ALSTOM
Form 6-K
January 13, 2004
Table of Contents

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of January 2004

Commission File Number: 1-14836

ALSTOM

(Translation of registrant s name into English)

25, avenue Kléber, 75116 Paris, France

(Address of principal executive offices)

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

Form 20-F X x Form 40-F ¨

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

Yes ¨ No x

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

Yes ¨ No x

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

Yes ¨ No x

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

This Report on Form 6-K includes materials that make reference and relate in part to certain proposed issuances of securities by ALSTOM. The securities mentioned in these materials have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or exemption from registration under the Securities Act.

These materials are not an offer to sell securities or the solicitation of an offer to buy securities, nor shall there be any offer or sale of securities in any jurisdiction in which such offer or sale would be unlawful.

Table of Contents

Enclosures:

ALSTOM Update dated 17 November 2003 of the Reference Document in the form of an annual report filed with the Commission des Opérations de Bourse on 28 May 2003 under the number D.03-0814

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALSTOM

Date: January 13, 2004

By: /s/ Philippe Jaffré

Name: Philippe Jaffré
Title: Chief Financial Officer

Table of Contents

Exhibit 99.1

Update dated 17 November 2003

of the Reference Document

in the form of an annual report

filed with the Commission des Opérations de Bourse

on 28 May 2003 under the number D.03-0814

Table of Contents

This document is a free translation of the original French version of the update of the

Reference Document available upon request

Table of Contents

CONTENTS

1. Assets and liabilities Financial position Income (loss) 5
1.1. Interim consolidated financial statements at 30 September 2003 5
1.1.1.Management discussion and analysis 5
1.1.2.Interim consolidated financial statements at 30 September 2003 49
1.1.3.Statutory Auditors report on the interim consolidated financial statements 82
1.2. Pro forma datas at 31 March 2003 and at 30 September 2003 84
1.2.1.Pro forma consolidated financial statements for fiscal year closed at 31 March 2003 and half year ended 30 September 2003 84
1.2.2.Statutory Auditors report on the pro forma financial statements 104
1.3. Consolidated financial statements at 31 March 2003 106
1.3.1.Presentation of the amended consolidated financial statements as approved by the Ordinary and Extraordinary General Meeting held on 2 July 2003 106
1.3.2.Summary differences between Accounting Principles followed by the Group and US GAAP 107
1.3.3.Controls and procedures 138
1.4. Table of ALSTOM s subsidiaries and investments at 31 March 2003 139

2. Share capital 140
2.1. Share capital 140
2.2. Authorisations to increase the share capital 140
2.3. Potential share capital Securities and rights giving access to the share capital 143
2.4. Ownership of the share capital and voting rights 144
2.5. Changes in share capital since 31 March 2003 145
2.6. Authorisations to issue debt securities 145
2.7. Shareholders agreements 145
2.8. Stock market information 145

3. Risks 147
3.1. Main risk factors 147
3.2. Claims and legal proceedings 158
3.2.1.Claims and legal proceedings : general 158
3.2.2.Claims and legal proceedings : asbestos 158
3.2.3.European Commission review of financing package and other transactions 160
3.2.4.Claims and proceedings linked to Royal Caribbean Cruises 162
3.2.5.Investigation by the Prosecutor of Milan 162
3.2.6.Investigation relating to ALSTOM Transportation Inc. 163
3.2.7.United States Putative Class Action Lawsuits 163
3.2.8.Other legal proceedings 163
3.3. Insurance 164

4. Corporate Governance Administrative and control bodies 166
4.1. Composition and functioning of administrative and control bodies 166
4.2. Committees of the Board of Directors 167
4.3. Compensation of Executive and Non-Executive Directors and Members of the Executive Committee 170
4.4. Employee statutory profit sharing agreements Employee profit sharing plan Company savings scheme 170

5. Recent developments and perspectives 171

Table of Contents

6. Person assuming responsibility for the update of the Reference Document and persons assuming responsibility for auditing the financial statements 174
6.1. Person assuming responsibility for the update of the Reference Document 174
6.2. Opinion of the person assuming responsibility for the update of the Reference Document 174
6.3. Persons assuming responsibility for auditing the financial statements 174

6.4. Opinion of the persons assuming responsibility for auditing the financial statements 175

Annexes
Annex 1 Consolidated financial statements at 31 March 2003 incorporating the amendments proposed by the Board of Directors and approved by the General Meeting of Shareholders held on 2 July 2003 179
Annex 2 Operating and Financial Review and Prospects updated by the Board of Directors 236
Annex 3 Other modified pages 291
Annex 4 Table of subsidiaries and investments of ALSTOM at 31 March 2003 296

Table of Contents

1. Assets and liabilities Financial position Income (loss)

1.1. Interim Consolidated Financial Statements at 30 September 2003

1.1.1. Management Discussion and Analysis

You should read the following discussion together with the 30 September 2003 Interim Consolidated Financial Statements. During the periods discussed in this section, we undertook several significant transactions that affected the comparability of our financial results between periods. In order to allow you to compare the relevant periods, we present certain information both as it appears in our financial statements and adjusted for business composition and exchange rate variations to improve comparability. We describe these adjustments under Change in business composition and presentation of our accounts, non-GAAP measures Comparable basis below. The figures presented as unaudited under in the following discussion were the subject of either a limited review or a sincerity review by auditors.

STATUS ON OUR ACTION PLAN AND MAIN EVENTS OF FIRST HALF OF FISCAL YEAR 2004

On 12 March 2003, we presented our new strategy and action plan to overcome three key difficulties: an insufficient level of profitability and cash generation, past problems with the GT24/GT26 gas turbines and to a lesser extent the UK Trains contracts and a high level of debt. This plan has been launched throughout the Group. We have achieved significant progress during the first half of fiscal year 2004 and in particular we have:

- built a more effective organisation;
- secured 2.5 billion from the disposal programme;
- achieved the expected progress in resolving specific operational problems (GT24/GT26 heavy duty gas turbines and UK trains issues);
- launched the restructuring plans; and
- agreed on a comprehensive financing package to strengthen our financial structure.

Building a more effective organisation

Implementation of a more effective organisation in the Sectors

Our former Power Sector, which accounted for more than half of Group sales in fiscal year 2003, was reorganised into three new Sectors on 1 April 2003; the former Power Sector management layer has been removed and the former Segments have been merged. The new structure is now fully in place and is reflected in the figures presented in this section.

On 7 October 2003, the management of our Transport Sector announced a new organisation, to be effective as of 1 January 2004. The Sector will be organised in four international regions, with strengthened customer focus and with clearer definition of responsibility for project execution.

A simpler and more reactive Group wide structure is being implemented, with clearer P&L accountability in the Sectors. Empowerment and full responsibility are given to the Sector management with a clearer relationship between business and country organisations.

Reorganisation of International Network and Corporate

Our objective is to reduce our overhead significantly, notably through the simplification of administrative processes and a reduction of management layers. Some central functions have been reallocated to the Sectors or eliminated. As a consequence, the Corporate and the International Network organisations have been reorganised and reduced by more than a third. Overall, savings are targeted to reach 35% of related costs as compared with fiscal year 2003 on an annual basis by March 2005. Vigorous plans have been launched in the Sectors where the target is to save 15% of overhead costs in each Sector by March 2005.

Table of Contents

Stricter risk management

We are exercising a stricter control of the contractual terms and conditions and the margins in our order intake, notably with the creation of a central Risk Committee headed by the Chairman and CEO which was set up in March 2003 to review all major bids and contracts under execution. We are continuously improving the processes in the Sectors and are setting up a project database allowing more efficient central control. A new Risk Management Director has been appointed and new processes established to ensure more effective supervision of the Sectors.

Disposal programme

As part of our new plan, in March 2003 we increased our disposal programme target proceeds from €1.6 billion as intended at the beginning of fiscal year 2003, to €3.0 billion by March 2004. We maintain our objective of total proceeds of €3 billion and have now secured €2.5 billion, but in order to fully value the assets to be disposed, we have extended the period by one year to March 2005. Our disposal programme comprises:

- €600 million of targeted proceeds from real estate disposals, of which €415 million was achieved during fiscal year 2003 and the first half of fiscal year 2004; and

- €2,400 million of targeted proceeds from business disposals, including both the T&D Sector and the Industrial Turbines businesses. €151 million of this target was achieved during fiscal year 2003 with the disposal of our activities in South Africa and of our captive insurance company. We expect that the sale of our Industrial Turbines businesses will generate net proceeds of approximately €950 million (of which €842 million has been received to date). We sold our T&D Sector for an enterprise value of €950 million, subject to closing adjustments. We expect to receive the major part of these proceeds in January 2004.

Disposal of our Industrial Turbines businesses

On 26 April 2003, we signed binding agreements to sell our small gas turbines business and medium-sized gas turbines and industrial steam turbines businesses in two transactions to Siemens AG.

The first transaction covered our small gas turbines business, and the second transaction covered our medium-sized gas turbines and industrial steam turbines businesses.

The Industrial Turbines businesses accounted for approximately 10% of Power Sector revenues in fiscal year 2003. They include:

- the small gas turbines business (3 MW   15 MW), based principally in the UK;

- the medium-sized gas turbines business (15 MW 50 MW), based principally in Sweden; and

- the industrial steam turbines (up to about 100 MW) business, with manufacturing sites in Sweden, Germany and the Czech Republic, and global customer service operations.

In the year ended 31 March 2003, Industrial Turbine businesses generated sales of approximately €1.25 billion and had an operating margin of approximately 7%. At 31 March 2003, these businesses employed around 6,500 people.

On 30 April 2003, we announced the closing of the sale of the small gas turbines business. Completion of this transaction followed receipt of a formal derogation from the European Commission under EC Merger Regulations, allowing ownership of the business to be transferred to Siemens AG with immediate effect. On 10 July 2003 we announced that the European Commission had granted formal clearance under EC Merger Regulations for the disposal of both the small gas turbines and the medium gas turbines and industrial steam turbines businesses.

Table of Contents

On 1 August 2003 we announced that we had completed the major part of the disposal of the medium gas turbines and industrial steam turbines businesses. Completion of this second stage of the disposal followed approval from both the European Commission and US merger control authorities.

Certain minor sites of our Industrial Turbines business have yet to be transferred to Siemens pending completion of legal procedures, for example, relating to anti-competition laws in select jurisdictions. To date we have received net proceeds of €842 million from the disposal of these businesses and an additional €125 million is currently being held in escrow to cover certain post-closing adjustments and indemnities, if any. Unless otherwise used, 50% of these escrowed amounts are to be released to us on the business day following the first anniversary of the sale of the small gas turbines business (April 2004), and the remainder on the business day following the second anniversary of the sale (April 2005). See as well Note 4 to the Interim Consolidated Financial Statements.

Disposal of our T&D activities

The process to dispose of the T&D Sector was announced on 12 March 2003. On 25 September 2003, we signed a binding agreement to sell our T&D activities (excluding the Power Conversion business) to Areva for an entreprise value of €950 million, subject to closing adjustments. This transaction is expected to close in January 2004.

