Directors.

To the Company's knowledge, there is no service contract linking any members of the Board of Directors to the Company or to any of its subsidiaries and granting them any benefits.

Changes in the membership of the Board of Directors

DURING THE FISCAL YEAR

Following the sale by the French State of its entire stake in the Company to Bouygues, the ordinary shareholders' meeting held on 28 June 2006, appointed Mr Olivier Bouygues and Mr Olivier Poupart-Lafarge, of Bouygues, as Directors of the Company.

Mr Denis Samuel-Lajeunesse representing the French State to the Board and Mr Francis Mer have put an end to their mandate of Director upon completion of this sale, which occurred on 26 June 2006.

AFTER THE CLOSE OF THE FISCAL YEAR

Having reached the age of 70, Mr James B. Cronin has expressed his wish to retire from the Board and informed the Company that he will terminate his mandate at the end of the shareholders' meeting convened on 26 June 2007.

Evaluation of the Directors' independence

According to the AFEP/MEDEF Report and as set forth in the Board of Directors' Internal Rules and Regulations, the Board meeting of 11 May 2007 re-examined the situation of each Director in the light of the independence criteria based on the proposals made by the Nominations and Remuneration Committee which the Board had accepted.

As in the previous year, the Board followed the definition contained in the AFEP/MEDEF Report and considered that a Director is independent when he or she has no relationship of any kind with the Company, its Group or its Management that could compromise the independence of his or her judgement.

The Board decided to take into account all the criteria recommended by the AFEP/MEDEF Report to assess the independence of its members, which follow:

- a Director is not an employee or a Corporate Officer ("mandataire social") of the Company or of one of its consolidated subsidiaries and has not been in such a position for the five previous years;
- a Director is not a Corporate Officer ("mandataire social") of a company in which the Company holds, either directly or indirectly, a directorship, or in which a directorship is held or has been held within the fast five years by an employee or a Corporate Officer ("mandataire social") of the Company;
- a Director is not either directly or indirectly, a significant customer, supplier, investment banker or commercial banker or for which the Company or its Group holds a material proportion of the entity's activity;
- a Director does not have any close family ties with a Corporate Officer ("mandataire social") of the Company;
- a Director has not been an auditor of the Company for the past five years;
- a Director has not been a Director of the Company for more than twelve years;
- a Director does not hold, control, or represent a shareholder who holds alone or in concert more than 10% of the Company's share capital or voting rights.

Based on these criteria, the Board of Directors determined that five members should be considered as independent Directors (Mr Jean-Paul Béchat, Mr Pascal Colombani, Mr James B. Cronin, Mr Gérard Hauser and Mr James William Leng) out of the ten members of the Board of Directors.

As was the case last year, the Board's determination that James B. Cronin should be considered as independent Director took into account the Board's view that his directorship in a company in which the Company holds a low percentage (5%), had not compromised, and were not likely to compromise, the independence of his judgement in the exercise of this directorship. The Board's view that Mr Gérard Hauser should be considered to be independent took into account the commercial relationship between Nexans and ALSTOM Group, which in the Board's view is not material, and the fact that a Director of the Company was also Director of Nexans, was not considered to compromise the independence of his judgement. After having taken into account the commercial relationship between the companies in which he holds a position and the Group, which in the Board's view is not material, and the fact that he is Director of a company in which a former Director of ALSTOM (for less than five years) is also a Director, the Board's opinion is that Mr Pascal Colombani should be considered to be independent. The Board's view that Mr James W. Leng should be considered to be independent took into account the commercial relationship between a company in which he holds a position since a recent date and the ALSTOM Group, which in the Board's view is not material. The Board also determined that Mr Jean-Paul Béchat fulfilled each of the above criteria and should be considered to be independent.

In addition to Mr Patrick Kron, Chairman and Chief Executive Officer of the Company, Mrs Candace Beinecke who is Chair of Hughes Hubbard & Reed LLP, one of the Company's principal legal advisors, Messrs Olivier Bouygues an Olivier Poupart-Lafarge, representatives of Bouygues holding approximately 25.35% of the Company's share capital, and Mr Georges Chodron de Courcel who is Delegated Chief Executive Officer of BNP Paribas, one of the core banks and financial advisors of the Company, are not independent Directors.

Thereby, the Board of Directors qualified five members as independent, which corresponds to the proportion recommended by the AFEP/MEDEF report for those companies with a widely spread share capital and which has been approved by the Board, as it is part of its Internal Rules and Regulations.

Renewal of Directors' mandates and appointment of new Directors

The renewal of the mandates of Mr Patrick Kron, Mrs Candace Beinecke and Mr James W. Leng for another 4-year period as Directors will be submitted for approval to the Ordinary and Extraordinary Shareholders' Meeting convened on 26 June 2007.

Taking into consideration the wish to expand the Board composition expressed by the Board members at the time of their assessment of the Board and Committee's functioning in 2006, and then the retirement of M. James B. Cronin, the Board of Directors held on 11 May 2007, also decided to submit for approval to such Shareholders' Meeting, the appointment of three new directors of whom one will take over from Mr Cronin: Mr Jean-Martin Folz, Dr Klaus Mangold and Mr Alan Thomson.

MR JEAN-MARTIN FOLZ

Mr Jean-Martin Folz is a graduate of École Polytechnique. He started his career in the French Ministry of Industry where is served from 1972 to 1978. Then he joined the group Rhône-Poulenc in 1978. He became Deputy Chief Executive Officer and, then, Chairman and Chief Executive Officer of Jeumont-Schneider between 1984 and 1987.He then joined Pechiney as Chief Executive Officer up to 1991, and was appointed Chairman of Carbone Lorraine. He was Chief Executive Officer of Eridania Beghin-Say before becoming Chairman of Beghin-Say. In 1995, he joined PSA Peugeot Citroën group and was appointed Chairman of the group in 1997. He left the group in February 2007. Mr Folz is a Director of Saint-Gobain (France), Société Générale (France), and Solvay (Belgium) and a member of the Supervisory Boards of Carrefour and Axa.

DR. KLAUS MANGOLD

Dr Klaus Mangold is a former Member of the Board of Management of DaimlerChrysler AG, former Chairman of the Board of Management of DaimlerChrysler Services AG and former Executive Advisor to the Chairman of DaimlerChrylser AG. He studied law and economics at the Universities of Munich, Geneva, London, Heidelberg and Mainz and finished his studies with a law degree at Heidelberg University. After graduating, he held different functions in the German industry before being nominated a Member and Chairman of the Board of Management of Rhodia AG, a branch of the French Rhône-Poulenc group (1983-1990), and Chairman and Chief Executive Officer of Quelle-Schickedanz AG (1991-1994). He joined the Daimler-Benz group as a Member of the Board of Management in charge of its Services Division and Central and Eastern European markets (1995-2003). Dr Mangold is member of a number of Supervisory and Advisory Boards including those of Rothschild Europe, Metro AG and Jenoptik AG. He is a member of the Board of Directors of the Chubb Corporation, USA, and Magna International, Canada. He is also Chairman of the Committee on Eastern European Economic Relations. Dr Klaus Mangold is Honorary Consul of the Russian Federation. He is a recipient of the Great Silver Badge of Honour with the Star of the Austrian Republic and Commander of the Legion of Honour in France.

MR ALAN THOMSON

Mr Thomson studied Economics and History at Glasgow University graduating with a Master of Arts degree in 1967. He qualified as a Chartered Accountant in 1970 and became a member of the Institute of Chartered Accountants of Scotland. From 1971 until 1975, he was Audit Manager with Price Waterhouse in Paris. From 1975 until 1979 he was Financial Director then Directeur Général of Rockwell International S.A. in Paris, and from 1979 until 1982 he was Financial Director in the Automotive Division of Rockwell International firstly in the USA (1979-1980) then in the U.K. (1980-1982). From 1982 until 1984, he was UK Financial Director of Raychem Ltd, a division of a US public Materials Science company. From 1984 until 1992 he was a Divisional Finance Director within Courtaulds plc, a UK quoted company. From 1992 until 1995, Mr Thompson was employed as the Group Financial Director and Main Board Director of The Rugby Group plc, a UK quoted Building Materials company and from 1995 until his retirement in September 2006, he held the position of Group Financial Director of Smiths Group plc a UK quoted Engineering company. Mr Thomson is a non-executive Director of Johnson Matthey plc, a UK quoted company specialised in Precious metals and Environmental catalysts and of Crossmatch Technologies Inc, a US corporation which produces Biometric solutions for the global Security industry. Mr Thomson is also a Council member of the Institute of Chartered Accountants of Scotland and chairman of their Technical Policy Board.

These candidates have been selected by the Nominations and Remuneration Committee with the aim to strengthen the Board expertise in finance, industrial strategy, notably international, and to increase the number of independent Directors, in accordance with the Directors' wishes expressed at the time of the assessment of the functioning of the Board conducted in 2006.

The Board reviewed the situation of each of the three new Directors proposed, in light of the independence criteria above mentioned and considered, upon proposal made by the Nominations and Remuneration Committee, that they were independent under each of the above criteria.

Thereby, subject to the effective renewal of mandates proposed to this Shareholders' Meeting and to the appointment of these three new Directors, after the Shareholders' Meeting, the Board of Directors would be comprised of 12 members of whom 7 will be independent and 4 will be non-French nationals.

THE AUDIT COMMITTEE

The Audit Committee was formed in 1998 and is currently composed of four members:

Mr Jean-Paul BÉCHAT,
Chairman of the Committee since 1 January 2004,

Mr Pascal COLOMBANI,

Mr James B. CRONIN,

Mr Olivier POUPART-LAFARGE.

Three-quarters of the members of the Audit Committee are independent, including the Chairman. This corresponds to a proportion that is higher than the two-thirds of Directors recommended by the AFEP/MEDEF report.

Mr James B. Cronin will no longer be a member as from the end of his mandate as a Director.

THE NOMINATIONS AND REMUNERATION COMMITTEE

The Nominations and Remuneration Committee was formed in 1998 and is currently composed of six members:

Mr James WILLIAM LENG
Chairman of the Committee since 18 November 2003,

Mrs Candace BEINECKE,

Mr Olivier BOUYGUES,

Mr Georges CHODRON DE COURCEL,

Mr Pascal COLOMBANI,

Mr Gérard HAUSER.

Half of the members of the Committee are independent and not the majority as recommended by the AFEP/MEDEF Report. However, the Chairman of the Committee is independent and has a casting vote in case of votes equally shared.

For more information on the organisation, functioning and activity of each Committee during the previous fiscal year, please see the enclosed report of the Chairman of the Board of Directors as per Article L. 225-37 of the French Commercial Code.

The Executive Committee

As of 30 May 2007, the Executive Committee is composed of the following persons:

Patrick KRON
Chairman of the Board and Chief Executive Officer

Philippe JOUBERT[1]
Executive Vice President; President, Power Systems Sector

Philippe MELLIER
Executive Vice President; President, Transport Sector.

Philippe JAFFRÉ
Executive Vice President.

(1) Philippe JOUBERT - continues to ensure the coordination of the Power-related Sectors and the supervision of the International Network. Power Systems is the new name of the Sector Power Turbo-Systems/Power Environment (PT/PE).

Walter GRAENICHER
President, Power Service Sector.

Patrick DUBERT
Senior Vice President, Human Resources.

Henri POUPART-LAFARGE
Chief Financial Officer.

The Executive Committee met 11 times during the fiscal year.

The Disclosure Committee

In 2003, the Chairman and Chief Executive Officer and the Chief Financial Officer set up a Disclosure Committee, which is not a Committee of the Board of Directors.

The members of the Corporate Disclosure Committee are: the Chief Financial Officer, the General Counsel, the Senior Vice President Internal Control, the Group Controller, the Vice President Tenders & Projects Control, and the Sectors SVP Finance. The Corporate Disclosure Committee meets at least twice a year.

The Disclosure Committee assists the Chairman and Chief Executive Officer and the Chief Financial Officer in complying with their obligations of prompt and correct disclosure of six-month and yearly financial information as well as in evaluating the effectiveness of ALSTOM's Disclosure Controls and Procedures (as defined below).

To meet its objectives, the Committee :

- verifies that the Group has controls and procedures in place ensuring (i) that information required to be disclosed to investors and the French Stock Market Authority ("AMF"), Euronext Paris and any other Stock Market Authority as the case may be, is verified and reported on a timely basis, and (ii) that adequate and appropriate information is accumulated and communicated to management, including the Chairman and Chief Executive Officer and Chief Financial Officer, to allow timely decisions to be made regarding such disclosure ("Disclosure Controls and Procedures");
- at least twice every fiscal year, reviews the Disclosure Controls and Procedures and recommends to the Chairman and Chief Executive Officer and the Chief Financial Officer amendments it deems appropriate;
- reviews the content of ALSTOM's "Document de Référence" and other required documents to be filed with the AMF (or with any other stock market authority) containing material financial information as well as any other information or forecast which could have an impact on ALSTOM's share price ("ALSTOM Disclosures");
- evaluates the effectiveness of ALSTOM's Disclosure Controls and Procedures as of the last day of each fiscal year and reports to the Chairman and Chief Executive Officer and to the Chief Financial Officer, disclosing any material shortcomings therein;
- reports to the Chairman and Chief Executive Officer and Chief Financial Officer any fraud, whether or not material, that comes to the attention of the Committee involving management or other employees who have a significant role in ALSTOM's internal controls;
- reviews its charter annually and make such recommendations to the Chairman and Chief Executive Officer and Chief Financial Officer regarding any changes as it deems appropriate; and,
- assumes any other responsibilities assigned to it by the Chairman and Chief Executive Officer and Chief Financial Officer.

Each of ALSTOM's Sectors has established a Sector Disclosure Committee, which reviews drafts of all portions of ALSTOM Disclosures (as defined above) that relate to its Sector's activities and operations (financial and otherwise), and evaluates the effectiveness of the operation of the Disclosure Controls and Procedures within its Sector. Each Sector Disclosure Committee shall report to the Disclosure Committee, either directly or through its representative on the Disclosure Committee, as to the results of its review of ALSTOM Disclosures applicable to its Sector, and as to its evaluation of the effectiveness of the operation of the Disclosure Controls and Procedures within its Sector.

Chairman's report pursuant to article L. 225-37 of the French Commercial Code

Pursuant to Article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors presents in this report covering the fiscal year which ended on 31 March 2007, the conditions for the preparation and organisation of the work of the Board of Directors, the limitations on the Chief Executive Officer's powers, the principles and rules set by the Board to determine the Company's executive and non-executive officers ("mandataires sociaux") compensation and benefits and the internal control procedures implemented by the Company within the Group.

This report was reviewed by the Board of Directors held on 11 May 2007, after the Audit Committee had reviewed the section relating to the internal control procedures, and after the Nominations and Remuneration Committee had reviewed the other sections.

In a report attached to their general report, the Independent Auditors will present their observations on the internal control procedures for the preparation and the processing of accounting and financial information.

CONDITIONS OF PREPARATION AND ORGANISATION OF THE WORK OF THE BOARD OF DIRECTORS

Organisation and functioning of the Board of Directors

INTERNAL RULES AND REGULATIONS

The procedures governing the organisation and functioning of the Board of Directors are defined by the Internal Rules and Regulations of the Board and applicable laws and regulations.

The rules are reviewed every year by the Board to determine whether its provisions need amending to better comply to the current rules or to improve the efficiency and the performance of the Board and its Committees.

During its meeting held on 28 March 2007, the Board of Directors decided to amend certain procedures to improve its good governance's practices, formalize certain current practices and take into account legal and regulatory changes.

The main amendments relate to:
- ruling when prior approval of the Board is needed for significant operations;
- mentioning the review and approval by the Board of the information relating to Corporate governance included in the annual report;
- mentioning the organisation of specific meetings of the Board focused on strategy, human resources, risk management or any other subjects according to priorities and needs;
- the recommendation made to directors to hold a minimum number of 250 shares (a minimum number of 25 shares is specified in the Company's by-laws).

The modifications have been recommended by the Nominations and Remuneration Committee following its assessment of the application by the Company of the AFEP/MEDEF corporate governance principles which the Company approves.

The Internal rules as amended notably state that the Board of Directors:
- shall, to the extent practicable, comprise at least half of the Board of independent members as determined and reviewed annually by the Board on the basis of a proposal to be made by the Nominations and Remuneration Committee;
- shall define, upon the proposal of the Chief Executive Officer, the Group's strategy, and shall regularly review the Group's strategic options as previously defined, supervise management and verify the quality of information supplied to shareholders and the financial markets;
- shall examine and approve the annual budget and the medium-term plan;
- shall consider prior to implementation, any operation that is not part of the Group's announced strategy or that could significantly affect or materially modify the financial structure or results of the Group;
- shall approve before implementation any acquisition or divestiture insofar as the amount exceeds €250 million, any decision to set up a partnership or a joint venture where the contribution of the Group exceeds €250 million, as well as any financing operation which exceeds €1 billion;
- shall be kept regularly informed of developments in the Group's Business activities and results, its financial position, indebtedness, cash position and, more generally, any Group commitments, and may request information about the foregoing at any time;
- shall create one or more specialised Committees and shall define their composition and responsibilities;
- shall approve the composition of the Group's Executive Committee;

- shall set the remuneration of the Corporate Officers ("mandataires sociaux") and assess each year the Chairman and Chief Executive Officer's performance outside of his presence;
- shall review and approve the information on corporate governance policies published in the Company's annual report.

The Board shall examine its operation at least once a year and implement a formal assessment every three years.

A minimum of four meetings shall be scheduled each year.

Training of Directors

At the beginning of his mandate, each Director receive all information needed to perform his or her duties and may request any documents he or she considers appropriate.

During the annual evaluations of the Board's operation, the members are requested to indicate whether they feel the need to update their knowledge or broaden their skills.

The Board's Internal Rules and Regulations, as amended on 28 March 2007, have been supplemented to clarify that any further training a Director may request, if she or he considers it necessary, may cover not only Group's activities and product lines, but also accounting and financial aspects.

Information to be supplied to the Board of Directors

Prior to each Board meeting, the Directors shall receive, sufficiently in advance and with proper notice, a report on the agenda items which require prior examination and consideration.

Draft annual and semi-annual accounts are generally sent to all Directors at least one week before the meeting of the Audit Committee which always precedes the Board meeting.

In addition to Board meetings, the Chairman regularly informs the Directors of any event or development that may have a material impact on operations or on any information previously communicated to the Board or on any matters discussed during the meetings; the Chairman also regularly forwards to the Directors any material information regarding the Company.

The Board Internal Rules and Regulations, as modified on 28 March 2007, now explicitly provide for the prior notice and data to be given to the Board for any acquisition, disposal or any decision to set up a partnership or a joint venture in excess of €100 million.

The Directors receive copies of any press releases issued by the Company which have not been specifically approved by the Board, as well as the main articles appearing in the press and reports by financial analysts.

The Directors may at any time request further information from the Chairman of the Board, who shall assess the pertinence of the request. Any Director is entitled to meet with the Group's Senior Executives outside of the presence of the "mandataires sociaux" of the Company.

The Directors can also be asked to join workgroups organised by the Company whose subject matters will then be presented to the Board.

Board Committees

Since the Company's listing in 1998, the Board of Directors has created two Committees, the Audit Committee and the Nominations and Remuneration Committee, invested with the responsibility to study and prepare the Board's main deliberations in order to improve the Board's efficiency.

Each Board meeting is generally preceded by a meeting of one or of the two Committees depending on the items on the Board meeting agenda. The Committees report to the Board on their work and observations, and submit their opinions, proposals or recommendations.

The composition, the powers and the procedures of each Committee are also defined by Internal Rules and Regulations put forward by each Committee involved and approved by the Board of Directors. Each Committee reviews every year its Internal Rules and Regulations and can submit any modifications that it considers appropriate to the Board.

The participation of any Director on the Committees is decided according to the Directors' experience and skills.

According to the Audit Committee Internal Rules and Regulations, at least two-thirds of the Committee must be independent Directors. As for the Nominations and Remuneration Committee, the Rules recommend that half of its members are independent among whom the Chairman of the Committee shall have a casting vote in case of a tie vote .

In the context of its work, each Committee can meet any Group executive it wishes, resort to the services of experts on its own initiative and ask for any information useful for it to perform effectively.

Moreover, each member of a Committee may propose that a meeting be held if he or she considers this necessary in order to discuss a particular issue.

Each Committee prepares a report presenting its work during the past fiscal year; this report is included in the Annual Report (see hereinafter).

Evaluation of the functioning of the Board and of the Committees and the follow up

Since 2004, the Board carried out annually a formal self-assessment of its organisation and functioning pursuant to its Internal Rules and Regulations, based on a questionnaire prepared by the Nominations and Remuneration Committee addressed to each Director. A summary of the individual assessments collected by the Committee on an anonymous basis is prepared by the Committee and then discussed by the Board of Directors. A similar procedure is simultaneously conducted to evaluate the workings of each Committee.

These evaluations were conducted for the first time in May 2004 and the last time on 11 May 2007. To date, no evaluation has been conducted with the contribution of an external consultant.

The Board's evaluations covered notably the composition of the Board, the frequency and length of the meetings, the issues discussed, the quality of the debates, the works of the Committees, the information provided to the members, their remuneration and the interaction with the Group's executives.

In 2004, generally, the Directors had a positive opinion of the quality of the information made available to them, whose continuous improvement they appreciated, and of the preparation of the Board decisions.

To continue on the same line, the following principles were agreed:
- organisation of specific meetings focused on strategy, human resources, risk management or any other subjects according to priorities and needs;
- increased participation to Board meetings by Group executives, in particular by the Sectors' Presidents;
- possibility for the non-executive Directors to meet outside of the executive Directors' presence, as in the past fiscal year, when a full Board session was followed by a non-executive session.

These principles were implemented in September 2004 with a Board meeting dedicated to the human resources and social policy of the Group presented to the Board by the Senior Vice President of human resources. These principles were also implemented each year in March when the Sector Presidents attended the Board meeting discussing the budget for the next fiscal year and the three-year plan, and when Directors met without the Chairman and Chief Executive Officer to discuss the evaluation of his performance.

These principles have been embedded in the Board Internal Rules and Regulations.

The 2005 and 2006 reviews confirmed that the performance of the Board and its Committees was satisfactory.

To take into account the suggestions of the 2005 performance review, it was decided to organise once a year a Board meeting on one of the Group's main industrial sites, in order to arrange a visit of the site and a thorough presentation of the Business and of the strategic plan of the Sector concerned.

