

May 2006

Letter to shareholders

# ALSTOM & you



➤ *ALSTOM's  
operating margin  
should reach  
7% for  
fiscal year  
2007/08*

Dear Shareholders,

The achievement of the stated targets for fiscal year 2005/06 confirms ALSTOM's turnaround as initiated three years ago. Commercial activity has returned to a normal level with significant increases in order intake and sales. The operating performance has strongly increased with an operating margin at 5.6%. ALSTOM is now a profitable company. Free cash flow is positive and the balance sheet stronger.

This performance is the result of a successful action plan: our restructuring programmes are close to completion, our project management is more rigorous and the problems with the GT24/GT26 gas turbines have now been resolved, as shown by projects awarded to ALSTOM in major countries such as Germany, Italy and Spain. The disposal programme is in the final stage of completion and industrial partnerships have been put in place in key areas (China, India, Russia). With the disposal of Marine, which should be completed by the end of May, we will refocus on our core businesses: power and rail transport.

We have recently signed a commercial and operational cooperation agreement with Bouygues. As part of this agreement, Bouygues also intends to take a 50% equity share in ALSTOM's hydro power business. In addition, the acquisition by Bouygues of the 21% equity share in ALSTOM currently held by the French State will give the Company the stable reference shareholder it needs.

Thus, the Group is now well placed to take full advantage of its broad technology offering and its strong positions in the growing infrastructure markets. ALSTOM's operating margin should reach 7% for fiscal year 2007/08. The ongoing cash generation should allow further debt reduction enabling the Company to reward you, our shareholders who have contributed to the Group's recovery, and to make selected acquisitions.

ALSTOM is now ready to face a new challenge with confidence: ensuring profitable growth.

Patrick Kron  
Chairman & CEO

## Key figures

Net income positive at

**€178**  
million

Sales at

**€13.4**  
billion  
increasing by **8%**

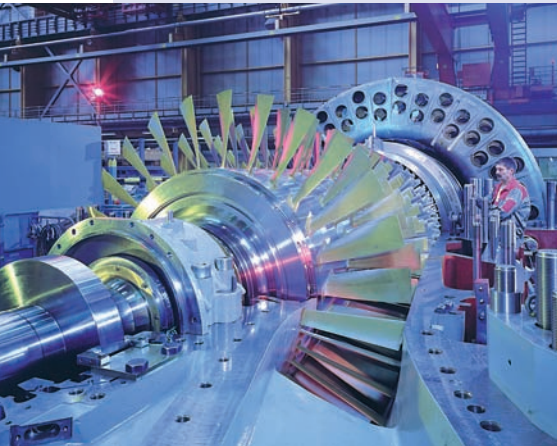
Operating  
margin at

**5.6%**

Free cash flow  
positive at

**€525**  
million

➔ After meeting its targets at the end of March 2006, ALSTOM confirms its turnaround and **moves forward to growth**

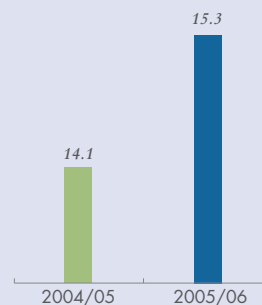


**Operating margin target:**

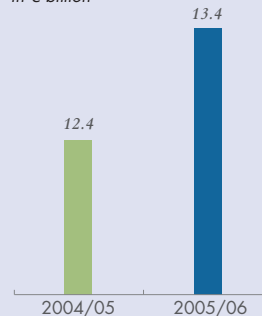
7% for the Group in March 2008 which, taking central costs into account, should be the result of a margin of 8% for the combination of the two Power Turbo-Systems / Power Environment and Power Service Sectors and 7% for the Transport Sector.

(1) Same scope and exchange rates

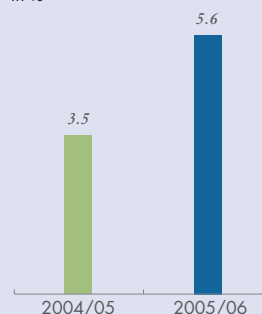
Orders received<sup>(1)</sup>  
in € billion



Sales<sup>(1)</sup>  
in € billion



Operating margin<sup>(1)</sup>  
in %



**SUSTAINED ACTIVITY AND IMPROVED OPERATIONAL PERFORMANCE**

Order intake increased, on a comparable basis<sup>(1)</sup>, by 8% to €15.3 billion. Order backlog now reaches €27 billion. A sharp rise in orders was recorded during the fiscal year in the Power Sectors (+16% for Power Turbo-Systems / Power Environment and +10% for Power Service), whereas in Transport, the level of orders remained globally stable at a high level.