Disposal of Real Estate

In April 2003, we received proceeds of €138 million in respect of the disposal of 15 sites in France, Spain, Switzerland and Belgium and, in July 2003, we received proceeds of €10 million in respect of the disposal of one site in France. Total proceeds to date from our real estate programme have reached € 415 million (€267 million received in fiscal year 2003 and €148 million in the first half of fiscal year 2004). Select further real estate disposal projects are currently progressing.

Progress on specific operational problems

GT24/GT26 heavy-duty gas turbines

During the first half of fiscal year 2004, we continued to implement technical improvements to our GT24/GT26 gas turbines. The new upgrade packages have been tested successfully and deployment in the field has started. The machines reliability has been demonstrated with 72 units in operation and the cumulation of more than 730,000 operating hours. In addition, the commercial situation is becoming clearer with all of the cases of client litigation, which affected 7 units as of March 2003, now resolved via satisfactory commercial settlements.

Related cash outflow over the first half of fiscal year 2004, €394 million, has decreased as compared with the second half of fiscal year 2003, €657 million. We expect our cash outflow (for Power Turbo-Systems and Power Service) to be around €800 million,

600 million and 200 million in fiscal years 2004, 2005 and 2006 respectively compared with 1,055 million spent on this matter in fiscal year 2003.

We reported on 31 March 2003 that we had retained provisions and accrued contract costs after taking into account mitigation targets of 454 million. As of 30 September 2003, the mitigation target has been reduced by 118 million to 336 million. This reduction included 22 million related to changes in exchange rates, 68 million of achieved mitigation actions and certain planned mitigation actions which did not materialise resulting in a corresponding 28 million charge in our operating income for the first half of fiscal year 2004. As of 30 September 2003, we retained 1,193 million of related provisions and accrued contract costs outflow (for Power Turbo-Systems and Power Service). This amount does not include 336 million of exposure, which we consider will be mitigated by appropriate action plans.

Table of Contents

UK Trains

All 119 regional trains have been delivered and are now in service but costs related to the in service reliability improvement programme are still being incurred. On the West Coast Main Line contract, 28 of the 53 trains have been delivered in line with the customer s revised expectations. On completion of the WCML contract in September 2004, our UK new build activities will be halted as we will convert to a substantial service/maintenance base in the UK.

US Trains

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

The Transport Sector s operating loss in fiscal year 2003 included an additional charge of 73 million, recorded following contract losses at ALSTOM Transportation Inc. (ATI). This charge was included in the Consolidated Financial Statements as approved at the General Shareholders Meeting on 2 July 2003.

In addition, following the discovery of accounting improprieties at ATI, we subsequently conducted reviews of other ATI contracts and, as a result, we recorded costs of 102 million (94 million of contract provisions and write-down of receivables and 8 million of professional fees and other costs) in relation to the US Transport business. Slightly more than half of this amount related to a single equipment supply and maintenance project in the United States when we recorded significant provisions in respect of expected contract losses relating to a number of important performance related issues. The 102 million of costs is reflected in our Consolidated Financial Statements for the first half of fiscal year 2004.

Restructuring and cost reduction programmes

We have launched restructuring and cost-reduction programmes necessary to adapt our organisation and industrial base to current market conditions. We consider these programmes to be vital as we believe that the power market downturn is set to continue for some years before returning to the long term fundamental growth trend. We expect that these programmes will improve our operational performance. As we have accelerated our restructuring plans, we expect to accrue significantly more related charges in fiscal year 2004 than in fiscal year 2003.

We are currently informing and consulting with trade union representatives regarding the consequences of the overhead reduction and industrial restructuring plans. This process is expected to continue in the coming months. We have to date announced plans to reduce our workforce by approximately 7,300 employees in aggregate world wide. Of the proposed reduction in headcount, approximately 2,000 positions are outside Europe (mainly the US and Asia) and 5,300 positions are in Europe. The trade union consultation process at the European level has been completed, and local plans, country by country, are being implemented.

The announced reduction in employee numbers impacts mainly Power Turbo-Systems for approximately 3,300 employees, Transport for 2,000 employees, Power Environment for 1,000 employees, Power Service for 500 employees, and Head offices for 200 employees. We have not implemented restructuring plans in our Marine Sector other than the closure of our small yard in Saint-Malo already announced in fiscal year 2003, while some staff reduction has occurred by natural attrition (retirement, early retirement).

Table of Contents

Financing package

Initial financing package

As part of our 12 March 2003 strategy and action plan, we reported that we needed to strengthen our financial base by conducting a capital increase and refinancing our debt. In the months following the announcement of our new plan, however, the markets for our products and services continued to deteriorate, resulting in reduced levels of orders. Furthermore, problems in obtaining contract performance bonds due to a general tightening of the bond market and concerns within that market on our position exacerbated the deterioration in order intake. Our worsening financial situation made negotiations with our main lending banks in connection with the proposed renewal of our credit lines and the capital increase more difficult. By the end of July 2003, we faced the risk of not being able to meet our short-term financial commitments, which led us to renegotiate with more than 30 of our banks with the support of the French State. We reached agreement on a comprehensive financing package for the Group, which was designed to provide adequate long term financing and short term liquidity.

This initial financing package announced on 6 August 2003 included:

- a combined €600 million capital increase consisting of a €300 million underwritten capital increase with preferential subscription rights for existing shareholders, and a €300 million capital increase reserved for the French State;
- a €1 billion issuance of bonds mandatorily reimbursable with shares (ORA , obligations remboursables en actions) with preferential subscription rights for existing shareholders;
- subordinated loans with 6-year maturity totalling €1,200 million. A French State-controlled financial institution agreed to provide €200 million of the total amount of these subordinated loans;
- a contract bonding guarantee facility of €3,500 million provided by a syndicate of banks to support our continued commercial activity. A French State-controlled financial institution agreed to counter guarantee 65% of the aggregate amount of these bonds and guarantees; and
- short term facilities amounting to €600 million from a syndicate of banks and the French State.

We were informed on 8 and 14 August 2003 that the French State notified and provided information to the European Commission relating to its commitments under the proposed financing package, pursuant to European Community laws. As a result of this notification, the European Commission began a preliminary examination of the French State s measures described in the August notification. The uncertainty generated by this situation substantially worsened the concerns of our customers and suppliers as to our financial stability and our long term viability, and negatively impacted our commercial activity and sources of liquidity. Following the European Commission s preliminary examination of the French State s measures described in the August notification, it opened a formal investigation procedure under Article 88(2) of the EC Treaty on 17 September 2003. When opening this procedure, the Commission stated that it believed the conditions for the issuance of an injunction were present pursuant to applicable EU regulations. Specifically, the Commission threatened to oppose the implementation of certain parts of the financing package regarded as irreversible until it had reached a final decision on their State aid legitimacy and compatibility with the common market regulations. On 17 September 2003, the Commission announced that it had authorised the Competition Commissioner to issue an injunction 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 clearance by the Commission of the financing package.

Revised financing package

As a consequence, we entered into new discussions with our banks, the French State and the European Commission towards designing a revised package to meet our financial needs while complying with European

Table of Contents

Commission requirements. On 22 September 2003, we announced that we had reached a revised agreement on our financing package. While this revised package is still subject to European Commission review, the Commission has announced that it does not intend to issue an injunction against any parts of the package, and the implementation of the related transactions may go forward without delay.

On 8 November 2003, the European Commission announced formally, in the Official Journal of the European Union, that it was extending the procedure to determine whether the package is compatible with the common market.

The revised financing package includes:

- a 300 million capital increase. The capital increase will involve the subscription of shares directly by a syndicate of banks, with the simultaneous distribution of free warrants to existing shareholders allowing them to purchase the shares directly from the banks. The subscription price for the shares and the exercise price of the warrants will be 1.25 per share;

- 300 million of subordinated bonds with a 20 year maturity to be issued to the French State, which will be automatically reimbursable with shares upon the approval of the reimbursement with shares by the European Commission (TSDDRA or titres subordonnés à durée déterminée remboursables en actions). These subordinated bonds will carry an annual interest rate of 2% until a decision of the European Commission is obtained, at which point (if the decision is negative) the rate will be adjusted to EURIBOR plus 5%, of which 1.5% will be capitalised annually and paid upon reimbursement. The issue price for each bond will be 1.25, and each will be reimbursable with one share, subject to antidilution adjustments;

- 200 million of subordinated bonds with a 15 year maturity to be issued to the French State (TSDD or titres subordonnées à durée déterminée). These subordinated bonds will carry an interest rate of EURIBOR plus 5%, of which 1.5% will be capitalised annually and paid upon reimbursement; and

- an issuance of approximately 900 million of bonds mandatorily reimbursable with shares (ORA) with preferential subscription rights for existing shareholders, which is to be underwritten by a syndicate of banks. This amount may be increased to 1 billion. The issue price of the ORA is 1.40 per bond, representing 100% of each bond s principal amount. The ORA are to mature on 31 December 2008. Each ORA will be reimbursable at maturity with one share, subject to anti-dilution adjustments. ORA holders will have the right to receive shares prior to maturity, based on the same ratio.

The offerings described above are to be submitted for approval by our shareholders at an Ordinary and Extraordinary Meeting to be held on 18 November 2003 (on second call). The capital increase, ORA, TSDDRA and TSDD offerings will be implemented as soon as possible following shareholder approval.

Assuming that the offerings described above are approved for and take place, and that the European Commission approves the reimbursement with shares of the TSDDRA, the French State would own 31.5% of our shares and voting rights following the reimbursement of the TSDDRA, before taking into account the conversion or reimbursement of the ORAs. After taking into account the reimbursement of the ORAs, the French State would own 16.25% of our shares and voting rights.

The revised financing package also includes:

- subordinated loans with 5-year maturity totalling approximately €1,500 million (PSDD or *prêt subordonné à durée déterminée*). The banks have agreed to provide approximately €1,200 million of the total amount of these subordinated loans, with the remainder to be provided by the French State. The loans may be increased by up to €100 million subject to certain conditions. The rate of interest on these subordinated loans is EURIBOR plus 4.5%, of which 1.5% will be capitalised annually and paid upon reimbursement. The Subordinated Debt Facility Agreement relating to these loans was entered into on 30 September 2003; and

Table of Contents

a contract bonding guarantee facility of □3,500 million provided by a syndicate of banks to support our continued commercial activity. A French State-controlled financial institution will counter guarantee 65% of the aggregate amount of these bonds. This facility was entered into on 29 August 2003, was amended on 1 October 2003 and is fully in place.

Pending our receipt of proceeds from the financing package and the disposal of our T&D activities, our short-term liquidity is being supported through the purchase of commercial paper (billets de trésorerie) by a syndicate of banks (for □120 million), and the purchase of commercial paper by the *Caisse des Dépôts et Consignations*, a financial institution controlled by the French State (for □300 million). This commercial paper will be rolled over until 12 months after the date of final issuance occurring before 8 February 2004. In addition, a syndicate of banks financed the early reimbursement to us of □180 million of debt due to us from two special purpose entities in connection with Marine vendor financing. Further, the *Caisse des Dépôts et Consignations* has also committed to provide us with up to □900 million in commercial paper financing which will be available to us until the long term portion of our financing package becomes available (expected in December 2003), except that □100 million may remain outstanding until we receive the main proceeds from the sale of our T&D activities (expected in January 2004). All these facilities are fully in place.

