ALSTOM
Form 20-F
June 17, 2004
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As filed with the Securities and Exchange Commission on 17 June 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)**

OF THE SECURITIES EXCHANGE ACT OF 1934

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 March 2004

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-14836

ALSTOM

(Exact name of Registrant as specified in its charter)

THE FRENCH REPUBLIC

(Jurisdiction of incorporation or organization)

25, AVENUE KLÉBER, 75116 PARIS, FRANCE

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange
Ordinary Shares	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

Common Shares, nominal value 1.25 per share: 1,056,657,572

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes ¨ No

Indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 x Item 18

* Approved for listing (not for trading), but only in connection with the American Depositary Shares.

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PRESENTATION OF INFORMATION

Unless the context otherwise requires, references in this Annual Report on Form 20-F to ALSTOM , the Company or the Group are to ALSTOM and its consolidated subsidiaries.

ALSTOM s fiscal year ends on 31 March.

Unless otherwise indicated, numerical references to employees are to full-time equivalent employees.

The Consolidated Financial Statements for the fiscal years ended 31 March 2004, 2003 and 2002 and the notes thereto included elsewhere in this Annual Report on Form 20-F are referred to herein as the Consolidated Financial Statements . ALSTOM has prepared the Consolidated Financial Statements in accordance with accounting principles generally accepted in France (French GAAP), which differ in certain significant respects from accounting principles generally accepted in the US (US GAAP). Differences between accounting principles adopted by ALSTOM and US GAAP as they apply to the Group are summarised in Note 33 to the Consolidated Financial Statements.

The Consolidated Financial Statements prepared in accordance with French GAAP for the year ended 31 March 2004 and 31 March 2003 included in this Annual Report on Form 20-F for the year ended 31 March 2004 differ from our Consolidated Financial Statements published in France and adopted at our General Shareholders Meeting on 2 July 2003 for the year ended 31 March 2003 and as approved by our Board of Directors on 25 May 2004 for the year ended 31 March 2004. These differences relate to the accounting in fiscal year 2003 for the effects of US$94 million (94 million in the year ended 31 March 2003 and 80 million in the year ended 31 March 2004) of increased provisions, accrued contract costs and other payables recorded as a result of changes in estimates of costs to complete on contracts in our Transport Sector. See Item 5. Operating and Financial Review and Prospects Introductory Note Regarding the Consolidated Financial Statements . Under French rules, because these increased costs were identified and recognised following the approval of the Consolidated Financial Statements, they were recorded in the financial statements published in France for the year ending 31 March 2004. Under US rules, because these differences were identified and recognised prior to the completion of the preparation of the accounts for our Annual Report on Form 20-F for the year ended 31 March 2003, we were required to modify our Consolidated Financial Statements for the year ended 31 March 2003 to reflect these increased costs. The adjustments to our French GAAP published accounts for the year ended 31 March 2003 were an increase in cost of sales of 94 million, a corresponding increase in operating loss, and a partially offsetting increase in income tax credit of 38 million. As a result, the net loss for the year ended 31 March 2003 included in this Form 20-F increased by 56 million compared to the Consolidated Financial Statements published in France and adopted at the General Shareholders Meeting on 2 July 2003. Our Consolidated Financial Statements for the year ended 31 March 2004 as approved by our Board of Directors on 25 May 2004 and to be presented for adoption to the General Shareholders Meeting to be held in early summer 2004 include these changes in estimates of costs to complete. Consequently, the Consolidated Financial Statements prepared in accordance with French GAAP for the year ended 31 March 2004 included in this Annual Report on Form 20-F have been modified. See Note 1(c) to the Consolidated Financial Statements.

All references herein to France are to the French Republic. All references to the United Kingdom or the UK are to the United Kingdom of Great Britain and Northern Ireland. All references to Euros , Euro or are to the common currency adopted by the twelve member states of the European Monetary Union (EMU). All references to the United States or the US are to the United States of America and all references to dollars , $ or $ are to the lawful currency of the United States.

Various amounts and percentages set forth herein have been rounded and, accordingly, may not total.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains, and other written or oral reports and communications of ALSTOM may from time to time contain, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Such statements appear, without limitation, in the information referred to herein entitled Item 4. Information about ALSTOM and in Item 5. Operating and Financial Review and Prospects . Examples of such forward-looking statements include, but are not limited to (i) projections or expectations of sales, income, operating margins, dividends, provisions, cash flow, debt or other financial items or ratios; (ii) statements of plans, objectives or goals of the Group or its management; (iii) statements of future product or economic performance; and (iv) statements of assumptions underlying such statements. Words such as believes , anticipates , expects , intends , aims , plans and will and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve risks and uncertainties that the forecasts, projections and other forward-looking statements will not be achieved. Such statements are based on our current plans and expectations and are subject to a number of important factors that could cause actual results to differ materially from the plans, objectives and expectations expressed in such forward-looking statements. These factors include the factors listed below as well as those described under Item 3. Key Information Risk Factors :

- the inherent difficulty of forecasting future market conditions, level of infrastructure spending, GDP growth generally, interest rates and exchange rates;
- the effects of, and changes in, laws, regulations, governmental policy, taxation or accounting standards or practices;
- the effects of currency exchange rate movements on the pricing and competitiveness of our products, and on the cost of raw materials;
- the effects of competition in the product markets and geographic areas in which we operate;
- our ability to increase market share, control costs and enhance cash generation while maintaining high quality products and services;
- the timely development of new products and services;
- the ability to obtain shareholder approval for and implement our new financing package;
- the ability to renegotiate and then meet, as necessary, the financial and other covenants contained in our financing agreements;
- the ability to renegotiate our Bonding Facility in order to obtain bid, performance and other bonds in amounts that are sufficient to meet the needs of our businesses;
- the timing of and ability to meet the cash generation and other initiatives of the action plan and the financing plans, including the ability to dispose of certain real estate and other assets on favourable terms or in a timely fashion;

the results of investigations by the United States Securities and Exchange Commission (SEC) and the *Autorité des Marchés Financiers* (AMF);

the outcome of the putative class action lawsuits filed against us and certain of our current and former officers;

the results of the European Commission s review of the French State s involvement in our financing plans and other aspects of our businesses;

the availability of external sources of financing on commercially reasonable terms;

the inherent technical complexity of many of our products and technologies and our ability to resolve effectively, on time, and at reasonable cost technical problems, infrastructure constraints or regulatory issues that inevitably arise, including in particular the problems encountered with the GT24/GT26 gas turbines and the UK trains;

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- risks inherent in large contracts and/or significant fixed price contracts that comprise a substantial portion of our business;

- the inherent difficulty in estimating future charter or sale prices of any cruise ship in any appraisal of our exposure in respect of Renaissance Cruises and ships that have been seized from Festival;

- the inherent difficulty in estimating our vendor financing risks and other credit risks, which may notably be affected by customers payment default;

- our ability to invest successfully in, and compete at the leading edge of, technology developments across all of our sectors;

- the availability of adequate cash flow from operations or other sources of liquidity to achieve management s objectives or goals, including our goal of reducing indebtedness;

- whether certain of our markets, particularly the Power Sectors, recover from their currently depressed state;

- the possible impact on customer confidence of our financial difficulties, and if so, our ability to re-establish this confidence;

- the effects of acquisitions and disposals generally;

- the unusual level of uncertainty at this time regarding the world economy in general; and

- our success in adjusting to and managing the foregoing risks.

We caution you that this list of important factors is not exhaustive; when relying on forward-looking statements to make decisions with respect to us, you should carefully consider the foregoing factors and other uncertainties and events, as well as other factors described in other documents we file with or submit to, from time to time, the SEC, including reports submitted on Form 6-K. Such forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following tables set forth selected consolidated financial data for ALSTOM for the periods and dates indicated and are qualified by reference to, and should be read in conjunction with Item 5. Operating and Financial Review and Prospects and the Consolidated Financial Statements and Notes thereto contained herein.

The Consolidated Financial Statements and the Notes thereto have been prepared in accordance with French GAAP, which differ in certain significant respects from US GAAP. For a discussion of the principal differences between French GAAP and US GAAP as they relate to ALSTOM, and a reconciliation of net income and shareholders equity to US GAAP, see Note 33 to the Consolidated Financial Statements.

The Consolidated Financial Statements prepared in accordance with French GAAP for the year ended 31 March 2004 and 31 March 2003 included in this Annual Report on Form 20-F for the year ended 31 March 2004 differ from our Consolidated Financial Statements published in France and adopted at our General Shareholders Meeting on 2 July 2003 for the year ended 31 March 2003 and as approved by our Board of Directors on 25 May 2004 for the year ended 31 March 2004. These differences relate to the accounting in fiscal year 2003 for the effects of US$94 million (94 million in the year ended 31 March 2003 and 80 million in the year ended 31 March 2004) of increased provisions, accrued contract costs and other payables recorded as a result of changes in estimates of costs to complete on contracts in our Transport Sector. See Item 5. Operating and Financial Review and Prospects Introductory Note Regarding the Consolidated Financial Statements . Under French rules, because these increased costs were identified and recognised following the approval of the Consolidated Financial Statements, they were recorded in the financial statements published in France for the year ending 31 March 2004. Under US rules, because these differences were identified and recognised prior to the completion of the preparation of the accounts for our Annual Report on Form 20-F for the year ended 31 March 2003, we were required to modify our Consolidated Financial Statements for the year ended 31 March 2003 to reflect these increased costs. The adjustments to our French GAAP published accounts for the year ended 31 March 2003 were an increase in cost of sales of 94 million, a corresponding increase in operating loss, and a partially offsetting increase in income tax credit of 38 million. As a result, the net loss for the year ended 31 March 2003 included in this Form 20-F increased by 56 million compared to the Consolidated Financial Statements published in France and adopted at the General Shareholders Meeting on 2 July 2003. Our Consolidated Financial Statements for the year ended 31 March 2004 as approved by our Board of Directors on 25 May 2004 and to be presented for adoption to at the General Shareholders Meeting to be held in early summer 2004 include these changes in estimates of costs to complete. Consequently, the Consolidated Financial Statements prepared in accordance with French GAAP for the year ended 31 March 2004 included in this Annual Report on Form 20-F have been modified. See Note 1(c) to the Consolidated Financial Statements.

ALSTOM has prepared the Consolidated Financial Statements assuming that it will continue as a going concern, on the assumption that it will be able to:

- secure contract bonding and guarantee facilities to meet its normal business activity;
- successfully negotiate new covenants with its lenders;
- obtain all necessary approvals from the European Commission; and

generate operating income and cash flow sufficient to respect covenants or waivers being granted, thus ensuring continued availability of debt financing.

However, ALSTOM s independent auditors, Ernst & Young and Deloitte Touche Tohmatsu, included an emphasis of matter paragraph in their auditors report which states certain conditions exist which raise substantial doubt about ALSTOM s ability to continue as a going concern in relation to the above. The Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty. See Independent Auditors Report at page F-2 of the Consolidated Financial Statements.

