

Edgar Filing: ALSTOM - Form 6-K

ALSTOM  
Form 6-K  
May 16, 2003

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 May 2003

Commission File Number: 1-14836

ALSTOM

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(Translation of registrant's name into English)

25, avenue Kléber, 75116 Paris, France

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(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  
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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  
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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)

Consolidated financial statements

Fiscal year 2003

ALSTOM

CONSOLIDATED INCOME STATEMENTS

(in million)	Note	2001 (*)	Year ended 2002
SALES		24,550	23,
Of which products		17,569	17,
Of which services		6,981	5,
Cost of sales		(20,428 )	(19,
Of which products		(14,761 )	(15,
Of which services		(5,667 )	(4,
Selling expenses		(1,140 )	(1,
Research and development expenses		(629 )	(
Administrative expenses		(1,202 )	(1,
OPERATING INCOME (LOSS)		1,151	
Other income (expenses), net	(4)	(165 )	(
Other intangible assets amortisation	(8)	(55 )	
EARNINGS BEFORE INTEREST AND TAX		931	
Financial income (expense), net	(5)	(207 )	(
PRE-TAX INCOME (LOSS)		724	

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Income tax (charge) credit	(6)	(174 )	
Share in net income (loss) of equity investments		(4 )	
Dividend on redeemable preference shares of a subsidiary		-	
Minority interests		(37 )	
Goodwill amortisation	(2 & 7)	(305 )	(
		204	)
NET INCOME (LOSS)			
-----			
Earnings per share in Euro			
Basic		0.9	(
Diluted		0.9	)
-----			

(\*) As published but after inclusion of the changes in presentation described in Note 2(a).

The accompanying Notes are an integral part of these Consolidated Financial Statements

### CONSOLIDATED BALANCE SHEETS

(in million)	Note	2001 (*)	At Ma 20
-----			
ASSETS			
Goodwill, net	(7)	5,310	
Other intangible assets, net	(8)	1,187	
Property, plant and equipment, net	(9)	2,788	
Equity method Investments and other investments, net	(10)	323	
Other fixed assets, net	(11)	1,301	
		10,909	
Fixed assets, net			
Deferred taxes	(6)	1,088	
Inventories and contracts in progress, net	(12)	6,049	
Trade receivables, net	(13)	7,029	
Other accounts receivable, net	(15)	2,816	
		15,894	
Current assets			
Short term investments	(17)	496	
Cash and cash equivalents	(18)	2,524	
		30,911	
TOTAL ASSETS			
-----			
LIABILITIES			
Shareholders' equity		2,090	
Minority interests	(19)	102	
Redeemable preference shares of a subsidiary	(22)	205	
Undated subordinated notes	(22)	250	
Provisions for risks and charges	(20)	4,591	

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Accrued pension and retirement benefits	(21)	1,058
Financial debt	(22)	6,231
Deferred taxes	(6)	103
Customers' deposits and advances	(24)	6,205
Trade payables		6,540
Accrued contract costs and other payables	(23)	3,536
		-----
Current liabilities		16,281
		-----
TOTAL LIABILITIES		30,911
-----		
Commitments and contingencies	(27&28)	
-----		

(\*) As published but after inclusion of the changes in presentation described in Note 2(a).

The accompanying Notes are an integral part of these Consolidated Financial Sta

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(in million)	2001 (*)	Year en 20
	-----	-----
Net income (loss)	204	
Minority interests	37	
Depreciation and amortisation	854	
Changes in provision for pension and retirement benefits, net	115	
Net (gain) loss on disposal of fixed assets and investments	-	
Share in net income (loss) of equity investees (net of dividends received)	4	
Changes in deferred tax	(36 )	
Net income after elimination of non cash items	1,178	
Decrease (increase) in inventories and contracts in progress, net	(1,462 )	
Decrease (increase) in trade and other receivables, net	(1,504 )	
Increase (decrease) in sale of trade receivables, net	894	
Increase (decrease) in contract related provisions	(813 )	
Increase (decrease) in other provisions	(144 )	
Increase (decrease) in restructuring provisions	(526 )	
Increase (decrease) in customers' deposits and advances	2,603	
Increase (decrease) in trade and other payables, accrued contract costs and accrued expenses	(42 )	
Changes in net working capital (2)	(994 )	
	-----	-----
Net cash provided by (used in) operating activities	184	
Proceeds from disposals of property, plant and equipment	189	
Capital expenditures	(568 )	
Decrease (increase) in other fixed assets ,net	(382 )	
Cash expenditures for acquisition of investments, net of net cash acquired	(1,137 )	
Cash proceeds from sale of investments, net of net cash sold	308	

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Net cash provided by (used in) investing activities	(1,590 )
Capital increase	33
Undated subordinated notes and redeemable preference shares	455
Dividends paid including minorities	(118 )
Net cash provided by (used in) financing activities	370
Net effect of exchange rate	(20 )
Other changes (3)	151
Decrease (increase) in net debt	(905 )
Net debt at the beginning of the period (1)	(2,306 )
Net debt at the end of the period (1)	(3,211 )
Cash paid for income taxes	68
Cash paid for net interest	130

(\*) As published but after inclusion of the changes in presentation described in Note 2(a).

(1) Net debt includes short-term investments, cash and cash equivalents net of financial debt.

(2) See Note 16.

(3) Including in year ended March 31, 2003 reclassification of redeemable preference share undated subordinated notes totalling 455 million as disclosed in Note 22 (a).