Such meetings took place in September 2005 and 2006 on one of the main industrial sites related to the Power Business and to the Transport Sector, with a presentation by the Sector's President of the Business and strategic plan.

The evaluation carried out in May 2006 confirmed the Directors' wish to continue these annual meetings, deemed highly satisfactory, intensify the Board's work on the medium and long-term strategy of the Group, continue the succession plans which are considered to be advancing well, expand and internationalise the composition of the Board and enhance the Directors' level of knowledge concerning the Group's activities and application of accounting principles.

The quality and relevance of the information communicated to the Directors at these Board meetings or between meetings was judged very satisfactory, as was the information on the main risks facing the Company.

A positive appraisal was also given concerning the quality of the minutes of the Committees' work, the progress of which was underlined.

Responding to the wish to enlarge the composition of the Board, the appointment of new Directors corresponding to the profiles required, is submitted for approval the general meeting called by the Board to approve the accounts for the fiscal year 2006/07. Furthermore, during fiscal year 2007/08, as in previous fiscal years, one Board meeting will be devoted to the preparation and examination of the Group's medium and long-term strategy.

Activity report of the Board for fiscal year 2006/07

The Board of Directors met six times during the fiscal year (seven times during the previous fiscal year, two of which were in exceptional session). The average attendance was 96.5% whereas it was 88.3% in 2005/06.

The Board discussed and passed resolutions on all main topics regarding the Group.

The Board reviewed and approved the consolidated and parent company accounts for the fiscal year 2005/06 as well as the consolidated accounts for the first half of the fiscal year 2006/07 and the management reports.

The Board approved the terms of the protocol to be entered with Bouygues which it has debated and proposed that Bouygues be represented by two Directors after completion of the sale by the French State of its stake in the Company to Bouygues.

A Board meeting was held on one of the main industrial sites of the Transport Sector and gave rise to an in depth presentation of the Business and the strategy of the Sector.

The Board continued to review the financial situation of the Group, the evolution of the cash flow and of the debt situation. The Board was informed of the status of the Company's undertakings with respect to the European Commission and renewed the financial delegation of powers to the Chairman and Chief Executive Officer for the issue of bonds.

During its annual meeting attended by the Sector's Presidents, the Board reviewed and approved the 2007/08 budget and the three-year forecast; it also discussed the Group's short term strategy in the different lines of Business during this annual session.

During the financial year, the Board of Directors also:

- discussed and approved the description of the main risks faced by the Group and included in the Company's Annual Report and was informed of the risk mapping process launched within the Group and presented to the Audit Committee and of its results;
- was kept regularly informed and discussed the main legal proceedings and investigations involving the Group;
- adopted the resolutions and the documents required by law concerning the annual Shareholders' General Meeting;
- discussed and approved the results of the annual performance evaluation of the Board and its Committees as submitted by the Nominations and Remuneration Committee, of the Chairman's report attached to the Management report, the Directors' independence and the criteria applied, and more generally approved the section "Corporate governance" of the annual report;
- reviewed the Chairman and Chief Executive Officer's performance during its annual meeting outside of his presence;
- upon the Nominations and Remuneration Committee's proposal, decided to amend the Internal Rules and Regulations of the Board and of the Nominations and Remuneration Committee following the evaluation by the latter of the application by the Company of the AFEP/MEDEF corporate governance principles;
- adopted the principle to maintain for three fiscal years as from the fiscal year 2006/07, the fixed remuneration of the Chairman and Chief Executive Officer and the range of his variable remuneration, upon his proposal, which the Nominations and Remuneration Committee had accepted;
- upon the Nominations and Remuneration Committee's proposal, the Board agreed on the terms of remuneration of the Company's executive and non-executive officers ("mandataires sociaux"), a stock option plan and set up a plan of free distribution of shares to the Group's employees as the targeted operational margin objectives and the free cash flow of the Group were met in fiscal year 2005/06.

The Committees' Chairmen submitted their Committee work reports to the Board for discussion.

The Independent Auditors were invited to two of the Board meetings.

Audit Committee

The general purpose of the Committee is to assist the Board of Directors with ensuring the following:

(i) the completeness, quality, accuracy and truthfulness of the financial statements of the Group and other related financial information or reports provided to the shareholders, the public and Stock Exchanges Authorities;
(ii) the Company's compliance with legal and regulatory requirements;
(iii) the performance of the Company's internal audit function;
(iv) the system of internal controls and accounting and financial reporting processes in general.

In fulfilling its role, the Committee is responsible for:

- reviewing the scope of consolidation and examining all draft financial statements and related reports submitted to the Board of Directors for approval and discussing them with Management and the Independent Auditors;
- reviewing with Management and Independent Auditors the generally accepted accounting principles and methods used in the preparation of the accounts, as well as the alternative applications of accounting principles, their relevance, and also any changes in accounting principles, methods or rules;
- reviewing the report on the critical accounting policies and other key issues and decisions related to financial statements and related reports, and other material written communications between the Independent Auditors and Management;
- reviewing the Management's report on risks exposure (including litigation risks) and significant off-balance sheet commitments;
- reviewing with the Independent Auditors the nature, scope and results of their audit and work performed, any comments and suggestions they may have relating notably to internal controls, accounting principles, policies and practices and the internal audit programme;
- reviewing and evaluating at least annually the internal control procedures including for financial reporting contributing to the preparation of the accounts, including the system of risk assessment and risk management and the organisation and functioning of internal audit;
- reviewing and controlling the Independent Auditor selection process and making recommendations to the Board of Directors on their appointment or renewal, to expressing an opinion on the amount of fees proposed to be paid to the Independent Auditors by the Company, giving prior authorisation of any non-audit services directly complementary to the audit of the accounts as well as the related fees and ensuring the Independent Auditors' independence.

The Committee may also perform any other activities as the Committee or the Board of Directors deems necessary or appropriate.

The Committee is entitled to seek any external assistance it may deem necessary.

Unless the Committee decides differently, the Independent Auditors will attend meetings.

Activity report for fiscal year 2006/07

The Audit Committee met four times during fiscal year 2006/07 (three times during fiscal year 2005/06). The attendance level was 100% (92% for fiscal year 2005/06).

The Chief Financial Officer, the Vice President internal audit and at least one representative of the two independent audit firms were in attendance at all four meetings. The group controller and the General Counsel participated in three meetings. Other senior management including the senior Vice President internal control, the Vice President of tenders and projects control, and several Chief Financial Officers of Sectors attended as required by the Committee.

The Committee reviewed the statutory and consolidated financial statements and "Document de Référence" for the fiscal year ended 31 march 2006 prior to its filing with the French Stock Market Authority ("Autorité des marchés financiers").

The IFRS consolidated interim financial statements as of 30 September 2006 were also reviewed.

As part of its work, the Committee considered major risk contracts and other risks. Business risks including contracts execution risks were reviewed for all Sectors. An overview of litigation developments for the Group was presented. Updated charters including the internal audit Charter, the External Auditors' Charter, the Disclosure Committee Charter and Disclosure Controls and Procedures, were reviewed and approved by the Audit Committee.

Work undertaken to improve internal control and risk control was considered. The Audit Committee also reviewed the results of the Internal Control initiative with the aim of improving internal controls, eliminating weaknesses and ensuring compliance with applicable regulations. The long-term objective of this initiative is to create a continuous improvement environment to reinforce Internal Control within ALSTOM.

During the fiscal year 2006/07, an Audit Committee was – for the first time – fully dedicated to the risk mapping exercise, launched at the end of 2005. The risk mapping process was described and risk mapping results were discussed at Sector and Group level. The main outcome of this first exercise is a managerial tool that will be used by ALSTOM management to improve the Group approach, organisation and processes on risk management. An update of risk mapping, as part of the Three-Year Plan/Budget process was also given during this fiscal year.

During fiscal year 2006/07 specific operational matters, reviewed during the previous year by the Audit Committee, were updated and presented to the Audit Committee, including ALSTOM foreign exchange and pension policies. The Insurance policies were also presented to the Audit Committee, as well as the results of an external audit of the major policies.

The Chief internal auditor presented the internal audit activity report for 2006 and the proposed internal audit program for each of the next four years was tabled and approved.

The Chief Internal Auditor met individually with the Chairman of the Audit Committee during the fiscal year 2006/07.

The External Auditors' Charter includes listing of pre-approved services that can be performed within defined limits by the Independent Auditors. The Committee, at all its meetings, approved both the work to be performed by the Independent Auditors within its laid down guidelines and the fees involved. The External Auditors' Charter also includes restricted non audit services, which are not to be performed by the Independent Auditors for any company in ALSTOM.

The budgets for 2007/08 prepared by the Company were received.

The Committee also reviewed the Chairman's report on internal control to be included in the Corporate governance section of the 2006/07 Annual Report.

As each year, members evaluated the functioning of the Committee on the basis of a questionnaire prepared by the Nominations and Remuneration Committee. The results and suggestions were discussed during a Board meeting.

The Committee reported on its work, provided comments and gave proposals to the Board.

Nominations and Remuneration Committee

The Committee reviews and makes proposals or gives its opinion to the Board of Directors on the following subjects:
- the separation or combining of the functions of Chairman of the Board and Chief Executive Officer of the Company;
- the nomination (or revocation) of the Chairman of the Board and of the Chief Executive Officer;
- the nomination of new Directors including in case of unforeseeable vacancy; in particular, the Committee organises an appropriate procedure for selecting future independent Directors and makes its own independent research on potential candidates prior to their being approached;
- the nomination (or revocation), upon proposal of the Chief Executive Officer, of any other Corporate Officers ("mandataires sociaux") and members of the Executive Committee;

- the succession plans for the Company's Corporate Officers;
- the application by the Company of corporate governance practices and the Board and Committees' composition and functioning (including the Nominations and Remuneration Committee);
- the Company's definition of an independent Director and the list of independent Directors to be inserted in the Company's Annual Report;
- the compensation (fixed and variable) to be paid to the Corporate Officers, including compensation and benefits of any kind (including pensions and termination benefits) also paid to them by the companies belonging to the Group. The Committee notably reviews and defines the rules for determining the variable part of such compensation, ensures their coherence with the annual performance evaluation and the strategy of the Company, and thereafter controls the implementation of these rules;
- the Company's general policy relating to stock option plans including the granting, timing and frequency of allocations, and any proposed stock option plans including the proposed beneficiaries;
- the Company's general policy relating to employee share purchase schemes and any proposed schemes;
- the Directors' fees and the conditions for their award.

The Committee decides whether it will define, upon proposal of the Chief Executive Officer, the compensation and benefits of all or some of the members of the Executive Committee, including the principles and criteria used for their annual performance evaluation, in particular those for determining the variable part of their remuneration, or whether it will just be informed of these.

The Committee also develops and recommends to the Board for its approval, a formal process for evaluating the functioning of the Board and its Committees to be implemented at least every three years and, outside of the Directors concerned, prepares the annual performance evaluation of the Chairman of the Board and of the Corporate Officers based on the principles applied to other Senior Corporate Executives.

The Committee performs any other related activities as the Committee or the Board deems necessary or appropriate.

The Nominations and Remuneration Committee activity for the fiscal year 2006/07

The Nominations and Remuneration Committee met four times during fiscal year 2006/07 (versus three times during the previous fiscal year), and the attendance rate of members to these meetings was 95.5% (100% for the previous fiscal year).

The Committee decided to recommend to the Board of Directors the proposal to submit to shareholders' approval, the appointment of M. Olivier Bouygues and M. Olivier Poupart-Lafarge as Directors, conditional upon the effective sale by the French State of its Company's stake to Bouygues, and the changes in the membership of the Board Committees.

The Nominations and Remuneration Committee discussed and proposed to the Board of Directors the terms and conditions to apply to the variable remuneration of the Chairman and Chief Executive Officer, including the remuneration for 2005/06, the detailed economic objectives for his variable remuneration for 2006/07 and the personal objectives.

As part of its corporate governance review, the Committee steered the procedure for annual assessment of the functioning of the Board and of the Committees conducted in 2006 on the basis of questionnaires prepared by it and presented the results to the Board. It reviewed and approved the Chairman's draft report on the functioning of the Board, reviewed the Director's independence status and the independence criteria applied, and more generally recommended to the Board the approval of the Corporate Governance section of the 2005/06 Annual Report.

Concerning employees' shareholding and stock options, the Nominations and Remuneration Committee discussed and recommended to the Board the granting of twelve free shares to all employees subject to a minimum employment duration, as a reward linked to the achievement of the two key economic indicators for 2005/06 (operating margin, free cash flow). It also recommended in those countries where the grant would be hard or impossible to implement, an equivalent plan providing for a deferred cash payment corresponding to the value of the shares.

The Nominations and Remuneration Committee examined in detail the characteristics and list of beneficiaries of Stock Option Plan n°9 and of the Stock Appreciation Rights (designed for US managers) for 2006, and recommended that a high percentage of these options be conditional to a Group performance target. The Committee also discussed the granting of stock options to the Chief Executive Officer within this Plan, and decided to recommend it to the Board.

The Committee decided to pursue its annual survey on Excom member's compensation with an external advisor. The Committee received the AFEP/MEDEF recommendations on compensation of executive corporate officers, and recommended to the Board to keep the Chief Executive Officer's base salary and range of his variable remuneration determined as from fiscal year 2006/07, unchanged for three years, i.e. up to fiscal year 2008/09. After the close of fiscal year 2008/09, the Chief Executive Officer's base salary and range of variable remuneration will be reviewed.

The Committee assessed the application by the Company of the AFEP/MEDEF corporate governance principles and decided to recommend to the Board to amend the Internal Rules and Regulations of the Board and of the Nominations and Remuneration Committee.

The Committee took into consideration the results of the external search initiated by it to identify new Directors and recommended to the Board to propose the appointment of three new members. The profiles were selected with the aim to complete the expertise of current members in finance and industrial strategy, namely international, and to increase the proportion of independent directors.

The Nominations and Remuneration Committee reported to the Board on all these matters, works and recommendations.

Rules of conduct

THE DIRECTOR'S CHART

Attached to the Board of Directors' Internal Rules and Regulations is the Director's Chart, defining the Directors' rights and obligations, according to the AFEP/MEDEF report for an essential part. Such Chart has been modified by the Board of Directors on 28 March 2007 after the annual review of its Internal Rules and Regulations and analysis of its corporate governance practices, upon proposal of the Nominations and Remuneration Committee which the Board had accepted.

Before accepting his/her appointment, all Directors shall take cognisance of the legal and regulatory requirements relating to his office, as well as of the Company by-laws, the internal procedures for the Board of Directors and this Chart. Any Director can refer to the Secretary of the Board at any time, regarding the application of these rules and the rights and obligations of his role.

Any Director shall dedicate to his/her function all the required time and attention and shall attend – unless prevented to do so – all meetings of the Board of Directors and of the Committees which he is a member of, as well as all shareholders general meetings.

Pursuant to the Chart, each Director has a duty to inform the Board as soon as he/she is aware of a conflict of interest, even a potential one, and to abstain from attending discussions and from voting the resolution thereby. In case of permanent conflict of interest, the Director must resign.

The Director's Chart reminds the Directors' duty to comply with the Group's internal rules and, more generally, with the applicable legal or regulatory provisions regarding the Directors' abstention from dealing on the Company's shares.

Pursuant to the Group's internal rules – as modified during the fiscal year with the Board's approval – the purchase and sale of the Company's shares are not allowed:

- during the 30 calendar days before ALSTOM first six-month and annual results are disclosed to the public and until the second trading day included after the date when the information has been disclosed to the public;
- during the 15 calendar days before the public disclosure of the sales and orders for the first and third quarters of the financial year and until the second trading day included after the date when the information has been disclosed to the public, and in any case;
- when inside information is held and until the second trading day included after the date when this information has been disclosed to the public.

Pursuant to the Nominations and Remuneration Committee's recommendations following its review of the Company's corporate governance practices, the Board of Directors in its meeting of 28 March 2007 decided to introduce in the Chart the recommendation for each Director to hold, at the latest by 31 March 2008, at least 250 shares, the minimum number of 25 shares set by the by-laws remaining unchanged.

LIMITATIONS ON THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S POWERS

In 2003, the Board of Directors voted for combining the roles of Chairman and Chief Executive Officer without any further limitations of power other than those provided by the law or by the Internal Rules and Regulations.

The Internal Rules and Regulations of the Board as amended on 28 March 2007, indicate that the Board of Directors' prior approval is required for:

- any operation that is not part of the Group's announced strategy or that could significantly affect it;
- any operation that could materially modify the financial structure or results of the Group;
- any acquisition or divestiture insofar as the amount exceeds €250 million, any decision to set up partnership or joint company where the contribution of the Group exceeds €250 million, as well as any financing operation which exceeds €1 billion.

It also indicates that the Board of Directors examines and approves the annual budget and the medium-term plan.

COMPENSATION OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS ("MANDATAIRES SOCIAUX")

The principles and rules set by the Board of Directors for the determination of executive and non-executive officers' compensation and benefits of any kind are as set out below.

The remuneration of the Chairman and Chief Executive Officer

The remuneration of the Chairman and Chief Executive Officer is fixed by the Board of Directors upon the Nominations and Remuneration Committee's proposal and comprised of a fixed part and of a variable part.

Upon proposal of the Chairman and Chief Executive Officer and in compliance with AFEP/MEDEF recommendations, it has been decided to maintain unchanged the amount of the fixed part of the Chairman and Chief Executive Officer's remuneration and the range of his variable remuneration for three years as from the fiscal year 2006/07, i.e. until the end of fiscal year 2008/09.

The variable part of the remuneration varies along with the achievement of objectives for the fiscal year predetermined by the Board of Directors upon proposal of the Nominations and Remuneration Committee. These objectives are comprised of Group's performance objectives and specific qualitative objectives linked to the achievement of personal objectives. The achievement of these objectives and the amount of the variable part of the remuneration are then determined by the Board of Directors which approves the accounts for the fiscal year, upon the Nominations and Remuneration Committee's proposal after the evaluation of the Chairman and Chief Executive Officer's performance.

Since fiscal year 2004/05, the objectives set for each fiscal year, are, on one side, the Group's financial objectives – free cash flow, operational margin, and level of margin in the backlog – and on the other hand, the specific objectives linked to the actions plan and to the fiscal year's priorities.

In case the set objectives are met, the variable remuneration represents 100% of the annual base salary, with the amount of the variable part linked to financial objectives representing 60% of the annual base salary and the variable part linked to the specific objectives representing 40% of the annual base salary. The amount of the variable part linked to financial objectives can vary between 0% and 120% and the amount of the variable part linked to specific objectives between 0% and 40%, depending on results achieved. Hence, the variable salary's range is between 0% and 160% of the annual base salary. However, the Board reserves the right to adjust upwards or downwards the results of the calculation of this variable part within the above mentioned range, based on its global evaluation of the performance achieved.

The Chairman and Chief Executive Officer receives stock options within each stock option plan decided in principle annually by the Board of Directors.

He benefits from a Company's car he may use on a private basis.

He is also entitled to a supplemental retirement scheme which provides approximately, per year of service, a pension equivalent to 1.2% of the bracket of salary above 8 times the annual ceiling of French social security (€ 248,544 for year 2006) capped at €2 million. All employees in France reaching this level of compensation are eligible to the scheme. The scheme is compound of a defined contribution plan and a defined benefit plan.

The Chairman and Chief Executive Officer benefits from the group insurance policy covering the subscribers in case of death or disablement, with the costs partly borne by the Company.

The event of termination of his mandate at the Board of Directors' initiative, and unless in the event of grave misconduct, the Chairman and Chief Executive Officer would benefit from an indemnity equal to twice his latest gross annual global remuneration, including the annual bonus and the loss of various benefits (company car, etc.) and keep all stock options granted to him. The same benefit would apply in case the Chairman and Chief Executive Officer decided to resign further to a takeover of ALSTOM.

Directors' fees paid to the Directors

The Directors do not receive any compensation other than an attendance allowance ("Directors' fees"). Since 1 April 2005, the Chairman of the Board of Directors waived his Directors' fees.

The Ordinary and Extraordinary Shareholders' Meeting of 24 July 2001 fixed at €400,000 the maximum annual amount of Directors' fees, which can be distributed among the members of the Board of Directors, until a different resolution is passed.

The Board of Directors sets the terms of granting the Directors' fees upon the Nominations and Remuneration Committee's proposal. The principles set in the Internal Rules and Regulations of the Board is that the Directors' fees are made of a fixed part and of a variable part for attending the meetings of the Board or of the Committees and that the Chairmen of the Committees are paid an additional fixed fee. Half of the fixed and variable parts are paid in the fiscal year concerned, while the balance is paid the following fiscal year.

Further to the market practice review performed by an external specialised consultancy firm, upon the Nominations and Remuneration Committee's suggestion, the Board of Directors resolved to increase as from the fiscal year 2006/07, the individual fixed fees which had remained unchanged since 1999.

According to the new terms of granting applied as from fiscal year 2006/07, the Directors' fees are made of a fixed part worth €17,500 paid to each Director. Each Chairman of the Audit Committee and of the Nominations and Remuneration Committee receive an additional amount of €10,000 per year. In addition, each Director is paid €2,500 - unchanged - for attending the meetings of the Board or of the Committees of which she or he is a member.

Given in particular the proposed increase in the number of Directors, it has been decided to submit to the approval of the Ordinary and Extraordinary Shareholders' Meeting convened on 26 June 2007 an increase to €650,000 of the maximum annual amount of the Directors' fees which can be distributed among the Directors.

INTERNAL CONTROL PROCEDURES

Introduction

As part of its operational activities the ALSTOM Group is confronted by a number of risks both external and internal, as stated in the Risks section of the Annual Report 2006/07 (page 143).

It has therefore put in place an organisation, procedures and processes with the objective of identifying, quantifying and mitigating risks, and allocating resources to control risks in accordance with its Business objectives both strategic and operational.

During fiscal year 2006/07 a risk assessment process was undertaken to deepen the knowledge of risks of every nature within the Group, to build upon and to update a cartography of risks initiated in early 2006 and presented to the Audit Committee and Board of Directors in June 2006. A Sector-based approach was taken within common themes allowing consistent risk assessment and enabling mitigation action plans to be put in place within a system of risk responses.

The update of the cartography of risks was also presented in March 2007 to both the Audit Committee and the Board of Directors. It is intended that the approach will continue in future years as part of the review of the budgets and three-year plans.

Perimeter of internal control

The internal control system described herein covers the parent company ALSTOM and all its consolidated companies (the "Group").