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	Year ended 31 March				
	2000	2001	2002	2003	2004
	(in million except margin and per share data)				
Income Statement Data					
Amounts in accordance with French GAAP					
Sales	16,229	24,550	23,453	21,351	16,688
Operating expenses(2)	(15,500)	(23,399)	(22,512)	(21,952)	(16,308)
Operating income (loss)(2)	729	1,151	941	(601)	380
Restructuring costs(1)	(442)	(81)	(227)	(268)	(655)
Financial income (expense)	(62)	(207)	(294)	(270)	(460)
Income tax(2)	(119)	(174)	(10)	301	(283)
Share in net income (loss) of equity investments	(13)	(4)	1	3	
Minority interests	(15)	(37)	(23)	(15)	2
Net income (loss)(3)	349	204	(139)	(1,488)	(1,788)
Earnings (loss) per share (basic and diluted)(2)	1.63	0.95	(0.6)	(5.6)	(4.0)
Margin (operating income (loss) as a percentage of sales)(2)	4.5%	4.7%	4.0%	(2.8)%	2.2%
Amounts in accordance with US GAAP					
Sales	10,707	18,158	18,428	17,029	14,358
Operating income (loss)(3)	553	(1,228)	(424)	(1,367)	(635)
Net income (loss) from continuing operations(3)	363	(1,353)	(515)	(1,278)	(2,771)
Net income (loss) from discontinued operations(3)(4)	63	78	182	137	4
Net income (loss)	426	(1,275)	(296)	(1,141)	(2,767)
Earnings (loss) per share from continuing operations (basic and diluted)(3)	1.70	(6.30)	(2.39)	(4.82)	(6.14)
Earnings (loss) per share from discontinued operations (basic and diluted)(3)	0.29	0.36	0.85	0.52	0.01
Earnings (loss) per share (basic and diluted)	1.99	(5.94)	(1.37)	(4.30)	(6.13)

(1) Restructuring costs are classified as an operating expense under US GAAP and a portion of such amounts would not be recognised in the same accounting periods as under French GAAP. See Note 33(A)(c) to the Consolidated Financial Statements.

(2) 31 March 2003 and 31 March 2004 adjusted figures for the purposes of the filing of this Annual Report on Form 20-F. See Note 1(c) to the Consolidated Financial Statements.

(3) The net gain on the disposal of discontinued operations for the year ended 31 March 2002 previously presented in capital gain (loss) on disposal of investments has been reclassified in capital gain (loss) from discontinued operations without impact on reported net income (loss) for the year ended 31 March 2002.

(4) Including 145 million and (22) million of Capital gain (loss) relating to discontinued operations in the year ended 31 March 2002 and 31 March 2004.

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	At 31 March				
	2000	2001	2002	2003	2004
	(in million except per share data)				
Balance Sheet Data:					
Amounts in accordance with French GAAP					
Short-term investments, cash and cash equivalents	2,421	3,020	2,236	1,770	1,466
Trade and other accounts receivable, net(5)	6,505	9,845	8,034	7,095	5,484
Inventories and work in progress, net	3,327	6,050	5,593	4,608	2,887
Goodwill, net	3,810	5,311	4,612	4,440	3,424
Other acquired intangible assets, net		1,187	1,170	1,168	956
Property, plant and equipment, net	2,163	2,788	2,788	2,331	1,569
Total assets(5)(1)	20,678	31,666	28,204	24,817	18,724
Financial debt(1)(6)	4,727	6,231	6,035	6,331	4,372
Provisions for risks and charges(2)(5)	3,254	4,591	3,849	3,738	3,489
Customers deposits and advances	2,371	6,205	4,221	3,541	2,714
Trade payables	3,646	6,540	5,564	4,629	3,130
Shareholders equity(5)	1,986	2,090	1,752	707	29
Amounts in accordance with US GAAP					
Shareholders equity (deficit)	1,844	420	(159)	(1,249)	(3,203)
Total assets	22,285	31,606	28,083	25,735	18,198
Financial debt(1)(6)	6,827	8,826	8,727	8,588	6,844
Other Financial Data:					
Orders received(3)	17,259	25,727	22,686	19,123	16,500
Order backlog(4)	23,701	39,429	35,815	30,330	25,368
Dividends paid	111	118	118		
Cash dividends per share	0.52	0.55	0.55		

(1) In addition to the financial debt carried on its balance sheet under French GAAP, the Group has interests in special purpose entities financing products sold and finances certain of its assets through capital lease or long term rental arrangements. Under US GAAP, such special purpose entities are consolidated and capital lease and long term rental arrangements are capitalised. In addition, under US GAAP, the put and call agreement relating to the acquisition of 49% minority interests in Alstom Ferroviaria Spa is treated as an acquisition from the origin and increases consequently the financial debt at 31 March 2001 and 2002. For US GAAP purposes, at 31 March 2000, 2001, 2002, 2003 and 2004, respectively, these differences increase, amongst other items, financial debt by 2,100 million, 2,595 million, 2,692 million, 2,257 million and 2,472 million. See Note 22 and Note 33(D)(g) to the Consolidated Financial Statements.

(2) Figures at 31 March 2000 have been restated to take into account the change in presentation of accrued contract costs and accrued employee benefits other than pensions made in fiscal year 2001. For the fiscal years ended 31 March 2001, 31 March 2002 and 31 March 2003 accrued contract costs and accrued employee benefits other than pensions have been shown as part of accrued contract costs and other payables and expenses rather than in provisions for risks and charges.

(3) Orders received equals the value, based on contract price, of all orders received during a fiscal year, excluding the effect of options or other adjustments on such contracts. Generally, an order is included in Orders received upon receipt of both a signed contract and the agreed down payment.

(4) Order backlog is the aggregate of all orders received but not yet recognised as sales as of the end of a fiscal year.

(5) 31 March 2003 adjusted figure for the purposes of the filing of this Annual Report on Form 20-F. See Note 1(c) to the Consolidated Financial Statements.

(6) At 31 March 2003, does not include 64 million relating to discontinued operations. See Note 33(B)(a) to the Consolidated Financial Statements.

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Exchange Rate Information

Under the provisions of the Treaty on European Union negotiated at Maastricht in 1991 and signed by the then 12 member states of the European Union in early 1992, a European Monetary Union, known as EMU, was implemented on 1 January 1999 and a single European currency, known as the Euro, was introduced. The following 12 member states participate in EMU and have adopted the Euro as their national currency: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. The legal rate of conversion between French francs and the Euro was fixed on 31 December 1998 at 1.00 = FRF 6.55957. Beginning 1 January 2002, the participating member states have issued new Euro-denominated bills and coins for use in cash transactions. On 17 February 2002, France withdrew the bills and coins denominated in local currency from circulation, and these bills and coins are no longer the legal currency for any transactions. For your convenience, this Annual Report on Form 20-F contains translations of certain French franc and Euro amounts into US dollars.

Unless otherwise indicated, dollar amounts have been translated from Euro at the rate of 1.00 = $1.23, the noon buying rate in New York City for cable transfers in Euro as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate) on 31 March 2004.

Our shares are denominated in Euro. Fluctuations in the exchange rate between the Euro and the US dollar will affect the US dollar price of our American Depositary Shares, or ADSs, on the New York Stock Exchange. In addition, since any cash dividends that we pay will be denominated in Euro, exchange rate fluctuations will affect the US dollar amounts that owners of ADSs will receive on conversion of dividends.

The following table sets forth, for the calendar periods indicated, certain information concerning the exchange rates based on the Noon Buying Rate expressed as US dollar per Euro. Such rates are provided solely for the convenience of the reader and are not necessarily the rates used by us in the preparation of our Consolidated Financial Statements:

	Period end	Average[(1)]	High	Low
1999	1.01	1.06	1.18	1.00
2000	0.94	0.92	1.03	0.83
2001	0.89	0.89	0.95	0.84
2002	1.05	0.95	1.05	0.86
2003	1.26	1.1309	1.26	1.04
December 2003	1.2631	1.2287	1.2597	1.1956
2004 (through June 16)	1.2006	1.2231	1.2853	1.1801
January	1.2452	1.2638	1.2802	1.2389
February	1.2441	1.2640	1.2853	1.2426
March	1.2292	1.2261	1.2431	1.2141
April	1.1975	1.1989	1.2358	1.1802
May	1.2217	1.2000	1.2274	1.1801
June (through June 16)	1.2006	1.2163	1.2320	1.2006

(1) Yearly averages are expressed as the average of the Noon Buying Rates on the last business day of each month during the relevant period. Monthly averages are expressed as the average of the Noon Buying Rates of each business day of the month.
(2) A conversion rate of Euros per US dollar has been provided for the fiscal year 1998, prior to the introduction of the Euro on 1 January 1999, by dividing the corresponding French franc exchange rate by 6.55957, the official French franc-Euro conversion rate established on 1 July 1999.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The level of our orders received was affected during the first half of fiscal year 2004 by difficult market conditions and uncertainties regarding our financial condition. If the recovery on some of our markets and the return of customer confidence, which we noted in the second half of fiscal year 2004, are not confirmed in the longer term, this could have an adverse impact on our results, and our orders might not return to prior levels.

Orders received during the first half of fiscal year 2004 decreased on a comparable basis by 23% and 7% compared with the first and second halves of fiscal year 2003 respectively (29% and 13% respectively on an actual basis). Over fiscal year 2004, orders received remained globally stable compared with fiscal year 2003 on a comparable basis (+1% on a comparable basis and 14% on an actual basis) thanks to the increase in orders received since the announcement of our financing plan in September 2003.

Our orders and sales depend on the level of infrastructure spending, which has historically been significantly impacted by the rate of growth in gross domestic product. Poor economic and political conditions or downturns in broad economic trends in our markets therefore have a negative effect on our orders, sales, results and financial condition. The level of infrastructure spending is also significantly affected by customers expectations about a variety of other factors, such as their ability to raise financing for their businesses and changes in applicable laws, including the deregulation and liberalisation of infrastructure services. Although short-term changes in gross domestic product may affect our orders received, in the past such changes have had less of an impact on our sales due to the length of our product delivery cycles and the size of our order backlog.

In addition to difficult market conditions, the uncertainty resulting from our financial condition may have led to some customers delaying or not placing orders with us. Improvement in our results of operations, cash flow and financial condition in general depends on our ability to restore our level of orders, but we may not be successful in doing so. Even if our orders recover relatively quickly, our sales and income in subsequent years may be lower than has been the case in recent periods. If we do not have a sustained recovery in our orders, we may have to undertake additional restructuring and bear additional costs in order to achieve acceptable operating margins, which may have a material adverse effect on our results of operations, financial condition and prospects.

The European Commission may find that elements of our financing plan implemented in 2003, other transactions that we have entered into and our financing package announced in May 2004, constitute State aid that is not compatible with European Community law. Any

requirements by the Commission notably to terminate or modify certain elements of our financing plans could affect our operations and results. The 2003 and 2004 financings are key elements in our plan to reduce our high level of indebtedness, address our bonding requirements and sustain our commercial activity.

The European Commission (the Commission) opened a formal investigation in September 2003 to determine whether the State elements of our financing plan, the sale of our former Transmission & Distribution (T&D) Sector to Areva, a French State-owned company, and certain other transactions entered into with entities controlled by the French State contain elements of State aid and if so, whether the aid is compatible with the common market. Under European Community law, a Member State may not provide aid to a company unless the Commission finds that the aid is compatible with the common market.