The accompanying Notes are an integral part of these Consolidated Financial

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in million, except for number of shares	Number of outstanding shares	Capital	Additional Paid-in Capital	Retained Earnings	Cumula Transl Adjust
April 1, 2000	213,698,403	1,282	62	688	(
Capital increase	1,689,056	10	23	—	—
Changes in Cumulative Translation Adjustments	—	—	—	—	(
Net income	—	—	—	204	—
Dividend paid	—	—	—	(118 )	—
March 31, 2001	215,387,459	1,292	85	774	(
Changes in Cumulative Translation Adjustments	—	—	—	—	(
Net income (loss)	—	—	—	(139 )	—
Dividend paid	—	—	—	(119 )	—
March 31, 2002	215,387,459	1,292	85	516	(1

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Capital increase	66,273,064	398	224	—	—
Changes in Cumulative Translation Adjustments	—	—	—	—	(1)
Net income (loss)	—	—	—	(1,381 )	—
Dividend paid	—	—	—	—	—
March 31, 2003	281,660,523	1,690	309	(865 )	(3)

(1) Before allocation to be determined at the annual Shareholder's meeting to be held at the 2003.

In August 2000, a specific issue of shares reserved for employees was made and 1,689,056 shares. Related costs net of tax of 7 million were charged against additional paid-in capital of 30 million.

In July 2002, an issue of shares was made and 66,273,064 shares having a par value of 6 million. Related costs net of tax of 15 million were charged against additional paid-in capital of 23 million.

At March 31, 2003, the issued paid-up share capital of the parent company, ALSTOM, amounted to 281,660,523 shares and was divided into 281,660,523 shares having a par value of 6 million.

At the Ordinary General Shareholders' Meeting which is scheduled on first call on June 23, 2003, if the quorum requirement is not met on that date will be held on July 2, 2003, the Board will propose that no dividend be paid.

The negative variation of cumulative translation adjustment since April 1, 2002 is mainly due to the translation of the Euro mainly against British Pound, Brazilian Real and Mexican Peso and by the translation adjustment of exchange gains and losses on long term loans to subsidiaries that have been made and investments in such subsidiaries.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1- Description of business and basis of preparation

##### (a) Description of business

The Company is a provider of energy and transport infrastructure. The energy market is served through activities in the fields of power generation and power transmission and distribution, power conversion, and the transport market through rail and marine activities. A range of components, systems and services is offered by the Company covering design, manufacture, commissioning, long-term maintenance, system integration, management of turnkey projects and applications of advanced technologies.

##### (b) Basis of preparation

ALSTOM (the Company) is a "société anonyme" organised under the laws of France and prepares its financial statements using accounting principles generally accepted in France.

The Company, in preparing the Consolidated Financial Statements, has used the

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following main assumptions that :

- the shareholders prior to July 31, 2003 will approve at the shareholders meetings the principles of a capital increase
- the financial covenants will be met, renewed or renegotiated as required
- maturing debt will be reimbursed or refinanced as required

Notes 22 (a) and (b) and 29 (e) set out the Company's financial debt covenants, maturity and liquidity. The Company's ability to meet the assumptions used in the preparation of its Consolidated Financial Statements set out above also depends on the success of its new action plan.

The Company has taken into account the matters set out above and all other matters including the risks disclosed in the notes to the Consolidated Financial Statements and has confirmed the applicability of the fundamental accounting principles, including going concern, cut-off between accounting periods (Accruals concept) and consistency of accounting principles.

### Note 2 - Summary of accounting policies

The Consolidated Financial Statements of the Company are prepared in accordance with French Generally Accepted Accounting Principles and Règlements 99-02 & 00-06 of the Comité de Règlementation Comptable (French consolidation methodology). Benchmark treatments are generally used. Capital lease arrangements and long term rentals are not capitalised. If capital leases had been capitalised, the impact would have been an increase of property plant and equipment, net of 112 million and 212 million, an increase of financial debt of 119 million and 216 million and a decrease of shareholder's equity of 7 million and 4 million at March 31, 2002 and 2003 respectively. If long term rentals had been consolidated the impact would have been an increase of long-term lease receivable of 667 million and an increase of long-term lease payable of 667 million (Note 27 (b)).

#### (a) Change in presentation

In the year ended March 31, 2003 the following changes in presentation have been made and previous years adjusted accordingly :

##### (i) Amortisation of goodwill

The presentation of goodwill amortisation previously included in Earnings Before Interest and Tax has been changed and is now presented immediately above net income. Previous years' comparative figures have been reclassified accordingly. This reclassification amounts to 305 million and 286 million for the years ended 31 March 2001 and 2002, respectively.

The amortisation of other intangible assets continue to be shown as part of Earnings before Interest and Tax.

##### (ii) Securitisation of future receivables

The right to receive payment from certain customers for future receivables previously included in the line "Customer deposits and advances" has been reclassified in financial debt following a recommendation issued by the Commission des Opérations de Bourse and the Commission Bancaire on 15 November 2002 and the related interpretation issued by the French National Audit Association (CNCC). Previous' years comparative figures have been reclassified accordingly in the balance sheets and the statements of

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cash flows. This restatement amounts to 1,578 million and 1,735 million for the years ended 31 March 2001 and 2002, respectively.

The related costs previously included in the line "Other income (expenses) net" have been reclassified and disclosed separately as part of "Financial income (expenses) net". This amounts to 90 million and 87 million at 31 March 2001 and 2002 respectively.

### (iii) Sale of trade receivables

In the Consolidated Statements of Cash Flow the net cash provided by (used in) sale of trade receivables previously included in the line "Decrease (increase) in trade and other receivables, net" has been disclosed separately as part of "Net cash provided by (used in) operating activities". This amounts to 894 million and 140 million at 31 March 2001 and 2002 respectively.