Definitions

The Group has put in place a system of internal control procedures and evaluations initially based on control guidelines prepared by a recognised body, COSO (Committee of Sponsoring Organisations of the Treadway Commission). The guidelines issued by the working group set up by the AMF (Autorité des marchés financiers) have also been reviewed to ensure that the Group's approach is aligned with these guidelines.

The system of internal control put in place provides reasonable assurance that :

- the Group's internal rules and instructions including applicable laws and regulations are complied with at all times;
- information is complete, accurate and to the required quality, particularly financial information;
- operations are completed in an optimal manner and internal control processes are effective, particularly those concerning the safeguard of assets;
- achievement of Business objectives are reached with identification and control of risk;
- the risk of fraud is minimised;
- controls, including controls over risks, are widely understood at all levels within the Group and appropriate actions are taken to mitigate and minimise these risks.

Internal control consists of five inter-related components, which have been implemented within the Group:

- control environment covering integrity, ethics, competencies, authorities, responsibilities and staff development;
- risk assessment, the identification, analysis and minimising of relevant risks;
- control activities, namely policies and procedures that ensure that Management's instructions are applied;
- information and reporting: information must be identified, captured and communicated in a format and timeframe to enable the relevant persons to carry out their responsibilities, and
- monitoring, including internal check and internal control procedures as well as internal audit: a process that assesses the quality of the systems performance over time.

By essence, an internal control system cannot provide a guarantee that such risks have been totally eliminated. It must bring them down to an acceptable level.

Components of internal control

CONTROL ENVIRONMENT

Organisation

The Group has put in place a structured organisation which is responsible for defining the Internal Control requirements, writing the Internal Control Manual, producing and updating as required the Internal Control self-assessment Questionnaires and monitoring globally the results. Where Internal Control weaknesses are identified, detailed action plans to correct the weaknesses in a timely manner are put in place and overseen by the central Internal Control team under the responsibility of the Senior Vice President Internal Control.

A community of experts in Internal Control has been developed, this Group communicates regularly to share best practices and drive the required change management.

A continuous improvement approach is taken with Internal Control regularly monitored at Business review meetings.

The results of the Internal Control assessments are also presented twice annually to the Audit Committee.

The Group policies and guidelines are implemented in the Sectors, Businesses and units.

Each Sector President defines the internal organisation of the Sector in a way which ensures efficiency and performance of Businesses who have a number of reporting units each with a Managing and Finance Director responsible and accountable for their affairs including the control environment.

Corporate Instructions

The Group's control environment is governed by a series of corporate instructions that constitute the body of internal rules (the "Corporate Instructions") and are posted on the Group's Intranet website.

The Corporate Instructions deal with issues of importance throughout the Company and are mandatory for the whole Group, including Sectors, Businesses, units, countries and functions. Once a corporate instruction is issued, all units must ensure that any pre-existing procedures, policies, directives or other communications at any level is revised to comply with the said Corporate Instruction.

These Corporate Instructions define detailed rules and procedures regarding various topics, including but not limited to implementation of delegations of authority, appointment of Directors within the Group, principles regarding litigations, settlements and dispute resolution, communication with the media, issuance of press releases, Environment Health & Safety policy, crisis management, selection and payments to agents, consultants and representatives for Business transactions. The Corporate Instructions define the Group's management organisation as well as the responsibilities and organisation of the various functions within the Group. They also require compliance with the Group's Code of Ethics, Internal Control Manual and Reporting and Accounting Manual.

Code of Ethics

The Group has a Code of Ethics which applies to every officer and employee within the Group.

This Code of Ethics provides the fundamental values of the Group, i.e. trust, team and action and provides an easy reference for proper conduct in the day-to-day Business and is designed to promote honest and ethical conduct with clients, suppliers, competitors, shareholders, employees, governments, regulatory authorities and the public. Every officer and employee within the Group is accountable for complying with the Code of Ethics.

The Code of Ethics also prescribes rules of conduct, relating in particular to :

- agreements or understandings with competitors, to ensure fair and open competition;
- bribery and corruption, to avoid unlawful payments and practices;
- internal control, consolidation and disclosure of information, to ensure the quality and reliability of financial information.

The Code of Ethics prescribes other rules of conduct on various topics such as protection of the environment, dealing with customers and suppliers, government and other procurement contracts, contributions to political organisations, charitable contributions, confidentiality, insider dealing, human resources, data privacy, protection of the Group's assets, conflict of interests, use of the Group's means of communication copyright/computer software ownership, communication with the media and investors.

The Code of Ethics refers to the Corporate Instructions, which treat in more detail the defined rules and procedures put into place to ensure the compliance with its fundamental principles and values.

The Code of Ethics is regularly reviewed and updated. The last update was in March 2007. A copy of the Code of Ethics is being given to employees.

Internal Control Manual & Reporting and Accounting Manual

The Internal Control Manual defines the requirements, instructions and practices necessary to create and maintain a satisfactory control environment and covers internal controls including over financial reporting. The Internal Control Manual summarises the elements of internal control covering most of the Business processes within the Group, is posted on ALSTOM's Intranet site and regularly updated.

The Internal Control Manual contains a number of principles that are to be complied with at all times, including segregation of duties and delegation of authorities, which are mandatory for all Business units. The management of the respective entity, unit, Business, Sector, country or Corporate is responsible for developing, implementing, operating and monitoring systems of internal control in compliance with the Internal Control Manual and for providing assurance that it has done so.

The Reporting and Accounting Manual defines the Group's policies and procedures regarding accounting and consolidation, definition of main financial indicators, reporting process and three-year Plan, budget and forecasting processes.

Training and communication

An extensive communication exercise has been undertaken to ensure that the requirements and basics of Internal Control are widely understood.

A community of senior finance personnel involved in Internal Control has been established and in June 2006 organised a convention to discuss the development of good practices and other matters of mutual interest. Regular conference calls between this community take place as well as with the Country Finance Directors. Internal Control matters are also covered in the Chief Financial Officer's newsletters.

As part of the internal control project, 1,200 persons were trained on internal control in 2005. A detailed training programme continues with over 200 finance professionals and managers trained this year and up to 2,500 people participating in the Self-Assessment Exercises.

The training sessions on Internal Control are part of a continuous improvement initiative which involves Sectors, including the International

Network and Corporate personnel. While the training programme on Internal Control has concentrated mainly on the finance community, an e-learning module specifically targeting the non finance community has been developed.

INFORMATION AND REPORTING

The requirement to have accurate and complete information is essential both to achieve Business objectives and to report to all interested parties including external parties, in compliance with applicable securities laws and regulations. Internal control over financial reporting deals with internal control procedures in respect of the preparation and the processing of financial information. For financial information and reporting see "Procedures for the production of the Group financial statements and other accounting and financial information".

RISK ASSESSMENT PROCESS – CARTOGRAPHY OF RISKS

The Group's risk assessment process allows consideration to be given to the extent that potential events have an impact on achievement of Business objectives. Such events are considered from two perspectives, likelihood and impact. Likelihood represents the possibility that a given event will occur and impact represents its effect. A combination of qualitative and quantitative methods are used in making the assessment.

Risk maps do not take into account opportunities which are channelled back through the Management strategy and objective setting process so that actions can be formulated to seize the opportunities available.

Data from past events are used in making risk assessments as it provides a more objective basis than entirely subjective assessments. Detailed information on potential impact and likelihood of occurrence is checked and assessed. Potential events are assessed both individually and as part of a sequence or combination of events.

The interrelationship of likelihood and impact is integrated into the risk assessment process. Risk is also considered from a Group, Sector-wide, or portfolio perspective.

Risks in different Businesses may, taken together, exceed the sum of the individual risks or conversely risks may be able to be offset across the Group or a Sector.

The time horizon used to assess the impact of risk is three years, as focus is usually on the short to medium term risks. Any major risks assessed outside the three year period are kept under review.

A risk assessment was undertaken in early 2006 based on detailed interviews with Senior Management personnel in each Sector and Senior Management from the Corporate functions.

Sector and Corporate Management have updated this early 2006 assessment as part of the budget and three year plan process. Detailed papers for each risk category have been produced, highlighting the causes of the risks, and the actions taken to mitigate.

For each Sector, the risk assessments have been approved by the management team under the control of the Sector President. Risk assessments for transverse Corporate activities have been made by the relevant Senior Corporate officer. Group, Sector and Corporate risk maps have been reviewed and approved by the Risk Committee under the Chairmanship of the Chairman and Chief Executive Officer.

CONTROL ACTIVITIES

Control activities are the range of activities that are undertaken at every level of the Group to ensure that the Group's rules, policies and procedures are effectively carried out.

These control activities may embrace a variety of controls including checking the accuracy, completeness, authorisation, validation and recording of transactions or to ensure the duties are segregated among different people to reduce the risk of error or fraud.

MONITORING OF INTERNAL CONTROL

The foundation of any system of internal control is to make sure, including at unit level, that responsibilities and authorities are defined and understood.

Segregation of duties involving internal check should be practiced at all times with one person required to check and approve the work of another. Separate people are required, where possible, to be responsible for initiating, authorising, recording, processing and reporting transactions, and are responsible for ensuring that recording is undertaken promptly and information is processed and reported in a timely manner.

Documentation must exist to describe Business processes and it must be retained to confirm that amounts are promptly recorded at the correct amount in the appropriate accounts and in the proper accounting period.

Unit Management have the responsibility of maintaining internal check and internal control at all times.

An Internal Control questionnaire (or "self-assessment questionnaire") has been developed which differentiates requirements to units based on their contribution to the Group's financial statements using a risk-based approach and covering the complete Group perimeter. units with the most contribution and / or risk must provide more information and answer more questions in the self-assessment questionnaire than those with less contribution or risk.

The self-assessment questionnaire is based on 13 cycles which include the general control environment.

The owner of each control activity within the cycle is required to answer questions relating to the relevant activity.

Each answer is assessed and rated based on a maturity model which takes into account the levels of control and completeness of documentation.

Detailed evidence is required to support answers given.

During the year the scope of the self-assessment questionnaire was extended to include the key information systems applications used in the production of financial information to help ensure the integrity of the process.

Where the results of the self-assessment questionnaire indicate that controls are not at the required level either in design or operation, action plans to correct are required to be put in place. Each action plan should have an owner and a detailed timetable to complete the required updating of the control which may include ensuring documentation is updated. The progress of action plans are regularly followed up.

The self-assessment questionnaire results are approved by unit Management, Finance and Managing Directors and are subject to review both by quality reviewers at Sector level and by internal audit. They are presented twice annually to the Audit Committee. Best practices identified during this self-assessment process are promoted.

Actors of internal control

AUDIT COMMITTEE

The Audit Committee reviews and evaluates two times a year the internal control procedures including those relating to financial information, contributing to the preparation of the financial statements of the Group. A review and evaluation of the cartography of risk, including risk assessment and risk management is now also made. It is the intention that the Audit Committee will review the cartography of risks on an annual basis.

Within the Audit Committee, the scope of planned internal audit activities is reviewed in advance and the internal audit Department develops a four-year plan and determines the allocation of resources taking account of the perceived risk.

For more information regarding the Audit Committee, see pages 163 and 164.

SENIOR MANAGEMENT

The Chairman and Chief Executive Officer is responsible for the internal control system and for ensuring that internal control procedures are designed and operated effectively within the Group. Management at all levels is responsible for developing, operating and monitoring the systems of internal control and for providing necessary assurance that it has done so.

RISK COMMITTEE

The Risk Committee is chaired by the Chairman and Chief Executive Officer and reviews principally the risks taken in the tendering of offers and the execution of projects as well as internal audit matters.

The Risk Committee is composed of the Chairman and Chief Executive Officer, the Sectors' Presidents, the Chief Financial Officer, the General Counsel, the Vice President of Tenders and Projects Control, the Vice President Internal Audit, the Senior Vice President International Network and the Senior Vice President of Project and Export Finance, and meets on a monthly basis in order to:

- review risks from major tenders exceeding €50 million or deviating from defined criteria. The tenders reviewed by the Tenders and Projects Control Department are required to be approved by the Chairman and Chief Executive Officer or the Chief Financial Officer before the bid date;
- be briefed on the project reviews particularly those attended by the Tenders and Projects Control Department during the preceding month;
- review matters reported by internal audit and / or the International Network Departments; and;
- be briefed on specific concerns, which may arise from time to time and have an impact on the Sectors.

In a similar way, each Sector has established risk review procedures, which are consistent with the Group's principles. In particular, the relevant Sector's Management must be advised:

- of important changes in original tender assumptions and of the related impact on the assessment of relevant risks;
- of material changes within project execution which could impinge significantly on the project result.

Finally, the Internal Control Manual specifies that project reviews, which must be minuted, must be held every three months for contracts, which could have a major effect on the relevant unit's financial performance, or every six months in other circumstances.

INTERNAL AUDIT DEPARTMENT

The Vice President internal audit who is in charge of a 20-member Department reports to the Chairman and Chief Executive Officer and works in close cooperation with the Chief Financial Officer and the General Counsel.

The main role of the internal audit Department is to advise the Chairman and Chief Executive Officer and the Audit Committee on the adequacy and effectiveness of the internal control system in all phases of the Group's Business.

The internal audit Department operates in accordance with the terms of an internal audit Charter approved by the Audit Committee and has authority to examine any and all aspects of operations.

In particular, the internal audit Department evaluates controls that promote:

- compliance with applicable laws and with internal policies and procedures;
- physical safeguarding of assets including risk identification;
- availability, reliability, integrity, confidentiality of information and reporting;
- efficiency of Business processes, functions, and activities.

An additional role is to recommend improvement in Group's procedures and whenever possible promote best practices.

The internal audit Department takes into account the cartography of Risks and risk profiles in assessing its audit programmes.

The effectiveness and adequacy of internal controls and compliance with accounting policies and procedures are reviewed regularly by the internal audit Department. After each internal audit, a report is issued setting out the audit findings and recommendations. The internal audit Department reviews on each mission the results of the self-assessment questionnaire and supporting evidential files and includes comments on the status in its report. Copies of the report are given to the Managing Director and the Finance Director of the audited units and to Senior Management. The results are also summarised in an annual internal audit Report, which is presented to the Audit Committee on the overall results of the internal audits as well as on any other matter which affects internal control. This report provides the basis for the Audit Committee to review the effectiveness of the internal audit Department work.

Management must take adequate actions within a reasonable timeframe to correct deficiencies reported by the internal audit Department and to respond in a timely and appropriate manner to findings and recommendations of both internal audit Department and of the Independent Auditors regarding internal control and policies and procedures within the Group.

DISCLOSURE COMMITTEES

The Chairman and Chief Executive Officer and the Chief Financial Officer have established Disclosure Committees at Corporate and Sector levels in order to assist them in evaluating the effectiveness of the Group's disclosure controls and procedures that are designed to ensure that material financial and other information required to be disclosed is recorded, processed, summarised and reported on a timely basis and that appropriate information is communicated to Management including the Chairman and Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding such disclosure.

The Corporate Disclosure Committee is composed of the Chief Financial Officer, the General Counsel, the Senior Vice President Internal Control, the Group Controller, the Vice President Tenders & Projects Control, and the Sectors SVP Finance.

The Chief Financial Officer reports at least once a year to the Audit Committee on the preparation of the annual report, any material weaknesses or any significant changes in internal controls and any fraud that involves Management or other employees who have a significant role in the Group's internal controls.

Each Sector has established its own Disclosure Committee, which reports to the Corporate Disclosure Committee as to the results of its review of the disclosure controls and procedures and on its evaluation of the effectiveness within its Sector.

The Group Corporate Disclosure Committee met two times during fiscal year 2006/07 under the Chairmanship of the Chief Financial Officer. The consolidated financial statements for the fiscal year ended 31 March 2007 and the Management discussion and analysis and other financial information disclosed in the annual report were reviewed. The interim consolidated financial statements for the 6 months period to 30 September 2006 were reviewed. Reports from the Sector Disclosure Committees were received at each meeting. In the reviews of the consolidated financial statements the Committee considered the disclosures made to determine and confirm their relevance, accuracy, completeness and presentations.

FINANCE FUNCTION

The Finance Function controls Business, operations and projects to optimise the Group's profitability and cash generation whilst providing internal and external stakeholders with reliable information including financial information.

The Finance function defines the Group's principles and financial policies in terms of tenders and projects control, funding, treasury, internal control, accounting, tax and management control, designs and leads key financial processes (three-year plan, budget, Business reviews) as well as reporting tools to determine and appraise Sectors' performance and analyses the Group's performance and produces the consolidated financial statements.

More specifically, the Accounting and Management Control Department:

- defines the formats, indicators, processes and timing for three-year plans, budgets and forecasts, analyses the Group's actual and forecasted performance and manages the corporate budget;
- is responsible for designing and issuing the relevant accounting procedures, ensuring that they are in compliance with accounting principles and policies and producing consolidated and parent company financial statements, as well as financial information for external stakeholders;

  In particular:
  - defines the Group's accounting principles and procedures in compliance with "IFRS";
  - provides Sectors with instructions on accounting principles;
  - controls and investigates data consistency and compliance with the Group's accounting principles;
- the Funding and Treasury Department defines rules and procedures regarding cash management, currency risk hedging as well as bonds and guarantees. In addition, it manages the related risks (market, liquidity, foreign exchange and interest rate), the relationships with subsidiaries, the cash pooling structure and the netting process;
- the Tax Department defines the overall tax policy and planning for the Group and ensures proper compliance with regard to tax returns and payments.

Procedures for the production of the Group financial statements and other accounting and financial information

The accounts of reporting units are prepared in accordance with the Group's accounting policies.

The data is then adjusted, where necessary, to produce the local statutory and tax accounts. Integrated consolidation software is used for both management reporting purposes and also to produce the Group financial statements.

The main reporting processes facilitate consolidation of financial data to produce the consolidated financial statements, and forecast data as well as regular management information.

ACCOUNTING STANDARDS

The consolidated financial statements are prepared in accordance with IFRS as adopted by the European Union. The consolidated financial statements comply with accounting policies as detailed in Note 3 of consolidated financial statements.

ACCOUNTS CLOSING PROCESS

The reporting units produce monthly statements which are used to determine the Group's monthly operating income, cash flow and balance sheet.

ROLE OF THE GROUP'S ACCOUNTING AND MANAGEMENT CONTROL DEPARTMENT

The list of entities to be consolidated or accounted for by the equity method is drawn up by the Group's accounting and management control Department. This Department also checks the quality of the reporting packages submitted by the units, focusing primarily on reconciliations between legal entities and reporting entities, inter-company eliminations, and the accounting treatment of non-recurring transactions for the period, and movements between the opening and closing balance sheet used to prepare the statement of cash flows.

The Department also checks the results of procedures, including conversions, inter-company eliminations, transfers to minority interests and recognition of the effects of changes in scope of consolidation.

The Group's consolidated financial statements are also analysed in detail, to understand and check the main contributions by subsidiaries, as well as the transactions reflected in the accounts.

Key control points include the preparation and validation of the statement of changes in shareholder's equity and the statement of cash flows.

FINANCIAL INFORMATION AND REPORTING

The Group's rules and procedures in relation to financial reporting and accounting are set out in the Internal Control Manual and the Reporting and Accounting Manual.

Application and compliance with these principles, rules and procedures are under the direct responsibility of each unit finance Director. All Finance Directors report directly to the financial officers of the relevant Business and Sector and ultimately to the Group Chief Financial Officer.

Unit Finance Directors must ensure that information that is provided via the Group accounting and reporting information system covering the complete Group perimeter fully reflects required disclosures, the results of the period and the financial position at the end of the period in question and they must send a written confirmation thereof.

More precisely, each reporting unit must send to the Group Consolidation Department an annual self- assessment return, along with a checklist, which must be individually signed off by the responsible Finance Director and Managing Director. This checklist covers in particular, but is not limited to, cash and bank reconciliations, project reviews, provision movements, inter-company balances, hedging instruments, bonds and guarantees and significant accounting estimates and entries.

In addition, a similar checklist must also be signed off by each Sector Senior Vice President Finance.

The Group is involved in long-term contracts, which require Management to make estimates and assumptions that may affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are reviewed on a regular basis using currently available information.

Estimates of future cash flows reflect Management's current best estimate of the probable outflow of financial resources that will be required to settle contractual obligations. The estimates are therefore subject to change, due to changes in circumstances surrounding the execution of contracts.

Management reviews the effectiveness of internal control over financial reporting regularly, in particular to ensure the timeliness and accuracy of accounting for transactions and assets in circulation, it verifies that transactions have been recorded consistently, in accordance with IFRS as applied by the Group and as set out in the Reporting and Accounting Manual.

Paris, 11 May 2007

The Chairman of the Board

Independent Auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of ALSTOM Company, on the internal control procedures relating to the preparation and processing of financial and accounting information.

Free translation into English of a French language original report prepared for convenience purpose only. Auditing standards and their application in practice vary from one country to another. Accordingly, the Independent Auditors' report - of which a translation is presented in this document for convenience only – are for use by those knowledgeable about French auditing standards and their application in practice. Such report should be read in conjunction and construed in accordance with French law and French auditing professional standards.

Year ended 31 March 2007

To the shareholders,

In our capacity as Independent Auditors of ALSTOM Company, and in accordance with Article L. 225-235 of the French Commercial Code, we report to you on the report prepared by the Chairman of the Board of Directors of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended 31 March 2007.

It is for the Chairman of the Board of Directors to give an account, in his report, notably of the conditions in which the tasks of the Board of Directors are prepared and organized and the internal control procedures in place within the Company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report regarding the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board of Director's report, prepared in accordance with Article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine, 15 May 2007

The Independent Auditors

ERNST & YOUNG ET AUTRES	DELOITTE & ASSOCIÉS
Gilles Puissochet	Dominique Descours

Compensation of executive and non-executive Directors ("mandataires sociaux") and members of the Executive Committee

COMPENSATION OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS ("MANDATAIRES SOCIAUX")

(Information as per Article L. 225-102-1 of the French Commercial Code)

ALSTOM's executive and non-executive Directors are its ten members of the Board, including the Chairman and Chief Executive Officer, who is the only managing executive Director of ALSTOM.

The remuneration of the Chairman and Chief Executive Officer

The remuneration of the Chairman and Chief Executive Officer is fixed by the Board of Directors upon the Nominations and Remuneration Committee's proposal and comprised of a fixed part and of a variable part.

Upon proposal of the Chairman and Chief Executive Officer and in compliance with AFEP/MEDEF recommendations, it has been decided to maintain unchanged the amount of the fixed part of the Chairman and Chief Executive Officer's remuneration and the range of his variable remuneration for three years as from the fiscal year 2006/07, i.e. until the end of fiscal year 2008/09.