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Our financing plan was originally announced on 6 August 2003, and was renegotiated in September 2003 to address certain concerns raised by the Commission. Notably, the Commission had authorised the issuance of an injunction to suspend the granting of the elements of this financing package supported by the French State, unless the French authorities agreed not to participate in measures that would automatically and irreversibly result in the French State s participation in our equity capital prior to the Commission s final decision. Following the renegotiation of the plan, the Commission announced on 22 September 2003 that it would not issue the injunction. The European Commission s investigation of the new financing package is currently ongoing.

The main items of the Commission s investigation related to our financing plan implemented in 2003 are the following:

- the French State s subscription to 300 million of subordinated bonds reimbursable with shares in the Company,
- the reimbursement of those bonds with shares in the Company (which is explicitly conditioned on European Commission approval),
- the French State s subscription to 200 million of additional subordinated bonds,
- the French State s guarantee of 300 million of subordinated loans, granted by the Caisse Française de Développement Industriel (CFDI),
- the purchase of 300 million of commercial paper by the *Caisse des Dépôts et Consignations (CDC)*, and an additional purchase of 900 million of commercial paper by the *CDC,*
- the French State s counter-guarantee of 65% of our 3,500 million bonding facility,
- the terms of the sale of our T&D Sector to Areva, a French State-owned company, and
- orders such as a LNG tanker by a French State-owned company, a ferry by another French State-owned company and certain gas power plants.

All of the transactions referred to above have been completed.

On 27 May 2004, we signed an agreement with the French State and our main banks on a new financing package, in order to secure new access to bonding, to strengthen our balance sheet and to stabilise our shareholder base. For more information, see Item 5. Operating and Financial Review and Prospects Recent Developments . The Commission s approval is a condition to the implementation of this package and our current understanding is that the Commission will render its decision by early summer 2004, which may be conditional upon certain commitments we will make, including the sale of businesses representing approximately 1.5 billion in sales. Any negative decision of the Commission or any delay in the approval or implementation of our financing package could result in events of default under our financial agreements and could significantly affect our business and financial condition, in particular our ability to obtain bonding to sustain our commercial activity.

If all or any part of our financing plan implemented in 2003, the other transactions referred to above or our new financing plan are found to constitute State aid that is incompatible with the common market, the Commission could require the French State to recover some or all of the financing granted under this plan or to comply with specific conditions. Further, it could prohibit us from delivering shares to the French State in reimbursement of the subordinated bonds reimbursable with shares (TSDD RA) issued to the French State in December 2003. The Commission could also subject the approval of the aid to certain conditions, for example our selling additional businesses or undertaking further restructuring, which would increase our costs, or, in the extreme and highly improbable case, even terminate the relevant transactions.

We have a high level of indebtedness and the 2003 and 2004 financings are key elements in our plan to reduce this indebtedness. A negative decision by the Commission could severely hamper this effort and have a material adverse effect on our financial position and prospects.

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A negative decision by the Commission could also trigger clauses in our financing agreements that would restrict our ability to obtain bonds under our bonding facility of 3,500 million (counter-guaranteed by the French State at the level of 65%), or to draw under our credit facilities, or would require us to repay amounts outstanding under our financing agreements. This would require us to renegotiate the agreements referred to above in order to meet our financial obligations, which we might be unable to do on commercially reasonable terms or at all. In addition, a negative decision by the European Commission could significantly affect our business and financial condition, in particular our share price as well as the confidence of our customers and our lenders.

Prior to the Commission s decision, a third party has the right to challenge and seek suspension or reimbursement of any aid put into effect prior to the Commission s final decision before any competent court on the grounds that it constitutes unlawful State aid . We are not aware of any such challenges at this time.

A decision by the European Commission may be appealed. In particular, the French State could appeal a decision before the Court of Justice of the European Communities, and we could challenge a decision before the Court of First Instance of the European Communities. A third party, if it has locus standi, could also appeal a favourable decision by the Commission.

Difficulties in securing sufficient sources of bonds may jeopardise our ability to obtain new orders and to receive advances and progress payments from customers.

It is customary in our businesses to post bonds issued by banks (in particular: bid bonds, advance payment bonds, performance bonds, warranty bonds) and by insurance companies (surety bonds). In posting such bonds, we are required to seek out third parties (banks and insurance companies), to issue bonds as a condition to bidding, entering into commercial contracts with our clients or receiving advances and progress payments from them. The amount of such bonds is often significant, averaging in total approximately 25% of the price of the contracts signed.

Bond providers have reduced or stopped further bond issuances in order to maintain their credit ratings. Simultaneously, new regulatory constraints affecting banks and the deterioration of our credit profile have resulted in reduced available capacity and higher pricing for these instruments.

In fiscal year 2003, we faced a significant decrease of the bonding capacity of the market generally. Moreover, we have had difficulty obtaining bonds, in particular in the first half of fiscal year 2004, as financial institutions have been reluctant to increase their financial exposure to our Group in light of our financial situation. As part of our September 2003 financing package, on 29 August 2003 we signed a 3,500 million bonding facility (which was amended on 1 October 2003 and on 18 February 2004), counter-guaranteed by the French State at the level of 65%, (the Bonding Facility), which has again enabled us to obtain bonds.

We had initially estimated that the Bonding Facility would cover our bonding needs through the third quarter of fiscal year 2005. Given the level of our order in-take in the third and fourth quarters of fiscal year 2004, the full amount available under this facility is likely to be used earlier than expected (in summer 2004). Under our financing package announced in May 2004, we aim to syndicate a new bonding programme, which we currently estimate will cover our needs for the next two years. Our core banks are committed to provide approximately three quarters of our bonding requirements and the remainder will be proposed to other financial institutions. For more information, see Item 5. Operating and Financial Review and Prospects Recent Developments .

Given our credit profile and the bonding capacity of the market, which remains very limited, we can give no assurance that we will be successful in the negotiations of the remainder of our bonding requirements with other financial institutions and that we will be able to raise sufficient bonding capacity allowing us to cover our bonding needs adequately in the long term. Our inability to secure new sources of bonding could seriously jeopardize our ability to win new contracts, sustain our commercial operations and have a material adverse impact on our results of operations and financial condition. For more information, see also The European

Commission may find that elements of our financing plan implemented in 2003, other transactions that we have entered into and our financing package announced in May 2004, constitute State aid that is not compatible with European Community law. Any requirements by the Commission notably to terminate or modify certain elements of our financing plans could affect our operations and results. The 2003 and 2004 financings are key elements in our plan to reduce our high level of indebtedness, address our bonding requirements and sustain our commercial activity .

Our lines of credit and certain of our other financing agreements contain financial covenants, currently suspended until 30 September 2004, that we may be unable to renegotiate or to meet in the future.

Our ability to maintain and obtain financing depends largely upon our financial performance.

Our Bonding Facility referred to in the risk factor above, our subordinated debt facility of 1,563 million signed on 30 September 2003 (the Subordinated Debt Facility), the syndicated credit facility renegotiated on 19 December 2003, currently in the amount of 721.5 million (the Syndicated Credit Facility) and certain of our other financing agreements contain covenants requiring us to maintain compliance with pre-established financial ratios (covenants).

These covenants are described in Note 22 to the Consolidated Financial Statements as of 31 March 2004. They took effect from 31 December 2003 in relation to Total Debt, and from 31 March 2004 in relation to Consolidated Net Worth and minimum EBITDA. The covenants in relation to interest cover and total Net Debt leverage will apply from 31 March 2005.

Most of our financing agreements and our outstanding securities include cross-default and cross-acceleration provisions pursuant to which a payment default, an acceleration, or a failure to respect financial covenants or other undertakings under one agreement may result in all or a significant part of our other debt becoming immediately repayable. Such an event may also prevent us from drawing upon our credit lines. If the debt under our financial agreements were to be accelerated, we might not have the funds required to immediately repay this debt.

Based on our forecasts of fiscal year 2004 results, we have requested and obtained from our lenders the suspension of the financial covenants Consolidated Net Worth and minimum EBITDA until 30 September 2004 and we have committed to them to renegotiate before that date a new covenants package. We are currently in discussions with our main banks within the framework of our financing package announced in May 2004. For more information, see Item 5. Operating and Financial Review and Prospects Recent Developments and 2003 Financing Package . We cannot assure the outcome of these negotiations or that a default with respect to these covenants will be avoided.

Our ability to meet our financial covenants depends on our ability to restore our levels of activity and margins, reduce our indebtedness and maintain sufficient net worth, each of which could be adversely affected by events beyond our control. In the event of a default under any of these agreements, the lenders could elect to declare all of the amounts outstanding under the agreements to be immediately due and payable. Although we would attempt to negotiate with our lenders to seek a waiver of such default or an amendment to the relevant agreement, such negotiations might not be successful.

We have announced a financing package in May 2004, in order to secure new access to additional bonding, to strengthen our balance sheet and to stabilise our shareholder base. This package is subject to approval by the European Commission and our shareholders that we are seeking to obtain.

We signed an agreement with the French State and our main banks in May 2004, in order to implement a new financing package. These measures consist of the following principal features:

An increase in our bonding facility programme from 3.5 billion to up to 8 billion, which would benefit from a 2 billion guarantee package, with 700 million security provided by ALSTOM, 1,250 million given by a French State-guaranteed institution and the remaining 50 million from a group of banks,

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A capital increase for a total amount, issue premium included, of 2.2 billion, consisting of:

a capital increase by a share issue for a maximum amount of 1.2 billion, including issue premium, with shareholders preferential subscription rights, in which the French State would participate by exercising all of its preferential subscription rights resulting from the reimbursement in shares of its TSDD RAs, up to a limit of 18.5% of 1 billion (on the basis of the share capital as of 31 March 2004);

the conversion into equity of between 500 million and 1,200 million of existing debt, through the conversion of up to 500 million of subordinated bonds by the French State (provided that the French State s total equity participation or voting rights in the Company does not exceed 31.5%) and the conversion into equity, to be proposed to our lenders other than the French State, of an aggregate maximum amount of existing debt of 700 million.

This financing package is subject to European Commission approval, which we hope to obtain in early summer 2004. Resolutions regarding the capital increases will be submitted for approval at ALSTOM s Ordinary and Extraordinary General Meeting convened on 9 July 2004 (second call). The timing, terms and final amount of the capital increases will be decided by our Board of Directors and will depend on market conditions and the willingness of our creditors to convert their debt.

Our ability to successfully implement these measures will depend upon a number of factors, including the approval by our shareholders, the granting by our creditors of the waivers and amendments that will be required to permit the debt to equity exchange, the willingness of our creditors to tender their debt instruments for shares and the approval by the European Commission of the new measures. This approval will also be conditional upon certain commitments we will make, including the sale of businesses representing approximately 10% of our current sales. As a result of these financial measures, we expect to issue a large number of new shares, a part of which would not be subject to preferential subscription rights in favour of existing shareholders. Upon the issuance of new shares, current shareholders who do not exercise their preferential subscription rights will experience substantial dilution.

Any refusal of the European Commission or our shareholders to approve these measures or any delays in their approval or implementation could significantly affect our business and financial condition, in particular our ability to obtain bonding to sustain our commercial activity.

We have unfunded liabilities with respect to our pension plans and other post-retirement benefits.