### (iv) Deferred tax

Deferred tax assets and liabilities have been netted either by tax grouping or by legal entity. This netting decrease the deferred tax asset and liability positions by 755 million and 658 million at 31 March 2001 and 2002 respectively.

## (b) Consolidation methods

Investments over which the Company has direct or indirect control of more than 50% of the outstanding voting shares, or over which it exercises effective control, are fully consolidated. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Joint ventures in companies in which the Company has joint control are consolidated by the proportionate method with the Company's share of the joint ventures' results, assets and liabilities recorded in the Consolidated Financial Statements.

Investments in which the Company has an equity interest of 20% to 50% and over which the Company exercises significant influence, but not control, are accounted for under the equity method.

Results of operations of subsidiaries acquired or disposed of during the year are recognised in the Consolidated Income Statements as from the date of acquisition or up to the date of disposal, respectively.

Inter Company balances and transactions are eliminated on consolidation.

A list of the Company's major consolidated businesses and investees and the applicable method of consolidation is provided in Note 32.

### (c) Use of estimates

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Management reviews estimates on an ongoing basis using



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currently available information. Costs to date are considered, as are estimated costs to complete and estimated future costs of warranty obligations. Estimates of future cost reflect management's current best estimate of the probable outflow of financial resources that will be required to settle contractual obligations. The assumptions to calculate present obligations take into account current technology as well as the commercial and contractual positions, assessed on a contract by contract basis.

The introduction of technologically advanced products exposes the Company to risks of product failure significantly beyond the terms of standard contractual warranties applying to suppliers of equipment only. Changes in facts and circumstances may result in actual financial consequences different from the estimates.

### (d) Revenue and cost recognition

Revenue on contracts which are of less than one year duration, substantially the sale of manufactured products, is recognised upon transfer of title, including the risks and rewards of ownership, which generally occurs on delivery to the customer.

Revenue on construction type contracts of more than one year, long term contracts, is recognised on the percentage of completion method, measured either by segmented portions of the contract "contract milestones" or costs incurred to date compared to estimated total costs.

Claims are recognised as revenue when it is probable that the claim will result in additional revenue and the amount can be reasonably estimated, which generally occurs upon agreement by the customer. Government subsidies relating to the shipbuilding sector are added to the related contract value and are recognised as revenue using the percentage of completion method.

For long term service contracts, revenues are generally recognised on a straight line basis over the term of the contract.

Total estimated costs at completion include direct (such as material and labor) and indirect contract costs incurred to date as well as estimated similar costs to complete, including warranty accruals and costs to settle claims or disputes that are considered probable. Selling and administrative expenses are charged to expense as incurred. As a result of contract review, accruals for losses on contracts and other contract related provisions are recorded as soon as they are probable in the line item "Cost of sales" in the Consolidated Income Statement. Adjustments to contract estimates resulting from job conditions and performance, as well as changes in estimated profitability, are recognised in "Cost of Sales" as soon as they occur.

Cost of sales is computed on the basis of percentage of completion applied to total estimated costs. The excess of that amount over the cost of sales reported in prior periods is the cost of revenues for the period. Contract completion accruals are recorded for future expenses to be incurred in connection with the completion of contracts or of identifiable portions of contracts. Warranty provisions are estimated on the basis of contractual agreement and available statistical data.

### (e) Translation of financial statements denominated in foreign currencies

The functional currency of the Company's foreign subsidiaries is the applicable local currency. Assets and liabilities of foreign subsidiaries located outside

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the Euro zone are translated into euros at the year-end rate of exchange, and their income statements and cash flow statements are converted at the average annual rate of exchange. The resulting translation adjustment is included as a component of shareholders' equity.

### (f) Foreign currency transactions

Foreign currency transactions are translated into local currency at the rate of exchange applicable to the transaction (market rate or forward hedge rate). At year-end, foreign currency assets and liabilities to be settled are translated into local currency at the rate of exchange prevailing at that date or the forward hedge rate. Resulting exchange rate differences are included in the Consolidated Income Statement.

### (g) Financial instruments

The Company operates internationally giving rise to exposure to market risks and changes in interest rates and foreign exchange rates. Financial instruments are utilised by the Company to reduce those risks. The Company's policy is to hedge currency exposures by holding or issuing financial instruments.

The Company enters into various interest rate swaps, forward rate agreements ("FRA") and floors to manage its interest rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in financial interest.

The Company enters into forward foreign exchange contracts to hedge foreign currency transactions. Realised and unrealised gains and losses on these instruments are deferred and recorded in the carrying amount of the related hedged asset, liability or firm commitment.

The Company also uses export insurance contracts to hedge its currency exposure on certain long-term contracts during the open bid time as well as when the commercial contract is signed. If the Company is not successful in signing the contract, the Company incurs no additional liability towards the insurance company except the prepaid premium. As a consequence, during the open bid period, these insurance contracts are accounted for as such, the premium being expensed when incurred. When the contract is signed, the insurance contract is accounted for as described above for forward foreign exchange contracts.

In addition, the Company may enter into derivatives in order to optimise the use of some of its existing assets. Such a decision is taken on a case by case basis and is subject to approval by the management.

### (h) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the assets and liabilities acquired in a business combination. Initial estimates of fair values are finalised at the end of the financial year following the year of acquisition. Thereafter, releases of unrequired provisions for risks and charges resulting from the purchase price allocation are applied to goodwill. Goodwill is amortised on the straight-line basis over a period of twenty years in all sectors due to the long-term nature of the contracts and activities involved.

