
# Annual financial report

## As of 31 March 2018

**Management report on consolidated financial statements,**

**As of 31 March 2018**

**MANAGEMENT REPORT**

**ON CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED 31 MARCH 2018**

# 1. Main events of year ended 31 March 2018

## 1.1 The combination of Siemens and Alstom's mobility business

On 26 September 2017, Siemens and Alstom signed a Memorandum of Understanding to combine Siemens' mobility business including its rail traction drives business with Alstom. The transaction brings together two innovative players of the railway market with unique customer value and operational potential. The two businesses are largely complementary in terms of activities and geographies.

On 23 March 2018, Siemens and Alstom signed a Business Combination Agreement (BCA). The BCA sets forth the terms and conditions agreed upon by the two companies and follows the conclusion of the required works council information and consultation process at Alstom regarding the proposed deal.

The combined entity will offer a significantly increased range of diversified product and solution offerings to meet multi-facetted, customer-specific needs, from cost-efficient mass-market platforms to high-end technologies. The global footprint enables the merged company to access growth markets in Middle East and Africa, India, and Middle and South America where Alstom is present, and China, United States and Russia where Siemens is present. Customers will significantly benefit from a well-balanced larger geographic footprint, a comprehensive portfolio offering and significant investment into digital services. The combination of know-how and innovation power of both companies will drive crucial innovations, cost efficiency and faster response, which will allow the combined entity to better address customer needs.

The transaction, supported by Bouygues, is subject to the approval of Alstom shareholders at the company's Shareholders' Meeting, planned to be held in July 2018. The transaction is also subject to approval by relevant regulatory authorities, including foreign investment clearance by the French Ministry for the Economy and Finance and approval by anti-trust authorities as well as the confirmation by the French capital market authority (AMF) that no mandatory takeover offer has to be launched by Siemens following completion of the contribution. Siemens has already initiated the internal carve-out process of its mobility business and other related businesses in order to prepare for the combination with Alstom.

As per the Business Combination Agreement signed on March 23, 2018 with Siemens, Alstom took the formal commitment to exercise its put options on Grid and Renewable Alliances in September 2018. In anticipation, Alstom informed GE in January 2018 of its intention to exercise them in September 2018. As a consequence, Grid and Renewable Alliances have been reclassified in Assets held for sale for a total amount of €2,382 million.

The costs already incurred by the Group in relation with the transaction with Siemens during fiscal year 2017/2018 have been accounted for in these consolidated financial statements.

## 1.2 Outstanding sales growth and strong aEBIT performance

Group's key performance indicators for the fiscal year 2017/18:

| *(in € million)* | Year ended 31 March 2018 | Year ended 31 March 2017 | % Variation Mar. 18/ Mar. 17 Actual | % Variation Mar. 18/ Mar. 17 Organic |
|---|---|---|---|---|
| Orders Received | 7,183 | 10,008 | (28%) | (27%) |
| Orders Backlog | 34,178 | 34,781 | (2%) | 4% |
| Sales | 7,951 | 7,306 | 9% | 10% |
| aEBIT | 514 | 421 | 22% | |
| *aEBIT %* | *6.5%* | *5.8%* | | |
| EBIT | 381 | 358 | | |
| Net Profit - Group share | 475 | 289 | | |
| Free Cash Flow | 128 | 182 | | |
| Capital Employed | 2,165 | 4,278 | | |
| Net Cash/(Debt) | (255) | (208) | | |
| Equity | 4,027 | 3,713 | | |

## 1.3 Organic growth

Above mentioned figures are adjusted as follows for foreign exchange variation resulting from the translation to Euro from the original currency, as well as change in scope.
The below table shows how we walk from actual to organic figures:

| | Year ended 31 March 2018 | | | Year ended 31 March 2017 | | | | Mar. 18/ Mar. 17 | |
|---|---|---|---|---|---|---|---|---|---|
| *(in € million)* | Actual figures | Scope Impact | Comparable Figures | Actual figures | Exchange rate | Scope impact | Comparable Figures | % Var Act. | % Var Org. |
| Orders Backlog | 34,178 | (58) | 34,120 | 34,781 | (1,972) | - | 32,809 | (2%) | 4% |
| Orders Received | 7,183 | (55) | 7,128 | 10,008 | (272) | - | 9,736 | (28%) | (27%) |
| Sales | 7,951 | (51) | 7,900 | 7,306 | (146) | - | 7,160 | 9% | 10% |

The actual figures for the fiscal year 2016/17 (orders backlog, orders received and sales) are restated taking into account March 2018 exchange rates which showed an overall appreciation of the Euro against the majority of the currencies making up the Alstom portfolio. Orders received during the last fiscal year were impacted by the depreciation of the US Dollar (USD), the UAE Dirham (AED) and to a lesser extent the British Pound (GBP) and the Egyptian Pound (EGP) against the Euro. Sales recorded last year have been impacted by an adverse translation effect mainly due to depreciation of the US Dollar (USD) and the British Pound (GBP) against the Euro. Orders backlog was adversely impacted by the depreciation of the Indian Rupee (INR), the US Dollar (USD), the UAE Dirham (AED), and the Australian Dollar (AUD) against the Euro.