For information about our new liquidity profile, please see Liquidity and capital resources Maturity and liquidity below.

Table of Contents

GENERAL COMMENTS ON ACTIVITY AND RESULTS

Key financial figures

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

Total Group Actual figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in € million)			
Order backlog	33,611	30,330	30,330	**27,174**	(19%)	(10%)
Orders received	10,537	8,586	19,123	**7,439**	(29%)	(13%)
Sales	10,769	10,582	21,351	**8,854**	(18%)	(16%)
Operating income	542	(1,049)	(507)	**132**		
Operating margin	5.0%	(9.9%)	(2.4%)	**1.5%**		
EBIT	322	(1,451)	(1,129)	**(296)**		
Capital Employed	6,697	4,949	4,949	**3,903**		
ROCE	9.6%	n/a	n/a	**n/a**		
Net income	11	(1,443)	(1,432)	**(624)**		
Free Cash Flow[1]	75	(340)	(265)	**(674)**		

Total Group Comparable figures[2]	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03 (Unaudited)	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in € million)			
Order backlog	n/a	28,496	28,496	**27,174**	n/a	(5%)
Orders received	9,677	7,973	17,650	**7,439**	(23%)	(7%)
Sales	9,697	9,886	19,583	**8,854**	(9%)	(10%)
Operating income	495	(998)	(503)	**132**		
Operating margin	5.1%	(10.1%)	(2.6%)	**1.5%**		

Total Group Proforma figures[3]	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03 (Unaudited)	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in € million)			
Order backlog	n/a	26,351	26,351	**24,844**	n/a	(6%)

Orders received	8,264	6,292	14,556	**5,541**	(33%)	(12%)
Sales	8,660	8,418	17,078	**7,308**	(16%)	(13%)
Operating income	433	(1,243)	(810)	**34**		
Operating margin	5.0%	(14.8%)	(4.7%)	**0.5%**		

(1) See Change in business composition and presentation of our accounts, non-GAAP measures Use and reconciliation of non-GAAP financial measures .

(2) Adjusted for changes in business composition and exchange rates. See Change in business composition and presentation of our accounts, non-GAAP measures Comparable basis .

(3) Adjusted to reflect the effect of the disposals of the T&D Sector, excluding the Power Conversion business, and our Industrial Turbines activities. For the derivation of pro-forma sales, operating income and operating margin, see our Pro-forma Consolidated Financial Statements year ended 31 March 2003 and half-year ended 30 September 2003 for more details. We derived order backlog and orders received in an analogous manner.

Table of Contents

General comments on activity

Since 31 March 2003, we have continued to face market uncertainties, a tightening contract performance bond market and, more generally, a weak global economy. The power generation new equipment and cruise-ship markets remained at historically low levels. The transport market remained relatively healthy, but as a whole lower than the record level of the previous year. The power service market remained sound. Against these globally difficult market conditions, uncertainty regarding the Group s financial condition contributed to a significant decline in orders received during the first half of the fiscal year.

Orders received and backlog

In addition to weak markets for equipment and projects, the Group s commercial activity for the first half of fiscal year 2004 was significantly impacted by customer uncertainty as to our financial future, as well as by difficulties in issuing contract bonds. These two factors had a number of significant negative impacts on our commercial activity during the period preceding the announcement of our new financing package. In light of the long-term nature of many of our projects, customers delayed placing new orders or did not place orders with us and/or delayed making advance or progress payments pending clarification of our financial perspectives.

This contributed to the low level of orders received during the first half of fiscal year 2004. Orders 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). Our backlog was 27,174 million at 30 September 2003, representing approximately 18 months of sales.

Sales

On an actual basis, sales decreased by 18 % in the first half of fiscal year 2004 as compared with first half of fiscal year 2003. This is due to the decrease in orders received in fiscal year 2003, mainly in Power Turbo-Systems as a result of the strong decline in orders that started to materialise last year as well as to the disposal of our Industrial Turbines businesses and the decline of the US dollar against the Euro. On a comparable basis, sales decreased by 9% versus the first half of fiscal year 2003.

Operating income

Following the discovery of accounting improprieties at ATI (as announced on 30 June 2003 just prior to the General Shareholders Meeting on 2 July 2003), we subsequently conducted reviews of other ATI contracts. They led management to make revised estimates of costs to complete contracts in our Transport Sector, leading to additional charges of 102 million in relation to the US Transport business. Separately, two key subcontractors on a utility boiler contract in the US declared bankruptcy, causing a charge estimated at 60 million for the Power Environment Sector. In addition, the decrease in sales, which was not completely offset by a corresponding decrease in operating expenses due to the time necessary to realise the benefits of our restructuring programmes, led to a decrease in our operating income.

As a consequence, our operating income in the first half of the fiscal year 2004 was €132 million or 1.5% of sales.

Net income/loss

Net loss after goodwill amortisation was €624 million as a result of the low level of operating income, higher financial expenses and restructuring charges and lower than anticipated deferred tax credits.

Free Cash Flow

Our free cash flow was €(674) million in the first half of fiscal year 2004 as a result of:

- cash outflows of €394 million on the GT24/GT26 gas turbines (as compared with €1,055 million for the full fiscal year 2003);

Table of Contents

- higher restructuring and financial expenses; and

- deterioration of our working capital, related among other things to the strong decline in orders received in the first half of fiscal year 2004 as a result of the uncertainty generated by our financial situation during the summer and to customers and suppliers seeking payment terms that were less favourable to us.

RECENT DEVELOPMENTS

There have been no major developments since 30 September 2003. However, we have seen an encouraging rebound in orders in our Sectors where orders received and secured (meaning the contract is signed but not formally registered in our backlog because it has not yet come into force) by the end of October represented approximately €1,400 million (out of which €700 million for Transport).

OUTLOOK

The timing of recovery in the power generation equipment and cruise-ship markets is uncertain over the short to medium-term, while we believe that the transport market should remain sound. We expect overall demand in power generation equipment to remain generally low over the coming months but we are confident that market fundamentals will lead, in the medium to long-term, to growing demand for both new equipment and service. We believe as well that the financing package announced in September 2003 will positively impact our commercial prospects. Sales should continue to decrease in the second half of fiscal year 2004 when compared with fiscal year 2003 due to the lower level of orders received in fiscal year 2003 mainly in the former Power Sector.

The current situation regarding our markets and the extent and timing of the impact of our financing package on our commercial operations make it difficult to predict our likely future financial results. For internal planning purposes, however, we have set a number of financial objectives, including achieving consolidated sales of more than €15 billion (excluding our T&D and Industrial Turbines activities) and an operating margin of approximately 6% by fiscal year 2006. Our ability to achieve these objectives depends on the results of our extensive restructuring and cost reduction plans, the recovery and downsizing of Power Turbo-Systems, the closing out of the GT24/GT26 issue, the implementation of the financing package, the improvement of our Transport operating margin to 7%, and the progressive shift of our business mix towards more profitable after market and service activities.

We have also set internal objectives with respect to our free cash flow and our economic debt.

We expect our free cash flow to be negative through the end of fiscal year 2005, and we are currently anticipating approximately €(1,200) million of free cash flow on a cumulative basis for fiscal years 2004 and 2005. This figure takes into account anticipated cash outflows linked to the GT24/GT26 gas turbines, which will continue in the second half of fiscal year 2004 and in fiscal year 2005, as well as significant restructuring costs. We have an objective to achieve positive cash flow once the cash outflows on the GT24/GT26 cease.

We have set as an objective to reduce our economic debt below €2.5 billion by March 2005 (on the basis of our current definition and before any change in accounting principles and without taking into account the conversion of the 20 year-bond reserved for the French State) through the proceeds from disposals, the €300 million capital increase and the issuance of mandatory convertible bonds, each of which is part of our financing package described above.

The foregoing are forward-looking statements, and as a result they are subject to uncertainties. The success of our strategy and action plan, our sales, operating margin and financial position could differ materially from the goals and targets expressed above if any of the risks we describe in our Annual Report for fiscal year 2003 as updated and in our Annual Report on Form 20F in the sections entitled Forward Looking Statements and Risk Factors , or other unknown risks, materialise.

Table of Contents

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

Changes in business composition

Our results for the first half of fiscal year 2004 as compared with the first and second halves of fiscal year 2003 have been significantly impacted by the disposal of our Industrial Turbines businesses and to a lesser extent by the disposal of our activities in South Africa in September 2002. Our Industrial Turbines were disposed of under two transactions: our small gas turbines business was sold with effect from 30 April 2003 and our medium-sized gas turbines and industrial steam turbines businesses were sold with effect from 1 August 2003. Certain minor sites have yet to be transferred to Siemens pending completion of legal procedures relating, for example, to anti-competition laws in select jurisdictions.

Use and reconciliation of non-GAAP financial measures

From time to time in this section, we disclose figures which are non-GAAP financial indicators. Under the rules of the United States Securities and Exchange Commission (SEC) and the Commission des Opérations de Bourse (COB), a non-GAAP financial indicator is a numerical measurement of our historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measurement calculated and presented in accordance with GAAP in our consolidated income statement, consolidated balance sheet or consolidated statement of cash flows; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measurement so calculated and presented. In this regard, GAAP refers to generally accepted accounting principles in France.

Free cash flow

We define free cash flow to mean net cash provided by (used in) operating activities less capital expenditures, net of proceeds from disposals of property, plant and equipment and Increase (decrease) in variation in existing receivables considered as a source of funding of our activity. Total proceeds from disposals of property, plant and equipment in our Consolidated Statements of Cash Flows include proceeds from our real estate disposal programme designed under our strategy and action plan that we eliminate from the calculation of the free cash flow given that this programme is non-recurring and that we consider only the receipt of minor proceeds as part of our normal operations.

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

Total Group **Actual figures**	**First Half Sept. 02** **(Unaudited)**	**2nd Half March 03** **(Unaudited)**	**Full Year 2002/03**	**First Half Sept. 03** **(Unaudited)**

		(in € million)		
Net cash provided by (used in) operating activities	**83**	**(620)**	**(537)**	**(731)**
Elimination of variation in existing receivables	152	509	661	144
Capital expenditures	(200)	(210)	(410)	(105)
Proceeds from disposals of property, plant and equipment	40	212	252	166
Elimination of proceeds from our programme of disposal of real estate assets		(231)	(231)	(148)
Free Cash Flow	**75**	**(340)**	**(265)**	**(674)**

15

Table of Contents

We use the free cash flow measure both for internal analysis purposes as well as for external communications, as we believe it provides more accurate insight into the actual amount of cash generated or used by our operations. Management believes the presentation of free cash flow is beneficial to investors for this reason.

Economic Debt

We define economic debt to mean net debt (or financial debt net of short term investments and cash and cash equivalents) plus cash proceeds from sale of trade receivables (securitisation of existing receivables). Economic debt does not represent our financial debt as calculated under French GAAP, and should not be considered as an indicator of our currently outstanding indebtedness, as trade receivables securitised are sold irrevocably and generally without recourse. The financial measure most directly comparable to economic debt calculated and presented in accordance with French GAAP is financial debt, and a reconciliation of economic debt and financial debt as measured in accordance with French GAAP is presented below.