### (i) Other intangible assets

The Company recognises other intangible assets such as technology, licensing agreements, installed bases of customers, etc. These acquired intangible assets

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are amortised on the straight-line basis over a period of twenty years in all sectors due to the long-term nature of the contracts and activities involved.

### (j) Impairment

At the balance sheet date, whenever events or changes in markets indicate a potential impairment including goodwill, other intangible assets, property, plant and equipment and deferred tax assets, a detailed review is carried out based on projected operating performance. Whenever such review indicates that there is an impairment, the carrying amount of such assets is reduced to their estimated recoverable value.

### (k) Property, plant and equipment

Property, plant and equipment are recorded at historical cost to the Company. Depreciation is computed using the straight-line method over the following estimated useful lives :

	Estimated useful life in years
Buildings	25
Machinery and equipment	10
Tools, furniture, fixtures and others	3-7

Assets financed through capital lease are not capitalised (see Note 27 (b))

### (l) Other investments

Other investments are recorded at the lower of historical cost or net realisable value, assessed on an individual investment basis. The net realisable value is calculated using the following parameters : equity value, profitability and expected cash flow from the investment.

### (m) Other fixed assets

Other fixed assets are recorded at the lower of historical cost or net realisable value, assessed on an individual investment basis.

### (n) Inventories and contracts in progress

Raw materials and supplies, work and contracts in progress, and finished products are stated at the lower of cost, using the weighted average cost method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory cost includes costs of acquiring inventories and bringing them to their existing location and condition. Finished goods and work and contract in progress inventory includes an allocation of applicable manufacturing overheads.

### (o) Short-term investments

Short-term investments include debt and equity securities and deposits with an initial maturity greater than three months but available for sale. Short-term investments are recorded at the lower of cost or market value, on a line by line basis

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### (p) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with an initial maturity of less than three months.

### (q) Deferred taxation

Deferred taxes are calculated for each taxable entity for temporary differences arising between the tax value and book value of assets and liabilities. Deferred tax assets and liabilities are recognised where timing differences are expected to reverse in future years. Deferred tax assets are recorded up to their expected recoverable amount. Deferred tax amounts are adjusted for changes in the applicable tax rate upon enactment.

No provision is made for income taxes on accumulated earnings of consolidated businesses or equity method investees for which no distribution is planned.

### (r) Customer deposits and advances

Customer deposits and advances are shown net, and represent amounts received from customers in advance of work being undertaken on their behalf. Where trading has taken place under the long term contract trading rules, but provisional acceptance of the contract has not taken place, the related customer advance is shown as a deduction from the related receivables.

If any balance of customer deposits and advances is still outstanding and where work is undertaken on behalf of customers before sale, the related customer advance, termed a progress payment is deducted from Inventories and Contracts in Progress on a contract by contract basis.

### (s) Provisions for risks and charges

A provision is recognised when the Company has a present legal or constructive obligation of uncertain timing or amount as a result of a past event and it is probable that an outflow of economic resources will be required to settle the obligation and such outflow can be reliably estimated.

Provisions for warranties are recognised based on contract terms. Warranty periods may extend up to five years. The provisions are based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. Provisions for contract losses are recorded at the point where the loss is first determined. Provisions are recorded for all penalties and claims based on management's assessment of the likely outcome.

### (t) Stock options

Stock options are not recorded by the Company at the date of grant. However, upon exercise of stock options, the Company records the issuance of the common shares as an equity transaction based on the amount of cash received from the holders.

### (u) Research and development

Internally generated research and development costs are expensed as incurred.

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(v) Employee benefits

The estimated cost of providing benefits to employees is accrued during the years in which the employees render services.

For single employer defined benefit plans, the fair value of plan assets is assessed annually and actuarial assumptions are used to determine cost and benefit obligations. Liabilities and prepaid expenses are accrued over the estimated term of service of employees using actuarial methods. Experience gains and losses, as well as changes in actuarial assumptions and plan assets and provisions are amortised over the average future service period of employees.

For defined contribution plans and multi-employer pension plans, expenses are recorded as incurred.

(w) Restructuring

Restructuring costs are accrued when management announces the reduction or closure of facilities, or a program to reduce the workforce and when related costs are precisely determined. Such costs include employees' severance and termination benefits, estimated facility closing costs and write-off of assets.

(x) Financial income (expense)

Financial income (expense) is principally comprised of interest payable on borrowings, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that the dividend is declared.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs.

(y) Earnings per share

Basic Earnings per share are computed by dividing the annual net income (loss) by the weighted average number of outstanding shares during the financial year.

Diluted earnings per share are computed by dividing the annual net income (loss) by the weighted average number of shares outstanding plus the effect of any dilutive instruments.

For the diluted earnings per share calculation, Net income (loss) is not adjusted as the Company has no interest bearing dilutive instruments.

(z) Exchange rates used for the translation of main currencies

for 1 monetary unit	2001		2002		Average
	Average	Closing	Average	Closing	
British pound	1.632230	1.614987	1.627372	1.631321	1.549

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Swiss franc	0.650100	0.654836	0.670010	0.681663	0.682
US dollar	1.106515	1.132246	1.136956	1.146263	0.997
Canadian dollar	0.733726	0.719217	0.725494	0.718236	0.646
Australian dollar	0.608764	0.550721	0.582556	0.610426	0.563

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### Note 3 - Changes in consolidated companies

The main changes in the consolidated companies are as follows :

- (i) In April 2002, the Company acquired the remaining 49% of the share capital in Fiat Ferroviaria ALSTOM Ferroviaria Spa for 154 million. This Company is fully consolidated since the acquisition.
- (ii) In September 2002, operations in South Africa were sold to local empowerment participants and the Company's interest in the acquiring Company has been retained. Gross proceeds from the sale are 101 million. It is de-consolidated with effect from 30 September 2002.
- (iii) In January 2003, the wholly owned Company Alstom Power Insurance Ltd was de-consolidated with effect from January 2003. Total gross proceeds as a result of this disposal were 101 million.