In order to reflect the same scope of activity, actual figures for fiscal year 2017/18 have been adjusted for the Nomad Digital acquisition made during calendar year 2017.

### 1.4 Acquisitions and Partnerships

During the year, Alstom signed an agreement with Kazakh national railway company (KTZ) to acquire an additional 25% stake into the EKZ joint venture. Post approval by relevant authorities, Alstom will become the majority shareholder with 75% of the total shares, the remaining 25% being held by its Russian partner Transmashholding (TMH). Closing of the transaction is expected within the fiscal year to come. As a reminder, Alstom entered the Kazakhstan's railway market in 2010 together with Transmashholding by laying the first stone of the EKZ facility in order to build locomotives for the Kazakh network.

Moreover, in order to reinforce its digital offering and expertise, Alstom signed a purchase agreement for the acquisition of 21Net. With 50 employees and a turnover of €16 million in 2017, the company is a provider of on-board internet and passenger infotainment for the railway industry. Closing of the transaction is expected within the fiscal year to come.

Also, during the fiscal year 2017/18, Alstom has announced several strategic partnerships to better focus on customer needs:

- Alstom and Airbus have entered into a strategic cooperation agreement in the field of cybersecurity. This cooperation agreement will support the emergence of a new risk management model through the co-development of new analysis services concerning the vulnerability of transport systems, new shared core protection technologies and new generation of operational security centers adapted to the industrial sector.
- Alstom has signed a technological cooperation agreement with Safran, an international high-technology group and a distinct leader of Aeronautics, Space and Defence. The collaboration will focus on components and technologies for electric propulsion equipment and electric and hybrid propulsion systems as a whole for aircraft and public transport vehicles.

## 2. Outlook

### 2.1 Outlook

The Alstom outlook is provided at constant perimeter and exchange rate. It is set in accordance with the new IFRS 15 norm, which is the new applicable standard for revenue recognition.

For the fiscal year 2018/19, sales are expected to reach around €8 billion and adjusted EBIT margin should reach up to 7%.

In the medium term, Alstom should continue to outperform the market growth, gradually improve profitability, and improve cash generation, with potential volatility over some short periods.

### 2.2 Assumptions

This outlook relies on several assumptions, outlined as follows:

- It is established considering no major change to foreign exchange rates compared to the ones known as at the end of fiscal year, as well as no significant adjustment to the 31 March 2018 scope of consolidation. Price inflation should remain comparable to the previous year (2.1% as per OECD expectation) and the Group assumes an overall stable political environment where Alstom operates.
- For the year 2018/19, Alstom should continue +deliver on its current portfolio of projects. Revenue from backlog should represent over 90% of Alstom's revenues during the coming fiscal year. The remaining revenue should mainly stem from short-term sales, such as spare parts and variation orders on existing contracts.
- The market is expected to continue grow, in line with previous years, with continued momentum in the Middle East, Africa and in Europe. Price competition witnessed in the recent year is expected to continue as new entrants attempt to expand outside of their historical markets.
- The adjusted EBIT margin improvement compared to the previous exercises should come from rigorous project execution, delivering on projected sourcing savings. Standardisation of engineering tools and processes together with design to cost, adaptation of our footprint both for engineering and manufacturing, should support the improvement of Alstom's performance. Also, digital transformation, combined with efficient discipline in overhead cost management should contribute to achieve this performance.
- Cash generation notably relies on our Cash Focus program that has been launched with initiatives specifically targeting working capital.

The above mentioned forward-looking statements regarding short term guidance shall not be used as a results forecast or any performance indicator. It notably relies on existing plans, initiatives for projects, products and services and their potential. These assumptions are deemed reasonable as of the date of the present document and could change and evolve due to significant risk and uncertainties. Such risks include those set forth in the chapter 4 'Risk Factors and Internal Control' of this document and other external factors not known to the Group at this stage such as general industry conditions and competition, technological advances, future market conditions, sourcing difficulties, financial instability and sovereign risk and exposure to regulatory action or litigation. Alstom undertakes no obligation to update or revise any of them, whether as a result of new information, future events or otherwise. This guidance should be used consequently with cautiousness.

## 3. Subsequent event

On May 9th, 2018, Alstom signed an agreement with General Electric relating to the implementation of the agreements from 2015 regarding the intended exit of Alstom from the three Energy Joint Ventures. Alstom intends to exercise its options to sell its interests in the "Renewables" and "Grid" Joint Ventures in 2018 (pursuant to Alstom's put options as presented in Note 13.1). If these options are exercised during the exercise period (between September 4th and September 10th), GE will then be deemed to have exercised its option to acquire Alstom's interest in the "Nuclear" Joint Venture (pursuant to General Electric's call option), and the transfer of all interests will occur on 2 October 2018 for a total amount of €2.594 billion.