The variable part of the remuneration varies along with the achievement of objectives for the fiscal year predetermined by the Board of Directors upon proposal of the Nominations and Remuneration Committee. These objectives are comprised of Group's performance objectives and specific qualitative objectives linked to the achievement of personal objectives. The achievement of these objectives and the amount of the variable part of the remuneration are then determined by the Board of Directors which approves the accounts for the fiscal year, upon the Nominations and Remuneration Committee's proposal after the evaluation of the Chairman and Chief Executive Officer's performance.

For fiscal year 2006/07, the objectives set are, on one side, the Group's financial objectives – free cash flow, operational margin, and level of margin in the backlog – and on the other hand, the specific objectives linked to the actions plan and to the fiscal year's priorities.

In case the set objectives are met, the variable remuneration represents 100% of the annual base salary, with the amount of the variable part linked to financial objectives representing 60% of the annual base salary and the variable part linked to the specific objectives representing 40% of the annual base salary. The amount of the variable part linked to financial objectives can vary between 0% and 120% and the amount of the variable part linked to specific objectives between 0% and 40%, depending on results achieved. Hence, the range of variable salary is between 0% and 160% of the annual base salary.

For fiscal year 2006/07, the fixed gross salary paid to the Chairman and Chief Executive Officer amounted to €1,035,000 (€935,000 for the previous year). This fixed gross salary will remain unchanged for fiscal years 2007/08 and 2008/09.

His variable gross salary was €1,430,000 that is 138% of his fixed gross salary compared to a variable remuneration "target" of 100% (remuneration paid when the results are strictly in line with the objectives set). As the financial results achieved were higher than the objectives set, the variable part linked to the financial objectives was fixed at 98% by the Board of Directors within the range 0-120% (compared to 60% if the results achieved have been strictly in line with the objectives set). The part corresponding to the specific objectives was fixed at the maximum of the 0-40% range.

For the previous fiscal year, his variable gross salary was €1,300,000 corresponding to 139% of his fixed gross salary for the said fiscal year.

The Chairman and Chief Executive Officer received stock options within the stock option plan decided by the Board of Directors during the fiscal year (see page 183).

The Chairman and Chief Executive Officer benefits from a Company's car representing a benefit in kind of €5,728.64 per year.

He is also entitled to a supplemental retirement scheme which provides approximately, per year of service, a pension equivalent to 1.2% of the bracket of salary above 8 times the annual ceiling of French social security (€248,544 for year 2006) capped at €2 million. All employees in France reaching this level of compensation are eligible to the scheme. The scheme is compound of a defined contribution plan and a defined benefit plan. The amount of contributions paid by ALSTOM within the defined contribution plan, was €19,884 for the calendar year 2006 and the defined benefit obligation is equal to €888,441 as at 31 March 2007. He is also entitled to the legal retirement indemnity, of which the defined benefit obligation is equal to €87,367 as at 31 March 2007.

The Chairman and Chief Executive Officer benefits from supplemental medical, death and disability coverage, which costs are partly borne by the Company.

In the event of termination of his mandate at the Board of Directors' initiative, and unless in the event of grave misconduct, the Chairman and Chief Executive Officer would benefit from an indemnity equal to twice his latest gross annual global remuneration, including the annual bonus and the loss of various benefits (company car, etc.) and keep all stock options granted to him. The same benefit would apply in case the Chairman and Chief Executive Officer decided to resign further to a takeover of ALSTOM.

Directors' fees paid to the Directors

The Directors do not receive any compensation other than an attendance allowance ("Directors' fees"). Since 1 April 2005, the Chairman of the Board of Directors waived his Directors' fees.

The Ordinary and Extraordinary Shareholders' Meeting of 24 July 2001 fixed at €400,000 the maximum annual amount of Directors' fees, which can be distributed among the members of the Board of Directors, until a different resolution is passed. It will be proposed to the Ordinary and Extraordinary Shareholders' Meeting convened on 26 June 2007 to increase this maximum amount to €650,000 taking notably consideration of the proposal made to increase the number of Directors. This amount is in line with market practice and is around the average of the maximum amounts set by companies of the CAC 40 index.

The Board of Directors sets the terms of granting the Directors' fees upon the Nominations and Remuneration Committee's proposal. The principles set in the Internal Rules and Regulations of the Board is that the Directors' fees are made of a fixed part and of a variable part for attending the meetings of the Board or of the Committees and that the Chairmen of the Committees are paid an additional fixed fee. Half of the fixed and variable parts are paid in the fiscal year concerned, while the balance is paid during the following fiscal year.

Further to the market practice review performed by an external specialised consultancy firm, upon the Nominations and Remuneration Committee's suggestion, the Board of Directors resolved to increase as from the fiscal year 2006/07, the individual fixed fees which had remained unchanged since 1999.

According to the new terms of granting applied as from fiscal year 2006/07, the Directors' fees are made of a fixed part worth €17,500 paid to each Director with each Chairman of the Audit Committee and of the Nominations and Remuneration Committee receiving an additional amount of €10,000 per year. In addition, each Director is paid €2,500 - unchanged - for attending the meetings of the Board or of the Committees of which she or he is a member.

Based on these terms, the total Directors' fees in respect of fiscal year 2006/07 are €365,000, representing approximately 92% of the maximum annual amount authorised. Half of the fixed and variable parts were paid in fiscal year 2006/07, while the balance was paid the following fiscal year.

Compensation and benefits paid to executive and non-executive Directors ("mandataires sociaux") for fiscal year 2006/07

The whole gross compensation and benefits of any kind paid (or due) for fiscal year 2006/07 and the two previous years by the Company and the companies controlled by the Company to the executive and non-executive Directors pursuant to Article L. 233-16 of the French Commercial Code, are listed in the table below:

	Paid in respect of fiscal year 2004/05 (1)	Paid in respect of fiscal year 2005/06 (2)	**Paid in respect of fiscal year 2006/07 (3)**
(in €)	Gross compensation and benefits of any kind/Directors' fees*	Gross compensation and benefits of any kind/Directors' fees*	Gross compensation and benefits of any kind/Directors' fees*
Patrick Kron			
Fixed part	880,000.00	935,000.00	1,035,000.00
Variable part	750,000.00	1,300,000.00	1,430,000.00
Benefits in kind	5,010.12	5,010.12	5,728.64
Directors' fees	52,500.00	-	-
Total	1,687,510.12	2,240,010.12	2,470,728.64
Jean-Paul Béchat	42,500.00	42,500.00	50,000.00
Candace Beinecke	32,500.00	37,500.00	40,000.00
Olivier Bouygues (4)	-	-	27,812.50
Georges Chodron de Courcel	35,000.00	37,500.00	35,000.00
Pascal Colombani	26,250.00	37,500.00	42,500.00
James B. Cronin	42,500.00	37,500.00	40,000.00
Gérard Hauser	32,500.00	37,500.00	40,000.00
James W. Leng	40,000.00	42,500.00	47,500.00
Francis Mer (5)	-	32,500.00	7,187.50
Olivier Poupart-Lafarge (4)	-	-	27,812.50
Denis Samuel-Lajeunesse (5) (6)	22,500.00	37,500.00	7,187.50

* Since 1st April 2005, the Chairman and Chief Executive Officer waived his Directors' fees. The other Directors only receive Directors' fees.

(1) Includes 2004/05 variable salary and Directors' fees related to fiscal year 2004/05 paid in fiscal year 2005/06.

(2) Includes 2005/06 variable salary and Directors' fees related to fiscal year 2005/06 paid in fiscal year 2006/07.

(3) Includes 2006/07 variable salary and Directors' fees related to fiscal year 2006/07 paid in fiscal year 2007/08.

(4) Directorship began on 28 June 2006.

(5) Directorship expired on 26 June 2006.

(6) Amount paid to the French State's general budget.

Amount of compensations actually paid to executive and non-executive Directors in fiscal year 2006/07

(Information as per Article. L. 225-102-1 of the French Commercial Code)

The following chart shows the gross amount actually paid to executive and non-executive Directors in fiscal year 2006/07, as per Article L. 225-102-1 of the French Commercial Code.

For the Chairman and Chief Executive Officer, the variable salary in respect of a fiscal year is paid on the following fiscal year. Therefore the variable salary in the table below is the variable salary in respect of fiscal year 2005/06 which was paid during fiscal year 2006/07. Half of the Directors' fees distributed among the other Directors are paid during the fiscal year and the remaining part during the following fiscal year, as shown in the table.

	Amounts paid during fiscal year 2006/07				
(in €)	Fixed gross salary	Variable gross salary	Benefits in kind	Directors' fees (2nd half of fiscal year 2005/06) paid in April 2006	Directors' fees (1st half of fiscal year 2006/07) paid in October 2006
Patrick Kron	1,035,000.00	1,300,000.00	5,728.64	-	-
Jean-Paul Béchat	-	-	-	23,750.00	26,250.00
Candace Beinecke	-	-	-	17,500.00	23,750.00
Olivier Bouygues (1)				-	11,562.50
Georges Chodron de Courcel	-	-	-	17,500.00	21,250.00
Pascal Colombani	-	-	-	17,500.00	23,750.00
James B. Cronin	-	-	-	20,000.00	21,250.00
Gérard Hauser	-	-	-	17,500.00	23,750.00
James W. Leng	-	-	-	18,750.00	26,250.00
Francis Mer (2)	-	-	-	17,500.00	7,187.50
Olivier Poupart-Lafarge (1)	-	-	-	-	9,062.50
Denis Samuel-Lajeunesse (2)				20,000.00	7,187.50

(1) Directorship began on 28 June 2006.

(2) Directorship expired on 26 June 2006.

COMPENSATION OF MEMBERS OF THE EXECUTIVE COMMITTEE

The compensation of the Executive Committee members, excluding the Chairman and Chief Executive Officer, is decided annually by the Chairman and Chief Executive Officer and reviewed by the Nominations and Remuneration Committee. It consists of a fixed component and a variable component tied to the realisation of objectives determined at the beginning of the fiscal year.

For fiscal year 2006/07, the variable compensation is tied on the one hand, to the realisation of Group objectives related to free cash flow, operational margin and the level of margin in the backlog and also to the same objectives related to their only Sector for Sectors' Presidents, and on the other hand, to the realisation of specific objectives for each Sector or function. These specific objectives refer to the programmes of priority actions included in the budgets and strategic plans, and are evaluated by the Nominations and Remuneration Committee. If the set objectives are met, the financial objectives represent 30% and the specific objectives 20% of the annual base salary. The financial objectives can vary in a 0-60% range, and the specific objectives can vary in a 0-20% range, depending on performance. Therefore, the variable salary varies in a 0-80% range of the annual fixed salary.

Total compensation packages are tied to both the Company's financial performance and individual and team contributions. They are based on best practices within the industry, compensation surveys and advice from specialised international counsels.

The overall amount of the gross compensation due to the members of the Executive Committee, excluding the Chairman and Chief Executive Officer's remuneration detailed on page 176, by the Company and the companies controlled by the Company within the meaning of Article L. 233-16 of the French Commercial Code in respect of fiscal year 2006/07 amounted to €4,303,999. The fixed component represents €2,597,659 (6 members of the Executive Committee concerned as of 31 March 2007, excluding the Chairman and Chief Executive Officer) and the variable component linked to the results of fiscal year 2006/07 represents €1,706,340 (6 members of the Executive Committee concerned as of 31 March 2007, excluding the Chairman and Chief Executive Officer).

The total corresponding amount paid in respect of fiscal year 2005/06 to the members of the Executive Committee (8 members of the Executive Committee concerned as of 31 March 2006, excluding the Chairman and Chief Executive Officer) was €5,185,995.

The members of the Executive Committee benefit from supplementary retirement schemes (defined contribution plan and defined benefit plan) in the countries where they are based.

The total amount of the defined benefit obligation as of 31 March 2007 for the members of the Executive Committee (except for the Chairman and Chief Executive Officer) is €2,883,957 of which €259,063 are related to the French legal retirement indemnity. The total amount of contributions paid by the Group, within the defined contribution plan, was €79,536 for the calendar year 2006.

There are no amounts set aside or accrued to provide specifics benefits to members of the Executive Committee (including the Chairman and Chief Executive Officer) other than amounts to provide pension or similar benefits.

Interests of the officers and employees in the share capital

STOCK OPTIONS PLANS

Granting policy

Generally every year, the Company sets up a stock options plan in France and outside France within the framework of the authorisation granted by the General Shareholders' Meeting.

The Board of Directors grants stock options plans upon the proposal of the Nominations and Remuneration Committee, which reviews all terms of these plans, including the granting criteria.

The awards are made with a regular frequency, at the end of September each year. The option life of the plans is 10 years and the options are generally exercisable at the expiry of a vesting period of three years as from the grant date.

Since the fiscal year 2004/05, managers in the USA do not receive stock options; they get "Stock Appreciation Rights" (SARs) instead, which are similar to stock options plans set up simultaneously but granting the managers the right to be paid in cash the difference in the value of ALSTOM share at the time of SARs grant and at the time of their exercise. The terms of the SARs plans are reviewed by the Nominations and Remuneration Committee.

Beneficiaries of stock options and SARs are generally selected among the executives of profit centres, functional executives, country presidents, managers of large projects and, more generally, holders of key salaried positions in the Company and its subsidiaries, which have made a significant contribution to the Company's results. Since 2004, these beneficiaries represent approximately 1,200 people corresponding to 2% of total Group's employees.

Apart from the members of the Executive Committee, the choice of beneficiaries and the number of options granted are based on the level of responsibilities and job performance of each person.

Executive Committee's members (including the Chairman and Chief Executive Officer) received 610,000 options in 2004, 312,500 options in 2005 (representing 22% of the total initial number of options granted), and 320,000 options in 2006 (representing 19% of the total initial number of options granted). Individual grants are based on the level of responsibilities and are in line with market practice. Their grants are made within the plan put in place annually; the characteristics of the options granted to members of the Executive Committee are similar to those of all the other grants.

For each plan, the options' subscription price has no discount and corresponds to the average price of the shares during the twenty trading days preceding the day when the Board of Directors grants the options.

Since 2004, over the three plans set up, two plans make the exercise of part of the options conditional to the achievements of Group's financial objectives. In the last plan granted on 28 September 2006, the exercise of 100% of the options awarded is conditional upon the achievement of an operational margin above 7.5% for fiscal year 2007/08. If the 2007/08 operational margin is between 7 and 7.5%, 80% of the options will be exercisable, reduced to 40% if the operational margin is below 7%.

As done in the past, the Company may make the exercise of all or part of the future grants conditional to the achievement of performance conditions linked to the Group's financial objectives.

The exercise of options is subject to the condition that the employment contract or the mandate of the beneficiary is still in force as of the date the options are exercised, with some exceptions. Plans set up since fiscal year 2003/04 allow an early exercise before the expiry of the three-year vesting period in certain circumstances among which in case of a public offering to buy and/or exchange the Company's shares.

Rules of conduct applicable within the Group in case inside information is held, prevent any sale of shares obtained following exercise of stock options, during of the 30 calendar days before ALSTOM's first six-months and annual results are disclosed to the public (the period being reduced to 15 calendar days with respect to quarterly results) and up to the second trading day included after the date when this information has been disclosed to the public, and, in any case, when inside information is held until the second trading day after the date when this information has been disclosed to the public.

Main characteristics of the stock options plans granted

On 28 September, 2006, the Board of Directors – upon the Nominations and Remuneration Committee's proposal – has granted stock options Plan n°9 upon the authorisation of the General Shareholders' Meeting of 9 July 2004. The plan granted a total number of 1,683,750 options, representing around 1.21% of capital as of the allocation day.

As of 31 March 2007, the total number of options that can be exercised according to the outstanding plans corresponds to 4.30% of the share capital as of such date.

The main characteristics of all stocks option plans implemented by the Company and outstanding are summarised below. No other company of the Group has implemented stocks option plans giving right to the Company's shares.

	Plan n°3	Plan n°5	Plan n°6	Plan n°7	Plan n°8	Plan n°9
Date of Shareholders' Meeting	24 July 2001	24 July 2001	24 July 2001	9 July 2004	9 July 2004	9 July 2004
Date of Board meeting	24 July 2001	8 January 2002	7 January 2003	17 September 2004	27 September 2005	28 September 2006
Initial Exercise price (1)	€ 1,320.00	€ 523.60	€ 240.00	€ 17.20	€ 35.75	€74.66
Adjusted exercise price (2) (3)	€ 819.20	€ 325.20	€ 154.40	€ 17.20	-	-
Beginning of stock options exercise period	24 July 2002	8 January 2003	7 January 2004	17 September 2007	27 September 2008	28 September 2009
Expiry date	23 July 2009	7 January 2010	6 January 2011	16 September 2014	26 September 2015	27 September 2016
Number of beneficiaries	1,703	1,653	5	1,007	1,030	1,053
Total number of options (adjusted if any) (3)	105,000	105,000	30,500	2,783,000	1,401,500	1,683,750
Total number of exercised options	0	0	0	1,000	500	0
Total number of cancelled options (3)	50,238	47,504	0	124,000	43,000	7,500
Number of remaining options to be exercised as of 31 March 2007 (2) (3)	114,293	119,803	47,489	2,658,000	1,358,000	1,676,250
Percentage of capital as of 31 March 2007 that may be created	0.0827%	0.0867%	0.034%	1.924%	0.983%	1.213%
Number of shares that may be subscribed by members of the Executive Committee (2) (3)	3,105	4,229	46,709	517,500	265,000	320,000
Terms of exercise/Performance conditions	• 1/3 of options can be exercised from 24/07/02 • 2/3 of options can be exercised from 24/07/03 • All options can be exercised from 24/07/04	• 1/3 of options can be exercised from 08/01/03 • 2/3 of options can be exercised from 08/01/04 • All options can be exercised from 08/01/05	• 1/3 of options can be exercised from 07/01/04 • 2/3 of options can be exercised from 07/01/05 • All options can be exercised from 07/01/06	• 100 % of options can be exercised from 17/09/07, upon the following conditions being met: The exercise of 50% of options granted beneficiary was conditional to 2 targets being met at the 2005/06 financial year closing; the targets have been met: a positive free cash flow of the Group and a Group operational margin above or equal to 5% as per IFRS rules	• 100 % of options can be exercised from 27/09/08	• 100 % of options can be exercised if the 2007/08 Group operational margin is above 7.5%. • 80 % of options can be exercised if the 2007/08 Group operational margin is between 7 and 7.5%. • 40 % of options can be exercised if the 2007/08 Group operational margin is below 7%.

(1) Subscription price without discount corresponding to the average opening price of the shares during the 20 trading days preceding the day on which the options were granted by the Board. For plans n°3, 5, 6 and 7, the initial exercise prices have been multiplied by 40 to take account of the Company's share consolidation of 3 August 2005.

(2) Option plans n°3, 5 and 6 have been adjusted in accordance with French law as a result of the consummation of transactions that had an impact on the share capital in 2002, 2003 and August 2004.

(3) Option plans n°3, 5, 6 and 7 have been adjusted to consider the Company's share consolidation of 3 August 2005: a new share with a nominal value of €14 for 40 old shares with a nominal value of €0.35.

Stock options granted to the Corporate Officers during fiscal year 2006/07

A total of 120,000 options was granted to Mr Patrick Kron, Chairman and Chief Executive Officer of the Company and the only managing executive ("mandataire social dirigeant") of the Company, under stock options Plan n°9.

The total number of options granted under Plan n°9 to all the beneficiaries have been valued by an independent expert at €20,520,000. On this basis, the valuation of the individual grant to Mr Kron amounts to €1,548,000 corresponding to 7.5% of the total accounting charge.

The Company has granted no options to any other Directors during fiscal year 2006/07 or under plans previously implemented by the Company.

Summary of the total number of stock options held by Mr Patrick Kron as of the end of the fiscal year:

	Number of options	Unit exercise price (in euros)	Maturity date of options
Plan n°6	30,190	€154.40	06/01/2011
Plan n°7	187,500	€17.20	16/09/2014
Plan n°8	95,000	€35.75	26/09/2015
Plan n°9	120,000*	€74.66	27/09/2016

* Among which 72,000 options are conditional.

Stock options granted during fiscal year 2006/07 to the ten employees who are not Corporate Officers and who received the largest number of options

A total of 230,000 options was granted to the ten employees who received the greatest numbers of options (other than "mandataires sociaux") under stock options Plan n°9.

Stock options exercised during fiscal year 2006/07

During fiscal year 2006/07, 1,500 options have been early exercised within an estate in compliance with the rules of the relevant plans, with a weighted average exercise price of €23.38 (1,000 options within stock option plan n°7 granted in 2004 (exercise price: €17.20) and 500 options within stock option plan n°8 granted in 2005 (exercise price: €35.75).

No options were exercised during the previous fiscal years.

FREE ALLOCATION OF SHARES

With the authorisation from the General Shareholders' Meeting of 12 July 2005 (12th resolution) and upon the Nominations and Remuneration Committee's proposal, the Board of Directors meeting on 16 November 2005 approved in principle the implementation of an egalitarian allocation of twelve shares to each and every employee of the Group with at least 6 months seniority at the attribution date. Such allocation was meant to reward the collective efforts, which had brought ALSTOM back up and was subject to the condition that two main targets were met by the end of the 2005/06 fiscal year: a 5% operational margin (as per IFRS rules) and a positive free cash flow.

In those countries where fiscal and/or legal grounds would make the assignment of free shares hard or impossible, a decision was also made to pay the equivalent in cash of these twelve shares to the employees.

In its meeting of 16 May 2006, the Board of Directors noted that this condition had been met and it therefore assigned the free shares on this basis (the "2006 Plan").

The 2006 Plan provides for all of the beneficiaries located in France or outside France a two-year acquisition period, followed by a two-year holding period, in accordance with the terms of the General Meeting's authorisation.

In total, 56,777 people benefited from the 2006 Plan:

- 46,510 people in 20 countries will receive twelve shares corresponding to a total maximum number of 558,120 shares, representing around 0.4% of the share capital as of 31 March 2007. These are new shares to be issued at the moment of their final allocation by deduction from the reserves, and,
- 10,267 people in 42 countries will receive the cash equivalent of the twelve shares evaluated and paid at the end of a 4 years period (representing as an example about €1,430 as of 22 May 2007).

The cost of this free allocation of shares has totally been provided for in the accounts of fiscal year 2005/06.

As for stock options and stock appreciation rights (SARs) awards, the objectives of free shares attributions are to motivate, retain and reward employees and to associate them with the future performance of the Company through the evolution of the share value.