### Note 4 - Other income (expense) net

(in million)	2001	Year ended March 31, 2002
Net gain on disposal of fixed assets	1	11
Net gain (loss) on disposal of investments (1)	(4 )	107
Restructuring costs	(81 )	(227 )
Employees' profit sharing	(25 )	(5 )
Pension costs (Note 21)	(112 )	(139 )
Others, net (2)	56	(137 )
Other income (expense), net	(165 )	(390 )

- (1) In the year ended March 31, 2002, it reflects the net gains on the disposal of Contracting of 10 million and GTRM of 43 million and a net loss on disposal of the Waste to Energy business of 50 million. In the year ended March 31, 2003 it mainly reflects the net losses on disposal of South Africa of 101 million and Alstom Power Insurance Ltd.
- (2) Included in Others, net in the year ended March 31, 2002 is 90 million for additional March 2002 provisioning.

### Note 5 - Financial income (expense)

(in million)	2001	Year ended March 31, 2002
Net interest income (expense) (1)	(131 )	(163 )
Securitisation expenses	(90 )	(87 )
Foreign currency gain (loss) (2)	39	(3 )
Other financial income (expense) (3)	(25 )	(41 )
Financial income (expense)	(207 )	(294 )

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- (1) Including in the year ended March 31, 2003, 13 million of interest on redeemable preferred subsidiary (See Note 22 (a)).
- (2) The foreign currency gain in the year ended March 31, 2003 mainly results from the unwinding of contracts of US dollars against euros following a reassessment of the financing structure in
- (3) Other financial income (expenses), net include fees paid on bonds, guarantees and credits of 22 million, 22 million and 41 million at March 31, 2001, 2002 and 2003 respectively.

### Note 6 - Income tax

#### (a) Analysis by nature and geographic origin

(in million)	2001	Year ended March 31, 2002
	-----	-----
France	(65 )	(3 )
Foreign	(145 )	(94 )
	-----	-----
Current income tax	(210 )	(97 )
	-----	-----
France	(11 )	114
Foreign	47	(27 )
	-----	-----
Deferred income tax	36	87
	-----	-----
Income tax (charge) credit	(174 )	(10 )

#### (b) Effective income tax rate

(in million)	2001	Year ended March 31, 2002
	-----	-----
France	82	(128 )
Foreign	642	321
Pre-tax income (loss)	724	193
Statutory income tax rate of the parent company	36.43 %	35.43 %
Expected tax (charge) credit	(264 )	(68 )
	-----	-----
Impact of :		
- difference in rate of taxation	-	4
- reduced taxation of capital gain	-	39
- recognition (non recognition) of tax loss carryforwards	70	(20 )
- net change in estimate of tax liabilities	17	37
- intangible assets amortisation	(20 )	(23 )
- other permanent differences	23	21
	-----	-----
Income tax ( charge ) credit	(174 )	(10 )

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Effective tax rate 24.0 % 5.2 %

The effective tax rate in fiscal year 2003 was principally affected by the non recognition of rate of taxation in Switzerland. In the previous year the effective tax rate was principally affected by tax rate on capital gains.

### (c) Deferred tax

(in million)	2001	At March 31, 2002
Accelerated depreciation	49	54
Non deductible amortisation of intangible assets	38	188
Profit sharing, annual leave and pension accrual not yet deductible	137	137
Provisions and other expenses not currently deductible	792	629
Contract provisions taxed in advance	54	91
Tax loss carryforwards, net of valuation allowance	686	1,024
Others	87	21
<b>Gross Deferred tax assets</b>	<b>1,843</b>	<b>2,144</b>
Netting by tax grouping or by legal entity	(755 )	(658 )
<b>Deferred tax assets</b>	<b>1,088</b>	<b>1,486</b>
Accelerated depreciation for tax purposes	(111 )	(88 )
Contract revenues not currently taxable	(229 )	(209 )
Losses on intercompany transfers	(32 )	(44 )
Deferred income related to leasing transactions	(153 )	(32 )
Inventory valuation methods	(67 )	(69 )
Pensions and other adjustments not currently taxable	(266 )	(76 )
Provisions and other expenses deducted in advance	-	(187 )
<b>Gross Deferred tax liabilities</b>	<b>(858 )</b>	<b>(705 )</b>
Netting by tax grouping or by legal entity	755	658
<b>Deferred tax liabilities</b>	<b>(103 )</b>	<b>(47)</b>

The Company consolidates most of its country operations for tax purposes, including in France, the United States, and Germany. At March 31, 2003 there were tax losses, principally relating to France, Switzerland, United Kingdom and United States, which aggregated 5,325 million. Include unrecognised tax losses which aggregated approximately 810 million. The recognised losses of 570 million which will expire within 5 years.