In addition to the items already described above or in the previous notes, the Group has not identified any subsequent event to be reported.

## 4. Commercial performance

During the fiscal year 2017/18, Alstom's order intake stood at €7.2 billion as compared to €10.0 billion for 2016/17. During the fiscal year, the Group notably secured large rolling stock and maintenance contracts in Toronto and Ottawa in Canada. In addition, the commercial performance was driven by breakthroughs in new Asia/Pacific markets, notably in Vietnam and in the Philippines.

The fiscal year 2017/18 also witnessed renewed momentum for Signalling, winning key orders in Spain, Singapore and Israel, combined with a sustained level of flow business as compared to last year.

This fiscal year, Alstom did not record any major orders. As a comparison, during fiscal year 2016/17, the Group booked several jumbo contracts, such as the supply of high-speed trains in the USA including maintenance and an integrated metro system for Dubai in the United Arab Emirates.

| **Geographic breakdown** | | | | | **Mar. 18/ Mar. 17** | |
|---|---|---|---|---|---|---|
| **Actual figures** *(in € million)* | **Year ended 31 March 2018** | % of contrib | **Year ended 31 March 2017** | % of contrib | **Actual** | **Organic** |
| Europe | 3,507 | 48% | 5,102 | 51% | (31%) | (32%) |
| Americas | 1,628 | 23% | 2,890 | 29% | (44%) | (41%) |
| Asia/Pacific | 980 | 14% | 582 | 6% | 68% | 74% |
| Middle East/Africa | 1,068 | 15% | 1,434 | 14% | (26%) | (20%) |
| **ORDERS BY DESTINATION** | **7,183** | **100%** | **10,008** | **100%** | **(28%)** | **(27%)** |

| **Product breakdown** | | | | | **% Variation Mar. 18/ Mar. 17** | |
|---|---|---|---|---|---|---|
| **Actual figures** *(in € million)* | **Year ended 31 March 2018** | % of contrib | **Year ended 31 March 2017** | % of contrib | **Actual** | **Organic** |
| Rolling stock | 3,189 | 45% | 5,525 | 55% | (42%) | (41%) |
| Services | 2,180 | 30% | 2,037 | 20% | 7% | 10% |
| Systems | 523 | 7% | 1,466 | 15% | (64%) | (62%) |
| Signalling | 1,291 | 18% | 980 | 10% | 32% | 30% |
| **ORDERS BY DESTINATION** | **7,183** | **100%** | **10,008** | **100%** | **(28%)** | **(27%)** |

In Europe, Alstom's order intake stood at €3.5 billion for the year 2017/18 compared to €5.1 billion during the same period last year. During fiscal year 2017/18 the commercial performance of the region was steered by large Rolling stock orders to supply additional Coradia Stream™ "Pop" range medium capacity trains, Coradia™ Meridian "Jazz" trains to Italian regions, as well as 14 Coradia™ Polyvalent for Bourgogne-Franche-Comté and Grand Est regions in France. It was further enhanced by additional orders from RATP to supply MP14 metro cars to Paris network in France and Coradia™ Continental regional trains to Germany. Besides, Alstom signed an additional order to supply five Pendolino™ high-speed trains and associated maintenance contract for 30 years with NTV in Italy. Services business further benefited from an eight-year contract for the maintenance of Skanetrafiken's Coradia™ Nordic regional trains in Sweden. Last fiscal year was significantly driven by large contracts signed in the Netherlands to supply intercity new generation trains and in France to provide suburban trains to Île-de-France region as well as to supply Euroduplex™ very high-speed trains for Paris-Bordeaux service.

In Americas, Alstom reported €1.6 billion of orders as compared to €2.9 billion during the same period last fiscal year. During the year, Alstom signed two large contracts in Canada to supply 61 Citadis Spirit™ light rail vehicles for the Greater Toronto and Hamilton Area as well as to supply 38 Citadis Spirit™ vehicles for the extension of Ottawa's light rail system and associated maintenance for 30 years. Besides, Alstom was awarded a contract by Kawasaki to supply traction system for the New York City metro network in the USA and a maintenance contract to perform the midlife overhaul of 52 P2000 light rail vehicles of Los Angeles's Blue, Green and Expo lines. Last year's order intake for the same period notably included a jumbo contract signed with Amtrak in the USA for the supply of new generation high-speed trains and associated maintenance for 15 years.