The Company reserves the right to set up new free shares attribution plans in the future to a broader group of beneficiaries than the group of options and SARs beneficiaries, or to combine allotment of stock options SARs and free shares, for amounts based on the level of responsibilities and job performance of the beneficiaries.

As done in the past, the Company may decide to have future awards conditional upon the achievement of performance conditions linked to the Group's financial objectives, in addition to any other conditions.

Summary characteristics of the 2006 Plan

Attribution date	Attribution conditions to be met on 16 May 2006	Total number of beneficiaries	Total number of shares to be created	Final allocation of the shares as from	Sale of shares allowed as from	Payment of the cash equivalent as from
16 May 2006	**Financial objectives:** at the close of fiscal year 2005/06, operational margin equal to 5% as per IFRS rules and positive free cash flow. **Minimum employment condition:** at least six months employment as of the attribution date	**in France:** Free shares: 15,903 beneficiaries **Outside France:** Free shares : 30,607 beneficiaries Cash equivalent : 10,267 beneficiaries	**in France:** 190,836 shares (12 shares per beneficiary) **Outside France:** 367,284 shares (12 shares per beneficiary)	**19 May 2008**	**20 May 2010**	**Outside France: 16 May 2010**

Free shares granted to the Corporate Officers of the Company during fiscal year 2006/07

No free allocation of shares was made to Corporate Officers ("mandataires sociaux") of the Company during fiscal year 2006/07.

EMPLOYEE PROFIT-SHARING

All the French subsidiaries of the Group to which the French law of 7 November 1990 applies have entered into employee profit sharing agreements. The amounts paid in respect of the French statutory employee profit sharing agreements over the last three years are as follows:

Fiscal year ended 31 March (in € million)	2004	2005	2006
Statutory employee profit sharing agreements	2	1	9.3

As of today, approximately ten French subsidiaries have entered into a specific profit sharing plan ("Accord d'intéressement"). The amounts paid in respect of fiscal year 2006/07 are not yet known to date, because they depend on a series of criteria defined in profit sharing plans applicable for each subsidiary, the final result of which are known within six months as from the end of fiscal year, i.e. 30 September of each year. The amounts paid in respect of profit sharing plans for the past three fiscal years are as follows:

Fiscal year ended 31 March (in € million)	2004	2005	2006
Specific employee profit sharing plans	9	9.5	15.6

Since its initial public offering and first listing, the Company implemented three share capital increases reserved for the employees participating in the Company's savings plan. For the first one realised concurrently with the first listing in 1998, a total of 2,941,869 shares were issued at a price of FRF 167 per share (corresponding, after the share consolidation of 3 August 2005, to the equivalent of 73,546 new shares issued at the price of €1,018.36 per share).

In August 2000, a capital increase reserved for employees of the Company and its subsidiaries participating in the Company's savings plan was approved for fiscal year 2000/01. As a result of this share capital increase, 1,689,056 new shares, with a nominal value of €6 per share, were issued at €24 per share (i.e., after consolidation, 42,226 new shares at €960 per share). These two operations have been directly subscribed by the employees.

In November 2004, a new capital increase was offered to the Company's employees (as well as to its former employees) in eight countries including France. Around 13,000 employees have subscribed this capital increase through a mutual fund in France and directly in the other countries. The capital increase brought in the subscription of 49,814,644 shares at a nominal value of €0.35 each and issued at €0.35 per share (corresponding, after consolidation, to 1,245,366 new shares at €14 per share); the shares were offered with a Company match (for employees only) of €0.135 per old share with a maximum amount of €810 per subscriber.

During the following fiscal years, no capital increase has been proposed.

As of 31 March 2007, the Group's employees and former employees, totalling approximately 38,491 persons, hold approximately 0.89% of the Company's share capital, either directly or through a fund ("FCPE").

SUMMARY OF THE OPERATIONS OF CORPORATE OFFICERS OR PERSONS MENTIONED IN ARTICLE L. 621-18-2 OF THE FRENCH MONETARY AND FINANCIAL CODE ON THE SECURITIES OF THE COMPANY PERFORMED DURING FISCAL YEAR 2006/07

The following transactions which are available on the AMF web site have been declared by the persons concerned:

Notifying person	Financial instrument	Nature of operation	Number of operations	Amount of operations
Olivier Bouygues, Director	Shares	Acquisition	1	€67,100
Gérard Hauser, Director	Shares	Acquisition	2	€38,280
Philippe Mellier, Member of the Executive Committee and President Transport Sector	Shares	Sale	1	€50,400
Olivier Poupart-Lafarge, Director	Shares	Acquisition	1	€68,200
Person linked to Olivier Bouygues and Olivier Poupart-Lafarge (1)	Shares	Acquisition	57	€225,281,768

(1) Corresponds to purchases by Bouygues after its acquisition of the French State's shareholding in the Company.

Independent **Auditors**

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BP 136
185, avenue Charles-de-Gaulle
92203 Neuilly-sur-Seine Cedex

The Independent Auditors were appointed by the Ordinary General Meeting on 26 March 1998; their term of office has been renewed by the Ordinary General Meeting of 2 July 2003 for six fiscal years and it will expire when the Ordinary General Meeting will be called to review the accounts for fiscal year 2008/09.

DEPUTY AUDITORS

Mr Pascal Macioce
41, rue Ybry
92576 Neuilly-sur-Seine

BEAS (SARL)
7-9, villa Houssay
92954 Neuilly-sur-Seine

The Deputy Auditors were appointed by the Ordinary General Meeting of 2 July 2003 for six fiscal years expiring when the Ordinary General Meeting will be called to review the accounts for fiscal year 2008/09.

INDEPENDENT AUDITORS' FEES

	Fiscal year 2005/06				Fiscal year 2006/07			
	Ernst & Young et Autres		Deloitte & Associés		Ernst & Young et Autres		Deloitte & Associés	
(in € million)	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Independent auditors diligence, certification, review of individual and consolidated accounts	9.2	75	7.6	86	8.3	81	8.0	87
- ALSTOM	1.2	10	1.2	14	1.2	13	1.2	14
- Controlled entities	6.6	56	6.4	78	6.6	67	6.8	77
Other audit diligence and audit related services	2.6	21	0.6	7	1.6	15	0.8	9
- ALSTOM	0	0	0	0	0	0	0	0
- Controlled entities	1.6	14	0.6	7	1.6	16	0.8	9
Sub-total	**11.8**	**96**	**8.2**	**93**	**9.9**	**96**	**8.8**	**96**
Legal, tax, social *	0.5	4	0.6	7	0.4	4	0.4	4
Information technology	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Sub-total	**0.5**	**4**	**0.6**	**7**	**0.4**	**4**	**0.4**	**4**
Total	**12.3**	**100**	**8.8**	**100**	**10.3**	**100**	**9.2**	**100**

* Principally outside France.

AUDIT CHARTER

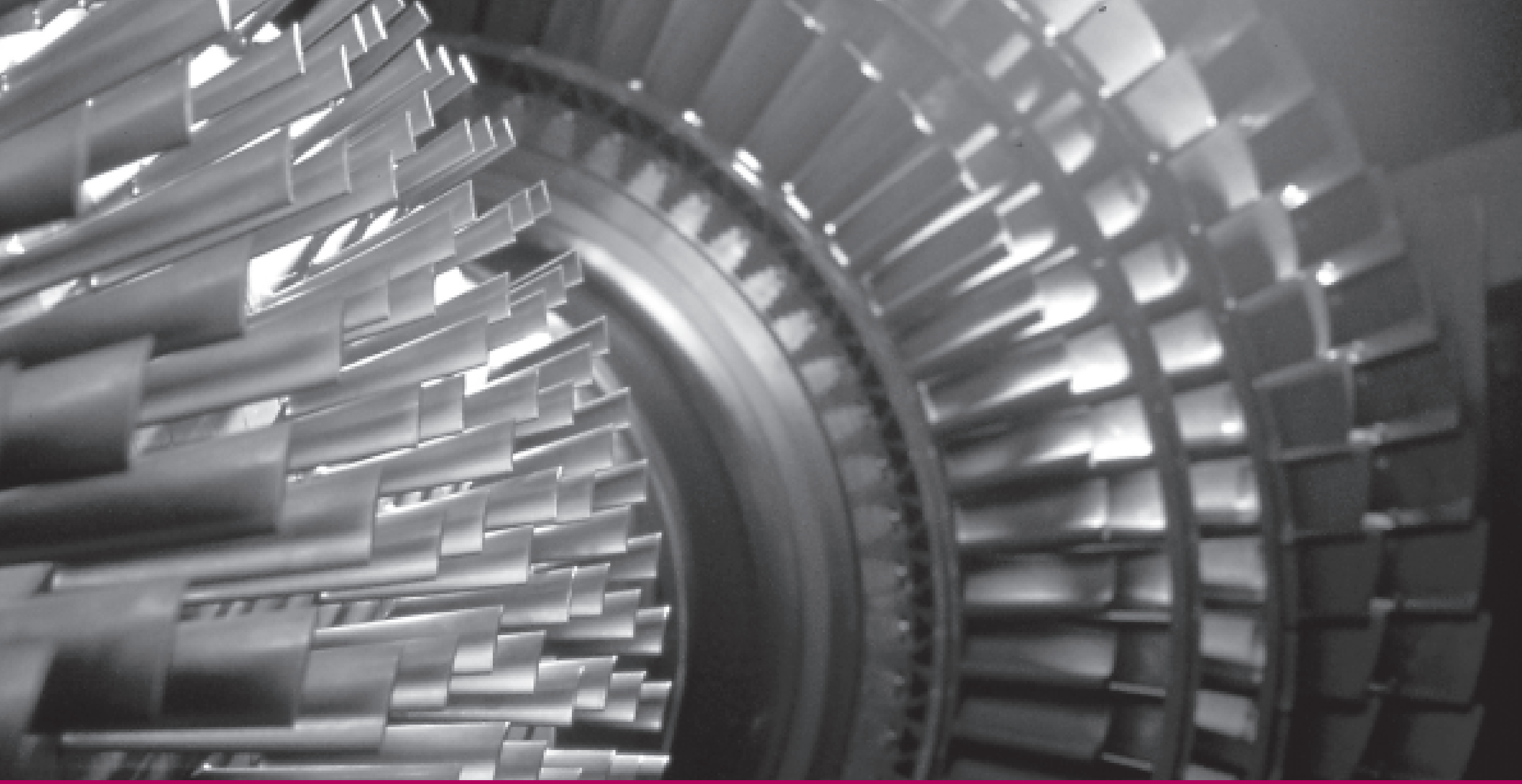
In June 2003, ALSTOM and its Audit Committee outlined and formalised with ALSTOM's external Auditors an audit charter to be applied until 31 March 2009 when the current Auditors' engagement comes to an end.

This charter defines the Group's external audit process under the various applicable laws and rules. By signing it, the parties officially commit themselves to respecting the said charter and to aiming for more transparency and efficiency.

The main rules defined apply to the following topics:

- assignment split on par between both auditing firms;
- fee split aiming for a par between both firms;
- relationship and restitution between ALSTOM's External Auditors and the Audit Committee;
- relationship between the external and the Group's internal auditors;
- defining the assignment process of other project to be potentially handled by the auditors;
- reminder of prohibited assignments.

This charter is regularly updated especially in case of changes of legal and regulatory provisions.



5 | ADDITIONAL INFORMATION

189 Information on the Group and the holding Company

189 Historical information
189 Identity of the Company
190 Summary of key provisions of the articles of associations
192 Documents accessible to the public
192 Activity of the holding Company
193 Intellectual property
193 Property
194 Material contracts
194 Details on shareholdings taken and sold during fiscal year 2006/07
195 Significant change in the financial or commercial condition

195 Information on the share capital

196 Financial authorisations
198 Changes in share capital
199 Ownership of ALSTOM shares
200 Securities giving access to the share capital
200 Potential share capital
201 Repurchase of shares
201 Issue of debt securities
201 Dividends paid over the last three fiscal years
201 Elements which may have an impact in case of public offer
203 Listing of the shares
203 Shareholder information

205 Social and environmental Information

205 Social information
210 Environmental information

211 Organisation chart as at 31 March 2007

212 Information on the Annual Financial Report

212 Statement by the person responsible for the Annual Financial Report
213 Table of reconciliation

214 Information on the "Document de Référence"

214 Information included by reference
214 Statement by the person responsible for the "Document de Référence"
215 Table of reconciliation

Information on the Group and the holding Company

HISTORICAL INFORMATION

The Group was created in 1989, when the parent company GEC ALSTHOM N.V. was a holding company incorporated under the laws of the Netherlands, by The General Electric Company plc ("GEC") and Alcatel, its 50-50 shareholders, in order to consolidate in one single group the Businesses since then carried out by certain of their respective subsidiaries. This joint venture realised during a time of consolidation in the energy sector, aimed at benefiting from certain complementary products and markets of Alcatel and GEC respectively.

At the end of 1997, the two shareholders decided to list the company on the Paris, New York and London Stock Exchanges and to put part of their shares on the market. They chose Paris as the main listing exchange and they decided to transfer to a French public limited company (société anonyme), renamed ALSTOM (previously Jotelec), the whole of the activities till then carried out by GEC ALSTHOM N.V. Before the IPO and listing on the Stock Exchange of ALSTOM (or the "Company"), almost the whole of the assets directly or indirectly held by GEC ALSTHOM N.V. was transferred to one of its French subsidiary, ALSTOM France SA, 100%-owned by ALSTOM. This company, since then renamed ALSTOM Holdings, is still the only interest held by ALSTOM, which owns almost all assets of the Group (see below the "Simplified organisation chart of the Group at 31 March 2007").

Since the quotation of ALSTOM in 1998, the Group's scope was deeply changed a few times. The most significant operation was the acquisition of ABB power generation activities in two phases: first, in July 1999, a joint venture was set up and then in May 2000, ALSTOM bought ABB share in the above-mentioned joint venture. At the same time, ALSTOM re-focused on its core Business, notably by selling its Contracting Sector in July 2001.

Facing a hard financial crisis in 2003, the Group launched an action plan to solve the specific issues related mainly to GT24/GT26 gas turbines, to re-focus its activities (sale of the Transmission & Distribution Business in January 2004), to improve operational performance and strengthen its financial structure. Today, the Group is refocused on three Sectors: Power Systems, Power Service and Transport, after the disposals of its former Transmission & Distribution and Marine Sectors and its Industrial Turbines and Power Conversion activities.

IDENTITY OF THE COMPANY

Company name and registered office

ALSTOM
3, avenue André Malraux - 92300 Levallois-Perret
Tel.: 01 41 49 20 00

Legal form, applicable legislation, and competent jurisdictions

Limited liability company (French "société anonyme à conseil d'administration") incorporated under the laws of France and regulated notably by the French Commercial Code.

Duration

ALSTOM was incorporated under the name "JOTELEC" on 17 November 1992 and its existence will expire on 17 November 2091, unless it is earlier dissolved or its life is extended.

Registration number

389 058 447 Nanterre

Code APE

625 E

SUMMARY OF KEY PROVISIONS OF THE ARTICLES OF ASSOCIATIONS

Purpose of the Company

(Article 3 of the Articles of Association)

The purposes of ALSTOM are directly or indirectly:

- the conduct of all industrial, commercial, shipping, financial, real property and asset transactions in France and abroad, notably in the following fields:
  - energy;
  - transmission and distribution of energy;
  - transport;
  - industrial equipment;
  - naval construction and repair work;
  - engineering and consultancy, design and/or production studies and general contracting associated with public or private works and construction; and
  - more generally, activities related or incidental to the above;
- participation, by every means, directly or indirectly, in any operations which may be associated with its purpose, by the creation of new companies, capital contributions, subscription or purchase of stocks or rights, merger with such companies or otherwise; the creation, acquisition, lease or take over of business goodwill or businesses; the adoption, acquisition, operation or sale of any processes and patents relating to such activities; and
- generally undertaking all industrial, commercial, financial and civil operations and real property and asset transactions that may be directly or indirectly associated with ALSTOM purposes or with any similar or related.

Furthermore, ALSTOM may acquire an interest, of whatever form, in any French or foreign business or organisation.

Fiscal year

(Article 18 of the Articles of Association)

From 1 April to 31 March.

Shareholders' meetings

(Article 15 of the Articles of Association)

CONVENING AND PROCEEDINGS – AGENDA

Ordinary and Extraordinary General Meetings, satisfying the legal conditions for quorum and majority voting, exercise the powers respectively attributed to them by the law. They are convened in accordance with the rules and the terms laid down by law.

Meetings are held at the registered office of ALSTOM or at any other place determined by the Board, either within the "département" in which the registered office is located or in any other French territory.

The agenda of the meeting is drawn up by the Board of Directors if the Board has called the meeting and, if not, by the person calling the meeting. However, one or more shareholders satisfying the conditions laid down by law may request the inclusion of draft resolutions on the agenda. Questions not appearing on the agenda may not be considered.

ADMISSION AND REPRESENTATION

Ordinary and Extraordinary General Meetings are made up of all shareholders without distinction between the class of shares which they hold.

In all shareholders' meetings, holders of registered shares will not be entitled to vote unless their shares are registered under their names at the latest two days before the meeting and remain so registered until the end of such meeting.

Holders of bearer shares must, two days at the latest before the date of such meeting, provide evidence that they have deposited their securities under French legal conditions or produce one of the certificates described in Article 136 of the French Decree of 23 March 1967. These time periods may be changed by the Board of Directors.

Any shareholder who has voted by correspondence or designated a proxy by presenting a certificate of immobilisation delivered by the share depositary, may nevertheless sell all or part of the shares by which he has cast his vote or his designation, provided that he notifies the elements allowing his vote or proxy to be cancelled or to modify the number of shares and corresponding votes, no later than 3.00 pm on the day prior to the meeting pursuant to Article 136 of the Decree of 23 March 1967.

A shareholder may arrange to be represented by another shareholder or by his or her spouse.

However, holders of shares listed in the 3rd paragraph of Article L. 228-1 of the French Commercial Code can be represented by a registered intermediary at the conditions set down by law.

Shareholders may vote by proxy or by postal vote at General Meetings under the conditions laid down by law.

The Board of Directors shall have the power to organise, within the limits of the law, the participation and voting of the shareholders by videoconference or any other telecommunication means permitting the identification of such shareholders. Where relevant, this decision of the Board shall be communicated in the notice of the meeting and/or the invitation to attend. The shareholders who participate by videoconference or by any of such other telecommunication means shall be deemed present for purposes of the calculation of the quorum and majority.

VOTING RIGHTS

Each member of the meeting is entitled to one vote for each share held. At all Ordinary, Extraordinary or Special General Meetings, the voting right on shares shall, in cases where such shares are subject to usufruct (life interest), be exercisable by the usufructuary.

There are no double voting rights. For a period of two years starting from the share consolidation voted by the Ordinary and Extraordinary General Meeting of 12 July 2005, any share which is not consolidated will be entitled to one vote and any consolidated share to 40 votes, so that the number of votes attached to the shares is proportional to the percentage of share capital they represent.

It will be proposed to the next Ordinary and Extraordinary General Meeting scheduled on 26 June 2007 to amend the second paragraph "Admission and representation" of Article 15 of the Company's Articles of Association in order to bring it into conformity with the provisions of Article 136 of Decree No. 67-236 of 23 March 1967, as modified by Article 35 of Decree No. 2006-1566 of 11 December 2006 on the following items:

- proof of the condition of shareholder to attend and vote at the General Meetings (modification of the second paragraph),
- the arrangements for distance voting by any and all electronic telecommunications methods (new fourth paragraph),
- the conditions for the inclusions of sales of securities after the transmission of voting instructions or requests for admission cards (third paragraph deleted and replaced).

New wording proposed :

Admission and representation

Ordinary and Extraordinary General Meetings are made up of all shareholders without distinction between the class of shares which they hold.

In all shareholders' Meetings, shareholders are only entitled to exercise their right to vote if their shares have been recorded in the accounts in the name of the shareholder or the intermediary registered for its account pursuant to the legal and regulatory provisions on the third business day preceding the date of the Shareholders' Meeting at midnight, Paris time, either in the accounts of registered securities held by the Company for registered shares, or in the accounts of bearer securities held by an intermediary authorised for bearer shares.

This accounting record is officially acknowledged in accordance with the terms laid down by law.

Shareholders may vote by proxy or by correspondence at General Meetings under the conditions laid down by law.

In order to be taken into account, the voting forms and proxies must be received by the Company at least three days prior to the Meeting, unless a shorter term is decided by the Board of Directors or is stipulated by law.

If decided by the Board of Directors and communicated in the notice of the meeting and/or the invitation to attend the meeting, any shareholder may vote at a General Meeting, by proxy or by correspondence, using any electronic telecommunications means under the conditions laid down by law. In this case, the shareholder's electronic signature or that of its representative shall take the form either of a secured signature according to the meaning of current regulations, or a reliable identification process guaranteeing its relationship with the legal instrument to which it relates, in accordance with the provisions of the first sentence of the second paragraph of Article 1316-4 of the "Code Civil".

A shareholder may be represented by another shareholder or by his or her spouse.

However, in compliance with the 7th paragraph of Article L. 228-1 of the "Code de Commerce" the owners of the securities may be represented by a registered intermediary, in the conditions set down by law.

Any shareholder having voted at a distance, or sent a proxy or requested his or her admission card or an attendance certificate, may at any time sell all or some of his or her shares pursuant to which he or she transmitted his or her vote or proxy or requested one of these documents. Any sale occurring prior to the third business day before the shareholders' Meeting at midnight, Paris time, shall be taken into account in the conditions laid down by law.

The Board of Directors shall have the powers to organise, within the limits of the law, the attendance and voting of the shareholders at General Meetings by videoconferencing or by any telecommunications means enabling the identification of such shareholders. If applicable, this decision of the board of directors shall be communicated in the notice of the meeting and/or the invitation to attend. Those shareholders attending Shareholder's Meetings by videoconference or by these other means are deemed to be present for the purposes of calculating the quorum and the majority.

Notification of holdings exceeding certain percentages

(Article 7 of the Articles of Association)

In addition to the legal obligation to notify ALSTOM of certain shareholding levels set forth in Articles L. 233-7 to L. 233-11 of the French Commercial Code, any individual or legal entity acquiring a number of ALSTOM shares giving a shareholding in excess of 0.5% of the total number of shares issued must notify ALSTOM by letter, fax or telex of the total number of shares that he possesses within five trading days of this threshold being exceeded. Notification is to be repeated under the same conditions whenever an additional 0.5% threshold is exceeded, up to and including a threshold of 50%. To determine these thresholds, both indirectly held shares and shares classified with shares owned (as defined by the provisions of Articles L. 233-7 et seq. of the French Commercial Code) should also be taken into account.