### d) Tax loss carryforward by maturity

(In million)	At March 31, 2003
Expiring within 1 year	221
2 years	66
3 years	157
4 years	507



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5 years and more	2,873
Not subject to expiration	1,501
	5,325
Total	

### Note 7 - Goodwill, net

(In million)	Net value March 31, 2001	Net value March 31, 2002	Acquisitions/ Disposals	Amortisation	Tra adj an c
Power (a)	3,515	3,524	(2 )	(198 )	
Transmission & Distribution *	557	564	4	(38 )	
Transport (b)	451	449	158	(37 )	
Marine	3	2	-	-	
Contracting	706	-	-	-	
Other (c)	78	73	(10 )	(11 )	
Goodwill, net	5,310	4,612	150	(284 )	

\* includes 93 million of Power Conversion goodwill integrated into the Transmission and Distribution on 1 April 2002. Previous year has been restated accordingly.

The gross value of goodwill was 6,011 million, 5,405 million and 5,450 million at March 31, 2001, 2002 and 2003 respectively.

#### (a) Power

The goodwill is related to the acquisition of ABB ALSTOM Power in a two step process in 1999 and 2000.

In June 1999, ALSTOM formed a joint venture with ABB, ABB ALSTOM POWER (AAP). In setting up the ABB ALSTOM Power joint venture the Company contributed its Energy business, except the Heavy Duty Gas Turbine business, and ABB contributed substantially all of its power generation business, except for its nuclear operations, Combustion Engineering Inc., a subsidiary of ABB, and its asbestos liabilities for which ABB indemnified the Company.

From July 1, 1999 to May 10, 2000 the Company owned 50% of the AAP's share capital. On May 11, 2000, ALSTOM acquired ABB's 50% shareholding in AAP, now renamed Power. Prior to that date, ALSTOM consolidated its 50% share in AAP using the proportionate consolidation method. From May 11, 2000 the accounts of Power are fully consolidated.

In connection with the creation of AAP in June 1999, the Company paid to ABB an amount of 1,485 million. The acquisition cost of the second 50% share paid in

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May 2000 was 1,253 million.

The Company has used the time interval ending with the close of the first fiscal year beginning after the May 11, 2000 acquisition to finalise the ALSTOM Power purchase price allocation.

The aggregate amount of goodwill recorded in connection with the acquisition of ALSTOM Power in the June 1999 and May 2000 transactions was 3,953 million.

### (b) Transport

On October 1, 2000, the Company purchased 51% of Fiat Ferroviaria SPA now renamed ALSTOM Ferroviaria SPA for 149 million. Goodwill arising on that acquisition is 109 million.

The Company has used the time interval ending with the close of first fiscal year after the acquisition of 51% of ALSTOM Ferroviaria SPA to review the purchase price allocation and recorded an adjustment of 54 million, net of deferred taxation.

On April 16, 2002, the put option requiring the Company to purchase the remaining 49 % of the capital was exercised by Fiat Spa for an amount of 154 million. The resulting goodwill increase amounts to 158 million.

### (c) Other

In September 2002, the Company sold its interest in its South African entities reducing the net goodwill by 12 million (see Note 3).

At March 31, 2003, other goodwill, which substantially reflected the acquisition costs of the Company's international network activity, has been re-allocated to the sectors which the Network serves.

### (d) Impairment

The Company requested a third party valuer to provide an independent report as part of its impairment test, performed annually, on goodwill and other intangible assets (see Note 8). Its valuation focused primarily but not exclusively on the two Sectors (Power and Transport) which account for the majority of the Company's goodwill and other intangibles.

The valuation in use was determined primarily by focusing on the discounted cash flow methodology which captured the potential of the asset base to generate future profits and cash flow and was based on the following factors :

- The Company's internal three year Business Plan prepared as part of its annual budget exercise at sector and segment level.
- Extrapolation of the three year Business Plan over 10 years.
- Terminal value at the end of the ten year period representing approximately 55% of total enterprise value.
- The Company's Weighted Average Cost of Capital, post-tax, of 10.5% to 11.5%.

The valuation supported the Company's opinion that its goodwill and other intangible assets were not impaired on a reporting unit basis.

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Note 8 - Other intangible assets, net

(In million)	At March 31, 2001	At March 31, 2002	Acquisitions/ Amortisation	Disposals	Tr ad a
Gross value	1,242	1,289	65	-	
Depreciation	(55 )	(119 )	(67 )	-	
Other intangible assets, net	1,187	1,170	(2 )	-	

Other intangible assets mainly result from the allocation of the purchase price following the acquisition of shareholding in Power. It includes technology, an installed base of customers and licensing agreements. The year-end March 2002 and 2003 reflect payments under a technology sharing agreement signed in 2002.

Note 9- Property, plant and equipment, net

(in million)	March 31, 2001	March 31, 2002	Acquisitions/ Depreciation	Disposals	Scope of Consolidation	T A
Land	379	390	-	(91 )	-	
Buildings	1,659	1,661	56	(140 )	(2 )	
Machinery and Equipment	3,643	3,516	129	(201 )	(6 )	
Tools, furniture, fixtures and others	751	1,009	195	(99 )	(6 )	
Gross value	6,432	6,576	380	(531 )	(14 )	
Land	(20 )	(23 )	(2 )	16	-	
Buildings	(642 )	(667 )	(70 )	76	1	
Machinery and Equipment	(2,525 )	(2,541 )	(247 )	175	2	
Tools, furniture, fixtures and others	(457 )	(557 )	(83 )	68	3	
Accumulated depreciation	(3,644 )	(3,788 )	(402 )	335	6	
Land	359	367	(2 )	(75 )	-	
Buildings	1,017	994	(14 )	(64 )	(1 )	
Machinery and Equipment	1,118	975	(118 )	(26 )	(4 )	

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Tools, furniture, fixtures and others	294	452	112	(31 )	(3 )
Net value	2,788	2,788	(22 )	(196 )	(8 )

Assets financed through capital lease are not capitalised (see Notes 2 and 27 (b)).