We have obligations to our employees and former employees relating to retirement and other post-retirement indemnities in the majority of the countries where we operate. In France, retirement indemnities arise pursuant to labour agreements, specific conventions and applicable local legal requirements. Retirement indemnities in France are funded from current cashflows, and there is no legal requirement to maintain assets to fund these liabilities.

In the United States, the United Kingdom and elsewhere, liabilities arise pursuant to labour agreements, pension schemes and plans and other employee benefit plans, some of which are required to maintain assets in off balance sheet trusts to fund their liabilities. As a result of stock market declines in fiscal year 2003, the market value of the assets in our pension plans declined. The stock market revival in fiscal year 2004 led to an increase in the market value of the assets held in our funded pension plans, which remains, however, significantly below the related projected benefit obligations.

With respect to retirement, termination and post-retirement benefits, we had projected benefit obligations of 3,633 million and plan assets of 2,263 million. As of 31 March 2004, we have recognised 485 million of net liabilities in respect of our pension plans and other post-retirement benefit arrangements. The unrecognised liabilities, which amounted to 885 million, will be amortised over the average working lives of the active members of the plans, in compliance with the accounting standards used for the preparation of the Consolidated Financial Statements.

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In addition, pursuant to certain of our defined benefit schemes, we are committed to eventually provide cash to cover any differences between plan s assets market value and required levels for such schemes over a defined period. Investment returns on these assets have so far covered such differences. We can, however, give no assurance that these commitments or other scheme obligations may not have any adverse impact on our cashflows.

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, especially discount rates and/or rates of return on plan assets, were to differ from these assumptions, our pension, retirement and other post-employment costs would be higher or lower, and our cash flows would be unfavourably or favourably impacted by the funding of these obligations.

Based on International Financial Reporting Standards (or IFRS) that we will be obliged to adopt for fiscal year 2005/06, we may elect either to recognise all cumulative actuarial gains and losses at the time of transition (i.e., 1 April 2005) or to split these cumulative actuarial gains and losses from the date of inception of the plans until the date of transition to IFRS into a recognised and unrecognised portion, the unrecognised portion to be recognised over the average working lives of the members of the plans. Recognition of all cumulative actuarial gains and losses in our fiscal year 2006 consolidated accounts would have a material impact on the Group balance sheet.

Further details on the methodology used to assess pension assets and liabilities together with the annual pension costs are included in Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Pension Accounting and Note 21 to the Consolidated Financial Statements as at 31 March 2004.

If we do not achieve our forecast income or cash flow, we may be led to review the valuation of certain assets and have to depreciate them.

Our deferred tax assets-net amounted to 1,531 million as of 31 March 2004. This valuation has been established on the basis of our business plan for each country.

If our income per country is below our forecasts and if consequently we do not make sufficient taxable income in certain countries to allow tax losses carried forward to be used before their expiry, we would be obliged to review the valuation of these assets and, as appropriate, to increase the related valuation allowance. At 31 March 2004 we had valuation allowances of 730 million. Any requirement for further valuation allowances may have a material adverse effect on our balance sheet and results.

Moreover, goodwill and other intangible assets are shown in our consolidated balance sheet for the amounts of 4,380 million and 5,608 million respectively as at 31 March 2004 and 31 March 2003. As at these dates, in addition to our normal annual internal review, we requested an independent third party expert to provide a report as part of the impairment tests performed annually on goodwill and other intangible assets. This valuation supported our opinion that goodwill and other intangible assets do not have to be depreciated beyond annual amortisation. If in the future our own valuations (or those which could be led by an independent expert) conclude that the net book value of goodwill and intangible assets is greater than the fair value of these assets (this concept being presented in Note 7 to the Consolidated Financial Statements as at 31 March 2004), we would be obliged to depreciate these assets beyond normal annual depreciation, which could have a material adverse effect on our balance sheet and results. In certain circumstances, there can be differences arising between French GAAP and US GAAP as a result of interpretation of US accounting rules. In the fiscal year ended 31 March 2004, the Group in interpreting US accounting rules concluded that a full valuation allowance for net deferred tax assets is required under SFAS 109 Accounting for Income Taxes .

Net deferred tax assets accordingly were subject to a full valuation allowance in the US GAAP accounts for the year ended 31 March 2004 but not in the French GAAP accounts. This interpretive judgment under US GAAP reflected the uncertainty surrounding the implementation of the financing package and the resultant issues

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concerning the financial condition of the Group and produced an uncertainty which led to the requirement to take a valuation allowance against all the net deferred tax assets of the Group. Other than in these circumstances, differences in deferred tax accounting between French and US GAAP should not be material. See Item 5. Operating and Financial Review and Prospects Significant Differences Between Accounting Principles Generally Accepted in France and in the US.

We will be obliged to adopt new accounting standards for our fiscal year beginning 1 April 2005 that will materially impact the presentation of our financial statements and our financial reporting.

We currently prepare our Consolidated Financial Statements in accordance with French GAAP and prepare a reconciliation to US GAAP of stockholders equity, net income and certain other financial information. In June 2002, the Council of Ministers of the European Union approved a new regulation proposed by the European Commission requiring all EU-listed companies to apply International Financial Reporting Standards (IFRS) in preparing their financial statements for fiscal years beginning on or after 1 January 2005. IFRS emphasizes the principle of the fair value of a company s assets and liabilities. Applying these standards to our financial statements may have a considerable impact on a number of important areas, including, among others, valuation and depreciation of goodwill and intangible assets, accounting for development costs, tangible assets fair value, accounting for pensions and other post-retirement benefits, marketable securities and derivative financial instruments as well as classification of debt and equity. Further details are provided in Item 5. Operating Review and Financial Prospects Transition to International Financial Reporting Standards . This change in accounting rules will not give rise to a change in the intrinsic value of the Group and its activities, but is likely to impact the balance sheet accounting value assigned to certain items. Because our Consolidated Financial Statements prepared in accordance with IFRS would differ, perhaps materially, from our Consolidated Financial Statements prepared in accordance with French GAAP, the methods used by the financial community to assess our Group s financial performance and value our publicly traded securities, such as price-to-earnings ratios and debt-to-equity ratios, could be affected.

Our results, cash flows and the price of our listed securities are exposed to currency exchange rate movements.

A significant percentage of our sales and expenditures is effected in currencies other than the Euro. The principal currencies to which we had significant exposure in fiscal year 2004 were the US dollar, Pound sterling, Swiss franc, Mexican peso and Brazilian real. Our policy is to manage transaction exposure as follows:

- by matching, as far as possible, the currencies of our sales with the specific currencies in which we incur related costs (or natural hedge); and

- by hedging remaining exchange rate risks, corresponding to the amounts not covered by the natural hedge.

We do not specifically hedge our net assets invested in foreign operations. We monitor our market position closely and regularly analyse market valuations. In addition, our central corporate treasury department designs and executes almost all derivatives, except in countries where, due to legal restrictions, forward currency exchange contracts are dealt with locally by our affiliates with local banks.

For consolidation purposes, the balance sheets of our consolidated foreign subsidiaries are translated into Euro at the period-end exchange rate, and their income statements and cash flow statements are converted at the average exchange rate for the period. The balance sheet impact of such translation may be material. Period-to-period changes in the average exchange rate for a particular currency can significantly affect reported sales and operating and other expenses incurred in such currency as reflected in our income statement, and therefore can significantly affect our financial condition or results of operations.

Currency exchange rate fluctuations in those currencies in which we incur our principal manufacturing expenses (the Euro, US dollar, Pound sterling, Swiss franc, Mexican peso and Brazilian real) may have the effect of distorting competition between us and those competitors whose costs are incurred in other currencies. To the extent that our principal currencies appreciate in value against such other currencies, our competitiveness against our competitors may be eroded. Detailed information on currency exchange risk is provided in Item 5. Operating and Financial Review and Prospects Impact of Exchange Rate and Interest Rate Fluctuations and Note 29 to the Consolidated Financial Statements as at 31 March 2004.

Our shares trade in Euro on the *Premier marché* of Euronext Paris and our ADRs trade in US dollars on the NYSE. The value of the shares and ADRs could fluctuate as the Euro and US dollar exchange rates fluctuate. Since any dividends we may declare are denominated in Euro, exchange rate fluctuations could affect the US dollar equivalent of dividends, which could be received in the future by ADR holders.

We may experience difficulties in implementing our restructuring initiatives, which could affect our results and limit our ability to reduce our indebtedness and adapt our production capacity to our order backlog.

In March 2003, we announced an action plan including cost-reduction and operational improvement measures. In fiscal year 2004, we have accelerated our restructuring initiatives. Moreover, to adapt our production capacity to our order backlog, we have, in particular, announced the corresponding industrial restructuring plans in all the Sectors, except Marine.

Our restructuring initiatives are subject to employee consultation in each Sector, function and country affected. We have achieved more than half of our headcount reduction objectives. We can however give no assurance that we will be successful in achieving all our restructuring targets fixed in our action plans. Part of our restructuring plans include the closures of facilities and the reduction of workforce in efforts to cut costs and rationalise our operations. Restructurings, which entail plant closure, may harm our relations with our employees, the local community and third parties and have led, and could lead to further work stoppages and/or demonstrations.

These events would in turn adversely affect our operations and results. Furthermore, if we experience significant difficulties in implementing our overhead reduction initiatives and our operational improvement measures, our business and results could be adversely affected and we might not achieve our annual savings targets according to our planned timetables.

If we are unable to manage our working capital effectively or negotiate satisfactory payment terms with our customers and suppliers, or if we apply existing provisions more quickly than expected, we may be required to seek new sources of financing in the future.

The structure of customer deposits and advances is particularly important in our long-term project activity, which represents approximately 50% of our sales. Customer deposits and advances include preliminary cash advances paid by customers as well as customers progress payments during the execution of the project as contractually agreed. Taking customer advances serves in part to provide us with working capital to finance the execution of our projects. Our ability to negotiate and collect customer advances is in large part linked to the confidence that our customers place in us. For more information regarding customer deposits and advances, see Item 5. Operating and Financial Review and Prospects Financial Statements Balance Sheet Customer deposits and advances , and Notes 12 and 13 to the Consolidated Financial Statements as of 31 March 2004.

Long-term projects experience a disbursement of expenses over the life of the project, which can typically take two to five years to complete, depending upon the nature of the contract. The cash disbursement pattern for a project usually starts slowly through the design and mobilisation stages, then accelerates through project execution tailing off at the end of the project during the installation and/or commissioning stages. As a result, in the early stages of our projects we are often left with deposit and advance amounts which exceed the immediate project related costs to which these may be attributed.

We may be required to accept less favourable payment conditions than those received in the past and may not be able to reflect these more difficult terms in contracts with our subcontractors or suppliers. Our ability to obtain

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satisfactory payment terms from our suppliers is limited in large part by their views of our financial solidity. In addition, a reduction in order intake could cause a reduction in customer deposits and advances.

At 31 March 2004, we had 3,489 million of provisions for risks and charges. If the provisioned risks materialise, if the application of these provisions is accelerated or if we are required to increase them due to unforeseen events or contingencies, we could be required to dedicate significant amounts of cash to such risks and charges. Given our current financial situation, it is unlikely that we could obtain significant amounts of cash through borrowings in the short term.