In each of the above-mentioned notifications, the declaring person must certify that the notification includes all shares held or owned in the sense of the preceding paragraph. Such notification must also indicate the acquisition date(s). In the event of non-observance of the above provisions and in accordance with the conditions and levels established by law, a shareholder shall lose the voting rights relating to the shares in excess of the thresholds which should have been notified, if one or more shareholders holding at least 3% of the share capital so require(s).

Any shareholder whose shareholding falls below one of the above-mentioned thresholds is also under an obligation to notify ALSTOM within the same length of time (i.e. five trading days) and by the same means

Identification of holders of bearer shares

(Article 7 of the Articles of Association)

ALSTOM may, under the conditions laid down by the legal and regulatory provisions in force, request any officially authorised organisation or intermediary to pass on all information concerning its shareholders or holders of its stock conferring an immediate or subsequent right to vote, their identity and the number of shares that they hold.

Appropriation of income

(Article 20 of the Articles of Association)

The profits for fiscal year consist of the revenues relating to the preceding fiscal year, less overheads and other company expenditure including provisions and depreciation allowances.
At least 5% is set aside from the profits less any previous losses if appropriate to form the legal reserve fund. This provision ceases to be mandatory once the value of the fund reaches one-tenth of the share capital.

The remainder (less the above deductions) of the retained earnings and withdrawals from the reserves which the General Meeting has at its disposal shall, if the General Meeting so desires, be distributed among the shares, once the sums carried forward by the said Meeting or transferred by it to one or more reserve funds have been deducted.

After the General Meeting has approved the accounts, any losses are carried forward and imputed to the profits of future fiscal years until they are discharged.

Each shareholder may be granted, at the General Meeting, for all or part of the dividend or interim dividend to be distributed, an option to be paid the dividend or interim dividends in cash or in shares of ALSTOM, under the current legal and regulatory conditions.

Dividends not claimed at the expiration of a five-year period are paid to the French Tax Entity “Trésor Public”.

The Articles of Association do not contain any provision, which may delay, postpone or prevent a change of control.

DOCUMENTS ACCESSIBLE TO THE PUBLIC

The legal documents relating to the Company and the Group, which are required to be accessible by the shareholders according to the applicable law are available for inspection at the Company’s registered office and some of them are available on the Company’s website, in particular in Section “Regulated information” as per Article L. 451-1-2 of the French Code Monétaire et financier (www.alstom.com).

ALSTOM annual reports for the last four fiscal years are also available on the Company’s website, section Investors/Annual reports.

ACTIVITY OF THE HOLDING COMPANY

ALSTOM is the holding Company of the Group. ALSTOM investments consist exclusively of the shares of ALSTOM Holdings. ALSTOM centralises a large part of the external financing of the Group and directs the funds so obtained to its subsidiary ALSTOM Holdings through loans and current account. Fees from its indirect subsidiaries for the use of the ALSTOM name are ALSTOM’s main other source of revenue.

For more information, see “Statutory accounts – Comments on the statutory accounts ”.

INTELLECTUAL PROPERTY

The Group owns or benefits from licenses for the use of several trade names, patents and other intellectual property rights. All these rights contribute to the good performance of the business, but none of the licenses alone currently has a material relevance for the activities of the Group.

PROPERTY

The Group carries out its activities on some sites upon which it has rights of different nature. The Group has full ownership of most of its main industrial sites.

The Group set up a leasing strategy for its offices buildings, which applies notably to the Headquarters of the Group and of the Sectors.

The gross value of land and buildings fully owned and leased (financial leases) as of 31 March 2007 is €1,180 million. The depreciation booked for the above is € 494 million. These amounts do not include operating leases.

The Group's tangible assets are subject to costs for general maintenance and repairs required for their good functioning, to meet with legal and quality requirements, including environmental, health and safety matters.

Main industrial sites held in full property (non exhaustive list)

		Main businesses
Belgium	Marchienne au Pont	Power Service
	Charleroi	Transport
Brasil	Cabo de Santo Agostinho	Power Systems
	Lapa	Transport
	Taubaté	Joint venture ASLTOM Hydro Holding
Czech Republic	Brno - Olomoucka	Power Systems & Power Service
France	Aytré/La Rochelle	Transport
	Belfort	Power Systems, Power Service & Transport
	Grenoble	Joint venture ALSTOM Hydro Holding
	Le Creusot	Transport
	Ornans	Transport
	Reichshoffen	Transport
	Valenciennes	Transport
Germany	Berlin (Lessingstrasse)	Power Service
	Bexbach	Power Systems
	Kassel	Power Systems
	Mannheim	Power Systems & Power Service
	Salzgitter	Transport
India	Durgapur	Power Systems
	Shahabad	Power Systems
	Vadodara	Power Systems & Power Service
Italia	Colleferro	Transport
	Savigliano	Transport
Switzerland	Birr	Power Systems & Power Service
United States	Chattanooga (TN)	Power Systems
	Concordia (KS)	Power Systems
	Richmond (Virginia)	Power Service
	Wellsville (NY)	Power Systems

MATERIAL CONTRACTS

In the past two years immediately before the issue of this report, ALSTOM and/or companies of the Group have entered into the following material agreements (other than the agreements entered into during the ordinary course of business):

- on 4 November 2005, ALSTOM Holdings signed the extension of its bonding programme up to July 2008 and for an enlarged amount; on 24 July 2006, ALSTOM Holdings renegotiated the conditions of this programme;
- on 8 April 2006, ALSTOM Holdings signed an agreement to sell a 75% stake in the Marine Sector. This transaction has been completed on 31 May 2006;
- on 26 April 2006, ALSTOM and Bouygues signed a memorandum of understanding for commercial and operational cooperation;
- on 31 October 2006, ALSTOM Power Centrales and ALSTOM Holdings completed a joint venture transaction with Bouygues in which Bouygues acquired 50% of the share capital of ALSTOM Hydro Holding, a company specialised in hydropower equipment activity.

See also Section "Group activity - Overview - Main events of fiscal year 2006/07".

DETAILS ON SHAREHOLDINGS TAKEN AND SOLD DURING FISCAL YEAR 2006/07

Including information as per Article L. 233-6 of the French Commercial Code.

Details on shareholdings taken during fiscal year 2006/07

On 14 April 2006, ALSTOM (China) Investment Co., Ltd. (''ALSTOM China'') signed an agreement with Wuhan Boiler Group Co., Ltd. pursuant to which ALSTOM China will acquire 51% of the share capital of Wuhan Boiler Company Limited (''WBC''). As required by Chinese stock exchange rules, ALSTOM Holdings will launch a public offer to the public holders of 42.09% of the share capital of WBC. The activities of WBC include the engineering and construction of boilers for steam power plant applications. As of today, the acquisition has not yet closed and the general offer has not yet taken place.

On 24 August 2006, ALSTOM Holdings completed the acquisition of 75% of the share capital of Profit Combo Limited, owner of Shenzhen Strongwish Co., Ltd, a Chinese company specialised in the design and delivery of remote monitoring and diagnostics services.

On 30 October 2006, ALSTOM (Switzerland) Ltd acquired 71% of the share capital of ALSTOM Inspection Robotics AG, a company involved in research to develop robots for use in field service inspection activities.

On 19 February 2007, ALSTOM Schienenfahrzeuge AG entered into an agreement pursuant to which it will acquire 51% of the share capital of a joint venture company to be incorporated in Switzerland by Schweizerische Bundesbahnen SBB Cargo AG (''SBB''), which company will perform SBB's maintenance service business for shunting locos, services vehicles and tank wagons. As of today, the acquisition has not yet closed.

On 22 March 2007, ALSTOM Power Inc. acquired assets and liabilities of Power Systems Mfg., LLC ("PSM"), a company providing improved gas turbine parts and low-Nox upgrade solutions for gas turbines, pursuant to Sections 105, 363 and 365 of Title 11 of the United States Code.

On 29 March 2007, ALSTOM Holdings acquired 100% of the share capital of each of Top Yield Group Limited and Wholewise International Limited, owners of Qingdao Sizhou Electric Power Equipment Company Limited and Qingdao Sizhou Boiler Auxiliary Company Limited, Chinese companies specialised in ash and coal handling equipment.

Details on direct or indirect shareholdings sold during fiscal year 2006/07

On 1 April 2006, ALSTOM UK Holdings Ltd sold 100% of its shareholding of ALSTOM Energy Systems SHG Ltd, a company which supplies heat recovery steam generators using the CiBAS technology, to Citech Ltd.

On 31 May 2006, ALSTOM Holdings completed the sale of 75% of its interest in the Marine Sector to Aker Yards France Holding AS through the sale by ALSTOM Holdings to Aker Yards of 75% of its shareholding in a company created to hold assets and liabilities of Chantiers de l'Atlantique, A.M.R. and ALSTOM Leroux Naval.

On 31 May 2006, ALSTOM Power Conversion GmbH completed the sale of its industrial boiler activities in Germany and the Czech Republic to Von Roll Inova GmbH, a subsidiary of Austrian Energy & Environment AG.

On 31 October 2006, ALSTOM Power Centrales and ALSTOM Holdings completed a joint venture transaction with Bouygues in which Bouygues acquired 50% of the share capital of ALSTOM Hydro Holding, a company specialised in hydropower equipment activity.

On 3 November 2006, ALSTOM Power Holdings SA sold 7.9% of the capital stock of Closed Joint Stock Company Privod-Electromecanique to LLC TechIndoConsult.

On 2 February 2007, ALSTOM Limited sold 100% of its shareholding in Railcare Limited, a company specialised in the renovation and maintenance of rolling stock, to Seckloe 307 Limited.

On 9 February 2007, ALSTOM NV sold its shareholding in ALSTOM Power Investment Projects B.V. and ALSTOM Power Investment Projects II Ltd, within the context of the disposal of the Group's participation regarding entities owning two power plants in Tamuin (Mexico).

On 30 April 2007, ALSTOM Power Boiler GmbH (''APB'') sold to Sconvey GmbH 100% of the shares of ALSTOM Power Environmental Consult GmbH, a company involved in environmental consulting.

SIGNIFICANT CHANGE IN THE FINANCIAL OR COMMERCIAL CONDITION

To the Company's knowledge, no significant change in the financial or commercial condition of the Group has occurred since 31 March 2007, date of approval of the latest accounts published.

Information on the share capital

As of 31 March 2006, ALSTOM's share capital amounted to €1,934,390,864 consisting of 138,170,776 shares of the same class and fully paid, with a nominal value of €14 per share.

As of 31 March 2007, ALSTOM's share capital amounts to €1,940,640,814 consisting of 138,617,201 shares of the same class and fully paid of €14 par value each following the operations described below:

- the reimbursement in shares of 2,425,714 subordinated bonds 2% December 2008 redeemable in company's shares ("ORA"), when 76,172 shares of €14 par value each were issued, on 20 June 2006;
- the reimbursement in shares of 335,595 ORA, when 10,546 shares of €14 par value each were issued and the exercise of 1,500 options, when 1,500 shares of €14 par value each were issued, on 30 September 2006;
- the reimbursement in shares of 11,407,638 ORA, when 358,207 shares of €14 par value each were issued on 31 March 2007.

There are no double voting rights or voting rights restrictions attached to the shares comprising the share capital.

To the knowledge of the Company, there is to date no pledge on the shares of the Company or of its significant subsidiaries.

Since the consolidation of the Company's shares completed on 3 August 2005, 27 193 shares of €14 par value (consolidated shares) have not been requested by shareholders, as of 11 May 2007. The shareholders have two years after the start of consolidation operations, i.e. until 4 August 2007, to claim the consolidated shares. After this date, the consolidated shares not claimed by their beneficiaries will be sold on the stock exchange and the net proceeds of the sale will be held at their disposal for a period of ten years on a blocked account opened with the financial institution appointed by the Company to hold the Company's share registry.

Until 4 August 2007, in shareholders' meetings, each non-consolidated share of €0.35 par value shall give right to one vote and each consolidated share of €14 par value to 40 votes, so that the number of votes attached to the shares is proportionate to the fraction of the share capital they represent.

FINANCIAL AUTHORISATIONS

Including information as per Article L. 225-100 of the French Commercial Code.

The table below sets forth the authorisations (i) to increase the share capital (ii) to grant stock options to subscribe or purchase shares (iii) to repurchase shares and (iv) to reduce the share capital that are in force as of 11 May 2007 and their use during the fiscal year:

Nature of the authorisation	Nature of the authorisation	Nominal amount used during the fiscal year	Available amount	Expiry/Duration
Issuance of securities				
Delegation of authority to issue (1) shares and securities giving access to the share capital with preferential subscription right and/or by capitalisation of reserves and (2) securities giving rise to debt securities (Ordinary and Extraordinary Shareholders' Meeting of 12 July 2005 , Resolution n°9)	Share capital: €600 million (1) Debt securities : €1.5 billion (1)	None	Maximum nominal amount authorised	12 September 2007 (26 months starting from 12 July 2005)
Delegation of authority to issue (1) shares and securities giving access to the share capital with cancellation of the preferential subscription right and (2) securities giving rise to debt securities (Ordinary and Extraordinary Shareholders' Meeting of 12 July 2005, Resolution n°10)		None	Maximum nominal amount authorised	12 September 2007 (26 months starting from 12 July 2005)
Authorisation to increase the share capital by up to 10 % of the share capital to remunerate contributions in kind (Ordinary and Extraordinary Shareholders' Meeting of 12 July 2005, Resolution n°11)	10% of the share capital at the date of the Shareholders' Meeting	None	Maximum nominal amount authorised	12 September 2007 (26 months starting from 12 July 2005)
Offerings to employees				
Authorisation of free allocation of existing or new shares (Ordinary and Extraordinary Shareholders' Meeting of 12 July 2005 , Resolution n°12)	2.5% of the share capital at the date of Shareholders' Meeting	558,120 shares, i.e. 0.40% of the share capital (2)	2,877,823 shares, i.e. 2.1% of the share capital (2)	12 September 2008 (38 months starting from 12 July 2005)
Authorisation to issue shares and other securities granting rights to the share capital reserved for members of a Group savings plan (Ordinary and Extraordinary Shareholders' Meeting of 12 July 2005, Resolution n°13)	2.5% of the share capital at the date of the Shareholders' Meeting	None	Maximum nominal amount authorised	12 September 2007 (26 months starting from 12 July 2005)
Authorisation to grant stock options to subscribe or purchase shares (Ordinary and Extraordinary Shareholders' Meeting of 9 July 2004, Resolution n°18)	Increase in share capital : 5% of the share capital at the date the options are granted by the Board of Directors	1,683,750 options, i.e. 1.21% of the share capital (2)	5,247,110 options, i.e. 3.78% of the share capital (2)	9 September 2007 (38 months starting from 9 July 2004)
Share buy back and reduction of the share capital				
Authorisation to repurchase shares (Ordinary and Extraordinary Shareholders' Meeting of 28 June 2006, Resolution n°9)	13,817,077 shares of €14 nominal value	None	13,817,077 shares of €14 nominal value	Until the date of the Shareholders' Meeting held to approve the financial statements for the fiscal year 2006/07
Authorisation to reduce the share capital by cancellation of shares (Ordinary and Extraordinary Shareholders' Meeting of 12 July 2005, Resolution n°14)	10% of the share capital	None	10% of the share capital	12 July 2007

(1) Global amount applicable to both delegation.

(2) On the basis of the share capital as of 31 March 2007.

It will be proposed to the next Shareholders' Meeting scheduled on 26 June 2007 to cancel these authorisations for their unused portion and to grant new authorisations as follows:

Nature of the authorisation	Maximum nominal amount authorised	Expiry/Duration
Issuance of securities		
Delegation of authority to issue shares and securities giving access to the share capital with preferential subscription right and/or by capitalisation of reserves (13th resolution)	Share capital: €600 million (1) (31% of the share capital) Debt securities: €2 billion (1)	26 August 2009 (duration: 26 months)
Delegation of authority to issue shares and securities giving access to the share capital with cancellation of the preferential subscription right (14th resolution)		26 August 2009 (duration: 26 months)
Authorisation to increase the share capital by up to 10% of the share capital to remunerate contributions in kind (15th resolution)	10% of the share capital at the date of the Shareholders' Meeting	26 August 2009 (duration: 26 months)
Delegation of authority to issue securities giving rise to debt securities (16th resolution)	Debt securities: €2 billion	26 August 2009 (duration: 26 months)
Offerings to employees		
Free allocation of existing or new shares to employees (18th resolution)	2.5% of the share capital at the date of the Shareholders' Meeting	26 August 2010 (duration: 38 months)
Authorisation to issue shares and other securities granting rights to the share capital reserved for members of a Group savings plan (19th resolution)	2.5% of the share capital at the date of Shareholders' Meeting less any amount issued by virtue of the 20th resolution	26 August 2009 (duration: 26 months)
Delegation of authority to issue shares reserved for a category of beneficiaries (20th resolution)	0.5% of the share capital at the date of the Shareholders' Meeting	26 December 2008 (duration: 18 months)
Authorisation to grant stock options to subscribe or purchase shares (21st resolution)	Increase in share capital: 5% of the share capital at the date of Board grant less any amount issued by virtue of the 18th resolution	26 August 2010 (duration: 38 months)
Share buy back and cancellation of the share capital		
Repurchase of Company's shares (12th resolution)	10% of the share capital	Until the date of the Shareholders' Meeting held to approve the financial statements for the fiscal year 2007/08
Reduction of the share capital by cancellation of shares repurchased (22nd resolution)	10% of the share capital	26 June 2009 (duration: 24 months)

(1) Global amount applicable to both delegations.

CHANGES IN SHARE CAPITAL

	Number of shares issued	Nominal amount of capital increase or capital reduction (in €)	Paid-in capital amount (in €)	Resulting total number of shares	Total amount of share capital (in €)
31 March 2004				**1,056,657,572**	**1,320,821,965.00**
Increase in share capital resulting from the redemption of TSDDRA (7 July 2004)	240,000,000	300,000,000.00	-	1,296,657,572	1,620,821,965.00
Increase in share capital resulting from the exercise of ORA [(2)]	8,794,489	10,993,111.25	1,319,173.35	1,305,452,061	1,631,815,076.25
Reduction in share capital by way of reduction in the par value of the shares from €1.25 to €0.35 (9 July 2004) [(1)]	-	1,174,906,854.90	-	1,305,452,061	456,908,221.35
Increase in share capital reserved for certain lenders (12 August 2004)	480,000,000	168,000,000.00	72,000,000.00	1,785,452,061	624,908,221.35
Increase in share capital with preferential subscription rights (13 August 2004)	3,655,265,768	1,279,343,018.80	229,007,174.50	5,440,717,829	1,904,251,240.15
Increase in share capital reserved for employees (20 December 2004)	49,814,644	17,435,125.40	-	5,490,532,473	1,921,686,365.55
Increase in share capital resulting from the exercise of ORA [(2)]	6,678,936	2,337,627.60	5,107,643.00	5,497,211,409	1,924,023,993.15
31 March 2005				**5,497,211,409**	**1,924,023,993.15**
Increase in share capital resulting from exercise of ORA before the consolidation of shares [(2)]	390,311	136,608.85	298,484.25	5,497,601,720	1,924,160,602.00
Consolidation of the shares [(3)] (3 August 2005)	137,440,043	-	-	137,440,043	1,924,160,602.00
Increase in share capital resulting from the exercise of ORA [(2)]	730,733	10,230,262.00	22,347,066.40	138,170,776	1,934,390,864.00
31 March 2006				**138,170,776**	**1,934,390,864.00**
Increase in share capital resulting from the exercise of ORA (20 June 2006)	76,172	1,066,408.00	2 330 117.24	138,246,948	1,935,457,272.00
Increase in share capital resulting from the exercise of ORA and options (30 September 2006)	12,046	168,644.00	337 707.96	138,258,994	1,935,625,916.00
Increase in share capital resulting from the exercise of ORA (31 March 2007)	358,207	5,014,898.00	10,956,523.70	138,617,201	1,940,640,814.00
31 March 2007				**138,617,201**	**1,940,640,814.00**

(1) Number of shares unchanged.

(2) Subordinated bonds reimbursable into shares issued with maintenance of the subscription rights on 23 December 2003, reimbursable into shares originally with one bond giving right to one share of €14 per value, then since 16 August 2004, with one bond giving right to 1.2559 shares of €0.35 per value and since 3 August 2005, with one bond giving right to 0.0314 share of €14 per value.

(3) Consolidation in the ratio of one new share of €14 per value for each 40 shares of €0.35 per value.

OWNERSHIP OF ALSTOM SHARES

Information as per Articles L. 225-102 and L. 233-13 of the French Commercial Code.

To the Company's knowledge based on notifications received until 11 May 2007 included, the table below shows the voting rights and the shares held by shareholders with more than 0.50% of our share capital as of 31 March 2007:

	Share capital as of 31 March 2007 (1)		Share capital as of 31 March 2006 (1)		Share capital as of 31 March 2005 (1)	
	Shares	% of the share capital and voting rights(2)	Shares	% of the share capital and voting rights(2)	Shares	% of the share capital and voting rights(2)
Public	91,603,138	66.08%	100,218,025	72.53%	3,937,000,326	71.61%
Bouygues	35,136,749	25.35%	-	-	-	-
Artisan Partner	2,500,497	1.81%	-	-	-	-
Crédit Agricole Asset Management	2,144,658	1.54%	737,533	0.53%	-	-
Caisse des Dépôts et Consignations	2,075,633	1.50%	3,325,658	2.41%	120,155,011	2.19%
Employees (3)	1,242,674	0.89%	1,226,977	0.89%	54,626,768	0.99%
BNP PAM Group	1,063,435	0.77%	1,410,922	1.02%	35,835,366	0.65%
Morgan Stanley & Co international Ltd	774,572	0.56%	774,572	0.56%	30,982,864	0.56%
Crédit Agricole Group	717,711	0.52%	717,711	0.52%	78,235,951	1.42%
Groupama Asset Management	708,134	0.51%	708,134	0.51%	28,325,360	0.52%
Fradim Group (4)	650,000	0.47%	-	-	50,000,000	0.92%
French Republic	-	-	29,051,244	21.03%	1,162,049,763	21.14%
Total	**138,617,201**	**100%**	**138,170,776**	**100%**	**5,497,211,409**	**100%**

(1) On 3 August 2005, the 5,497,601,720 shares of €0.35 par value comprising the Company's share capital have been consolidated into 137,440,043 shares of €14 par value. The number of shares notified to the Company prior to the consolidation and not notified again since 3 August 2005, have been adjusted here to take into account this consolidation. This table does not take into account the 27,193 consolidated shares, which have not been claimed by shareholders as of 11 May 2007.