Total Group **Actual figures**	**At 30 Sept. 2002** **(Unaudited)**	**At 31 March 2003**	**At 30 Sept. 2003** **(Unaudited)**
		(in million)	
Financial Debt	4,312	6,331	6,076
Undated subordinated notes[(1)]	250		
Short term investments	(265)	(142)	(98)
Cash and cash equivalents	(2,126)	(1,628)	(1,671)
Cash proceeds from sale of trade receivables	884	357	212
Economic debt	**3,055**	**4,918**	**4,519**

(1) Our undated subordinated notes have been reclassified in Financial debt as at 31 March 2003.

We use the economic debt measure both for internal analysis purposes as well as for external communications, as we believe it provides a more accurate measure by which to analyse our total external sources of funding for our operations and its variation from one period to another.

Capital Employed/Return on Capital Employed (ROCE)

We define capital employed to mean fixed assets, net, plus current assets (excluding net amount of securitisation of existing receivables), less provisions for risks and charges and current liabilities. The main part of our other fixed assets is allocated to Corporate s capital employed because they are managed by Corporate; they mainly include loans in respect of Marine Vendor Financing and prepaid assets-pensions. Further, we use capital employed to calculate return on capital employed (ROCE), which we define as EBIT divided by capital employed. Capital employed does not represent current assets, as calculated under French GAAP. The most directly comparable financial measure to capital employed and presented in accordance with French GAAP is current assets, and a reconciliation of capital employed and current assets is presented below. Capital employed by Sector and for the Group as a whole are also presented in Note 16 to the 30 September 2003 Interim Consolidated Financial Statements.

Total Group Actual figures	At 30 Sept. 2002 (Unaudited)	At 31 March 2003	At 30 Sept. 2003 (Unaudited)
		(in million)	
Current assets	13,010	11,728	11,031
Cash proceeds from sale of trade receivables	884	357	212
Current liabilities	(13,956)	(12,917)	(12,173)
Provisions for risk and charges	(3,197)	(3,698)	(3,500)
Fixed assets	9,955	9,478	8,333
Capital employed	**6,696**	**4,948**	**3,903**

16

Table of Contents

We use the capital employed and ROCE measures both for internal analysis purposes as well as for external communications, as we believe they provide insight into the amount of financial resources employed by a Sector or the Group as a whole and the profitability of a Sector or the Group as a whole in regard to the resources employed. Management believes the presentation of capital employed and ROCE is useful to investors for this reason.

Comparable basis

The figures presented in this section include performance indicators presented on an actual basis and on a comparable basis. Figures have been given on a comparable basis in order to eliminate the impact of changes in business composition and changes resulting from the translation of our accounts into Euro following the variation of foreign currencies against the Euro. All figures provided on a comparable basis are non-GAAP measures. We use figures prepared on a comparable basis both for our internal analysis and for our external communications, as we believe they provide means by which to analyse and explain variations from one period to another. However, these figures provided on a comparable basis are unaudited and are not measurements of performance under either French or US GAAP.

To prepare figures on a comparable basis, we have performed the following adjustments to the corresponding figures presented on an actual basis:

- restatement of the actual figures for the first and second halves of fiscal year 2003 using 30 September 2003 exchange rates for order backlog, orders received, sales and operating income and elements constituting our operating income; and

- adjustments due to changes in business composition have then been made to the same line items for first and second halves of fiscal year 2003. More particularly contributions of material activities sold since 1 April 2003 have been excluded from the figures reported in the first and second halves of fiscal year 2003, mainly the South Africa business disposed of in September 2002 and Industrial Turbine businesses disposed of in the first half of fiscal year 2004.

Table of Contents

The following table sets out the estimated impact of changes in exchange rates and in business composition (Scope impact) for all indicators disclosed in this document both on an actual basis and on a comparable basis for the first and second halves of fiscal year 2003. No adjustment has been made on figures disclosed for the first half of fiscal year 2004.

	1st Half September 2002				2nd Half March 2003				Full year 2002/03	Full year 2002/03	1st Half Sept. 2003
Unaudited figures	**Actual figures**	**Exchange rate**	**Scope impact**	**Comparable figures**	**Actual figures**	**Exchange rate**	**Scope impact**	**Comparable figures**	**Actual figures**	**Comparable figures**	**Actual figures**
						(in € million)					
Power											
Turbo-systems	n/a	n/a	n/a	n/a	3,445	(53)	0	3,392	3,445	3,392	3,027
Power Environment	n/a	n/a	n/a	n/a	3,863	(42)	0	3,821	3,863	3,821	3,452
Power Service	n/a	n/a	n/a	n/a	2,793	(142)	0	2,651	2,793	2,651	2,860
Industrial Turbines	n/a	n/a	n/a	n/a	1,285	(29)	(1,256)	0	1,285	0	0
Power	**13,599**	**n/a**	**n/a**	**n/a**	**11,386**	**(266)**	**(1,256)**	**9,864**	**11,386**	**9,864**	**9,339**
T&D	2,960	(112)	0	2,848	2,694	(71)	0	2,623	2,694	2,623	2,894
Transport	14,784	(739)	0	14,045	14,675	(240)	0	14,435	14,675	14,435	13,795
Marine	2,229	0	0	2,229	1,523	0	0	1,523	1,523	1,523	1,041
Corporate and other	39	(1)	0	38	52	(1)	0	51	52	51	105
ORDER BACKLOG	**33,611**	**n/a**	**n/a**	**n/a**	**30,330**	**(578)**	**(1,256)**	**28,496**	**30,330**	**28,496**	**27,174**
Power											
Turbo-systems	1,368	(65)	0	1,303	453	(9)	0	444	1,821	1,747	839
Power Environment	1,469	(116)	0	1,353	1,114	(14)	0	1,100	2,583	2,453	1,042
Power Service	1,686	(131)	0	1,555	1,248	(57)	0	1,191	2,934	2,746	1,368
Industrial Turbines	508	(18)	(170)	320	757	(16)	(421)	320	1,265	640	320
Power	**5,031**	**(330)**	**(170)**	**4,531**	**3,572**	**(96)**	**(421)**	**3,055**	**8,603**	**7,586**	**3,569**
T&D	2,067	(78)	(85)	1,904	1,664	(44)	0	1,620	3,731	3,524	1,801
Transport	3,300	(165)	0	3,135	3,112	(51)	0	3,061	6,412	6,196	1,672
Marine	26	0	0	26	137	0	0	137	163	163	340
Corporate and other	113	(3)	(29)	81	101	(1)	0	100	214	181	57
ORDERS RECEIVED	**10,537**	**(576)**	**(284)**	**9,677**	**8,586**	**(192)**	**(421)**	**7,973**	**19,123**	**17,650**	**7,439**
Power											
Turbo-systems	2,413	(144)	0	2,269	1,444	(29)	0	1,415	3,857	3,684	1,211
Power Environment	1,457	(142)	0	1,315	1,641	(48)	0	1,593	3,098	2,908	1,331
Power Service	1,350	(133)	0	1,217	1,328	(63)	0	1,265	2,678	2,482	1,361
Industrial Turbines	592	(16)	(366)	210	676	(16)	(450)	210	1,268	420	210
Power	**5,812**	**(435)**	**(366)**	**5,011**	**5,089**	**(156)**	**(450)**	**4,483**	**10,901**	**9,494**	**4,113**
T&D	1,778	(78)	(65)	1,635	1,827	(38)	0	1,789	3,605	3,424	1,562
Transport	2,339	(101)	0	2,238	2,733	(51)	0	2,682	5,072	4,920	2,297
Marine	725	0	0	725	843	0	0	843	1,568	1,568	822
Corporate and other	115	(1)	(26)	88	90	(1)	0	89	205	177	60
SALES	**10,769**	**(615)**	**(457)**	**9,697**	**10,582**	**(246)**	**(450)**	**9,886**	**21,351**	**19,583**	**8,854**
Power											
Turbo-systems	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(1,399)	(1,306)	(127)
Power Environment	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	224	213	24
Power Service	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	403	380	196
Industrial Turbines	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	82	28	14
Power	**270**	**(31)**	**2**	**241**	**(960)**	**88**	**(54)**	**(926)**	**(690)**	**(685)**	**107**
T&D	110	(3)	(9)	98	117	(1)	0	116	227	214	84
Transport	90	(5)	0	85	(114)	19	0	(95)	(24)	(10)	(37)

Marine	16	0	0	16	8	0	0	8	24	24	4
Corporate and other	56	(1)	0	55	(100)	(1)	0	(101)	(44)	(46)	(26)
OPERATING INCOME	**542**	**(40)**	**(7)**	**495**	**(1,049)**	**105**	**(54)**	**(998)**	**(507)**	**(503)**	**132**

A significant part of our sales and expenditures are realised and incurred in currencies other than the Euro. The principal currencies to which we had significant exposures in fiscal year 2004 were the US Dollar, British Pound, Swiss Franc, Mexican Peso and Brazilian Real. Our orders received and sales have been impacted by the translation of our accounts into Euros resulting from changes in value of the Euro against other currencies in fiscal year 2004. The impact was a decrease of approximately 6 % compared with first half of fiscal year 2003.

Table of Contents

Proforma figures

The figures presented in this section include financial measures and performance indicators presented on a proforma basis. Proforma figures have been adjusted to reflect the effect of the disposals of the T&D Sector, excluding the Power Conversion business, and our Industrial Turbines activities. For the derivation of pro-forma sales, operating income and operating margin, see our Pro-forma Consolidated Financial Statements year ended 31 March 2003 and half-year ended 30 September 2003 for more details. We derived order backlog and orders received in an analogous manner.

KEY GEOGRAPHICAL FIGURES FOR FIRST AND SECOND HALF OF FISCAL YEAR 2003 AND FIRST HALF OF FISCAL YEAR 2004

Geographical analysis of orders

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

	Actual Figures						Proforma Figures	
Total Group	**First Half Sept. 02 (Unaudited)**	**% contrib.**	**2nd Half March 03 (Unaudited)**	**% contrib.**	**First Half Sept. 03 (Unaudited)**	**% contrib.**	**First Half Sept. 03 (Unaudited)**	**% contrib.**
				(in million)				
Europe	5,180	49%	3,709	43%	**3,819**	51%	**2,818**	51%
North America	2,138	20%	2,466	29%	**1,034**	14%	**869**	16%
South and Central America	603	6%	395	5%	**314**	4%	**244**	4%
Asia / Pacific	1,638	16%	1,079	13%	**1,193**	16%	**849**	15%
Middle East / Africa	978	9%	937	11%	**1,079**	15%	**761**	14%
Orders received by destination	**10,537**	100%	**8,586**	100%	**7,439**	100%	**5,541**	100%

For the first half of fiscal year 2004, the geographic breakdown showed a decrease of the North America s contribution as compared with the first half of fiscal year 2003. For other regions the breakdown was broadly equivalent. The decrease in North America was mainly due to the decrease in orders received by Transport, which were at exceptionally high levels last year, due to over-capacity in the power generation market and to the fall of the US dollar against the Euro.

Europe remained the largest market in terms of orders received representing 51% of the total. This region remained important for Transport as well as for Power Environment.