All of these factors may cause our cash requirements to grow and our net cash position to deteriorate and may require us to find alternative sources of financing. In the short term, it is unlikely that alternative means of financing will be available to us on commercially reasonable terms, if at all. See also Item 3. Key Information Risk Factors Difficulties in securing sufficient sources of bonds may jeopardise our ability to obtain new orders and to receive advances and progress payments from customers .

Our products often 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 sometimes 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 to a large number of products. At the same time, when we sell our products or enter into maintenance contracts, we are increasingly required to accept onerous contractual after-sales warranties and penalties in particular related to performance, availability and delay in delivering our products. Our contracts may also include clauses allowing the customer to terminate the contract or return the equipment if performance specifications or delivery schedules are not met. As a result of these contractual provisions and the pressures of accelerated new product development, design and manufacturing, problems encountered with our products may result in material unanticipated expenditures.

The GT24/GT26 gas turbines problems, described in Item 5. Operating and Financial Review and Prospects Status of Our Action Plan and Main Events of Fiscal Year 2004 Power Turbo-Systems and in Note 20 to the Consolidated Financial Statements as at 31 March 2004, and the UK Train issues described in Item 5. Operating and Financial Review and Prospects Overview Status of our Action Plan and Main Events of Fiscal Year 2004 and Transport and in Note 20 to the Consolidated Financial Statements as at 31 March 2004, are major examples of this risk. We cannot guarantee that the total costs that we ultimately incur in connection with the GT24/GT26 turbines, the UK Trains and other of our products and maintenance contracts will not exceed the estimates that we have provisioned. Nor can we guarantee that the rate of spending will be in line with our current estimates. In addition, we cannot ensure that the mitigation programmes to reduce our expected costs (in particular with respect to our GT24/GT26 gas turbines) will allow us to attain the full extent of the cost reductions envisaged by these programmes. The total amount and timing of actual expenditures (in particular, penalties and damages), as well as the actual savings obtained through implementation of mitigation programmes, may vary as a result of a number of factors, including the following:

- the results of litigation and negotiations with certain clients;
- cost overruns in the manufacture of modified components;

delays and cost overruns in modifying products, delivering modified products, obtaining customer acceptance of or implementing technical modification programmes;

the extension of contractual recovery periods;

the application of penalties by customers;

the performance of modified equipment over time;

our ability to develop subsequent modifications that will further improve the performance of our equipment;

our ability to realise our mitigation objectives; and

the availability of sufficient supplies of replacement parts and raw materials.

Given the technical sophistication of some of our products, we can give no assurance that we will not encounter new problems or delays with our products, in spite of the technical validation processes implemented within the Group. Any such problems or delays could be costly, could harm our business reputation or affect our ability to sell other products and could have a material adverse impact on our financial condition or results of operations or cause our products to be less competitive than those of our competitors.

We have given financial assistance in connection with the purchase of some of our products by our customers which exposes us to longer-term risks of customer default or bankruptcy.

In the energy and transport infrastructure markets, customers have occasionally required suppliers such as us to assist in financing purchases or projects. This has been particularly true in the Marine Sector. This assistance may take the form of guarantees of indebtedness or taking partial equity ownership of entities operating the projects on a long-term basis. This financial assistance exposes us to longer-term risks of customer default or bankruptcy resulting in our guarantees being called or the value of our equity investment being reduced. We have not made commitments to provide guarantees of our new customers indebtedness since the end of 1999 and intend not to do so in the future.

At 31 March 2004, our vendor financing exposure amounted to 969 million, of which 321 million related to our Transport Sector and 643 million to our Marine Sector (323 million relating to Renaissance Cruises, which entered into bankruptcy proceedings in September 2001, 185 million relating to Festival Cruises, which suspended its cruise operations following creditor actions begun in January 2004, and 135 million relating to three other ship operators which are in operation). We describe our vendor financing exposure in greater detail in Item 5. Operating and Financial Review and Prospects Off Balance Sheet Commitments and Contractual Obligations and Note 27(a)(2) to the Consolidated Financial Statements as of 31 March 2004.

In January 2004, given Festival s failure to meet certain financial obligations, a procedure to immobilize three ships built by our subsidiary Chantiers de l Atlantique and terminate the charter arrangements with Festival was launched by the concerned financial institutions for two ships (European Vision and European Stars) and by its owner, guaranteed by ALSTOM, for the third ship (Mistral). We have not increased the existing provision on Marine vendor financing due to these events because, on the basis of an estimate of their market value, we have considered that the direct and indirect interest owned by ALSTOM in the ships (in particular Mistral) should in the aggregate cover the Group exposure adequately.

The European Vision was sold in April 2004 at a price in line with our expectations. We do not expect difficulties in protecting our rights on the other ships formerly operated by Festival, but cannot be ensured of the results. In addition, difficulties may be encountered in selling or leasing these ships and those formerly operated by Renaissance within estimated time periods and at estimated value. Therefore, there can be no assurance that current provisions will be satisfactory to cover all future risks relating to Marine vendor financing.

In general, a downturn in the markets may expose us to an increased risk of certain of our customers defaulting or bankruptcy and lead to losses in excess of the provisions we have established, which could have a material adverse impact on our financial condition and results of operations.

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We are exposed to credit risk with respect to some of our customers.

To the extent our customers do not advance us sufficient funds to finance our expenses during the execution phase of our contracts, we are exposed to the risk that they will be unable to accept delivery or that they will be unable to make payment at the time of delivery. In these circumstances, we could be unable to recoup the expenses we incur on a project and could be unable to obtain the operating margins we expected upon entering the contract. We currently mitigate this risk by endeavouring to negotiate with our customers in order to have them make more timely progress payments, and through our risk management procedures, in particular through the implementation of hedges subscribed with private or public insurers or other ad hoc coverage instruments.

In fiscal year 2004, our ten largest customers accounted for 15.5% of our sales. If one of our largest customers were unable to meet its commitments, due to bankruptcy or any other reason, we could be unable to recover some or all of the costs we incur on these projects, which could have a material adverse effect on our financial condition or results of operations.

Our financial performance could be adversely impacted by a limited number of contracts.

Each year, approximately one-third of our business is conducted under a limited number of major long-term contracts. Variations in activity levels under these contracts can result in significant variations in our sales and operating income from year to year. At 31 March 2004, our ten largest projects in terms of order backlog represented approximately 19.7% of our total order backlog. Generally, the revenue that we recognise on a project may vary significantly in accordance with the progress of that project. As a result of this variability, the profitability of certain of our contracts may significantly impact our income in any given period. In addition, the profitability of a contract and/or our sales, our results and cash flow may be affected by the following:

- withholding of payments by customers;
- the refusal of suppliers to maintain favourable payment conditions;
- delays in awards of major contracts;
- postponement of previously awarded contracts;
- unanticipated technical problems with equipment being supplied or incompatibility of such equipment with existing infrastructure;
- customers difficulties in obtaining adequate financing on reasonable terms;
- difficulties in obtaining required governmental permits;
- unanticipated costs due to project modifications;

performance defaults by suppliers, subcontractors or consortium partners;

customer payment defaults and/or bankruptcy; and

changes in laws or taxation.

In addition to the general factors listed above, the profit margins realised on certain of our contracts may vary from our original estimates as a result of changes in costs and productivity over their term.

We have established stricter risk control procedures for tenders and contracts in progress, with a view to improving and better formalising processes within the Sectors. However, we can give no assurance that these and our 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.

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We operate in competitive markets.

We face strong competition in our markets, both from large international competitors and, in a number of markets, from smaller niche players. Industry consolidation is increasing globally and the main players are adopting a strategy of global expansion. This competition has generally resulted in lower selling prices and a deterioration of terms of payment in favour of our customers. In response, we have adopted several ongoing programmes to cut costs and improve efficiency.

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, in particular as a result of our high indebtedness and our financial condition in general.

The business and asset disposals that we make are generally subject to pricing adjustments and warranties that may delay payments due to us, reduce the net proceeds that we receive or require us to pay indemnities to the acquirer.

We have recently disposed of a number of businesses and assets, notably our T&D sector and Industrial Turbines businesses, and we expect to make further disposals pursuant to the expected terms of the European Commission s approval of our financing package. As is usual, the terms of these disposals have provided for price adjustment mechanisms and we have made certain warranties regarding the business or assets being sold, and we expect similar terms to apply to our future disposals. As a result of such mechanisms and warranties, the net proceeds that we receive following a disposal may be delayed or reduced, or we may be required to pay indemnities to the acquirer, which could have a material adverse effect on our results of operations and financial position. For a description of certain recent disposals, see Item 5. Operating and Financial Review and Prospects Status of our Action Plan and Main Events of Fiscal Year 2004 Disposal Programme Disposal of our Transmission & Distribution (T&D) Activities , Item 8. Financial Information A. Consolidated Statements and Other Information Legal Proceedings Other legal risks and Item 10. Additional Information C. Material Contracts Share Purchase Agreement with respect to the sale of the T&D Sector (excluding Power Conversion) .

ALSTOM is currently involved in various proceedings relating to alleged violations of securities laws in France and the United States.

ALSTOM, certain of our subsidiaries and certain current and former officers and members of our Board of Directors have been involved in French and US regulatory investigations regarding potential securities law violations, and have been named as defendants in a number of securities law-related proceedings, including putative class action lawsuits in the United States that allege violations of the US federal securities laws. Our management has and may in the future be required to spend considerable time and effort dealing with these investigations and lawsuits. While we have cooperated and intend to continue to cooperate with ongoing investigations and to vigorously defend lawsuits, we cannot ensure that there will be no adverse outcome which could have a material adverse effect on our business, results of operations and financial condition. For more details, see Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings hereinafter.

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 liabilities associated 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. Most of our facilities must comply with these permits, licences or authorisations and are subject to regular administrative inspections.

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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 Item 4. Information about ALSTOM Business Overview Environment, Health & Safety Management Policy (E.H.S.) .

The procedures ensuring compliance with environmental, health and safety regulations are decentralised and monitored at each plant level. The costs linked to environmental health and safety issues are budgeted at plant or unit level and included in the profit and loss accounts of our local subsidiaries. We have retained 5.2 million of provisions to cover environmental risks in our Consolidated Financial Statements at 31 March 2004.

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 facts or conditions 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.

Risks Related to our Shares and to our ADSs

We have announced our intention to launch a share capital increase with maintenance of preferential rights to subscribe for our shares to our existing stockholders. We have also announced a debt for equity exchange pursuant to which we may issue new shares to certain of our creditors in exchange for the cancellation of debts. If current stockholders do not exercise their preferential rights, their ownership interests will be significantly diluted.

In connection with our financing package, we have announced our intention to launch a rights offering in the coming months for up to 1.2 billion. We intend to distribute preferential subscription rights to existing stockholders, allowing them to subscribe for new shares to be issued in the capital increase. Upon the issuance of new shares, current stockholders who do not exercise their rights will experience substantial dilution.

We have also announced a debt for equity exchange pursuant to which we may issue new shares to certain of our creditors in exchange for the cancellation of debts. This transaction, if approved by shareholders and accepted by our creditors, will be dilutive to our existing shareholders.

The prospect of the issuance of a large number of shares in the rights offering and the debt-equity transaction may weigh on our stock price.