### Note 10 - Equity method investments and other investments, net

At March 31, 2003, in line with the accounting policies set out in note 2(b), investments in which the Company has direct or indirect control of more than 50 % of the outstanding voting shares or over which it exercises effective control, are fully consolidated. Only investments in which the Company has an equity interest of 20 % to 50 % and over which it exercises significant influence are accounted for under the equity method.

#### (a) Equity method investments

(in million)	2001	At March 31,		%	Share i
	-----	2002	2003	Interest	Net inco
	-----	-----	-----	-----	-----
Guangxi Laibin Electric Power Co Ltd "Figlec"	62	65	59	40	0
Termoeléctrica del Golfo and Termoeléctrica Peñoles	24	72	87	49.5	0
ALSTOM S.A. de C.V., Mexico	11	10	8	49	1
Others	8	15	8		2
Total	105	162	162		3

At March 31, 2003 the Company held 40 % of the registered capital of the Chinese entity "Figlec", a company which operates the thermal Power Plant of Laibin.

In the year ended March 31, 2001 the Company acquired a 49.5% interest in the Termoeléctrica del Golfo and Termoeléctrica Peñoles, projects to build generation plants, currently under construction in Mexico. During the year further funding was provided as the construction of the generation plants proceeded.

In the year ended March 31, 2001 ALSTOM sold 51 % of its shares in ALSTOM S.A. de C.V., Mexico and now holds 49 % of the share capital.

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(b) Other investments, net

(in million)	At March 31				
	2001	2002	2003		
	Net	Net	Gross	Provision	Net
Ansaldo Coemsa SA (1)	29	-	-	-	-
Ballard Generation Systems Inc (2)	40	40	-	-	-
Ballard Power Systems Inc (2)	-	-	29	(7 )	22
La Maquinista Vila Global (3)	28	28	-	-	-
A-Train AB & A-Train Invest AB	11	11	14	(9 )	5
Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme AS	20	16	20		20
Tramvia Metropolitana SA	6	7	8	-	8
Tramvia Metropolitana del Besos (4)	-	-	8	-	8
Others	84	37	36	(16 )	20
<b>TOTAL</b>	<b>218</b>	<b>139</b>	<b>115</b>	<b>(32 )</b>	<b>83</b>

(1) this company has been consolidated from April 1, 2001.

(2) during the year an agreement was signed to convert the 20% interest of Alstom in Ballard Systems Inc \_\_\_\_\_ into 2.37% interests in Ballard Power Systems Inc (corresponding to 2,500,000 shares) a company publicly traded on the Toronto Stock exchange. On March 31, 2003 the share price was 13.93 \$CAD ( 8.69 ).

(3) during the year, the 39 % interests in La Maquinista Vila Global have been sold for an amount of 22 million.

(4) Tramvia Metropolitana del Besos is just created and has no accounts available.

Information on the main other investments at March 31, 2003 is based on the most recent statements available and is the following:

(in million)	Net income	Share in Net Equity
A-Train AB & A-Train Invest AB	(8 )	2
Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme AS	(14 )	18
Tramvia Metropolitana SA	0	7

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Note 11 - Other fixed assets, net

(in million)	2001	At March 2002
Long term loans, deposits and retentions (1)	776	77
Prepaid assets - pensions (see Note 21)	446	46
Others	79	7
Other fixed assets, net	1,301	1,32

(1) Include loans and cash deposits in respect of Marine vendor financing (See Note 27 (a) (2)) of 491 million, 561 million and 510 million at March 31, 2001, 2002 and 2003, respectively.

Note 12 - Inventories and contracts in progress, net

(in million)	2001	At March 2002
Raw materials and supplies	1,197	1,5
Work and contracts in progress	7,412	6,9
Finished products	412	3
Inventories, and contracts in progress, gross	9,021	8,8
Less valuation allowance	(436 )	(3
Inventories, and contracts in progress, net of valuation allowances	8,585	8,5
Less related customers' deposits and advances	(2,536 )	(2,9
Inventories, and contracts in progress, net of valuation allowances and related customers' deposits and advances	6,049	5,5

Note 13 - Trade receivables, net

(in million)	2001	At March 2002
Trade receivables on contracts	7,629	10,3
Other trade receivables	3,608	1,4
Trade receivables, gross (1)	11,237	11,8
Less valuation allowance	(182 )	(1
Trade receivables, net of valuation allowances	11,055	11,7
Less related customers' deposits and advances	(4,026 )	(6,9
Trade receivables, net of valuation allowances and related customers' deposits and advances	7,029	4,7

(1) after sale of trade receivables (see Note 14)

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Note 14 - Sale of trade receivables

The following table shows net proceeds from sale of trade receivables :

(in million)	2001	At March 2002
Trade receivables sold	1,154	1,388
Retained interests( Note 15)	(260 )	(352)
Net cash proceeds from sale of trade receivables	894	1,036

During the year ended March 2001 and 2002, the Company sold trade receivables within which it irrecourse transferred eligible receivables to third parties. Under the terms of certain of these receivables are pledged as credit enhancement. The retained interest in these pledged receivables consolidated balance sheet as other receivables. The Company generally continues to service, administer, and collect the receivables on behalf of the purchasers.

During the year ended March 2003, the Company sold, irrevocably and without recourse, trade receivables to third parties. The Company generally continues to service, administer, and collect the receivables on behalf of the purchasers.