During the fiscal year 2017/18, the group recorded €1 billion of orders in Asia/Pacific as compared to €0.6 billion during the same period last year. The significant growth was driven by several first-time order signatures in new markets, including the first integrated metro system contract signed in Vietnam for line 3 of Hanoi's metro. With this order, Alstom will supply 10 Metropolis™ trainsets and Urbalis™ 400 the Alstom's CBTC[1] solution which controls train movements. In addition to this, Alstom signed a contract in the Philippines to provide an integrated metro solution to Manila city: this includes signalling and communication system, traction power supply and track work. Besides, Alstom was awarded contracts in Singapore to supply 17 driverless trains for its North-East line and Circle line as well as signalling solution including driverless system and upgrade of the Automatic Train Supervision system to the Circle Line.

In Middle East/Africa, Alstom reported €1.1 billion of orders as compared to €1.4 billion during the last fiscal year. Current year orders notably included an additional order to supply 100 X'trapolis™ train sets and to provide technical support and supply of spare parts over an 18-year period for PRASA through the Gibela joint-venture led by Alstom in South Africa. Also, the group signed a contract to supply 15 new Coradia™ Polyvalent regional trains to Senegal connecting Dakar and the new international airport in Diass. The group secured a contract to supply and maintain the signalling and train control system for Tel Aviv Tramway Red Line in Israel. Last fiscal year was significantly impacted by a major contract awarded in the United Arab Emirates to supply an integrated metro system for Dubai's Red metro line.

Alstom received the following major orders during the fiscal year 2017/18:

| **Country** | **Product** | **Description** |
|---|---|---|
| Canada | Rolling stock | Supply of 61 Citadis Spirit™ light rail vehicles for Greater Toronto and Hamilton area |
| Canada | Rolling stock/Services | Supply of 38 Citadis Spirit™ light rail vehicles for Stage 2 of Ottawa's Train Confederation Line and associated maintenance for 30 years |
| France | Rolling stock | Supply of 20 MP 14 metro train sets consisting of 5 cars to Line 11 of the Paris metro |
| France | Rolling stock | Supply of 14 Coradia™ Polyvalent trains to the regions of Bourgogne-Franche-Comté and Grand Est |
| Germany | Rolling stock | Supply of 25 Coradia™ Continental regional trains for the region of Saarland |

[1] Communication Based Train Control

| Country | Product | Description |
|---|---|---|
| Italy | Rolling stock/Services | Additional order for the supply of five Pendolino™ high speed trains and associated maintenance for a period of 30 years |
| Italy | Rolling stock | Supply of 54 “POP” Coradia™ Stream regional trains to Trenitalia for Italian regions |
| Italy | Rolling stock | Supply of 27 “Jazz” regional trains, latest generation of Coradia™ Meridian range to Trenitalia for Italian regions |
| Philippines | Systems | Supply of integrated metro solution which includes signalling, communication system, traction power supply and track work |
| Senegal | Rolling stock | Supply of 15 new Coradia™ Polyvalent regional trains to connect Dakar and the new international airport in Diass |
| Singapore | Rolling Stock/ Signalling | Supply of six trains to the North East Line and 11 trains as well as driverless signalling system to the Circle Line 6 in Singapore |
| South Africa | Rolling stock/Services | Supply of 100 X’trapolis™ train sets to PRASA, technical support and supply of spare parts over 18 years through the Gibela Joint Venture led by Alstom. |
| Sweden | Services | Maintenance of Skånetrafiken’s 99 Coradia™ Nordic regional trains for eight years |
| USA | Rolling Stock | Supply of traction system to New York city metro network |
| USA | Services | Modernization of P2000 light rail fleet for Los Angeles |
| Vietnam | Systems | Supply of integrated metro system for line 3 of Hanoi which includes 10 Metropolis™ trainsets, signalling, power supply and depot equipment |

## 5. Orders backlog

On 31 March 2018, the Group backlog stood at €34.2 billion as compared to €34.8 billion last year at the same period, providing strong visibility on future sales. The backlog position improved by 4% as compared to March 17 level, once adjusted for an adverse foreign exchange translation effect (especially the INR, USD, AED) for €(2.0) billion. The strong sales momentum during the year resulted in an expected decrease of Systems backlog. Significant Services orders in all geographies fuelled the backlog growth for this product line.

**Geographic breakdown**

| **Actual figures** *(in € million)* | **Year ended 31 March 2018** | % of contrib | **Year ended 31 March 2017** | % of contrib |
|---|---|---|---|---|
| Europe | 14,726 | 43% | 15,008 | 43% |
| Americas | 5,085 | 15% | 5,686 | 16% |
| Asia/Pacific | 4,903 | 14% | 5,569 | 16% |
| Middle East/Africa | 9,464 | 28% | 8,518 | 25% |
| **BACKLOG BY DESTINATION** | **34,178** | **100%** | **34,781** | **100%** |

**Product breakdown**

| **Actual figures** *(in € million)* | **Year ended 31 March 2018** | % of contrib | **Year ended 31 March 2017** | % of contrib |
|---|---|---|---|---|
| Rolling stock | 16,800 | 49% | 16,915 | 49% |
| Services | 11,131 | 32% | 10,179 | 29% |
| Systems | 2,939 | 9% | 4,386 | 13% |
| Signalling | 3,308 | 10% | 3,301 | 9% |
| **BACKLOG BY DESTINATION** | **34,178** | **100%** | **34,781** | **100%** |