If the rights offering is not fully subscribed by investors, the underwriters of the offering could hold a significant amount of our shares and have a significant influence at our general stockholders meetings. These underwriters could have interests that differ from those of our general stockholders. In addition, following implementation of our financing package, the French State may hold up to 31.5% of our share capital and will have representation on our board.

Following the rights offering and the debt-equity transaction, the prospect of sales of substantial numbers of shares by the French State or, if they acquire shares in the rights offering, the underwriters, could weigh on our stock price. For more information regarding our relationship with the French State, see Item 7. Major Shareholders and Related Party Transactions .

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You may not be able to exercise preferential subscription rights for shares underlying your ADSs.

Under French law, stockholders have preferential subscription rights (*droits préférentiels de souscription*) to subscribe for cash for issuances of new shares or other securities giving rights, directly or indirectly, to acquire additional shares on a pro rata basis. Stockholders may waive their preferential subscription rights specifically in respect of any offering, either individually or collectively, at an extraordinary general meeting. Preferential subscription rights, if not previously waived, are transferable during the subscription period relating to a particular offering of shares and may be quoted on the *Premier Marché* of Euronext Paris. US holders of shares and ADSs may not be able to exercise preferential subscription rights unless a registration statement under the US Securities Act of 1933, as amended, is effective with respect to such rights or an exemption from the registration requirements thereunder is available. We intend to evaluate at the time of any rights offering the costs and potential liabilities associated with any such registration statement, as well as the indirect benefits of enabling the exercise by the holders of shares and ADSs of the preferential subscription rights, and any other factors we consider appropriate at the time, and then to make a decision as to whether to file such a registration statement. We cannot guarantee that any registration statement would be filed or, if filed, that it would be declared effective. We do not intend to file a registration statement with respect to the rights offering that we have committed to launching as part of our financing package. If preferential subscription rights cannot be exercised by an ADS holder, The Bank of New York, as depositary, will, if possible, sell such holder s preferential subscription rights and distribute the net proceeds of the sale to the holder. If the depositary determines, in its discretion, that such rights cannot be sold, the depositary may allow such rights to lapse. In either case, ADS holders interest in us will be diluted, and, if the depositary allows rights to lapse, holders of ADSs will not realize any value from the granting of preferential subscription rights.

ITEM 4. INFORMATION ABOUT ALSTOM

A. History and Development of ALSTOM

ALSTOM is a *société anonyme à conseil d administration*, a form of limited liability company, incorporated under the laws of France. ALSTOM was incorporated under the name JOTELEC on 17 November 1992 for a duration of 99 years (unless it is dissolved earlier or its life is extended) and is governed with respect to corporate matters by the French *Code de commerce*, or Commercial Code. We changed our name to ALSTOM on 14 May 1998. The registered office is located at 25, avenue Kléber, 75116 Paris, France and the telephone number there is: 33 (0)1 47 55 20 00. ALSTOM is registered under No. 389 058 447 in Paris.

The ALSTOM group began in 1989 as GEC ALSTHOM N.V., a 50/50 joint venture company between The General Electric Company (now known as Marconi) of the United Kingdom and Alcatel of France. On 22 June 1998, as part of our initial public offering on the Paris, New York and London stock exchanges, all of the activities previously carried out by GEC ALSTHOM were transferred to ALSTOM. For a list of our main acquisitions and joint ventures during the last three fiscal years, see the information set forth under Item 5. Operating and Financial Review and Prospects Change in Business Composition and Presentation of our Accounts, Non-GAAP Measures Changes in business composition . For additional information regarding the reorganisation of our business units, including the reorganisation of our Power Sectors, see the information set forth under Item 5. Operating and Financial Review and Prospects Recent Developments .

On 30 April 2003, we announced the closing of the sale of our small gas turbines business, and on 1 August 2003, we announced that we had completed the major part of the disposal of the medium-sized gas turbines and industrial steam turbines, in each case to Siemens AG. On 25 September 2003, we signed an agreement to sell our T&D Sector, excluding the Power Conversion business, to Areva. This transaction closed in January 2004.

For more information regarding these disposals and regarding the financing package that we negotiated in September 2003 with our key lenders and the French State, see Item 5. Operating and Financial Review and Prospects Recent Developments .

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For information regarding capital expenditures generally for the last three fiscal years, see the information set forth under Item 5. Operating and Financial Review and Prospects . There are no additional principal capital expenditures currently in progress.

There has been no credible indication of any public takeover offer by any third party in respect of our shares or by us in respect of other companies shares that has occurred during the last and current fiscal years.

B. Business Overview

OVERVIEW

We serve the energy market through our activities in power generation and the transport market through our activities in rail transport and marine. We design, supply and service a complete range of technologically advanced products and systems for our customers and possess a unique expertise in systems integration and through-life maintenance and service.

In fiscal year 2004, we had sales of 16.7 billion. At 31 March 2004, we employed approximately 76,800 people in around 70 countries.

ORGANISATION

Our management organisation is based on Sectors, each of which has a global responsibility in their respective domains. A President, who reports to our Chairman and Chief Executive Officer, manages each of the Sectors and constituent Businesses within the Sectors.

To implement a more balanced structure and to reduce organisational layers, the five Segments of the former Power Sector were regrouped into three Sectors on 1 April 2003:

- Power Turbo-Systems (the former Gas Turbine and Steam Power Plant Segments);
- Power Environment (the former Boilers & Environment and Hydro Power Segments); and
- Power Service (the former Customer Service Segment).

As a result of this regrouping, we are currently organised in five Sectors and one Business:

Power Turbo-Systems Sector

Power Environment Sector

Power Service Sector

Transport Sector

Marine Sector

Power Conversion Business

From February 2004, coordination of the three Power Sectors was reinforced by the appointment of a single Sector President for Power Turbo-Systems and Power Environment whose mission is to improve commercial efficiency by ensuring a clearer organisational interface with customers. In May 2004, the former Businesses of Power Turbo-Systems and Power Environment Sectors were reorganised. For more details, see Power Sectors in this section.

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An International Network coordinates all ALSTOM Group sales and marketing activities, and represents us throughout the world. The International Network is organised into three geographic regions:

Eastern and Northern Europe Asia Pacific (Area 1), covering: Central Asia, Romania, Russia, Finland, Norway, Sweden, Australia, China, India, Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan, Thailand and Vietnam.

Western Europe Africa/Middle East (Area 2), covering: Belgium, Czech Republic, France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Poland, Switzerland, the UK, Algeria, Egypt, Gulf, Iran, Libya, Morocco, Nigeria, Saudi Arabia, South Africa and Turkey.

Americas Portugal & Spain (Area 3), covering: Brazil, Canada, Chile, Mexico, Panama, USA, Venezuela, Portugal and Spain.

Manufacturing Facilities

We have production facilities in Europe, North and South America, Asia and Africa. We own or lease all of our principal manufacturing facilities and substantially all of the land on which these facilities are located.

Since our formation, we have focused on consolidating facilities and on shifting production to low-cost sites. In a number of areas, we have also sought to outsource low value-added manufacturing activities.

The three Power Sectors manufacturing and service sites are located mainly in France, the UK, Germany, Switzerland, Sweden, Spain, Romania, the US, Canada, Mexico, Argentina, Brazil, Japan, China, India and Australia.

Transport has manufacturing sites and service locations in France, the UK, Germany, Belgium, Spain, Poland, Romania, Italy, China, the US, Canada, Mexico and Brazil.

Marine has manufacturing sites and service locations in France.

Employees

Our employee numbers have reduced significantly over the last three years as a result of disposals and ongoing restructuring plans. For more details on restructuring, see Item 5. Operating and Financial Review and Prospects Overview .

The tables below set out, for the periods indicated, the number of full-time equivalent employees (i) by Sector and (ii) by geographic location.

	Year ended 31 March		
	2002	2003	2004
Power Turbo-Systems			9,802
Power Environment			11,888
Power Service			20,044
Power Sectors	49,097	46,581	41,734
Transmission & Distribution	27,736	24,341	n/a
Transport	29,119	28,558	25,623
Marine	4,978	4,555	4,018
Power Conversion	4,784	3,841	3,416
Others[(1)]	3,281	1,795	2,020
TOTAL	**118,995**	**109,671**	**76,811**

[(1)] Others includes employees of the International Network for the three years.

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	Year ended 31 March		
	2002	2003	2004
		(%)	
Regions European Union	54	57	54
of which France	23	24	25
UK	11	12	9
Germany	9	9	9
Rest of Europe	14	14	14
North America	9	9	16
of which US	6	6	13
Central and South America	6	5	4
Asia/Pacific	14	14	11
Africa/Middle East	3	1	1
TOTAL	**100%**	**100%**	**100%**

Employee consultation

Membership of our employees in trade unions varies from country to country, and we have entered into various collective bargaining agreements. It is our practice to renew or replace our various labour arrangements relating to continuing operations as and when they expire and we are not aware of any material arrangements whose expiry is pending and which is not expected to be satisfactorily renewed or replaced in a timely manner. In 1996, with the relevant trade unions, we established a European Works Forum (EWF), a European employer-employee consultative body, in anticipation of EU law. An amendment to the EWF agreement was signed between ALSTOM s management and the members of the EWF in July 2002, covering a period of five years. In this period of significant restructuring, this body has to meet more often than in the past. We have further expanded the EWF by including employee delegates from Hungary and Estonia, as these countries joined the EU. The sale of our Transmission & Distribution activities has also triggered some changes in the composition of the EWF. In relation to the EWF s role, recent meetings have revealed different interpretations of processes concerning the EWF which raise the possibility of additional employees consultation and delays in restructuring. Although we believe that relations with our employees are satisfactory in general, the restructuring we are currently in the process of effecting has given rise to strikes and may further harm employee relations. For more detail, see Item 5. Operating and Financial Review and Prospects and Item 3. Key Information Risk Factors We may experience difficulties in implementing our restructuring initiatives, which could affect our results and limit our ability to reduce our indebtedness and adapt our production capacity to our order backlog .

ALSTOM, the parent company, does not publish a *bilan social* (social report) since it has no employees. However, units and legal entities in France which employ more than 300 people publish *bilans sociaux* and these are made available to employees in those units or legal entities, in full compliance with French law.

POWER SECTORS

Together, ALSTOM s three Power Sectors offer a comprehensive range of power generation solutions from turnkey power plants to all types of turbines (gas, steam, hydro), generators, boilers, emissions reduction systems and control systems, as well as a full range of services including plant modernisation, maintenance and long-term operation.

Organisation from May 2004

Following the decision to appoint a single Sector President for the Power Turbo-Systems and Power Environment Sectors, a new organisation was announced in May 2004. The Power Turbo-Systems/Power Environment Sectors now comprise the following six Businesses with common support functions:

Plants (formerly Plant Operations and Plant Sales)

Turbo-Machines (formerly Gas Turbines, Steam Turbines, Generator and Manufacturing Businesses and Technology Centre)

Utility Boilers

Hydro Power (formerly Hydro)

Energy Recovery & Plants (formerly Heat Recovery & Plants and Energy Recovery Systems)

Environmental and Control Systems

Industry Characteristics

The world s installed power generation capacity is currently estimated at around 3,900 GW. The chart below sets out the breakdown of this installed base by technology in calendar year 2003 (based on data from the Utility Data Institute in the United States).