(2) % calculated based on the share capital as of 31 March 2007 and not based on the share capital on the date of the declaration.

(3) Shares held by employees and former employees of the ALSTOM Group savings plan, which corresponds to approximately 0.58% held directly and approximately 0.31% held through FCPE.

(4) Holds less than 0.50% of the share capital.

To the knowledge of ALSTOM, on the basis of declarations of threshold crossing received, excluding notifications received from registered brokers, no other shareholder holds, directly or indirectly, more than 0.50% of the share capital or voting rights of the Company as of 31 March 2007.

As of 26 June 2006, the French State sold to Bouygues its whole stake of 21,03% in the Company's share capital, following the approval of the European Commission antitrust authority and to the closing of the ALSTOM Marine disposal. As part of the agreement signed between Bouygues and the French State on 26 April 2006, Bouygues gave an undertaking to the French State to retain the shares for at least 3 years.

To the knowledge of ALSTOM, and excluding the undertaking towards the French State mentioned above, no shareholders' agreement concerning its share capital is in place.

A table identifying the operations as per Article L. 621-18-2 of the French "Code monétaire et financier" is available in Section "Corporate Governance – Interest of the officers and employees in the share capital".

As of 11 May 2007, 6,145 shares are held by the Directors of the Company and 1,900 shares are held by the members of the Executive Committee, representing in total approximately 0.006% of ALSTOM's share capital as of 31 March 2007.

ALSTOM does not hold, directly or indirectly through companies it controls, any of its own shares and each Director holds at least the number of shares required by the by-laws.

According to April 2006 partial enquiry, the Group believes to have 250,000 shareholders.

SECURITIES GIVING ACCESS TO THE SHARE CAPITAL

Including information as per Article R. 228-91 of the French Commercial Code.

Within the framework of the implementation of the financing agreement signed with the French Republic and the main banks of the Group in September 2003, the Chairman and Chief Executive Officer, using the powers delegated to him by the Board of Directors, acting pursuant to the authorisation given by the General Meeting of 18 November 2003, proceeded in December 2003 with:

- the issue of subordinated bonds for a nominal amount of €300 million with a fixed duration and reimbursable into shares of the Company ("TSDD RA"), whose subscription has been reserved to the French Republic and which were automatically reimbursed into Company's shares on 7 July 2004 following the approval of this reimbursement by the European Commission;
- the issue of subordinated 2% bonds due December 2008 for €901,313,660.80 and reimbursable in Company's shares ("ORA") with preferential subscription rights which may lead to the issue of a maximum of 643,795,472 new shares (before consolidation) with a ratio of one new share for one bond (before adjustments).

The redemption ratio of the ORA was changed in August 2004 to take into account the share capital increase with preferential subscription rights of 13 August 2004, and then in August 2005 following the consolidation of the shares comprising the share capital. As a result, since 3 August 2005, each ORA entitles the holder to subscribe 0.0314 ALSTOM share of €14 par value.

As of 31 March 2007, 586,919,085 ORA were reimbursed in shares totalling 91.17% of the issue, while 56,876,387 ORA were outstanding.

In addition, for any information regarding the free allocation of shares decided by the Board of Directors held on 16 May 2006, see the section "Corporate Governance - Interests of the officers and employees in the share capital".

We do not have any other securities granting rights to the share capital

POTENTIAL SHARE CAPITAL

As of 31 March 2007	Total number of shares that may be issued	Corresponding nominal amount of share capital increase (€)	% of the share capital (as of 31 March 2007)
Shares that may result from the exercise of existing stock option plans (1)	5,973,835	83,633,690	4.31%
Shares that may be issued in reimbursement of existing subordinated bonds 2% December 2008 redeemable in company's shares ("ORA") (2)	1,785,919	25,002,866	1.29%
Shares that will be issued on the basis of the free allocation of shares (Plan 2006) (3)	558,120	7,813,680	0.40%
Total	**8,317,874**	**116,450,236**	**6.00%**

(1) See Section "Corporate governance - Interests of the officers and employees in the share capital".

(2) See Section "Information on the share capital - Securities giving access to the share capital".

(3) See Section "Corporate governance - Interests of the officers and employees in the share capital".

REPURCHASE OF SHARES

Information as per Article L. 225-11 of the French Commercial Code.

Acting pursuant to Article L. 225-209 of the French Commercial Code, the Ordinary Shareholders' Meeting held on 28 June 2006 authorised the Board of Directors for a one year period, to purchase on a stock exchange or otherwise, and by any means, ALSTOM's shares within the limit of a number of shares representing 10% of ALSTOM's share capital as of 31 March 2006, i.e. a theoretical number of 13,817,077 shares (after consolidation).

This share purchase programme has not been used by ALSTOM.

It will be proposed to the shareholders at the next Shareholders' Meeting to be held on 26 June 2007, to grant the Board of Directors a new authorisation for a one-year period. The number of shares to be purchased under this authorisation would not exceed 10% of the share capital as of 31 March 2007, i.e. theoretically maximum 13,861,720 shares. The maximum purchase price proposed is €150.

ISSUE OF DEBT SECURITIES

On 16 May 2006, the Board of Directors gave full power to the Chairman and Chief Executive Officer, for a one-year period, to issue, in one or more times, bonds within a maximum nominal amount of €1.5 billion.

This authorisation has not been used during the past fiscal year.

This delegation of authority from the Board which was due to expire on 16 May 2007, has been cancelled and renewed by the Board held on 11 May 2007 for a new one year period and for a maximum nominal amount of €1.5 billion.

Furthermore, the delegations of competence to the Board of Directors approved by the Ordinary and Extraordinary General Meeting held on 12 July 2005, authorise the Board of Directors to decide upon the issuance of securities giving access to securities representatives of debt in accordance with the provisions of Article L. 228-92 of the French Commercial Code. This authorisation has not been used. It will be proposed to the next Shareholders' Meeting scheduled on 26 June 2007 to renew this authorisation in a specific resolution for a maximum amount of €2 billion as described in Section "Information on the share capital - Financial authorisations".

DIVIDENDS PAID OVER THE LAST THREE FISCAL YEARS

Information as per Article 243-bis of the French General Tax Code.

No dividends were paid over the last three fiscal years.

It will be proposed to the Shareholder's Meeting convened on 26 June 2007 to pay a dividend in respect of the fiscal year ended on 31 March 2007 of a total amount of €110,893,760.80, corresponding to €0.80 per share of €14 nominal value, to be paid in cash as from 5 July 2007

The amount of the dividend which will be paid to each non-consolidated shares of € 0.35 par value outstanding at the time of payment will be divided by 40.

See Section "Financial information - Statutory accounts – Appropriation of the net income of fiscal year 2006/07".

ELEMENTS WHICH MAY HAVE AN IMPACT IN CASE OF PUBLIC OFFER

Information as per Article L. 225-100-3 of the French Commercial Code.

Structure of the Company's share capital

A table detailing the structure of ALSTOM's share capital is presented in Section "Additional information - Information on the share capital - Ownership of ALSTOM shares".

In addition, within the context of the creation of the joint venture named ALSTOM Hydro Holding, ALSTOM Power Centrales and ALSTOM Holdings, two subsidiaries of ALSTOM, on one side, and Bouygues on the other side, entered into a joint venture agreement dated 29 September 2006, as amended on 31 October 2006. The parties have in particular agreed in the joint venture agreement that Bouygues has the option to sell its shareholdings in the société par actions simplifiée ALSTOM Hydro Holding within twenty days as from 31 October 2009, or before this date in case of deadlock of the shareholders of ALSTOM Hydro Holding relating to certain decisions stipulated in the joint venture agreement. In case of exercise of this option, the ALSTOM Hydro Holding shares may be sold either for cash for a total amount of €175 millions or against the contribution by ALSTOM Power Centrales of 2,2000,000 ALSTOM shares. Should Bouygues exercise its option in ALSTOM shares, ALSTOM Power Centrales is committed to makes its best endeavours to deliver the requested shares or, failing which, to pay to Bouygues a cash amount equal to 2,2000,000 multiplied by the closing share trading price of the ALSTOM share on the third trading day prior to the effective date of the sale by Bouygues of its shareholdings in the joint venture.

Stock options plans set up since fiscal year 2003/04 (Plans n°7, 8 and 9 described in Section Corporate Governance - Interests of the officers and employees in the share capital") allow an early exercise before the expiry of the three-years vesting period in certain circumstances among which in case of a public offering to buy and/or exchange the Company's shares.

By-laws articles restricting the exercise of voting rights and the transfer of shares, or other clauses of agreements known by the Company

None.

Direct or indirect shareholdings in the Company

On 26 June 2006, Bouygues notified the Company that it had crossed the 5%, 10%, 15% and 20% thresholds in ALSTOM's share capital and voting rights. On 30 November 2006, Bouygues notified the Company that it has crossed the 25% threshold in ALSTOM's share capital and voting rights and that it held 34,663,214 ALSTOM shares, representing the same number of voting rights, i.e. 25.07% of the Company's share capital and voting rights. Bouygues holds as of today 25.35% of the share capital and voting rights of the Company.

The detailed structure of ALSTOM's share capital is presented in the Section "Additional information - Information on the share capital - Ownership of ALSTOM shares".

List of holders of any security granting special control rights

None.

Control mechanisms within employee shareholding schemes

The rules of the ALSTOM savings plan ("FCPE ALSTOM") provide that the supervisory board of the FCPE ALSTOM is entitled to vote in ALSTOM's Shareholders Meetings, and not employees directly. Therefore the supervisory board only is entitled to decide on the answer to be given in case of a public offer. The FCPE ALSTOM held 0.31% of the Company's share capital and voting rights as of 31 March 2007.

Shareholders' agreements that may restrict the transfer of shares and the exercise of voting rights

At the time of the acquisition by Bouygues of the French State's shareholding in the Company, corresponding to 21.03% of ALSTOM's share capital and voting rights, Bouygues gave an undertaking to the French State to retain this shareholding for at least three years, expiring on April 2009.

To the knowledge of ALSTOM and excluding the undertaking towards the French State mentioned above, there are no shareholders' agreement that may restrict the transfer of ALSTOM's shares and/or the exercise of ALSTOM's voting rights.

Specific rules governing the nomination and replacement of Directors, and the modification of the Company's by-laws

None.

Board of Directors' powers

The Shareholders' Meeting held on 28 June 2006 authorised the Board of Directors to acquire the Company's shares, within the limits set forth by-laws and regulations, including during any take-over period. It will be proposed to the next Ordinary and Extraordinary Shareholders' Meeting to be held on 26 June 2007 to renew this authorisation, including during any take-over period for the execution of a purchase programme and if the offer is entirely paid up in cash and the purchases not likely to render the offer unsuccessful, as provided for by applicable laws and regulations. See also Section "Additional information - Information on the share capital - Repurchase of shares".

Agreements that may be amended or terminated in case of a change of control of the Company

Our financing agreements, the terms of our bonds issues and bonding programmes include change of control clauses.

The bonds issues expiring 13 March 2009, 28 July 2008 and 3 March 2010 contain a change of control clause that allow any bondholder to request the early reimbursement of its bonds during a specific period of time, in case of change of control.

Our €1 billion syndicated credit facility, which is not drawn as of today, contains a change of control clause that allows each financial institution party to this agreement to request the cancellation of its credit commitment and the early reimbursement of its participation in the credit in case of change of control of ALSTOM.

Our syndicated bonding programme of a maximum amount of €10.5 billion euros also contains a change of control clause which may result, in case of a change of control, in the programme being suspended, in the obligation to procure new bonds to replace outstanding bonds or to provide cash collateral, as well as the early reimbursement of our other debts as a result of their cross-default or cross-acceleration provisions.

The joint venture agreements that we have signed generally contain change of control clauses, that may trigger the obligation to sell our shareholding in these joint ventures.

Agreements providing indemnities to board members or employees, if they resigned or are dismissed without actual and serious reason or if their employment ends due to a public offer.

The indemnity granted in certain circumstances to the Chairman and Chief Executive Officer is detailed in Section "Corporate Governance - Compensation of executive and non-executive Directors and members of the Executive Committee".

LISTING OF THE SHARES

The ALSTOM shares are listed on Eurolist of Euronext Paris.

The ALSTOM shares are no longer listed on the New York Stock Exchange since 10 August 2004 nor on the London Stock Exchange since 17 November 2003.

Codes:	Isin: FR0010220475
	Ticker: ALO
Par value:	€14
Number of shares:	138,617,201
Stock market capitalisation:	€13,466,661,077*
Indices:	CAC40
	SBF 120
	Euronext 100

* Base: closing share price as of 31 March 2007 (€97.15).

SHAREHOLDER INFORMATION

Contacts

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The role of the Investor Relations team is to provide the entire financial community – institutional investors, individual shareholders and financial analysts – with complete, regularly updated information on the Group's strategy and its implementation:

- several times a year, roadshows take place in the main financial centres (France, the United Kingdom, Switzerland, Germany, Belgium…);
- information meetings (Sector presentations, strategy etc) as well as meetings with investors and analysts are regularly organised;
- see also the Investors' section on ALSTOM's website, where in particular financial documentation, debt-related information, calendar of financial events can be found.

Relations with institutional investors and individual shareholders

During fiscal year 2006/07, information meetings with institutional investors were organised in France, the United Kingdom, Switzerland, Germany, Belgium, Scandinavia, Canada and the United States. In March 2007, financial analysts and investors were convened for a presentation of the Group's strategy in China. Management gave a presentation on the Group's activities in China and its competitive position in the power and transport markets. Participants were also invited to visit the ALSTOM Beizhong Power plant (ABP) which manufactures steam turbines and the Three Gorges Dam, in addition to SATCO which is a transport factory in Shanghai.

The Group also creates opportunities to communicate with individual shareholders outside the arena of shareholders' meetings. Two information meetings were organised in France, in Montpellier and Lille, in partnership with the FFCI (the French investment club federation) and the CLIFF (the French association for Investor Relations). As ever, the Group also had a stand at the annual Actionaria exhibition in France where shareholders notably had a chance to meet the Chairman and Chief Executive Officer.

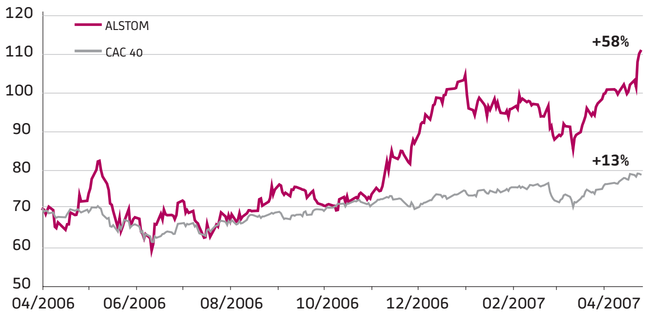
The Group also organises site visits for individual shareholders so that they can get a better insight into the way business works. For example, groups of shareholders went to see trains being assembled at our factories in La Rochelle and Valenciennes and another watched a turbine being put together at our Belfort production plant.

In addition to the annual reports and quarterly publications, the Group offers its shareholders a range of information tools, including our shareholder letter which is published to keep shareholders abreast of any important news and events.

Stock market news

On the 31 July 2006, the ALSTOM share returned to the CAC40 index, the Paris Stock Exchange's most important index. In 2006, ALSTOM's share price increased by 111% which represented the second best performance of shares in the CAC40 index.

Share price performance (in euros) – April 2006 - April 2007



Rebased ALSTOM closing share price on 3 April 2006 (€69.85).

Keeping investors informed

www.alstom.com

The Investors' section of the ALSTOM's website has been specially designed to provide shareholders with easy access to the Group's financial communications: share price quotes, financial results, presentations, annual reports, shareholder letters, dates of important meetings, responses to frequently asked questions, together with a service that dispatches press releases by e-mail. Printed copies of the annual report for 2006/07 may be obtained in French and English by submitting your request to the Investor Relations department.

Social and environmental Information

Information as per Article L. 225-102-1 of the French Commercial Code and the Decree and order of 20 February and 30 April 2002 respectively .

During fiscal year 2006/07, the Group continued to implement consolidated indicators for all its sites (140 sites in 70 countries) with a view to providing as accurate a picture as possible of the social and environmental impacts of its operations.

Some indicators are not yet available on a consolidated basis or have been considered irrelevant with regard to Group operations or due to difficulties in adopting standard definitions for all Group sites worldwide. In such cases, they have not been mentioned or have been limited in scope.

Actions reflecting corporate responsibility with regard to stakeholders, employees, customers, shareholders, suppliers and local communities are presented separately in the Sustainable Development and Activity Report, available on the ALSTOM website at www.alstom.com.

ALSTOM, the parent company of the Group, has no industrial or commercial activities.

SOCIAL INFORMATION

Group workforce at 31 March 2007

The figures in the following tables include overall permanent employees and fixed term contracts.

Breakdown by region

	Europe	North America	Central & South America	Asia/Pacific	Africa/ Middle East	Total
Workforce	42,559	11,465	3,873	9,161	669	67,727*
% of total workforce	62.80%	16.90%	5.70%	13.50%	0.99%	100%

* The difference as compared to the Note 29 to the Consolidated financial statements as of 31 Mach 2007 (66,569) is due to fact that long term absentees are taken into account in this table.

Breakdown by category

	Europe	North America	Central & South America	Asia/Pacific	Africa/ Middle East	Group Total	% of total Group work-force
Engineers & managers	16,506	3,312	1,099	3,640	164	24,721	36.50%
Other employees	26,053	8,153	2,774	5,521	505	43,006	63.50%

Breakdown by Sector

	Europe	North America	Central & South America	Asia/Pacific	Africa/ Middle East	Sector Total	% of total Group work-force
Transport	18,692	2,527	2,135	1,458	398	25,210	37.20%
Power Systems	11,969	3,281	1,433	5,719	7	22,409	33.10%
Power Service	10,843	5,530	208	1,909	236	18,726	27.60%
Other	1,055	127	97	75	28	1,382	2.00%

Breakdown by gender
(% of total workforce)

	Europe	North America	Central & South America	Asia/Pacific	Africa/ Middle East	Total
Men	85%	90%*	87%	88%	90%	86%
Women	15%	10%*	13%	12%	10%	14%

* Figures based on approximately 70% of the total work force in North America (around 30% did not wish to communicate this information).

Breakdown by type of contract
(in % of total work force by region)

	Europe	North America	Central & South America	Asia/Pacific	Africa/ Middle East	Total
Permanent contracts	88%	63%	93%	78%	88%	83%
Fixed-term contracts	6%	34%	2%	16%	4%	11%
Temporary workers	4%	3%	0%	5%	8%	4%
Interns	2%	0%	5%	1%	0%	2%

Workforce changes during fiscal year 2006/07
(Scope: permanent contracts only)

	Europe	North America	Central & South America	Asia/Pacific	Africa/ Middle East	Group Total
New employees	3,584	1,376	977	2,556	256	8,749
Resignations	1,066	304	172	616	18	2,176
Redundancies	684	46	16	57	1	804
Other departures*	895	406	288	345	349	2,283

* Disposals excluded.

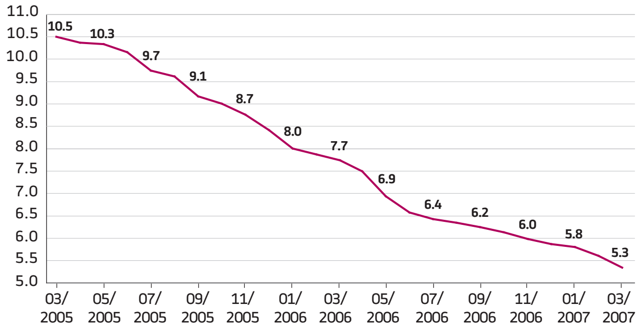
Occupational accident prevention

The Group continues to make the prevention of occupational injury a main priority. A system for collecting consolidated Environmental, Health and Safety (EHS) data, including data on occupational injuries has been in place since 2004.

A global action plan and sustained efforts to improve health and safety, along with a strong campaign to raise awareness and implication of managers and employees have helped greatly reduce the number of work-related accidents. A dedicated safety programme was launched in September 2005 and continued during fiscal year 2006/07 focusing on sites ranked as the Group's ten lowest safety performers.

The following graph shows changes in the Injury Frequency Rate (number of accidents with time lost to injury per million hours worked):

ALSTOM Injury Frequency Rate (12 rolling months)



During fiscal year 2006/07 the Group devoted special attention to improving the health and safety of subcontractors' employees. The Group has continued the programme launched in January 2006 to include subcontractors' EHS performance in its consolidated data reporting system. In addition Group subsidiaries are also gradually incorporating EHS criteria into their subcontractor selection process and are including EHS requirements in specifications signed by subcontractors.

Length and organisation of working time

Working practices at the Group's 140 industrial, commercial and administrative sites vary greatly depending on the site, type of activity, geographical location and applicable local legislation. While meeting these constraints, each site also does its utmost to take into account the individual needs of employees in terms of the length and organisation of working time. The introduction of variable working hours has, for instance, helped employees to reconcile personal and working needs, and made it easier to adapt working hours to suit public transport schedules.

OVERTIME

"Overtime" refers to hours worked beyond the legal limit set by relevant national legislation. The concept of overtime may vary from one country to the next and in some cases is not applicable, which somewhat mitigates the relevance of this indicator on a consolidated basis. Overtime is applied in certain circumstances, such as when it is required to meet the needs of the customers, offset employee availability issues, carry out emergency operations and conduct specific tasks.

USE OF EXTERNAL EMPLOYEES

The number of temporary workers as an average quarterly full-time equivalent ("FTE") was 4% of the total workforce during the first quarter 2007. In France, within companies issuing a social report ("bilan social") (i.e. 12,108 employees, representing 89% of the total work force in France), the average annual FTE for temporary workers was 684, i.e. 5.7% of the total workforce during the year 2006.

For the execution of certain of their contracts, Group subsidiaries also use outsourcing to cope during busy periods or to meet specific business needs outside their competences. To date, consolidated data are not available to accurately measure to what extent outsourcing is being used within the Group

ABSENTEEISM

To date, there are no consolidated indicators on absenteeism available at Group level. In France, the absenteeism rate stands at 2.81% for ALSTOM Transport SA, the most important French company within the Group (7,709 employees) during the year 2006.