## 6. Income statement

### 6.1 Sales

Alstom's sales for the period stood at €8.0 billion compared to €7.3 billion during the same period last year driven by strong project execution outside of Europe, especially in Asia/Pacific. This represents an outstanding 10% organic growth over the period.

| Geographic breakdown | | | | | % Variation Mar. 18/ Mar. 17 | |
|---|---|---|---|---|---|---|
| **Actual figures** *(in € million)* | **Year ended 31 March 2018** | % of contrib | **Year ended 31 March 2017** | % of contrib | **Actual** | **Organic** |
| Europe | 3,938 | 50% | 4,104 | 56% | (4%) | (4%) |
| Americas | 1,531 | 19% | 1,247 | 17% | 23% | 29% |
| Asia/Pacific | 974 | 12% | 702 | 10% | 39% | 43% |
| Middle East/Africa | 1,508 | 19% | 1,253 | 17% | 20% | 23% |
| **SALES BY DESTINATION** | **7,951** | **100%** | **7,306** | **100%** | **9%** | **10%** |

| Product breakdown | | | | | % Variation Mar. 18/ Mar. 17 | |
|---|---|---|---|---|---|---|
| **Actual figures** *(in € million)* | **Year ended 31 March 2018** | % of contrib | **Year ended 31 March 2017** | % of contrib | **Actual** | **Organic** |
| Rolling stock | 3,464 | 43% | 3,170 | 43% | 9% | 10% |
| Services | 1,480 | 19% | 1,468 | 20% | 1% | 3% |
| Systems | 1,691 | 21% | 1,286 | 18% | 31% | 37% |
| Signalling | 1,316 | 17% | 1,382 | 19% | (5%) | (6%) |
| **SALES BY DESTINATION** | **7,951** | **100%** | **7,306** | **100%** | **9%** | **10%** |

In Europe, Alstom's sales totalled €3.9 billion as against €4.1 billion during the same period previous year. Sales of the region contributed to 50% of the Group's total sales, thanks to deliveries of Euroduplex™ high-speed trains for the Paris-Bordeaux line and deliveries of Coradia™ trains in France. Besides, execution of large Rolling stock contracts for the supply of high-speed trains for Italy and regional trains for Sweden contributed to the sales of the fiscal year 2017/18. Services were fuelled by performance of overhaul activity on Pendolino trains in the United Kingdom. Last year's sales were largely driven by end of deliveries of the MI09 suburban trains dedicated to the Paris RER A line in France. Besides, sales were enhanced by deliveries of regional trains in France, Italy and Sweden, high-speed train in Switzerland as well as execution of several maintenance contracts in the United Kingdom, Spain and Italy.

In Americas, Alstom reported sales of €1.5 billion, up 29% on an organic basis contributing to 19% of the total Group's sales, up 2 percentage points compared to the same period last year. The continued strong growth was notably driven by the execution of Rolling stock contracts primarily Amtrak high-speed trains in the USA as well as light rail vehicles for Ottawa and supply of bogies for Montreal metro in Canada. In Latin America, the sales growth was steered by the execution of Rolling stock contract to supply additional metro cars to Lima in Peru. Furthermore the deliveries of metro system to Panama and Mexico fuelled the systems growth in the region. Signalling sales were impacted by the freight and mining adverse market environment.

During the fiscal year 2017/18, Asia/Pacific reported sales of €1.0 billion up 43% on an organic basis. Sales accounted for 12% of the Group's total sales, up 3 percentage points compared to the same period last year. This growth is partly coming from the ramp up of the electric locomotives contract in India and delivery of the first of the 800 locomotives. In addition to this, the region benefited from the execution of Rolling stock contracts in Australia namely suburban trains to Melbourne as well as metro in India. Systems activity growth was sustained by the deliveries of the first Citadis™ X05 light rail vehicles to Sydney, Australia and the infrastructure contract of Dedicated Freight corridor in India.

In Middle East/Africa, Alstom's sales amounted to €1.5 billion for the fiscal year 2017/18 contributing to 19% of total sales, up 2 percentage points compared to the same period last year, and with an organic growth of 23%. The region continued to benefit from the execution of major Systems contracts notably the production of metro cars for Riyadh in Saudi Arabia and Route 2020 metro for Dubai in the United Arab Emirates as well as the delivery of Lusail tramway in Qatar. In addition, revenue in the region was impacted this year by the ramp up of the X'trapolis™ trains production for PRASA in South Africa as well as the deliveries of Coradia™ trains to Algeria.