Installed capacity in calendar year 2003

Based on internal estimates, we believe the average annual value of the overall world power generation market to have been approximately $160 billion for the last three years. The chart below illustrates how we believe this market value breaks down. Demand for power generation equipment tends to be driven by a variety of complex and inter-related factors, notably:

World power generation market value

Economic growth

Responding to growth in demand for electricity, global demand for new power plants has tended to be strongest in those regions where economic growth is high.

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Historically, there has been a strong correlation between growth in the installed base of power plants and worldwide GDP growth, although on a short-term basis demand for power generation equipment may fluctuate significantly. In addition, even where GDP growth is at a low level, the increasing number of old plants to be retired is also driving the need to build new power plants to maintain current levels of electricity supply capacity. We believe that demand for power generation equipment is also driven by changing consumption patterns that favour electricity as a power source.

Following a period of intense growth in investment in power infrastructure in the US from the late 1990s until 2002, referred to as the gas bubble since investment was focused mainly in gas turbine combined-cycle power plants, 2002 saw a sharp drop in the level of new orders. This decline was mainly due to the end of the US investment cycle.

We believe that in the changing global market, Europe, the Middle East and Latin America will remain relatively stable in terms of demand over the next few years. We expect the North American market to remain at the current low level and Asia and in particular China to increase, leading to a greater focus on steam and hydro turbines, which account for a large proportion of this region s installed base of equipment. We believe we are strategically positioned to benefit from this market evolution, as we believe we have strong market share and are a recognized leader in steam and hydro turbines.

Environmental concerns

Moves to introduce stricter environmental legislation in response to pressure to reduce greenhouse gas emissions drives demand for cleaner power generation technologies. In Eastern Europe, Asia and in the US in particular, environmental concerns have created increased demand for clean-coal technologies, which allow inexpensive, low-grade coal to be used as fuel while minimising emissions. In addition, the Clear Skies initiative, launched by the Bush Administration, sets ambitious targets to reduce power plant emissions, and should lead to increased demand for power plant refurbishment and the integration of environmental control systems in existing plants. Similar growth in demand is expected in Western Europe, where new environmental regulations such as the Large Combustion Plant and National Emission Ceilings Directives have established challenging emissions reduction targets for power plant owners and countries.

Refurbishment of aging plants

We believe that the service market is growing rapidly. In recent years, demand for maintenance and refurbishment has been strengthened by a general trend among power producers to seek to increase efficiency, lower operating costs and extend the life cycles of their existing plants. This increase in demand to upgrade

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facilities has particularly benefited original equipment manufacturers such as ALSTOM and we believe it will be a significant source of future growth for our power service activities due to our large installed base.

Deregulation and liberalisation

The deregulation and liberalisation of electricity markets have transformed our customer base and also impacted demand, especially in the United States, where demand in recent years came principally from merchant developers, which are private power plant operators that sell their electricity independently. However, as a result of high price volatility of fuels and electricity in the United States, merchant developers assets abruptly lost value in 2002, as power generation over-capacity became apparent, forcing re-deployment of power generation assets to larger energy companies.

Besides driving new investment, liberalisation also caused considerable price pressure on power plant costs over the last decade and increased the demand for more efficient and environmentally-friendly plants with higher operating profitability. The deregulation of markets tends to shift allocation of technical and financial risks more towards suppliers such as ALSTOM by means of more stringent penalties and contract terms. In addition, the increasing number of plants built and owned by private companies which tend to out-source most of their operating and maintenance activities is also driving service market growth.

Globalisation

Suppliers with global capabilities, such as ALSTOM, are well placed to serve customers who are themselves becoming more global. This globalisation has also helped suppliers to cope with major shifts in regional demand.

Fuel and generation security

In the past, determination of power plant type was mainly driven by medium and long-term fuel price forecasts. Improved plant economics, technological advances, environmental concerns and reasonable natural gas prices favoured gas powered stations over coal-fired in recent years. However, increasing concerns about the security of energy supplies, higher and more volatile gas prices in recent months and lower and more predictable coal prices make the construction of new coal-fired plants with clean combustion technologies a viable option in regions where coal is abundant, such as China.

Competitive Position

The power generation equipment market has been characterised in recent years by industry consolidation among the main suppliers. We are a world leader in many of our power activities such as large steam turbines, boilers and hydro power (based on 2003 data published by McCoy). As at 31 December 2003, we had installed major equipment in more than 25% of the world s power plants according to the Utility Data Institute of the US (UDI).

The success factors in the power generation industry are principally technology, quality, cost, size and international presence. Our competitive strengths include:

- strong market positions and extensive experience in a number of technologies (for example, steam turbines, generators, mid-range gas turbines, clean coal combustion and hydro);
- size and extensive geographic presence (a global marketing and sales network in more than 70 countries); and
- considerable experience with a large installed base of all types of power plants in every major market in the world (including the US).

POWER TURBO-SYSTEMS

The Power Turbo-Systems Sector supplies gas turbines (56 MW-281 MW), steam turbines (100 MW to 1,600 MW), turbogenerators (40 MW-1,700 MW), turnkey power plants (engineering-procurement-construction or

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EPC) for large gas and steam turbine applications, electrical and control systems for all types of power plant; and repowering and rehabilitation services.

Competitive Position

The Power Turbo-Systems Sector is a world leader in large steam turbines, generators and power plant engineering and construction (based on 2003 data published by McCoy & UDI). In gas and steam turbines the Sector competes against two other major groups: General Electric and Siemens, and to a lesser extent the Japanese groups, Mitsubishi, Hitachi and Toshiba.

The Power Turbo-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); and
- extensive experience in mid-range gas turbines, with a portfolio of proven machines.

Activities Businesses

Power Turbo-Systems has an international organisation, with main manufacturing sites in Germany, Switzerland, France and Poland, and a dedicated sales force on all five continents.

During fiscal year 2004, the Power Turbo-Systems Sector was organised into the following six Businesses:

- Gas Turbine;
- Steam Turbines and Generators;
- Plant Sales;
- Plant Operations;
- Manufacturing; and

Technology Centre.

For more details on the new organisation introduced in May 2004, see Power Sectors in this section.

Gas Turbine Business

The Gas Turbine Business offers a wide spectrum of heavy-duty gas turbines ranging from 56 MW up to 281 MW for both 50 Hz and 60Hz markets; all units can operate either in simple cycle, cogeneration or combined-cycle applications fuelled by natural gas, diesel oil and for certain machines, crude oil and coal gas.

This Business addresses utilities, independent power producers, power generators and architect-engineers world-wide.

ALSTOM s gas turbine products are listed below:

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
GT8C2 (56 MW)	for 50 and 60Hz

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Steam Turbine and Generators

The Steam Turbine and Generators Business is responsible for:

- Research and development of proprietary steam turbine and generator designs
- Sales and execution of new turbogenerators and steam turbines
- Technical engineering support services: experts in materials, testing, logistics
- Upgrades and retrofits of used (existing) steam turbines and generators (ALSTOM or other Original Equipment Manufacturer equipment).

The Business supplies the following products:

Steam Turbines:

- Single-casing and multiple-casing reheat steam turbines for conventional cycle, combined-cycle, co-generation, desalination, large industrial and nuclear power plants matching 100-1600 MW outputs.
- Steam turbines retrofits to improve the efficiency and reliability of cylinders in operation. This includes the installation of the world s most efficient High Pressure (HP) steam turbine.

The Business has a family of standardised steam turbine frames, comprising the STF 15C, STF 20C, STF 25S, STF 30C, STF 40/50S, STF 60S.

Generators:

- A wide variety of turbogenerators ranging from around 40 MW to over 1,500 MW. They range in application from gas and combined-cycle power plants to steam and nuclear powered plants;
- As a result of constant improvement in part design and a live testing facility in Birr, Switzerland, the Business offers advanced generators, such as Topair; and
- The world s largest air-cooled turbogenerator, with the potential to generate more than 400 MW, is one of the Business latest innovations.

The Business range of generator products covers large 4-pole, large 2-pole, Topgas, Topair and Topack. The Business also carries out generator retrofit.

Plant Sales

During fiscal year 2004, Plant Sales was composed of one sales organisation for the whole Power Turbo-Systems Sector Product portfolio and its sales management was represented by region and tendering by products. The sales teams bring together ALSTOM s core know-how aligned with client needs and market practices.

Plant Sales covered the full product range of the Power Turbo-Systems Sector offering the following services and applications:

- Steam power plants above circa 50MW
- Gas turbine open cycle and combined-cycle plants above circa 50MW
- Comprehensive turnkey EPC or EP Packages
- Consulting services
- Electrical and control systems

Plant Operations

During fiscal year 2004, the Plant Operations Business had a global organisation with offices in eight countries. Plant Operations was responsible for the execution of turnkey power plants using ALSTOM s components:

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boiler, gas turbine, steam turbine and generator technology. The Business managed power plant projects through engineering, procurement, logistics, civil works to construction and commissioning.

Plant Operations products were:

- Gas turbine power plants
- Combined-cycle power plants
- Add-on to existing gas turbines
- Steam power plants
- Nuclear conventional Islands

Manufacturing

During fiscal year 2004, manufacturing was one of the core businesses of the Power Turbo-Systems Sector with facilities in various countries including for the manufacture of:

- turbines and generators in Birr, Switzerland;
- hot gas parts and combustor parts, also in Birr;
- stators for steam and gas turbines in Mannheim, Germany;
- air cooled generators, also in Mannheim;
- blades in Bexbach, Germany;
- rotors and stators for turbines in Belfort, France;
- small size air cooled generators also in Belfort;

large generators in Wroclaw, Poland;

turbines in Elblag, Poland, mainly serving the local market; and

turbine castings and ship industry castings in Elblag.

Technology Centre

The Technology Centre consists of five establishments in the UK and Switzerland. These establishments provide innovative technology product design and development for components of our gas and steam turbines and generators. The Technology Centre also provides technology and engineering solutions for the aerospace industry, including the European Space Agency, with a specialised manufacturing facility for aero-engine rotating components for the aero-engine industry.

Many of the Centre s projects contribute to our success by ensuring the Power Sectors products are competitive through application of proven and cutting-edge technology.

Research & Development

The Power Turbo-Systems Sector continued work to strengthen the whole of its heavy-duty gas turbine range in fiscal year 2004, through access to Rolls-Royce aero-engine technology under an agreement signed in February 2002. The agreement provides access to Rolls-Royce s technology base, notably very high temperature technologies, advanced aero and thermo dynamics and very high strength, high temperature materials. Through this agreement, the expertise and knowledge gained by Rolls-Royce in developing its aero-engines (which use the same base technology as gas turbines) are being applied to ALSTOM s heavy-duty gas turbines to improve efficiency, power output and durability.

The GT24/GT26 gas turbine fleet, which has been the focus of the Sector s recent research and development efforts, has now accumulated a significant number of operating hours. 74 machines are in operation with high levels of reliability and availability and best-in-class emissions levels. The engines are supplying enough electricity to meet the needs of 20 million people in 17 countries world-wide, confirming the successful implementation of the gas turbine recovery programme. Additionally, the commercial implications have been quantified and mitigation plans have been put in place. For further information regarding the GT24/GT26 issue, see Item 5. Operating and Financial Review and Prospects Overview Status of Our Action Plan and Main Events of Fiscal Year 2004 Progress on specific operational problems GT24/GT26 heavy-duty gas turbines .