Remuneration

Employee benefit expenses represented 19.6% of Group sales at 31 March 2007, i.e. a total of €2,778 million, of which €680 million comprised employer's social charges. See Note 29 in the Consolidated financial statements as of 31 March 2007.

It is the Group's policy to pay its employees on the basis of local market prices, responsibilities and individual performance. Unless prohibited by local regulations, the goal is to ensure all salaried employees benefit from a personalised payment scheme.

Profit-sharing, employee shareholding and life insurance

In addition to their salary, Group employees benefit from a range of provisions in accordance with local legislation. All French subsidiaries of the Group concerned by the law of 7 November 1990 have entered into statutory employee profit-sharing agreements ("Accords de participation"). To date, ten French subsidiaries have entered into a specific profit-sharing plan ("Accord d'intéressement"). For more information on statutory profit-sharing agreements and specific profit-sharing plans in France, see "Corporate Governance - Interests of the officers and employees in the share capital - Employee profit-sharing". There is currently no consolidated data available on the overall amounts paid under employee profit-sharing schemes.

Since its initial public offering and first listing, the Group has implemented three capital increases reserved for employees participating in the Company's savings plan (January 1998, August 2000 and November 2004). In May 2006, all Group employees with minimum six month's seniority were granted 12 free shares (or the cash equivalent in countries where tax and/or legal grounds make the assignment of free shares hard or impossible). In all, 56,777 people in 62 countries benefited from the offer.

Current and former Group employees –38,491 people – held 0.89% of ALSTOM share capital at 31 March 2007, either directly or through a fund ("FCPE"). At the end of the vesting period for the above mentioned free shares programme, employees will hold a total stake of 1.5% in ALSTOM share capital. The Group aims to continue these efforts to further promote employee shareholding. For more information on the free allocation of shares and employee shareholding, please see "Corporate Governance - Interests of the officers and employees in the share capital and "Information on the share capital - Ownership of ALSTOM shares & Changes in share capital".

The Group also aims to ensure that all employees benefit from life insurance cover. To date, a large number of our employees already benefit from it.

Gender equality

It is the Group's policy to promote equal opportunities for men and women on the basis of equal employment and qualifications. This principle is stated in the ALSTOM Code of Ethics and in the guidelines for the HR policy entitled "It's all about people".

Training

There are currently no consolidated indicators available on training at Group level. Out of the 12,108 employees of French subsidiaries issuing a social report, 7,422 employees have taken part in training programmes, i.e. 61.3%, during the year 2006.

The Group attaches the utmost importance to training and on 26 February 2006 it opened its own learning institution: "ALSTOM University". "ALSTOM University" aims to promote employees' personal development while fostering a better awareness of the Group as a whole. Around 80 training programmes are currently available through the university, ranging from management and leadership courses to specialist and advanced programmes in specific business areas. The introduction of four new regional sites in Asia, India, Latin America and North America, along with the initial site at the Group headquarters, will provide wider access to the university for all employees. The percentage of employees outside Europe who have participated in training programmes at ALSTOM University will provide an indicator to monitor development in this area.

Integration and employment of disabled people

Group subsidiaries comply with the full range of legislation applicable in their respective countries to promote the integration and employment of disabled people. In addition, the ALSTOM Code of Ethics strictly prohibits any discrimination on the basis of health or disability.

In France, the number of disabled employees (on the scope of subsidiaries issuing a social report, i.e. 12,108 employees, totalled 444 at 31 December 2006, i.e. 3.7% of the total number of employees of such subsidiaries. ALSTOM Transport SA, the leading French subsidiary in the Transport Sector, signed an agreement on 7 July 2006 to promote the integration of disabled people with a corresponding dedicated budget.

Charitable contributions

The overall budget for work in the community and contributions to charities is not yet available at Group level.

A corporate foundation will be set up during fiscal year 2007/08 to review, develop, participate in and carry out all studies, research, initiatives, programmes and campaigns to improve the involvement of the Group in the environmental area particularly with regard to rail transport and power generation worldwide. The foundation will use all necessary financial and human resources, working either alone or in partnership with other individuals or legal entities in the relevant field.

Fundamental conventions of the International Labour Organisation

The Group seeks to ensure that all its subsidiaries comply with the fundamental conventions of the International Labour Organisation ("ILO"), namely:

- equal opportunities and non-discrimination (conventions 110 and 111);
- freedom of association – freedom to form unions or to be a union member and freedom to bargain collectively (conventions 97 and 98);
- child labour (conventions 138 and 182);
- forced labour (conventions 29 and 105).

The ALSTOM Code of Ethics stipulates that Group employees must know the laws, regulations and requirements relating to their job, location and environment and must avoid any activity that may involve the Group in any unlawful practices. First introduced in 2001, the Code of Ethics has been regularly updated and widely distributed. In March 2007, the newly adopted ALSTOM Code of Ethics was widely communicated within the Group in 11 languages.

In all countries where the Group has operations, it seeks to ensure that national labour laws comply with the fundamental conventions of the ILO. However, some jurisdictions do not uphold all ILO conventions, notably with regard to freedom of association. To date, the Group has not implemented specific measures to ensure these conventions are met in countries where the law does not provide for such cases. During fiscal year 2006/07, the Group launched an action plan to ensure that all subcontractors and key suppliers of the Group comply with the aforementioned ILO conventions.

Social dialogue

The Group has a European Works Council known as the European Works Forum ("EWF"). Over the course of fiscal year 2006/07, it was decided that a broader representation of the work force was needed, taking the total number of members from 28 to 32 in 2007. Representatives come from 18 European countries, including 3 new members: the Russian Federation, Croatia and Norway.

During fiscal year 2006/07, the delegates and management met 14 times.

Two plenary sessions were organised :

- in June 2006, in Baden (Switzerland), including an analysis of Group results and presentation of activities in the Power Service Sector,
- in December 2006, in Mannheim (Germany), focusing on developments in the Transport Sector and the Hydro business. This plenary session included a three-day training programme on the corporate social responsibility for all delegates in partnership with external consultants.

Four working group sessions were organised on the "Impact" project, which targets organisational principles in the Transport Sector, including the implementation of a new industrial foot print for rolling stock.

Eight EWF Select Committee meetings were also held each time planned changes to Group organisation required an information exchange between delegates.

The social relations policy recognises and respects the role and responsibilities of our social partners, negotiating openly to address issues of collective interest. In France, management teams held talks with union representatives, leading to 2 agreements. On the 19 January 2006 an agreement was signed on the scheduled management of jobs and skills (with an amendment on 1 December 2006).

Over the last six months of 2006, a working group comprising representatives from trade unions and Group management prepared an agreement to pave the way for a collective pension savings plan (plan d'épargne retraite collectif – PERCO) for employees at ALSTOM's French subsidiaries. This plan, signed on the 28 February 2007, designed to complement existing savings plans, means employees covered by the scheme will receive an employer's yearly contribution of up to €500, in addition to their own savings.

Impact of operations on regional development and local populations

The Group is aware of the impact its business activities can have on regional development and local populations and incorporates such factors into its corporate responsibility campaign, principally by ensuring compliance with its Environmental, Health & Safety (EHS) policy, which all sites are required to implement.

The Group also strives to promote employment as part of its restructuring programmes. As an example, an agreement was signed in 2006 by one of the Group's German subsidiaries providing for the involvement of a third-party company to help reindustrialise the area and mitigate the impact of restructuring at the Mannheim site.

In addition, the Group is developing a global strategy targeting schools and universities that offer courses providing skills relevant to Group operations and is encouraging local initiatives to foster closer ties with local learning institutions, young people and students.

Relations with local communities are handled locally in each country where the Group has operations, the Group policy being to respect local cultural practices and national traits of individual countries. At present, the Group has no consolidated data on the amount of funding given to such activities with local communities. Examples of such relations are however available on the ALSTOM website.

ENVIRONMENTAL INFORMATION

During fiscal year 2006/07, the Group put in place a system for collecting consolidated environmental data with a view to increasing awareness of the subsidiaries and each employee's individual role at each of the 140 sites of the Group.

The Group uses a unique collection tool known as "Locus Focus" to consolidate this information, which standardises definitions for the different measures. This environmental data does not cover activities in the Marine Sector, which was sold on 31 May 2006.

The Group has chosen to release information on water and energy consumption. Systematic, reliable data reporting is not yet sufficient to enable publication of relevant and reliable indicators, except for the French sites.

Water consumption

Fiscal year 2006/07

	France
m^3 of public network	368,230
m^3 of ground water	1,571,142
m^3 of surface water	2,276
Total water consumption (m^3)	1,941,648

Energy consumption

Fiscal year 2006/07

	France
MWh of natural gas	107,714
MWh of butane or propane	7,679
m^3 of oil	682
MWh of steam	11,117
MWh of electricity	101,378
Total energy consumption (MWh)	235,053

Environmental performance targets

Minimising the negative impact of its activities on the environment is a key tenet of Group EHS policy.

Under the Group's EHS policy, all sites are required to meet a number of environmental criteria, including self-assessment measures to reduce the impact of operations on the environment.

The Group has no specific targets with regard to preserving the biological balance, the natural environment and protected species of animals and wildlife, although a number of sites have already begun local initiatives to protect local flora and fauna. The Group has not set specific objectives with regard to environmental certification, although many sites have already obtained ISO 9001, 14001 and OHSAS 18001 certification. Details are available on the ALSTOM website.

Assessment process - EHS Road Map

The Group's Environmental, Health & Safety (EHS) department has put in place an "EHS Road Map" reference system, setting out EHS performance targets for all of the Group's 140 sites. The EHS Road Map is used both in the self-assessments regularly carried out by sites and in formal assessments conducted either by external consultants or by specially trained internal specialists.

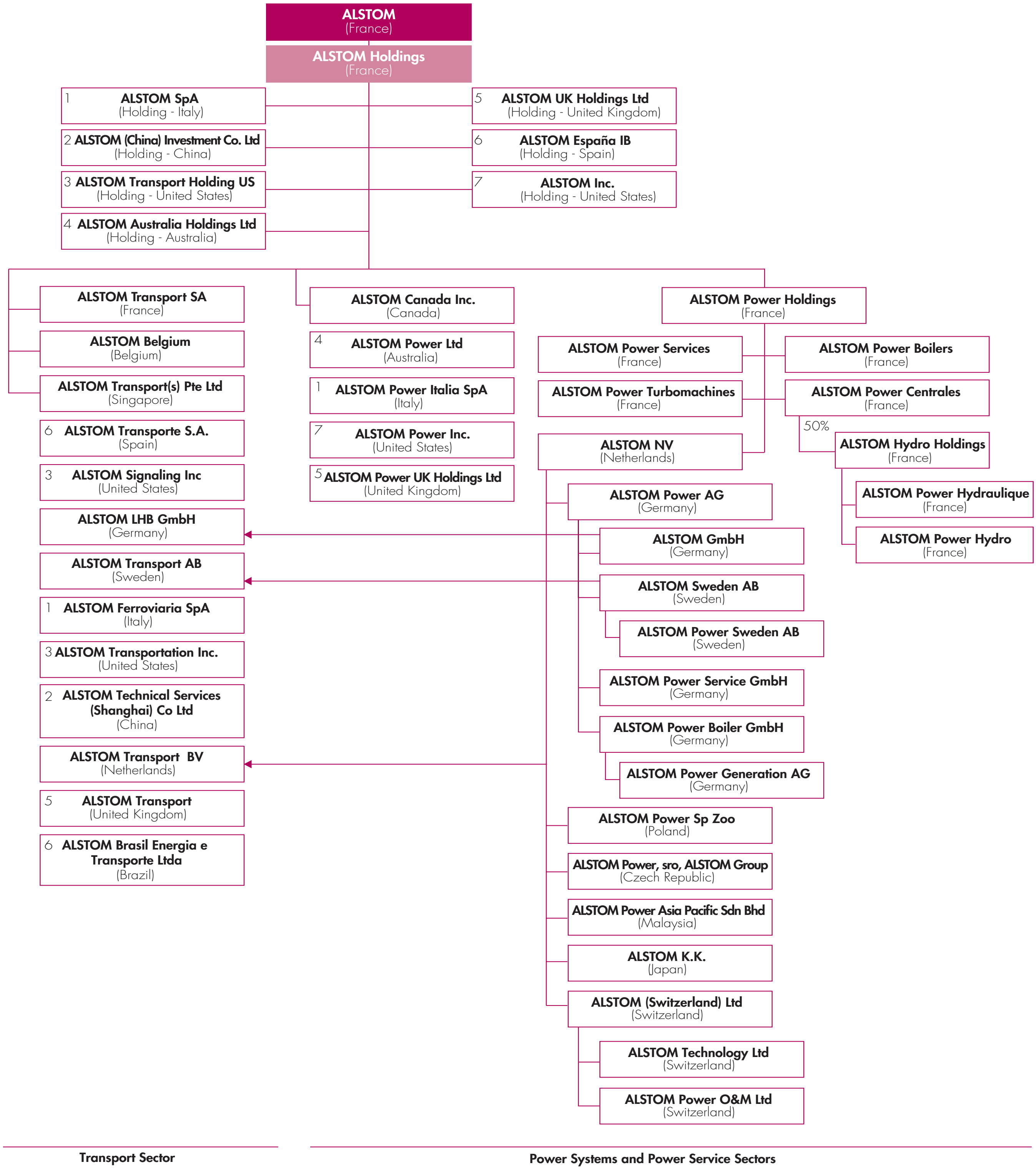
The Group has set a target of conducting complete evaluations at all production sites every three years, with an update assessment every year.

Over the course of the fiscal year 2006/07, a total of 96 assessments were carried out, 55 of which were conducted by external consultants. The cost of these external assessments totalled €380 000.

The Group also continued its drive to train internal assessors. Over the course of fiscal year 2006/07, 10 new assessors qualified, bringing the total number of internal assessors within the Group to 16. Sites were required to obtain a score of 3.5 or higher on a scale of 1 to 5 to qualify.

Meeting EHS targets set out under in EHS Road Map is a prerequisite to obtaining external certification.

Organisation chart
as at 31 March 2007



Nota: Unless otherwise stated, companies are wholly owned - Each number in a box indicates the ultimate holding company with the same number that holds its shares.

Information on the **Annual Financial Report**

STATEMENT BY THE PERSON RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT*

I state that, to my knowledge, the statutory accounts and the consolidated financial statements included in the Annual Financial Report of ALSTOM (the "Company") for the fiscal year 2006/07 are established in accordance with applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of operations of the Company and all enterprises included in the consolidation perimeter, and the management report presents a true and fair view of the evolution of the operations, results of operations and financial position of the Company and all enterprises included in the consolidation perimeter, as well as a description of the main risks and uncertainties faced by them.

Levallois-Perret, 30 May 2007

The Chairman and Chief Executive Officer
Patrick Kron

* This is a free translation of the statement signed and issued in French Language by the Chairman and Chief Executive Officer of the Company and is provided solely for the convenience of English speaking readers.

TABLE OF RECONCILIATION

The ALSTOM Annual Financial Report for fiscal year 2006/07, established pursuant to article L. 451-1-2 of the French "Code monétaire et financier" and article 222-3 of the General Regulation of the French "Autorité des marchés financiers", is made up of the sections of the French "Document de Référence" 2006/07 identified in the table below:

Sections of the "Document de Référence"	Pages of the "Document de Référence"
Consolidated financial statements	59 to 124
Statutory accounts	126 to 138
Group activity, which constitutes the the Board of Directors' report on the Group management for the fiscal year ended 31 March 2007	6 to 55
Risks, included in the Board of Directors' report on the Group management for the fiscal year ended 31 March 2007	143 to 147
Financial authorisations, which includes the authorisations to increase the share capital	196
Repurchase of shares	201
Elements which may have an impact in case of public offer	201 to 203
Auditors' report on consolidated financial statements	125
Auditors' report on the statutory financial statements	139
Statement of the person responsible for the Annual Financial Report	212

Information on the **“Document de Référence”**

INFORMATION INCLUDED BY REFERENCE

Pursuant to article 28 of EC Regulation N°809-2004 of the Commission of 29 April 2004 regarding prospectuses, the following information is included by reference in this “Document de Référence”:

- the consolidated and statutory financial statements for the fiscal year ended 31 March 2006, the auditors’ reports thereto and the Group’s management report, as shown at pages 48 to 127, 131 to 145, 128 to 130, 146 to 148 and 5 to 46 respectively, of the report n° D.06-0526 filed with the Financial Markets Authority (Autorité des marchés financiers) on 2 June 2006;
- the consolidated and statutory financial statements for the fiscal year ended 31 March 2005, the auditors’ reports thereto and the Group’s management report, as shown at pages 76 to 123, 144 to 158, 74 to 75,142 to 143 and 29 to 72 respectively, of the report n° D.05-0905 filed with the French Financial Markets Authority (Autorité des marchés financiers) on 17 June 2005.

The sections of these documents not included here are either not relevant for the investor, or covered in another part of this “Document de Référence”.

STATEMENT BY THE PERSON RESPONSIBLE FOR THE “DOCUMENT DE RÉFÉRENCE”*

After taking all reasonable measures, I state that, to my knowledge, the information contained in this ”Document de Référence” is accurate. There is no other information the omission of which would alter the scope thereof.

I have obtained from the auditors, Deloitte & Associés and Ernst & Young et Autres, a letter of completion of work in which they indicate that they have verified the information relating to the financial situation and financial statements given in this “Document de Référence” and have read the whole “Document de Référence”.

The historical financial information presented or included by reference in the “Document de Référence” has been the subject of reports by the auditors included on pages 125, 139 and 140 for the year ended 31 March 2007, and included by reference in this “Document de Référence” for the years ended 31 March 2005 and 31 March 2006. These reports have been issued without qualification and contain emphasis of matter paragraphs relating to the years ended 31 March 2005 and 31 March 2006.

Levallois-Perret, 30 mai 2007

The Chairman and Chief Executive Officer
Patrick Kron

* This is a free translation of the statement signed and issued in French Language by the Chairman and Chief Executive Officer of the Company and is provided solely for the convenience of English speaking readers.

TABLE OF RECONCILIATION

The "Document de Référence" 2006/07 in French language was filed with the French "Autorité des marchés financiers" ("AMF") on 30 May 2007 in accordance with article 212-13 of its "Règlement général".

It may be used in connection with an offering of securities if it is accompanied by a prospectus ("note d'opération") for which the AMF has issued a visa.

Section of Annex 1 to European Regulation n°809/2004	Pages of the "Document de Référence"
1. Persons responsible	214
2. Statutory Auditors	186
3. Selected financial information	
3.1 Historical information	10 to 14; 214
3.2 Interim information	NA
4. Risk factors	47 to 49; 115 to 122; 143 to 147
5. Information about the issuer	
5.1 History and development of the issuer	6 to 9; 189
5.2 Investments	43 to 44; 45; 80 to 83
6. Business overview	
6.1 Principal activities	6 to 14; 16 to 20; 34
6.2 Principal markets	12 to 14; 16 to 24; 26 to 33; 34 to 36; 37 to 40
6.3 Exceptional events	NA
6.4 Potential dependence	143 to 144; 193
6.5 Basis of any statement made by the issuer regarding its competitive position	18 to 24; 35 to 36
7. Organisational structure	
7.1 Brief description	211
7.2 List of significant subsidiaries	123 to 124; 130; 136
8. Property, plants and equipments	
8.1 Existing or planned material tangible fixed assets	80 to 83; 193
8.2 Environmental issues that may affect the use of tangible fixed assets	NA
9. Operating and financial review	
9.1 Financial condition	6 to 14; 16 to 55
9.2 Operating results	6 to 14; 16 to 55
10. Capital resources	
10.1 Issuer's capital resources	43 to 44; 64; 77 to 78; 97 to 98; 131 to 132
10.2 Cash flows sources and amounts	45 to 46; 62
10.3 Borrowing requirements and funding structure	45 to 46; 107 to 111
10.4 Information regarding any restrictions on the use of capital resources that have materially affected or could materially affect the issuer's operations	109; 133
10.5 Anticipated sources of funds	NA
11. Research and development, patents and licences	7; 24 to 25; 37; 42; 84; 193
12. Trend information	15; 21 to 24; 26; 35 to 36; 37; 56
13. Profit forecasts or estimates	15; 56

Section of Annex 1 to European Regulation n°809/2004	Pages of the "Document de Référence"
14. Administrative, management and supervisory bodies and senior management	
14.1 Administrative and management bodies	150 to 155
14.2 Administrative and management bodies conflicts of interest	155 to 156
15. Remuneration and benefits	
15.1 Amount of the remuneration paid and benefits in kind	176 to 180
15.2 Total amount set aside or accrued by the issuer or its subsidiaries to provide pension, retirement or similar benefits	8; 104 to 107; 176 to 180
16. Board practices	
16.1 Date of expiration of current term of offices	150 to 155
16.2 Service contracts of members of the Board	155 to 156
16.3 Information about the Audit Committee and the Remunerations Committee	158; 161 to 162; 163 to 166
16.4 Corporate governance in force in the issuer's country of origin	149; 155 to 156
17. Employees	
17.1 Number of employees	111 to 112; 205 to 206
17.2 Shareholdings and stock options	99 to 103; 181 to 183
17.3 Description of any arrangements for involving the employees in the issuer's capital	183 to 185; 207
18. Major shareholders	
18.1 Shareholders with more than 5% interest in the share capital or voting rights	199
18.2 Different voting rights	NA; 195
18.3 Control of the issuer	NA
18.4 Agreement known to the issuer, the operation of which may at a subsequent date result in a change of control of the issuer	NA
19. Related party transactions	122; 140
20. Financial information concerning the issuer's assets and liabilities, financial position and profit and losses	
20.1 Historical financial information	214
20.2 Pro forma financial information	NA
20.3 Financial statements	59 to 124; 126 to 138
20.4 Auditing of historical financial information	214
20.5 Age of latest financial information	59
20.6 Interim and other financial information	NA
20.7 Dividend policy	138; 201
20.8 Legal and arbitration proceedings	115 to 118; 144 to 145
20.9 Significant change in the issuer's financial or commercial condition	195
21. Additional information	
21.1 Share capital	131 to 132; 195 to 204
21.2 Memorandum and Articles of Association	189 to 192
22. Material contracts	194

Section of Annex 1 to European Regulation n°809/2004	Pages of the "Document de Référence"
23. Third party information and statement by experts and declarations of interest	18 to 24; 35 to 36
24. Documents on display	192
25. Information on holdings	123 to 124; 130; 136

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