### 6.2 Research & development

During the fiscal year 2017/18, the research and development gross costs amounted to €278 million, reflecting the group emphasis put on mainlines developments and smart mobility solutions. The amount of research and development expenses as recorded in the P&L statement for the period amounted to €188 million i.e. 2.4% of sales.

| *(in € million)* | Year ended 31 March 2018 | Year ended 31 March 2017 |
|---|---|---|
| R&D Gross costs | (278) | (248) |
| *R&D Gross costs (in % of Sales)* | *3.5%* | *3.4%* |
| Funding received | 58 | 51 |
| Net R&D spending | (220) | (197) |
| Development costs capitalised during the period | 81 | 70 |
| Amortisation expense of capitalised development costs | (49) | (48) |
| R&D expenses (in P&L) | (188) | (175) |
| *R&D expenses (in % of Sales)* | *2.4%* | *2.4%* |

Alstom continued to invest further in the development of the Avelia™ range and notably the very high-speed train of the future, as well as the latest generation of Coradia Stream™ regional trains. Alstom further developed its zero-emission train Coradia iLint™ and the Citadis X05™ light rail vehicle.

Investments in Alstom electric bus solution led to the real-time testing of Aptis™, the 100% electric bus in various locations across France and Germany.

The Group continued the development of the Urbalis Fluence™ signalling solution as well as the APS™ ground-level electrification solution used by tramways for application on the road in partnership with Volvo Group and the PINTA Shift2Rail, the next generation traction system.

Research and Development being the key to competitiveness and growth, Alstom has presented its vision of smart mobility at various platforms including the UITP 2017 congress in Montreal, Canada, the Busworld exhibition in Brussels and Smart Mobility World congress in Barcelona. Alstom has developed several breakthrough solutions to better respond to the requirements of passengers (punctuality, connectivity, and integration) and of operators (sustainability, fluidity, multi-modality, availability and efficiency) notably:

- Mastria™, an innovative multimodal solution which maximises traffic fluidity and orchestrates passenger routes;
- Optimet Solutions developed by Metrolab, a joint venture between RATP Group and Alstom. Optimet real-time train occupancy ensures a smooth passenger exchange flow and improves on-board comfort by displaying the passengers' distribution load of the arriving train via intuitive colour-codes graphic on screens installed along the platform. The Optimet OrbanMap, a real-time dynamic information system provided to passengers in metro stations, allows visualisation at a glance of the metro network, its activity, trains position, travel times, service interruptions, and the level of comfort aboard the trains.
- Innovative solutions dedicated to individual comfort, design for all or configurations addressing diverse needs such as business, family or groups of leisure and customer service with smart lighting, intelligent glazing, Infotainment, wifi on-board applications.
- Iconis™ Security, an integrated solution to manage security operations, passenger information and communications within the control center;
- HealthHub™ innovative maintenance tool;
- EasyMile, which manufactures electric autonomous shuttle – EZ10, that guarantees first and last mile transportation.

## 6.3 Operational performance

During the fiscal year 2017/18, the adjusted EBIT reached €514 million with a margin of 6.5% as compared to €421 million at 5.8% during last fiscal year. During the period, this 22% increase in Alstom's operational performance was mainly driven by revenue growth, stable mix and improved operational efficiency while keeping overhead costs under control.

Operational efficiency has translated into an improvement of the Gross Margin[2] from 15.5% last year to 15.9% this fiscal year. Effective control of the cost structure has contributed bringing the Selling and Administrative costs, as expressed as a percentage of sales, down from 7.4% during fiscal year 16/17 to 7.1% in fiscal year 17/18.

## 6.4 Net profit

Restructuring costs amounted to €(47) million driven by footprint rationalisation and competitiveness initiatives, notably in the United Kingdom, the USA and Brazil. Amortisation of intangible assets and integration costs related to business combinations, such as SSL, GE Signalling and Nomad were reduced to €(25) million. Besides, transaction costs related to the Siemens-Alstom deal amounted to €(39) million during the fiscal year. EBIT rose to €381 million as compared to €358 million in the fiscal year 2017/18, thanks to the strong operational performance over the year.

Net financial expenses decreased to €(91) million during the fiscal year 2017/18 as compared to €(127) million for the same period last year. This is consistent with the decrease in the gross financial debt resulting from the repayment of €272 million bonds having matured over the year. Also, the cost of foreign exchange hedging of intercompany financial positions was reduced following large USD and CAD payments collected, linked to recently awarded contracts.

The Group recorded an income tax charge of €(73) million for the fiscal year 2017/18 corresponding to an effective tax rate of 25% versus €(76) million for the same period last year corresponding to an effective tax rate of 33%. This improved result came mainly from the favourable tax environment in France and the USA. The Group expects to maintain a stable level of tax rate in the future.

The share in net income from equity investments amounted to €216 million mainly as a result of the re-measurement of the put option attached to the Energy alliances, thereby leaving the Group immune to adverse results generated by these joint-ventures. Besides, Alstom decided to exercise its put options on Grid and Renewable Alliances on 1st September 2018.
Improved performance from Transmashholding (TMH) and Casco Signal Limited also contributed to the increase in the level of share in net income from equity investments over the period.