Strategy

The Power Turbo-Systems Sector aims to consolidate its leading position in steam turbines, generators and power plant engineering and construction and to consolidate technical improvements in gas turbines. Turbo-Systems plans to complete the optimisation of its industrial base to adapt to difficult market conditions by substantially reducing power plant engineering and manufacturing capacity and the number of execution centres. This should allow the Sector to be more selective in the projects followed and to improve execution competencies, thereby reducing its risk profile.

Power Turbo-Systems also aims to regain the confidence of its customers and position in the large heavy-duty gas turbine market.

POWER ENVIRONMENT

The Power Environment Sector designs, manufactures and supplies a broad range of products and services to the power generation and industrial markets. This range includes clean coal combustion technologies, all types of boilers, environmental control systems, energy recovery systems, hydro power plant, and maintenance and retrofit.

Competitive Position

The Power Environment Sector is a world leading supplier of boilers, hydro turbines and generators and environmental control systems, including selective catalytic reduction and flue gas desulphurisation (according to 2003 data published by McCoy and UDI).

In utility boilers, the Sector s main competitors are Mitsubishi Heavy Industries, Babcock and Wilcox, Babcock Hitachi, Foster Wheeler and IHI. In emissions control systems for the power industry our main competitors are Fisia Babcock, Babcock Power, Babcock & Wilcox, Lurgi, Wheelabrator, Mitsubishi Heavy Industries and Hamon. In emissions control for industry, the Sector mainly competes with Hamon, FLS Airtech, BHA and Lurgi.

In the hydro power market, the Power Environment Sector s main competitors are Voith-Siemens, VA-Tech and General Electric Hydro.

The Power Environment s competitive strengths are:

- strong market position and extensive experience in all types of boiler technologies, including clean coal combustion;
- large installed base representing potential for higher margin service activity (boiler performance upgrades, retrofits); and
- size and balanced geographic presence.

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Activities   Businesses

During fiscal year 2004, the Power Environment Sector was organised into the following five businesses:

- Utility Boilers
- Energy Recovery Systems
- Heat Recovery & Plants
- Environmental Control Systems
- Hydro Power

For more details on the new organisation introduced in May 2004, see   Power Sectors   in this section.

Utility Boilers

During fiscal year 2004, the Utility Boilers Business offered the following products and services:

- advanced sub-critical and advanced high-temperature supercritical boilers up to 1,000 MW for power generation;
- clean coal technologies including Circulating Fluidised Bed boilers (circulating, bubbling, hybrid), which allow low grade fuels to be burned whilst minimising emissions;
- fuel and combustion expertise, coals, lignite, gas/oil, petcoke, biomass, waste fuels, burner retrofits;
- component retrofit; and
- low nitrogen oxide (NO_x) burners.

The Business   main markets are China, the US and Europe. It is a leader in the supply of utility boilers and low NO_x burners.

Energy Recovery Systems

During fiscal year 2004, the Energy Recovery Systems Business offered a full range of Original Equipment Manufacturer (OEM) and aftermarket design, manufacturing and support services for boiler-related and industrial products such as air preheaters, utility and industrial pulverizers and transfer line exchangers. Its product range includes:

- energy recovery products for petrochemical processes;
- mills, firing equipment, air pre-heaters, gas-to-gas air pre-heaters, condensers and heat exchangers;
- utility and industrial pulverizers;
- rotary incinerators, thermal oxidizers;
- transfer line exchangers, waste heat recovery units; and
- carbon black air preheaters for the petrochemical industry.

The Energy Recovery Systems Business is a world leader in the development of energy recovery and other auxiliary products for the power generation, industrial processing, and petrochemical industries. Strong brand names such as Ljungstrom® Air Preheaters, Raymond® Bowl Mills, and Schmidt sche® Transfer Line Exchangers are commonly recognised by boiler companies, utilities, and industrial manufacturers throughout the world.

The Business main markets and regional operating centres are located in Japan, Germany and the US.

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Heat Recovery Plants

During fiscal year 2004, the Heat Recovery Plants Business offered the following products:

- heat recovery steam generators (HRSG) for gas turbines in combined-cycle and industrial applications;
- boilers and industrial plants, with products including all size heat recovery steam generators;
- field erected boilers including: circulating fluidised bed boilers (CFB) and package boilers up to 300 tonnes of steam production/hour;
- turnkey steam power plants and steam add-ons for gas turbine power plants up to 100 MW;
- thermal waste treatment plants for municipal and industrial applications (Germany and Austria only); and
- geothermal power plants.

The Business is the market leader for waste to energy plants in Germany and Austria, and is a technological leader for HRSGs, modular CFBs and biomass-fueled boilers. This year, the Business announced the launch of a new Once-Through Heat Recovery Steam Generator (HRSG), which combines ALSTOM s OCC HRSG design with newly-licensed Once-Through evaporator technology.

Environmental Control Systems

The Environmental Control Systems Business develops technology into commercial products for the capture and/or transformation of compounds identified as pollutants. The main pollutants are nitrogen oxides (NO_x), sulphur oxides (SO_x), particulate matter and mercury emissions. The Business offers solutions for both power and industrial applications, including:

- selective Catalytic Reduction (SCR) technology for the reduction of NO_x emissions;
- wet, dry and seawater scrubbers for the reduction of SO_x emissions; and
- dry and wet electrostatic precipitators, and fabric filters for controlling particulate emissions.

A recent addition to Environmental Control Systems product portfolio is the Advanced Control System for optimising performance of air pollution control systems.

The Business is a leading supplier of environmental control equipment to the aluminium industry with the ABART system for the removal and recovery of fluorides and particulates. Its main markets are Europe, the US and Asia.

Hydro Power

The Hydro Power Business supplies the following products and services:

- Hydraulic turbines and pumps up to 800 MW;
- Hydro generators up to 800 MW;
- Generator motors, salient pole generators, gates and valves;
- Turnkey contracting including control systems covering the complete range of plants from 2 MW to 800 MW;
- Refurbishment of hydro power plants; and
- Water pumping stations and hydro-mechanical equipment for water transportation.

A leading supplier of hydro turbines and generators, the Business main markets are Canada, Brazil and China.

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Research & Development

Our research and development focus in Power Environment is on improvements in the environmental performance and energy conversion efficiency of our products. This focus includes the advancement of clean coal technologies with optimised steam cycles, improved performance, and reduced capital and operating costs. The Sector is also working on advanced coal power plant concepts with the goal of significantly increased efficiency and near zero emissions at costs competitive with alternative power generation options.

Strategy

Power Environment will focus on the growing segments within its markets. These include emissions control equipment in the power generation, petrochemical and industrial markets; demand for upgrades and modernisation of existing power plants; hydro power plant refurbishment; small-scale hydro plants, and large-scale irrigation projects. The Sector aims to strengthen its position in Asian markets, where demand for new coal-fired plants is expected to grow.

POWER SERVICE

The Power Service Sector complements the manufacturing activities of the Power Turbo-Systems and Power Environment Sectors by providing services to customers in all geographic markets.

Power Service supplies the following products and services:

- a portfolio of services from spare parts and field services to full operation and maintenance packages;
- refurbishment and modernisation of existing plants;
- technical consultancy services;
- tailor-made services and value packages (integrated solutions designed to meet specific customer requirements for asset life-cycle management, performance improvements, risk management, cost management or environmental compliance); and
- new service product development.

Competitive Position

As of 2003, ALSTOM had installed major power generation equipment in more than 25% of the world s power plants, according to the Utility Data Institute of the United States (UDI). This installed base of equipment should be key in securing customer service contracts and supporting sales of our Power Service Sector in the future, as existing power plants require operation, maintenance and repair, performance improvement and life-time extension services.

We believe the Power Service Sector is one of the world s leading service providers to the power generation industry. Main competitors in service include other original equipment manufacturers of power generation equipment such as General Electric, Siemens-Westinghouse, Mitsubishi, and to a lesser extent Ansaldo.

The Power Service Sector s competitive strengths are:

- extensive global network in around 100 countries, with strong local service capabilities in all regions of the world;

- large base of ALSTOM-supplied power generation equipment; and

- a large service product portfolio, including parts (spare parts, reconditioned parts, workshop repairs), field service (outage management, field repairs, erection, construction, commissioning and supervision), consultancy and support (technical services, condition assessment, consultancy, training, monitoring and diagnosis, performance analysis), performance improvements (upgrades, uprates, modernisation, optimisation, life-time extension) and service agreements (inventory management, maintenance management, long-term service agreements, operation and maintenance).

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Activities Regions

Power Service has manufacturing and service sites located mainly in France, the UK, Germany, Switzerland, Sweden, Romania, the United States, Canada, Mexico, India, Australia, Croatia, Hungary, Poland, Denmark, Finland, Belgium, Italy and the Middle East.

In fiscal year 2004, Power Service was organised into five Service Regions, each with a geographic allocation of countries and local service centres, and one product-based business:

Region 1	North America
Region 2	Western and Southern Europe, Latin America
Region 3	Switzerland, Middle East
Region 4	Central and Eastern Europe, Russia, Indian sub-continent
Region 5	Northern Europe, North East Asia, South East Asia, Australasia

The Flowsystems business operates principally in Scandinavia and Eastern Europe (responsible for activities associated with the retained contracts of the former Industrial Gas Turbine Segment).

The Heat Exchange Business, formerly part of the Power Environment Sector, was also integrated into Power Service s regional structure during the year.

Each Service Region has a consistent structure with at least one strong fleet/product unit as a platform to develop and support the business and to provide a strong focus to grow capability for the plant business.

Countries are responsible for their domestic market and the Profit & Loss for their own business. Countries with Fleet Ownership in addition support the service for their fleet on a global basis.

In addition, each of the Regions is responsible for one or more technologies and product fleets:

Region 1	Boilers (supplied by Combustion Engineering, ABB)
Region 2	Steam turbines, generators, boilers and heat exchange (e.g., supplied by Stein, Alsthom, Rateau, ACEC)
Region 3	Gas turbines (supplied by BBC, ABB)
Region 4	Steam turbines, generators, boilers (e.g., supplied by MAN, BBC, ABB, EVT, PBS)
Region 5	Steam turbines, generators, boilers, environmental systems (e.g., supplied by GEC, ICL, Zamech, Flaekt)

These fleet owners act as the home base for main components and manage and market existing product lines. In addition, they are required to develop competitive service products and support Local Service Centres in their domestic markets.

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New organisation as of 1 April 2004

To increase efficiency, implement new product strategies and further streamline the organisation, Power Service Regions 2 and 4 were merged and responsibility for certain countries was reallocated as of 1 April 2004.

The Power Service Sector is currently organised as follows:

Region 1	North and Central America
Region 2	Continental Europe and Africa
Region 3	South East Europe, the Middle East and South America
Region 4	North Europe, North and South East Asia, India and Australia

Flowsystems business

Research & Development

Our R&D focus in Power Service is on development of differentiating products and services in anticipation of, or in response to, customers key drivers, including improvement pac