This strong activity over fiscal year 2005/06 led to sales of €13.4 billion, up by 8% on a comparable basis<sup>(1)</sup>. This growth in sales was particularly strong in Power Turbo-Systems / Power Environment (+17%), following a recovery in order intake over the last two years.

This improved performance is illustrated by an income from operations at €746 million, up by 73% on a comparable basis<sup>(1)</sup>, increasing the Group's operating margin to 5.6%. All Sectors contributed to this progress: Power Turbo-Systems / Power Environment achieved an operating margin of 2% after a negative margin in 2004/05; Power Service exceeded its target with a margin of 15.5% and Transport raised its own margin to 6.3% compared to 4% in 2004/05<sup>(1)</sup>. These

**Commercial news**

➔ **Utility group RWE Power has awarded ALSTOM a €450 million project**

for the construction of the world's biggest lignite-fired power plant with a net capacity of 2,100 MW in Neurath, Germany.



➔ **In Oman, Sohar Aluminium has chosen ALSTOM**

for the turnkey construction of a 1,000 MW gas-fired combined cycle power plant, in a contract worth €425 million.

➔ **ALSTOM has been awarded the turnkey**

construction of two 400 MW gas-fired GT26 combined cycle power plants in Spain. ALSTOM will also provide a long-term maintenance service. When booked, the total contract will represent €450 million.

## Focus on Corporate news

### ➤ Alliance with Aker Yards in shipbuilding

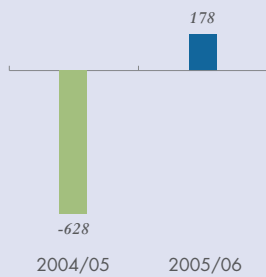
Aker Yards and ALSTOM intend to combine forces in shipbuilding to create a world leader in the field. Aker Yards would hold 75% of the new entity's capital while ALSTOM would contribute the entirety of its Marine Sector, in particular the "Chantiers de l'Atlantique", and keep a 25% stake until 2010. This operation should be completed at the end of May.

### ➤ Bouygues enters ALSTOM's capital

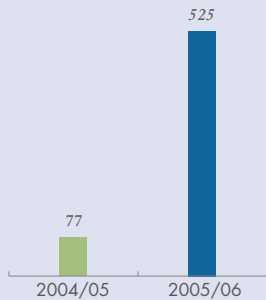


On 27 April, ALSTOM and Bouygues signed a commercial and operational cooperation agreement. In order to strengthen this partnership, Bouygues wishes to buy the 21% stake of ALSTOM's capital currently owned by the French State; the corresponding agreement is conditional upon its approval from the European Commission and completion of the disposal of Marine. As part of this cooperation, Bouygues also intends to take a 50% equity share in ALSTOM's hydro equipment business. The latter should allow ALSTOM to fulfil its commitment made to the European Commission in 2004 in that respect.

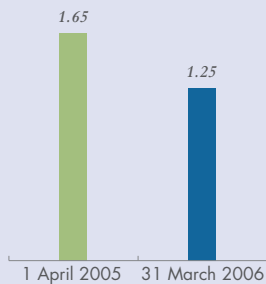
Net income  
in € million



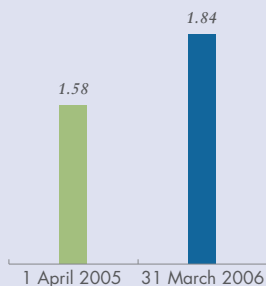
Free cash flow  
in € million



Net debt  
in € billion



Equity  
in € billion



improvements are due to a strict selectivity in order intake and to higher volumes as well as to cost reductions and improved project execution.

### BACK TO PROFITABILITY WITH A REINFORCED BALANCE SHEET

ALSTOM's profitability has made strong progress, with a net profit at €178 million following a net loss of €628 million in 2004/05.