Activity in South and Central America remained low and markets were depressed in Brazil for Power Environment and Power Service.

The Asia / Pacific region remained stable, at 16% of the total. The level of orders received during the first half of fiscal year 2004 was lower as compared with last year although we believe the prospects for the future are positive.

The share of Middle East/Africa in orders received increased from 9% in the first half of fiscal year 2003 and 11% in the second half of fiscal year 2003, up to 15% in first half of fiscal year 2004, as a result of orders received by our Power Turbo-Systems Sector in Algeria and Bahrain.

Table of Contents

Geographical analysis of sales by region of destination

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

	Actual Figures						Proforma Figures	
Total Group	**First Half Sept. 02 (unaudited)**	**% contrib.**	**2nd Half March 03 (unaudited)**	**% contrib.**	**First Half Sept. 03 (unaudited)**	**% contrib.**	**First Half Sept. 03 (unaudited)**	**% contrib.**
				(in million)				
Europe	4,303	40%	4,917	46%	**4,161**	47%	**3,437**	47%
North America	2,673	25%	2,046	19%	**1,662**	19%	**1,435**	20%
South and Central America	775	7%	759	7%	**488**	6%	**410**	6%
Asia / Pacific	1,833	17%	1,894	18%	**1,875**	21%	**1,572**	22%
Middle East / Africa	1,185	11%	967	9%	**668**	8%	**454**	6%
Sales by destination	**10,769**	100%	**10,583**	100%	**8,854**	100%	**7,308**	100%

Although the level of sales in Europe decreased in actual terms, Europe s share of total sales increased from 40% in the first half of last fiscal year to 46% in the first half of fiscal year 2004. This is the result of the significant decrease in sales in other areas such as North America and South and Central America.

North America decreased mainly as a result of the low level of sales in the field of power generation, reflecting the evolution of this market.

Asia/Pacific remained stable in absolute terms at about 1.9 billion, and its share of total sales increased as major Power plant deliveries were achieved in South East Asia.

Table of Contents

POWER SECTORS

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

Power Actual figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in € million)			
Order backlog	13,599	11,386	11,386	**9,339**	(31%)	(18%)
Orders received	5,031	3,572	8,603	**3,569**	(29%)	(0%)
Sales	5,812	5,089	10,901	**4,113**	(29%)	(19%)
Operating income	270	(960)	(690)	**107**		
Operating margin	4.6%	(18.9%)	(6.3%)	**2.6%**		
EBIT	133	(1,196)	(1,063)	**(118)**		
Capital Employed	3,529	2,383	2,383	**1,679**		
ROCE	7.5%	n/a	n/a	**n/a**		

Power Comparable figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03 (Unaudited)	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in € million)			
Order backlog	n/a	9,864	9,864	**9,339**	n/a	(5%)
Orders received	4,531	3,055	7,586	**3,569**	(21%)	17%
Sales	5,011	4,483	9,494	**4,113**	(18%)	(8%)
Operating income	241	(926)	(685)	**107**		
Operating margin	4.8%	(20.7%)	(7.2%)	**2.6%**		

Power Proforma figures(1)	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in € million)			
Order backlog	n/a	10,101	10,101	**9,339**	n/a	(8%)
Orders received	4,523	2,815	7,338	**3,249**	(28%)	15%
Sales	5,220	4,413	9,633	**3,903**	(25%)	(12%)
Operating income	n/a	n/a	(772)	**93**		

Operating margin	n/a	n/a	(8.0%)	**2.4%**

(1) Proforma figures excluding Industrial Turbines businesses.

The Power Sector was reorganised into three new Sectors following the end of fiscal year 2003. The figures shown above and discussed below reflect this new organisation. However, due to the reorganisations, and to intra-segments/inter-segments transactions, the figures reported for fiscal year 2003 cover only full year operating income with no split of operating income by semester.

Table of Contents

POWER TURBO-SYSTEMS

The following table sets out some key financial and operating data for the Power Turbo-systems Sector:

Power Turbo-Systems Actual figures	**First Half Sept. 02 (Unaudited)**	**2nd Half March 03 (Unaudited)**	**Full Year 2002/03**	**First Half Sept. 03 (Unaudited)**	**% Variation Sept. 03/ Sept 02**	**% Variation Sept. 03/ March 03**
			(in € million)			
Order backlog	n/a	3,445	3,445	**3,027**	n/a	(12%)
Orders received	1,368	453	1,821	**839**	(39%)	85%
Sales	2,413	1,444	3,857	**1,211**	(50%)	(16%)
Operating income	n/a	n/a	(1,399)	**(127)**		
Operating margin	n/a	n/a	(36.3%)	**(10.5%)**		
EBIT	n/a	n/a	(1,527)	**(219)**		
Capital Employed	n/a	n/a	n/a	**(1,466)**		
ROCE	n/a	n/a	n/a	**n/a**		

Power Turbo-Systems Comparable figures	**First Half Sept. 02 (Unaudited)**	**2nd Half March 03 (Unaudited)**	**Full Year 2002/03 (Unaudited)**	**First Half Sept. 03 (Unaudited)**	**% Variation Sept. 03/ Sept 02**	**% Variation Sept. 03/ March 03**
			(in € million)			
Order backlog	n/a	3,392	3,392	**3,027**	n/a	(11%)
Orders received	1,303	444	1,747	**839**	(36%)	89%
Sales	2,269	1,415	3,684	**1,211**	(47%)	(14%)
Operating income	n/a	n/a	(1,306)	**(127)**		
Operating margin	n/a	n/a	(35.5%)	**(10.5%)**		

Orders received

The first half of fiscal year 2004 saw a continued downward trend in the power generation market due to a decline in US activity and a slowdown in other parts of the world, except for China. The uncertain global economic climate led to delayed decisions about new capital investments. Overall, North America experienced over-capacity and the new market forces shifted the focus away from favouring merchant power plants to regulated businesses (utilities). In Europe certain markets still show demand such as in Spain,

Italy and the northern countries; however sluggish economies may impact the progress of deregulation and unbundling in the power generation and transmission market. The regional demand in the Middle East remained sustained. Asia was much better oriented and economic growth is coming back after the crisis of the late 1990 s. China continued to develop a very large equipment ordering programme to meet with strong electricity demand but most of this is met by local suppliers.

The increased price volatility for fuel and electricity emanating from the liberalisation of markets re-emphasised the need for flexibility and diversity of power generation technologies.

On an actual basis, orders received by Turbo-Systems for the first half of fiscal year 2004 were 85% higher than the second half of fiscal year 2003, but 39% lower than for the first half of fiscal year 2003, reflecting the overall market environment described above.

During the first half of fiscal year 2004, Power Turbo-Systems booked the following major orders:

F Kirina, an open cycle plant in Algeria (2x GT13 E2 gas turbines);

Alba P4, a combined cycle plant (2x GT 13 E2) for Aluminium Bahrain; and

Several Steam turbine retrofit orders, both in Europe and in the US.

By geography, compared to the second half of fiscal year 2003, orders received significantly decreased by 20% in Europe, while North America dropped by 58%. Steam turbine retrofits remained active, essentially for

Table of Contents

nuclear plants. South America was extremely depressed with a limited expected level of new infrastructure investments in the near future. Asia is still an important market, but no significant project materialised during the first half of fiscal year 2004. The most active region was Middle East, with a total amount of orders received for the 6 month period already higher than the full fiscal year 2003.

Sales

Sales by Power Turbo-Systems in the first half of fiscal year 2004 decreased by 50% compared with the first half of fiscal year 2003, on an actual basis, and by 47% on a comparable basis. This is mainly due to very high level achieved during the first half of last year, as a continuation of the exceptional level of orders received in the prior years. The lower level of orders received in the fiscal years 2002 and 2003, have had a significant negative impact on the current year s sales.

On a actual basis, sales for Power Turbo-Systems in the first half of fiscal year 2004 decreased by 16% compared with the second half of fiscal year 2003. The effect of the decline in orders started to materialise in the second half of last year, in particular for the sale of turbines to power plants.

By geography, compared to the second half of fiscal year 2003, North America decreased by 35%, Europe decreased by 22%, while Asia/Pacific increased by 51%. This is due to the high volumes traded on Power plant contracts, particularly in Malaysia, Vietnam and Singapore.

Operating income and operating margin

Power Turbo-Systems operating income was (127) million in the first half of fiscal year 2004 compared with (1,399) million in the full fiscal year 2003 on an actual basis. The main reasons for negative operating income in the first half of fiscal year 2004 were the low level of sales recognised in the period and a charge of 22 million, as certain anticipated achievements in our mitigation plan for the GT24/GT26 did not materialise.

Operating income in fiscal year 2003 was strongly impacted by the negative effects of the GT24/GT26 gas turbines problems and the related exceptional provisions and accrued contract costs, and by a sharp decrease in sales as compared with fiscal year 2002.

Update on GT24/GT26 Gas Turbine Issues

GT24 and GT26 gas turbines, with outputs of 180 MW and 260 MW, respectively, are the largest of our extensive range of gas turbines. The technology was originally developed by ABB in the mid-1990s, with most sales made prior to the acquisition by ALSTOM. These turbines are based on an advanced design concept. At the start of the commercial operation of the second generation, or B version turbines, in 1999 and 2000, a number of technical issues were identified, showing the turbines would not meet the contractual performance and lifetime obligations.

In response, we set in motion high-priority initiatives to design and implement modifications across the fleet. The first step of these initiatives was to de-rate the units so that they could operate in commercial service with lower efficiency and output, while we developed the technical solutions to allow full rating operation. We also embarked on a comprehensive programme to discuss and resolve any contractual issues with customers. Commercial settlements with customers were negotiated to deal with the consequences of the de-rating. Typically, what was proposed was a Performance Recovery Period of around 2-3 years, prior to implementing the life-time and performance upgrades, that we call a recovery package . This deferred the timing of the date at which provisional acceptance was achieved and related contractual remedies, including liquidated damages, applied. During that period, varying solutions were applied depending on the situation, however in general we replaced short life components at our cost and agreed on contractual amendments, including revised financial conditions, with each customer.

Table of Contents

We have implemented several technical improvements to the turbines, which permit flexible and reliable operation of the fleet. The cumulative plant reliability since start of commercial operation is now 97% for the GT24/GT26 fleet. Operational reliability and flexibility are important ingredients for our customers, particularly for those in merchant markets.

Our confidence in the technology is being reinforced by the major progress achieved, as modifications aimed at delivering enhancements to output and efficiency have been designed, validated, tested and are being implemented as follows:

- Compressor mass flow and efficiency increase for GT26   Successful demonstration of increased electrical output improvement at our full-scale test facility in Birr, Switzerland. Compressor mass flow and efficiency increase for GT24 successfully tested at a power plant in Mexico. Improved, validated and tested compressor upgrades have been installed on existing sites in USA, Spain and Ireland, and are being included in new applications. The fleet lead unit, with the new compressor, has now been in operation for more than 4,000 hours.

- High fogging Inlet System   Successful demonstration of an increase of more than 6% in electrical output in both the test facility and field validation units. The system can be applied to both existing and new gas turbine installations.

- Dual Fuel Capability   Successful demonstration in both the test facility and field validation units. The system is now available for commercial application on both existing and new gas installations.