The Net profit from discontinued operations stood at €52 million mainly due to a remeasurement of certain tax risks.

As a result, the Net profit (Group share) stood at €475 million for this fiscal year compared to €289 million during the same period last fiscal year.

[2] Gross Margin = Sales (-) Cost of sales

## 7. Free cash flow

| *(in € million)* | Year ended 31 March 2018 | Year ended 31 March 2017 |
|---|---:|---:|
| **Adjusted EBIT** | **514** | **421** |
| Depreciation and amortisation | 137 | 132 |
| Restructuring cash-out | (37) | (49) |
| Capital expenditure | (202) | (150) |
| R&D capitalisation | (81) | (70) |
| Change in working capital | (49) | 80 |
| Financial cash-out | (70) | (115) |
| Tax cash-out | (93) | (87) |
| Other | 9 | 20 |
| **FREE CASH FLOW** | **128** | **182** |

This year, the Group free cash flow was positive at €128 million compared to €182 million during the last fiscal year. The improved operating profit, reflecting the on-time execution of major contracts signed in the past years, resulted in a ramp-up of cash-out. This effect was partly offset by a sound level of progress payments from customers as well as cash-in received as a result from the orders signed during the year.

During the period, Alstom invested €202 million in capital expenditures of tangible assets in order to modernize its existing facilities and strengthen its global footprint. The Group has continued the construction of manufacturing sites, notably in India, South Africa and the US to deliver large strategic projects booked in previous fiscal year. These strategic projects represent an additional €300 million capex over three years. Up to the fiscal year 2017/18, this transformation capex accounted for €159 million, of which €108 million spent this year. This strategic capex has resulted in the acceleration of depreciation in the period. In parallel to these strategic actions, the Alstom Group has continued investing in its facilities, tools and existing plants around the world for a total spend of €94 million in fiscal year 2017/18.

## 8. Net debt

On 31 March 2018, the Group recorded a net debt level of €255 million, compared to the net debt position of €208 million on 31 March 2017. Alstom's net debt increased over the period, impacted by free cash flow, dividends paid, negative currency translation adjustments as well as by the end of the IT separation program. Besides, the Group's net debt was also impacted by acquisitions that occurred during the year notably Alstom's share increase in the EKZ joint-venture.

During the period, Alstom also reimbursed €272 million worth of bonds contributing to reduce gross financial debt by 18%.In addition to its available cash and cash equivalents, amounting to €1,231 million as of 31 March 2018, the Group can access a €400 million revolving credit facility, maturing in June 2022 which is fully undrawn at March 2018. This resulted into a liquidity position as of March 2018 of €1,631 million.

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## 9. Equity

The increase in Equity on 31 March 2018 to €4,027 million (including non-controlling interests) from €3,713 million on 31 March 2017 was mostly impacted by:

- net profit from fiscal year 2017/18 of €475 million (Group share);
- actuarial hypothesis variation on pensions (recorded in equity) of €59 million net of tax;
- dividends paid to shareholders for €(55) million;
- share-based payments for €55 million;
- currency translation adjustment of €(234) million.

## 10. Non-GAAP financial indicators definitions

This section presents financial indicators used by the Group that are not defined by accounting standard setters.

### 10.1 Orders received

A new order is recognised as an order received only when the contract creates enforceable obligations between the Group and its customer.

When this condition is met, the order is recognised at the contract value.

If the contract is denominated in a currency other than the functional currency of the reporting unit, the Group requires the immediate elimination of currency exposure through the use of forward currency sales. Orders are then measured using the spot rate at inception of hedging instruments.

### 10.2 Order backlog

Order backlog represents sales not yet recognised from orders already received.
Order backlog at the end of a financial year is computed as follows:

- order backlog at the beginning of the year;
- plus new orders received during the year;
- less cancellations of orders recorded during the year;
- less sales recognised during the year.

The order backlog is also subject to changes in the scope of consolidation, contract price adjustments and foreign currency translation effects.

### 10.3 Book-to-bill

The book-to-bill ratio is the ratio of orders received to the amount of sales traded for a specific period.

### 10.4 Adjusted EBIT

When Alstom's new organisation was implemented, adjusted EBIT ("aEBIT") became the Key Performance Indicator to present the level of recurring operational performance. This indicator is also aligned with market practice and comparable to direct competitors.

aEBIT corresponds to Earning Before Interests, Tax and Net result from Equity Method Investments adjusted with the following elements:

- net restructuring expenses (including rationalization costs);
- tangibles and intangibles impairment;
- capital gains or loss/revaluation on investments disposals or controls changes of an entity;
- and any other non-recurring items, such as some costs incurred to realize business combinations and amortisation of an asset exclusively valued in the context of business combination as well as litigation costs that have arisen outside the ordinary course of business.

A non-recurring item is a "one-off" exceptional item that is not supposed to occur again in following years and that is significant.