At €525 million at the end of March 2006, free cash flow also improved very significantly, due to the combined impact of better operating performance, continued improvement in working capital requirements in all Sectors and reduced cash outflow linked to past GT24/GT26 gas turbine problems.

The structure of the balance sheet is getting stronger. Net debt has been reduced to €1.25 billion on 31 March 2006 from €1.65 billion on 1 April 2005, due to the proceeds from disposals and to the positive free cash flow. The positive net income increased equity to €1.84 billion on 31 March 2006 compared to €1.58 billion on 1 April 2005. As a consequence, gearing (ratio of net debt to equity) fell from 104% to 68% on 31 March 2006.

### ➤ In consortium with another supplier, ALSTOM

will supply 78 suburban trains to Deutsche Bahn in Germany. ALSTOM's share of the contract is worth €120 million.



### ➤ ALSTOM and Ansaldo Breda (Finmeccanica) have signed a strategic and industrial partnership frame agreement

for the development, production and commercialisation of single-deck high-speed and very high-speed trains.



## Diary

- ANNUAL GENERAL MEETING  
on **28 June 2006**  
at the **Carrousel du Louvre (Paris - France)**



- ORDERS AND SALES  
for **Q1 2006/07**  
on **11 July 2006**
- SHAREHOLDER  
INFORMATION MEETING  
in **Lille (France)** on  
**12 October 2006**

## Questions & Answers

### ➔ How can I **attend** the Annual General Meeting on **28 June**?

If you are a registered shareholder, you will receive a notice allowing you to either vote by post or obtain an entry pass to the AGM.

If you are a bearer shareholder, you must contact your financial intermediary approximately 15 days prior to the event

so that they may send you the necessary documents. If you do not receive the documents on time, you can arrive at the AGM with proof of your identity and a bearer share blockage certificate provided by your financial intermediary.

### ➔ Are **technology transfers** cause for concern?

A hot topic in the media recently, technology transfers, notably to China, are a source of worry for many. Nevertheless, technology transfers are sometimes a necessary condition of business in China. For ALSTOM, the key to success is to constantly remain one

step ahead of the game. The Three Gorges dam in China perfectly illustrates this strategy. After the construction of the left bank through technology transfers several years ago, ALSTOM recently obtained the same market share for the right bank thanks to new products.

### ➔ **Share information**

Place of listing: **Euronext Paris - Compartment A**

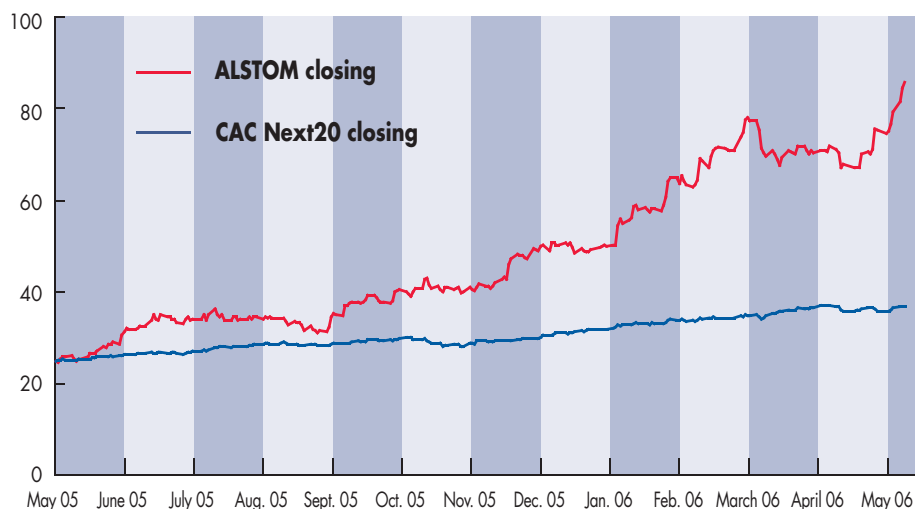
ISIN Code: **FR0010220475**

Mnemonic: **ALO**

Indices:  
**CAC Next20 - SBF120**

Eligible for differred settlement service: **yes**

## Share price (in €)



## Contacts

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