- Life-time package   5 engines have been fitted with the blade improvement package, and after 2,300 hours of operation the inspection shows a fully satisfactory behaviour.

The 72 machines in service had accumulated over 730,000 operating hours at high reliability levels as of 30 September 2003.

The commercial situation with respect to the GT24/GT26 gas turbines is also becoming clearer. Of the 80 units, 72 units are in commercial operation, 2 are in commissioning, 2 are in construction and for 4 the contract has been suspended. Commercial settlement is progressing well with several additional agreements concluded (68 settlements agreed or not needed as at 13 November 2003), and all of the 7 litigation cases have now been settled satisfactorily. Under agreements covering 31 of the units, we are committed to or otherwise have the opportunity to make upgrade improvements within agreed time periods. The remaining units, which are in commercial operation, are either in normal warranty or have had those warranty periods expire. The order backlog still includes €498 million, in respect of a GT26 contract for 4 units currently suspended on which the owner has an option for termination. If this contract does not proceed, the orders in hand will need to be adjusted accordingly.

In the fourth quarter of fiscal year 2003 unexpected setbacks and delays, now resolved, were experienced in validating and testing several important components of the recovery package, notably the compressor upgrade and full lifetime blades. These delays resulted in our being unable to implement certain scheduled performance recovery measures during the recovery periods agreed with certain of our customers.

In the current state of the energy wholesale markets, customers do not have the incentive to accept these machines. These delays therefore mean significantly increased exposure as customers are less inclined to agree to further extensions of the recovery periods and are invoking penalties and liquidated damages. We also incur additional costs because we have been forced to shut down the machines more frequently to replace short life components at our expense. Our previously expected targets were

therefore not achievable in the current context.

In fiscal year 2000, ABB ALSTOM Power, of which we owned 50% at that time, recorded a total of €519 million of provisions and accrued contract costs in respect of the GT24/GT26 gas turbines. In fiscal year 2001, we recorded a total of €1,068 million of provisions and accrued contract costs related to the turbines and retained

Table of Contents

provisions and accrued contract costs of €1,530 million at 31 March 2001. In fiscal year 2002, we recorded an additional €1,075 million of provisions and accrued contract costs related to the turbines and retained provisions and accrued contract costs of €1,489 million at 31 March 2002, including a €49 million provision in respect of an option exercised on a contract after the bulk of the GT24/GT26 portfolio was sold. We recorded an additional €1,637 million of provisions and accrued contract costs related to these turbines in fiscal year 2003, including €83 million recorded in fiscal year 2003 in the Customer Service Segment in respect of contracts transferred to this Segment as part of our after market operations and on which we have no uncovered exposure. We therefore retained €1,655 million of provisions and accrued contract costs at 31 March 2003 in respect of these turbines after taking into account mitigation plans of €454 million.

As of 30 September 2003, the mitigation target has been reduced by €118 million to €336 million. This reduction included €22 million related to exchange rate movements, €68 million of achieved mitigation actions and certain planned mitigation actions which did not materialise resulting in a corresponding €28 million charge in our operating income for the first half of fiscal year 2004 (€22 million for Power Turbo-Systems and €6 million for Power Service). As of 30 September 2003, we retained €1,193 million of provisions and accrued contract costs. This amount does not include €336 million of exposure, which we consider the risks mitigated by appropriate action plans.

POWER ENVIRONMENT

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

Power Environment Actual figures	**First Half Sept. 02 (Unaudited)**	**2nd Half March 03 (Unaudited)**	**Full Year 2002/03**	**First Half Sept. 03 (Unaudited)**	**% Variation Sept. 03/ Sept 02**	**% Variation Sept. 03/ March 03**
			(in € million)			
Order backlog	n/a	3,863	3,863	**3,452**	n/a	(11%)
Orders received	1,469	1,114	2,583	**1,042**	(29%)	(6%)
Sales	1,457	1,641	3,098	**1,331**	(9%)	(19%)
Operating income	n/a	n/a	224	**24**		
Operating margin	n/a	n/a	7.2%	**1.8%**		
EBIT	n/a	n/a	107	**(29)**		
Capital Employed	n/a	n/a	n/a	**850**		
ROCE	n/a	n/a	n/a	**n/a**		

Power Environment Comparable figures	**First Half Sept. 02 (Unaudited)**	**2nd Half March 03 (Unaudited)**	**Full Year 2002/03 (Unaudited)**	**First Half Sept. 03 (Unaudited)**	**% Variation Sept. 03/ Sept 02**	**% Variation Sept. 03/ March 03**
			(in € million)			
Order backlog	n/a	3,821	3,821	**3,452**	n/a	(10%)
	1,353	1,100	2,453	**1,042**	(23%)	(5%)

Orders received						
Sales	1,315	1,593	2,908	**1,331**	1%	(16%)
Operating income	n/a	n/a	213	**24**		
Operating margin	n/a	n/a	7.3%	**1.8%**		

Orders received

Fiscal year 2003 saw an abrupt market downturn in the US particularly in the combined cycle market following a boom during the prior two years. The first half of this year has shown a continuation of that trend. Latin America suffered from economic difficulties last year leading to a drop in the number of projects being built. The Brazilian market in particular was very weak, severely impacting the Hydro business. In Europe, the market remained active in some areas, in particular Germany for Waste to Energy contracts and Italy for Heat Recovery Steam Generators. In Asia, China continued to develop its capacity of electricity generation, with some awards in Hydro; however a large numbers of projects were awarded to local suppliers.

Table of Contents

The increased price volatility for fuel and electricity emanating from the liberalisation of markets re-emphasised the need for flexibility and diversity of power generation technologies. Environmental policies are increasingly being integrated into market requirements favouring our environmental control equipment.

Orders received by Power Environment in the first half of fiscal year 2004 were lower than in the first half of 2003, due to the slow down in the markets across all businesses that commenced during the second half of last year. In the first half of fiscal year 2003, large contracts were booked in Utility Boilers (Santee Cooper) & Hydro (Victoria Falls).

On an actual basis, orders received by Power Environment for the first half of fiscal year 2004 decreased by 6% as compared with the second half of fiscal year 2003, and 29% as compared with the first half of fiscal year 2003.

During the first half of fiscal year 2004, Power Environment booked the following major orders:

- In Germany, a combined heat and power plant in Sandreuth, two waste incineration boilers in Muenster, new firing systems for lignite-fired boilers in Schkopau; and

- In China, a circulating fluidised bed (CFB) boiler in Baima, Sichuan Province.

By geography, orders were strongest in Europe this year. The strongest market has been Germany, primarily the Waste to Energy market, but we also booked orders in Italy and France. Some smaller orders were booked in China and India, and our prospects in Asia remain positive overall. Activity in North and South America continued to be low.

Sales

Sales of Power Environment in the first half of fiscal year 2004 fell 9% compared with the first half of fiscal year 2003, on an actual basis, and increased slightly on a comparable basis. Hydro Business sales were higher compared to first half of last year due to a large order booked in the second half of last year. Utility Boiler sales are significantly lower than first half last year due to low bookings in the second half of last year.

Operating income and operating margin

The operating income of Power Environment was €24 million for the first half of fiscal year 2004, compared with €224 million for the full fiscal year 2003. This low level included a charge of €60 million related to the revised cost of completion of a utility boiler contract in the US due to the bankruptcy of two key subcontractors.

POWER SERVICE

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

Power Service Actual figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in € million)			
Order backlog	n/a	2,793	2,793	**2,860**	n/a	2%
Orders received	1,686	1,248	2,934	**1,368**	(19%)	10%
Sales	1,350	1,328	2,678	**1,361**	1%	2%
Operating income	n/a	n/a	403	**196**		
Operating margin	n/a	n/a	15.0%	**14.4%**		
EBIT	n/a	n/a	304	**123**		
Capital Employed	n/a	n/a	n/a	**2,295**		
ROCE	n/a	n/a	n/a	**10.7%**		

Table of Contents

Power Service Comparable figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03 (Unaudited)	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in € million)			
Order backlog	n/a	2,651	2,651	**2,860**	n/a	8%
Orders received	1,555	1,191	2,746	**1,368**	(12%)	15%
Sales	1,217	1,265	2,482	**1,361**	12%	8%
Operating income	n/a	n/a	380	**196**		
Operating margin	n/a	n/a	15.3%	**14.4%**		

Orders received

Fiscal year 2003 saw a continuation of trends already emerging in the last financial year in the service market for gas fired and combined cycle plants. Clients generally were more cost driven and continued to lower their maintenance budgets. Many markets showed impacts of generation over-capacity and high fuel prices leading to less operating hours and deferred spending, thus lowering the potential service business. Despite these difficult circumstances, the business maintained a good workload with regular service work and the development of the sale of service packages and system solutions in addition to parts and repair projects.

The increased price volatility for fuel and electricity following the liberalisation of markets has re-emphasised the need for flexibility and diversity of power generation technologies and environmental policies are increasingly being integrated into market requirements. These developments favour our upgrade solutions for existing equipment.

Complete power plant management solutions are mainly sold for new plants and are therefore directly affected by the market success of new gas fired and combined cycle plants sold by the Power Turbo-Systems Sector.

On a regional basis orders were strong in the US supported by the booking of several time and material contracts and our large installed base of coal fired plants, which have been running at high capacity.

Capacity increase projects in Italy, mainly conversions from Steam to combined cycle power plants, are ongoing. In Spain, new Combined Cycle Gas Turbines will continue to come online in 2003, offering some opportunities for the near future. The German market remained stable while the Eastern European markets were and continue to be slow. In Asia several long term service agreements were signed.

On a comparable basis, orders received for the first half of fiscal year 2004 were 15% higher than the second half of fiscal year 2003, but 12% lower than for the first half of fiscal year 2003. The decrease in orders received compared with the strong first half of fiscal year 2003 was mainly due to the delay in several larger Operation & Maintenance orders.

During the first half of fiscal year 2004, Power Service booked the following major orders:

- In the US, an order for a Hot Gas Protection Plant for a GT24 Combined Cycle Plant for La Paloma and an order for a GT11N inspection in Camabalanche;
- In Fortaleza, Brazil, an O&M order for a GT11N2 Power plant for CGTF; and
- In Olkiluoto, Finland, a modernisation and design contract for new reheaters/moisture separators and High Pressure Turbine for a power plant.

By geography, on an actual basis, orders received decreased by 9% in Europe, essentially due to a decrease in France and UK to some extent compensated by a slight increase in Germany. North America increased by 20%, due to a strong US general construction business and high service volumes on our large installed fleet of coal plants. South America was low during this year while prospects in Asia remain good although volumes have been somewhat below last years level.

Table of Contents

Sales

Sales booked by Power Service in the first half of fiscal year 2004 were stable as compared with the first half of fiscal year 2003, on an actual basis, and increased 12% on a comparable basis. This is mainly due to a healthy level of sales in the US supported by a strong opening backlog of Time & Material work for environmental contracts and increased sales on O&M contracts as more contracts were starting their operation phase this year.

On a comparable basis, sales for the first half of fiscal year 2004 increased by 8% for the Power Service Sector compared with the second half of fiscal year 2003. This increase was due to several reasons including slightly increasing construction sales in the US and a strong increase in Spain and Columbia supported by higher sales on O&M contracts.