Adjusted EBIT margin corresponds to Adjusted EBIT in percentage of sales.

The non-GAAP measure adjusted EBIT (aEBIT hereafter) indicator reconciles with the GAAP measure EBIT as follows:

| *(in € million)* | Year ended 31 March 2018 | Year ended 31 March 2017 |
|---|---|---|
| **Adjusted Earnings Before Interest and Taxes (aEBIT)** | **514** | **421** |
| *aEBIT (in % of Sales)* | *6.5%* | *5.8%* |
| Restructuring costs | (47) | (6) |
| PPA amortisation and Integration costs | (25) | (35) |
| Capital gains/losses on disposal of business | 3 | 2 |
| Others and asset impairement | (64) | (24) |
| **EARNING BEFORE INTEREST AND TAXES (EBIT)** | **381** | **358** |

### 10.5 Free cash flow

Free cash flow is defined as net cash provided by operating activities less capital expenditures including capitalised development costs, net of proceeds from disposals of tangible and intangible assets. In particular, free cash flow does not include the proceeds from disposals of activity.

The most directly comparable financial measure to free cash flow calculated and presented in accordance with IFRS is net cash provided by operating activities.

A reconciliation of free cash flow and net cash provided by operating activities is presented below:

| *(in € million)* | Year ended 31 March 2018 | Year ended 31 March 2017 |
|---|---|---|
| **Net cash provided by / (used in) operating activities** | **408** | **401** |
| Capital expenditure (including capitalised R&D costs) | (283) | (220) |
| Proceeds from disposals of tangible and intangible assets | 3 | 1 |
| **FREE CASH FLOW** | **128** | **182** |

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

During the fiscal year 2017/18, the Group's free cash flow was positive at €128 million compared to €182 million during the same period of the previous year.

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### 10.6 Capital employed

Capital employed corresponds to hereafter-defined assets minus liabilities.

- Assets: sum of goodwill, intangible assets, property, plant and equipment, equity-accounted investments and other investments, other non-current assets (other than those related to financial debt and to employee defined benefit plans), inventories, construction contracts in progress assets, trade receivables and other operating assets;
- Liabilities: sum of non-current and current provisions, construction contracts in progress liabilities, trade payables and other operating liabilities.

At the end of March 2018, capital employed stood at €2,165 million, compared to €4,278 million at the end of March 2017. This movement was mainly driven by the decision to exercise put options in the Grid and Renewable Alliances in September 2018 and thereby to reclassify them to assets held for sale, this partly compensated by the net decrease of the liability position of the Group working capital and by the positive net income from equity investments as of 31 March 2018.

| *(in € million)* | **Year ended 31 March 2018** | **Year ended 31 March 2017** |
|---|---|---|
| Non current assets * | 3,755 | 5,972 |
| less deferred tax assets | (224) | (189) |
| less non-current assets directly associated to financial debt | (213) | (260) |
| less prepaid pension benefits | - | - |
| Capital employed - non current assets **(A)** | 3,318 | 5,523 |
| Current assets | 7,977 | 8,379 |
| less cash & cash equivalents | (1,231) | (1,563) |
| less other current financial assets | (8) | (8) |
| Capital employed - current assets **(B)** | 6,738 | 6,808 |
| Current liabilities | 7,904 | 7,883 |
| less current financial debt | (543) | (444) |
| plus non current provisions | 530 | 614 |
| Capital employed - liabilities **(C)** | 7,891 | 8,053 |
| **CAPITAL EMPLOYED (A)+(B)-(C)** | **2,165** | **4,278** |

* Energy alliances and put options re-classed to assets held for sale as at March 2018

### 10.7 Net cash/(debt)

The net cash/(debt) is defined as cash and cash equivalents, other current financial assets and non-current financial assets directly associated to liabilities included in financial debt, less financial debt.

On 31 March 2018, the Group recorded a net debt level of €255 million, compared to the net debt position of €208 million on 31 March 2017.

| *(in € million)* | Year ended 31 March 2018 | Year ended 31 March 2017 |
|---|---|---|
| Cash and cash equivalents | 1,231 | 1,563 |
| Other current financial assets | 8 | 8 |
| Financial non-current assets directly associated to financial debt | 213 | 260 |
| *less:* | | |
| Current financial debt | 543 | 444 |
| Non current financial debt | 1,164 | 1,595 |
| **NET CASH/(DEBT) AT THE END OF THE PERIOD** | **(255)** | **(208)** |

### 10.8 Organic basis

Figures presented in this section include performance indicators presented on an actual basis and on an organic basis. Figures given on an organic basis eliminate the impact of changes in scope of consolidation and changes resulting from the translation of the accounts into Euro following the variation of foreign currencies against the Euro.

The Group uses figures prepared on an organic basis both for internal analysis and for external communication, as it believes they provide means to analyse and explain variations from one period to another. However these figures are not measurements of performance under IFRS.