Operating income and operating margin

Power Service operating income was €196 million or 14.4% of sales in the first half of fiscal year 2004 compared with €403 million or 15.0% of sales for the full fiscal year 2003. This slight decrease resulted from the integration within the Power Service Sector of two loss making activities transferred from the former Industrial Segment, to negative settlements on two old contracts, and to a charge of €6 million given that certain anticipated achievements in our mitigation plan for the GT24/GT26 relating to Power Service did not materialise.

INDUSTRIAL TURBINES

The following table sets out some key financial and operating data for our Industrial Turbines businesses:

Industrial Turbines **Actual figures**	**First Half Sept. 02** **(Unaudited)**	**2nd Half March 03** **(Unaudited)**	**Full Year 2002/03**	**First Half Sept. 03** **(Unaudited)**	**% Variation Sept. 03/ Sept 02**	**% Variation Sept. 03/ March 03**
			(in € million)			
Order backlog	n/a	1,285	1,285	**0**	n/a	(100%)
Orders received	508	757	1,265	**320**	(37%)	(58%)
Sales	592	676	1,268	**210**	(65%)	(69%)
Operating income	n/a	n/a	82	**14**		
Operating margin	n/a	n/a	6.5%	**6.7%**		
EBIT	n/a	n/a	53	**7**		

Our Industrial Turbines businesses were sold to Siemens in the first half of fiscal year 2004 pursuant to two transactions: our small gas turbines business with effect from 30 April 2003 and our medium-sized gas turbines and industrial steam turbines businesses with effect from 1 August 2003. Certain minor sites have yet to be transferred to the buyer pending completion of legal procedures relating, for example, to competition regulations.

The scope of the businesses which we have sold is a sum of several management units, assets and investments for which it is very complex to reconstruct historical data for the first month of last year, for our small gas turbines business, and for the first four months of last year, for our medium-sized gas turbines and industrial steam turbines businesses. For the presentation of ALSTOM s comparable consolidated figures for fiscal year 2003, we have taken the same data as for fiscal year 2004.

TRANSMISSION & DISTRIBUTION (T&D)

Our T&D Sector has been sold to Areva, excluding our Power Conversion business, with a completion of the transaction forecasted for the beginning of January 2004.

Table of Contents

The following table sets out some key financial and operating data for our T&D Sector:

T&D Actual figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in million)			
Order backlog	2,960	2,694	2,694	**2,894**	(2%)	7%
Orders received	2,067	1,664	3,731	**1,801**	(13%)	8%
Sales	1,778	1,827	3,605	**1,562**	(12%)	(15%)
Operating income	110	117	227	**84**		
Operating margin	6.2%	6.4%	6.3%	**5.4%**		
EBIT	61	20	81	**6**		
Capital Employed	1,028	963	963	**1,008**		
ROCE	11.9%	4.2%	8.4%	**1.2%**		

T&D Comparable figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03 (Unaudited)	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in million)			
Order backlog	2,848	2,623	2,623	**2,894**	2%	10%
Orders received	1,904	1,620	3,524	**1,801**	(5%)	11%
Sales	1,635	1,789	3,424	**1,562**	(4%)	(13%)
Operating income	98	116	214	**84**		
Operating margin	6.0%	6.5%	6.3%	**5.4%**		

Orders received

Over the first half of fiscal year 2004, the transmission and distribution market stabilised after the previous years weak evolution, however at a relatively low level. This was due to macro-economic uncertainty following the Iraq war and political instability in South America. By region, Europe remained weak, especially in the industrial market. North America started to show first signs of recovery. Asia, especially China, continued to show strong growth despite SARS epidemic. India shows also positive perspectives for the coming period following the implementation of a new regulatory framework.

Orders received by T&D in the first half of fiscal year 2004 decreased by 13% compared with the first half of fiscal year 2003, mainly due to exchange rate variations and the impact of the disposal of our activities in South Africa in September 2002. On a comparable basis, the decrease was 5%. The level of orders received has decreased by 14% in Europe, particularly in Germany and the UK. This was partly offset by an increased order intake in Scandinavia and Russia. With total orders of 791 million in the first half of fiscal year 2004, Europe remained the largest contributor to T&D activity (44% of T&D orders received).

Order intake in the Americas almost halved as compared to the first half of fiscal year 2003, as a result of the negative exchange rate impact and the lack of large orders received, in South America. In the US, there was a decrease in the activity of both Power Conversion and Energy Management Market Businesses.

The African/Middle Eastern market was lower than last year, with a 9% decrease in the level of orders received. This evolution was due to the phasing of large orders that are expected in the second half of the fiscal year. This area remains a growing market for T&D, with large projects being won in the Transmission Projects Business.

T&D s orders in Asia increased by 25% due to a high level of activity in China. The main contributor to this increase was Power Conversion, which booked several large projects in this region.

Table of Contents

Sales

T&D sales amounted to €1,562 million in the first half of fiscal year 2004, a decrease of 12% compared with the first half of fiscal year 2003. On a comparable basis, the decrease was limited to 4%.

Sales decreased particularly in the Middle East/Africa, notably due to the disposal of South African activities. This decrease was partially offset by sales in Algeria and Bahrain, where the trading of significant contracts started.

T&D s trading activity in Europe remained stable. This is principally due to the volume of system orders won at the beginning of fiscal year 2003 in Eastern Europe, where the projects won in Kazakhstan and Romania last year started to be traded.

Sales in the Americas dropped 28%. Sales in the Asian market decreased slightly, while the level of trading in China continued to increase mainly in the High Voltage Products business.

Operating income and operating margin

T&D operating income amounted to € 84 million in first half of fiscal year 2004, compared with €110 million in the first half of fiscal year 2003 on an actual basis, or €98 million on a comparable basis. The operating margin was 5.4% in the first half of fiscal year 2004 as compared with 6.2% in the first half of fiscal year 2003. T&D s operating margin was impacted by the low level of sales recorded in the first half of the year in both product and system activities. Despite the improvement in productivity in most of the businesses, as a result of the standardisation programme launched in medium voltage and power transformer activities and to the rationalisation of the production platform launched in Europe, the gross margin and the operating income declined.

TRANSPORT

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

Transport **Actual figures**	**First Half Sept. 02** **(Unaudited)**	**2nd Half March 03** **(Unaudited)**	**Full Year** **2002/03**	**First Half Sept. 03** **(Unaudited)**	**% Variation Sept. 03/** **Sept 02**	**% Variation Sept. 03/** **March 03**
			(in € million)			
Order backlog	14,784	14,675	14,675	**13,795**	(7%)	(6%)
Orders received	3,300	3,112	6,412	**1,672**	(49%)	(46%)
Sales	2,339	2,733	5,072	**2,297**	(2%)	(16%)
Operating income	90	(114)	(24)	**(37)**		

Operating margin	3.8%	(4.2%)	(0.5%)	**(1.6%)**		
EBIT	43	(156)	(113)	**(150)**		
Capital Employed	759	738	738	**467**		
ROCE	11.3%	n/a	n/a	**n/a**		

Transport **Comparable figures**	**First Half Sept. 02** **(Unaudited)**	**2nd Half March 03** **(Unaudited)**	**Full Year 2002/03** **(Unaudited)**	**First Half Sept. 03** **(Unaudited)**	**% Variation Sept. 03/** **Sept 02**	**% Variation Sept. 03/** **March 03**
			(in € million)			
Order backlog	14,045	14,435	14,435	**13,795**	(2%)	(4%)
Orders received	3,135	3,061	6,196	**1,672**	(47%)	(45%)
Sales	2,238	2,682	4,920	**2,297**	3%	(14%)
Operating income	85	(95)	(10)	**(37)**		
Operating margin	3.8%	(3.5%)	(0.2%)	**(1.6%)**		

30

Table of Contents

Orders received

During the first half of fiscal year 2004, the market remained active in Europe and Asia, which partially compensated the downturn in North America. The Tram market remained the most active, and we were awarded several contracts such as in Strasbourg, Valenciennes, and Grenoble in France, and Alicante in Spain. We believe that this market segment will remain active with additional orders in the coming months.

During the first half of the fiscal year 2004, we confirmed 2 significant Metro contracts, one being 84 new vehicles for the London Underground and the other being the supply of 168 new cars for the Yanpu line in Shanghai.

The Information Solutions segment still maintains a high level of potential, and we took advantage of our competitiveness with major orders in Chile, China, South Korea, and the Netherlands.

Several countries, such as Italy, Spain, Switzerland, UK and the Netherlands, are now expanding their high speed networks, which offer very significant business opportunities over the coming months.

The North East line in Singapore having successfully entered into service, represented a significant showcase for our automatic driver-less system capabilities world wide.

The Orders received by Transport in the first half of fiscal year 2004 amounted to 1,672 million compared with 3,135 million in the first half of fiscal year 2003, on a comparable basis. This decrease by 47% was due to lower order intake in the US where we received in fiscal year 2003 major orders and to some extent to the uncertainties pending the announcement by ALSTOM of our revised financing package. Since this announcement, we have experienced a positive response from the market illustrated by about 700 million worth of orders secured in October 2003, which we consider to be a clear sign of renewed customer confidence.

Services, which include maintenance and renovation contracts, represented 21% of the orders received for the first half of fiscal year 2004, as compared with 14% for the first half of fiscal year 2003.

As a percentage of total orders received, Asia & North America represented respectively 11% and 13% of the total orders received compared with 14% and 16% for the same period of last year. Europe continued to represent a very significant market with 72% of orders received.

The major orders received in first half of the fiscal year 2004 included:

- 28 car trainsets and 59 trailer cars for Jubilee line in London underground ;

multi-year maintenance of freight locomotives in Mexico for Ferrosur ;

35 Citadis trams in Strasbourg ;

21Citadis trams in Valenciennes ;

35 Citadis trams in Grenoble ;

168 metropolis cars for YangPu Metro Line in Shanghai ;

9 light train rails from the Spanish region of Alicante ;

55 Coradia lint regional trains for DB Regional trains ;

60 additional trains four-car class 423 for Deutsche Bahn ;

ERTMS train control for Betuweroute rail line in Netherlands ;

Signaling system for Santiago metro line 4.

Table of Contents

Sales

Sales in Transport decreased by 2% in first half of fiscal year 2004 compared with first half of fiscal year 2003, on an actual basis, and increased by 3% on a comparable basis. This was mainly due to the delivery of turnkey operations, especially in Greece (Athens suburban line), in Spain and in France (Trams Citadis), and to the maintenance and refurbishment activities located in Spain and Germany for locomotive renovation.

In first half of fiscal year 2004, Transport s sales breakdown by region was as follows: Europe 71%, the Americas 9% and Asia/Pacific 20%. Compared with the first half of fiscal year 2003, Europe increased from 62% to 71% whereas the Americas and Asia both decreased.

Operating income and operating margin

Project reviews led management to make revised estimates of costs to complete contracts in our Transport Sector, leading to additional charges of 102 million in relation to the US Transport business. As a consequence, operating income of Transport in the first half of fiscal year 2004 amounted to (37) million, compared with 90 million in the first half of fiscal year 2003 on an actual basis. Transport s operating income was (114) million in the second half of fiscal year 2003 due to provisions recorded on the UK Trains for 140 million and on the US Trains for 73 million.

UK Trains

In 1997, shortly after the privatisation of the UK rail industry, we took five orders for a total of 119 new regional trains with an aggregate value of 670 million. These contracts were part of the first series of orders following the rail deregulation in the UK. At the end of March 2002, we reported that difficulties had been encountered on these UK Regional Trains contracts. As at 30 September, all 119 Regional Trains have been delivered to the respective train operating companies. Commitments made to customers in the previous fiscal year in order to close out contractual disputes are being followed. This includes extensive modification and warranty programmes at depots and the Washwood Heath manufacturing plant.

On the West Coast Main Line (WCML) contract, the project experienced major delays due to changing specifications and the high level of uncertainty regarding upgrading of the WCML route and infrastructure. The major activity relates to Pendolino High Speed Tilting Trains. At the end of September 2003, 28 of the 53 trains had been delivered, in line with the latest agreement with the operator and the Strategic Rail Authority. Trains are being used on the infrastructure operating a restricted service and for crew and driver training. The next key milestone for the project is the award of the 125 miles per hour passenger safety case and the tilting system. This is expected by the end of November 2003. We expect that all trains will be in service by September 2004.

While our dispute on the WCML contract is currently in litigation, we continue to attempt to reach a settlement with the buyer and the operator regarding such claims. The conclusion of the Regional Train contracts, the conclusion of the WCML contract expected in the near future and the lack of orders in the UK have resulted in our decision to close the new build assembly facility in Washwood Heath. An initial redundancy of 220 was announced in July 2003 and consultation is currently underway with employee representatives. A key priority is to maintain a balance between the need to reduce cost and meet our commitments on the above

programmes.

32

Table of Contents

MARINE

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

Marine Actual figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in million)			
Order backlog	2,229	1,523	1,523	**1,041**	(53%)	(32%)
Orders received	26	137	163	**340**	1208%	148%
Sales	725	843	1,568	**822**	13%	(2%)
Operating income	16	8	24	**4**		
Operating margin	2.2%	0.9%	1.5%	**0.5%**		
EBIT	15	(3)	12	**(2)**		
Capital employed	(220)	(343)	(343)	**(593)**		
ROCE	n/a	n/a	n/a	**n/a**		

Orders received

Since 2001, Marine s main market, cruise-ship construction, has remained very weak world wide, due both to the high level of orders in the previous years (the year 2000 ended with a record orderbook of 50 ships under construction worldwide essentially in Europe) and to the uncertainties following September 2001 events. In 2001, there was only one new order worldwide (for ALSTOM), in 2002, there were only 3 new orders world wide, and in 2003, none until September 2003, when 3 new orders were booked by certain European yards. A number of observers of the cruise market see the September 2003 orders as the possible sign of an upcoming market recovery.

The LNG carrier market remained very active, but is jeopardised by the low pricing policy of the Korean yards. In June 2003, the European Commission extended to this segment the protective subsidies reserved to the market segments directly exposed to Korean detrimental prices.

Orders received by Marine during the first half of fiscal year 2004 reached 340 million comprising a trans-Channel car-ferry for Seafrance and a 153,500 m^3 LNG carrier- for Gaz de France.

Sales

Sales amounted to 822 million in the first half of fiscal year 2004. Marine completed and delivered during the first half of fiscal year 2004 the following vessels :

the cruise-ship Island Princess to P&O Princess (now Carnival plc);

the cruise-ship Crystal Serenity to NYK/Crystal Cruises;

a surveillance frigate to the Royal Moroccan Navy.

Operating income and operating margin

Operating income was 4 million in the first half of fiscal year 2004. Marine had to bear additional costs in the completion and delivery of a cruise-ship, and accrued contingency provisions on several other contracts obtained without subsidies. Marine also had to provide for indemnification of the owners of several recently-delivered cruise-ships propelled by podded drives.

Renaissance

We had undertaken vendor financing in support of the recovery plan for the Marine Sector from fiscal year 1996 to fiscal year 1998, which had helped us to obtain repeat orders for cruise-ships and increased the

Table of Contents

productivity of the shipyard. We had provided guarantees to financial institutions relating to indebtedness incurred by certain purchasers of our cruise-ships and fast ferries. As at 30 September 2003, the remaining guarantees related to a total of fourteen ships, including six cruise-ships delivered to Renaissance Cruises (Renaissance) and eight ships for four other customers. In addition, two other cruise-ships had been supplied to Renaissance without vendor financing.

Renaissance filed for bankruptcy in September 2001. Thereafter, we and the lenders undertook actions to secure and maintain the ships and to restructure their financing. Our overall exposure to Renaissance vendor financing at 30 September 2001 was 684 million in guarantees of financing made in connection with the delivery of the six ships.

As part of the restructuring, which was completed in fiscal year 2002, ownership of the six ships, including four that were previously owned by four special purpose leasing entities in which we had an interest, was transferred to subsidiaries of Cruiseinvest (Jersey) Ltd., an entity in which we own no shares and on the management of which we have no control. Cruiseinvest financed this acquisition principally through bank borrowings, guaranteed in part by us. In addition, we purchased subordinated limited recourse notes issued by Cruiseinvest, agreed to provide Cruiseinvest with a line of credit and met certain of our commitments under our pre-existing guarantees. Interest on the subordinated limited recourse notes is payable only from amounts remaining after satisfaction of payments due on Cruiseinvest s bank borrowings.

In parallel, the remarketing of the ships commenced, with the objective to put the ships back into cruise operations as quickly as possible, through bare-boat or time charters, and eventually sell them to the new operators when normal conditions are restored on the second-hand market. One of these ships was chartered to Swan Hellenic, a subsidiary of P&O Princess and resumed operations in April 2003. Two other ships have been operated from summer 2003 by Oceania Cruise, a new cruise-operator. Two others have also been operated from spring 2003 by Pullmantur, with possibilities of extension. A long-term lease has also been finalised with the European operator Delphin Seereisen for one ship, which has resumed cruise operations from summer 2003. The two other ships supplied to Renaissance without vendor financing have also been taken over by P&O Princess pursuant to a forward sales contract for transfer of title in 2005, and resumed cruise operations in November and December 2002. In brief, all the eight former Renaissance ships had resumed cruise operations on or before July 2003.

Our overall exposure to Renaissance vendor financing was 344 million at 30 September 2003, as compared with 368 million at 31 March 2003.

In addition to our Renaissance vendor financing exposure , our other outstanding Marine vendor financing guarantees amounted to 306 million at 30 September 2003 compared with 565 million at 31 March 2003, relating to six cruise-ships and two high-speed ferries for four different customers. This decrease is mainly due to the early reimbursement to us of 180 million of debt due to us from two special purpose entities following the agreement with our lenders on our financing package.

Consequently, our total vendor financing exposure in relation to Marine amounted to 650 million at 30 September 2003 compared with 933 million at 31 March 2003.

The last shipbuilding contract having benefited from any type of vendor financing came into force in November 1999. There is no other vendor financing arrangement or commitment relating to any contract in Marine s order backlog.

As a result of the foregoing, we maintained a provision of 140 million at 30 September 2003 to cover risks associated with Marine vendor financing, unchanged compared with 31 March 2003.

Table of Contents

CORPORATE AND OTHER

Corporate and Other comprises all units accounting for Corporate costs, the International Network and the overseas entities in Australia, New Zealand, South Africa (prior to its disposal) and India which are not reported by Sectors.

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

Corporate & Other Actual figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in million)			
Order backlog	39	52	52	**105**	169%	102%
Orders received	113	101	214	**57**	(50%)	(44%)
Sales	115	90	205	**60**	(48%)	(33%)
Operating income	56	(100)	(44)	**(26)**		
EBIT	70	(116)	(46)	**(32)**		
Capital employed	1,601	1,208	1,208	**1,342**		

Corporate & Other Comparable figures	First Half Sept. 02 (Unaudited)	2nd Half March 03 (Unaudited)	Full Year 2002/03	First Half Sept. 03 (Unaudited)	% Variation Sept. 03/ Sept 02	% Variation Sept. 03/ March 03
			(in million)			
Order backlog	38	51	51	**105**	176%	106%
Orders received	81	100	181	**57**	(30%)	(43%)
Sales	88	89	177	**60**	(32%)	(33%)
Operating income	55	(101)	(46)	**(26)**		

Operating income

Operating income included Corporate costs as well as the contribution of the International Network and the overseas entities, for the first half of fiscal year 2004, the operating income included as well some costs from the headquarters of the former Power Sector that have been allocated to Corporate. Operating income was (26) million in the first half of fiscal year 2004, compared with (44) million for the full year 2003. Costs incurred in fiscal year 2004 include some former sector costs, which are now borne by Corporate for around 25 million for the full year 2003.

Capital employed

Capital employed were 1,342 million as at 30 September 2003, including the main part of our other fixed assets, net (See Note 9 to the 30 September 2003 Interim Consolidated Financial Statements).

Table of Contents

FINANCIAL STATEMENTS

INCOME STATEMENT

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

Total Group **Actual figures**	**First Half Sept. 02 (unaudited)**	**2nd Half March 03 (unaudited)**	**Full year 2002/03**	**First Half Sept. 03 (unaudited)**
		(in € million)		
Sales	**10,769**	**10,582**	**21,351**	**8,854**
Cost of sales	(8,905)	(10,282)	(19,187)	**(7,577)**
Selling expenses	(515)	(455)	(970)	**(435)**
R & D expenses	(319)	(303)	(622)	**(239)**
Administrative expenses	(488)	(591)	(1,079)	**(471)**
Operating income	**542**	**(1,049)**	**(507)**	**132**
Operating margin	5.0%	(9.9%)	(2.4%)	**1.5%**

Total Group **Proforma figures**	**Full year 2002/03 (unaudited)**	**First Half Sept. 03 (unaudited)**
	(in € million)	
Sales	**17,078**	**7,308**
Cost of sales	(16,001)	**(6,454)**
Selling expenses	(609)	**(286)**
R & D expenses	(465)	**(187)**
Administrative expenses	(813)	**(347)**
Operating income	**(810)**	**34**
Operating margin	(4.7%)	**0.5%**

Sales

Sales were €8,854 million in the first half of fiscal year 2004, compared with €10,769 million in the first half of fiscal year 2003, a decrease of 18%, due principally to exchange rate variations, to the disposal of the Industrial Turbines businesses, and to lower sales of Power Turbo-systems while sales in other sectors remained stable or slightly increased on a comparable basis. Sales in first half of fiscal year 2004 decreased by 16% as compared with sales in second half of fiscal year 2003.

Percentage of services in sales was 25% in first half of fiscal year 2004, compared with 21% and 26 % in first half of fiscal year 2003 and in second half of fiscal year 2003.

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

Selling and administrative expenses

Selling and administrative expenses were € 906 million in first half of fiscal year 2004 compared with € 1,003 million in first half of fiscal year 2003 and €1,046 million in second half of fiscal year 2003. This decrease reflected the savings and the first impact of the restructuring programmes launched as part of our action plan.

Research and Development expenses