Note 15 - Other accounts receivables, net

(in million)	2001	At March 2002
Advances paid to suppliers	1,161	1,192
Amounts due on local part of contracts	159	241
Income tax and other government receivables	574	519
Prepaid expenses	581	446
Retained interests in receivables (Note 14)	260	352
Others	80	554
Other accounts receivables, net	2,816	3,304

Note 16 - Changes in net working capital

(in million)	March 31, 2002	Cash flow	Translation adjustments	Cha sco o
Inventories and contract in progress, net	5,593	(415 )	(477 )	
Trade and other receivables, net (1)	9,070	(650 )	(931 )	
Sale of trade receivables, net	(1,036 )	661	33	

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Contract related provisions	(3,215 )	(87 )	130
Other provisions	(456 )	49	26
Restructuring provisions	(178 )	29	5
Customers' deposits and advances	(4,221 )	98	589
Trade and other payables	(10,102 )	(162 )	760
Net working capital	(4,545 )	(477 )	135

(1) before impact of net proceeds from sale of trade receivables

Note 17 - Short-term investments

(in million)	Carrying Value	Within 1 year	1 to 5 years
March 31, 2001			
Government debt securities	8	8	-
Deposits	412	405	7
Bonds and other debt securities	76	8	55
Total	496	421	62
March 31, 2002			
Equity securities	31	-	-
Deposits	121	117	4
Bonds and other debt securities	179	18	160
Total	331	135	164
March 31, 2003			
Government debt securities	4	1	3
Deposits	53	53	-
Bonds and other debt securities	85	36	43
Total	142	90	46

The aggregate fair value is 498 million, 333 million and 143 million at March 31, 2001, 2002 and 2003, respectively.

Note 18 - Cash and cash equivalents

Cash and cash equivalents include cash at banks and cash on hand of 1,537 million, 1,413 million and 897 million at March 31, 2001, 2002 and 2003 respectively, and

highly liquid investments of 987 million, 491 million and 731 million at March 31, 2001, 2002 and 2003, respectively.

Note 19 - Minority interests



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(in million)	2001	At March 2002
Balance beginning of fiscal year	33	102
Share of net income	37	23
Translation adjustment	-	(1)
Dividend paid	(7 )	(21)
Change in scope and other changes	39	(12)
Balance end of fiscal year	102	91

Note 20 - Provisions for risks and charges

(in million)	At March 31, 2001	At March 31, 2002	Additions	Releases	Applied
Warranties	1,321	1,618	273	(112 )	(840 )
Penalties and claims	1,463	774	1,388	(116 )	(359 )
Contract loss accruals	560	490	236	(48 )	(319 )
Other risks on contracts	414	333	113	(54 )	(75 )
Provisions on contracts	3,758	3,215	2,010	(330 )	(1,593 )
Restructuring	285	178	282	(14 )	(297 )
Other provisions	548	456	31	(45 )	(35 )
Total	4,591	3,849	2,323	(389 )	(1,925 )

Provisions on contracts

GT24/GT26 heavy duty gas turbines

In July 2000, the Company announced that it had experienced significant technical difficulties in the introduction of the new GT24/GT26 heavy-duty gas turbines which are at the top end of the extensive range of gas turbine, with respective outputs of 179 MW and 262 MW. They are among the largest individual products the Company sells and are typically sold as part of a larger power project involving other Power products. The GT24/GT26 turbines are based upon technology developed by ABB which initiated the development and marketing of the GT24/GT26 turbines in 1995, and also entered into the contracts for sales of these turbines. These turbines were based on an advanced and novel design concept. In connection with the start of commercial operation of these turbines

in 1999 and 2000, a number of significant technical problems were identified affecting all the 80 turbines previously sold.

In response, the Company set in motion high-priority initiatives to design and implement modifications across the fleet. The first step of these initiatives

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was to de-rate the units so that they could operate in commercial service with lower efficiency and output, while the Company developed the technical solutions to allow full rating operation. The Company 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 the Company calls a "recovery package". This deferred the timing of the date at which provisional acceptance was achieved and related contractual remedies, including liquidated damages, apply. During that period, varying solutions were applied depending on the situation, however in general the Company replaced short life components at its costs and agreed on contractual amendments, including revised financial conditions, with each customer.

The Company has already implemented some technical improvements to the turbines, which permit flexible and reliable operation of the fleet. This is confirmed by third-party statistics showing that the reliability of the GT24 fleet is above 98% in the 2002 calendar year. Operational reliability and flexibility are important ingredients for customers, particularly for those in merchant markets.

The Company's confidence in the technology is based on the major progress achieved over the past 6 months. Modifications aimed at delivering enhancements to output and efficiency have been designed, validated and tested. Reduction of design risk and the validation of upgraded components have been advanced by the technology agreement with Rolls-Royce we signed in February 2002 by using their aero-engine technology and experience base.

Most importantly, while the units accumulate hours in operation, it can be seen that the technology has stabilised. The 71 machines in service have accumulated, as of March 2003, over half a million operating hours at high reliability levels.

The commercial situation with respect to the GT24/GT26 gas turbines is also becoming much clearer. The Company has reached commercial settlements on 61 of the 80 units and of these settlements 24 are unconditional that is to say the contracts are in the normal warranty period, and there is no obligation to upgrade or pay further penalties. Under the other 37 settlements, the Company committed to make additional upgrade improvements, either in respect of performance or the life of key components and is required to pay liquidated damages if the modified gas turbines do not meet performance criteria or if the Company does not respect the agreed time delays for the implementation of the modifications. As concerns the remaining 19 units for which no settlements have been reached, 7 are currently subject to litigation, and negotiations are ongoing or not yet started for the remainder. The orders in hand included 558 million, at 31 March 2003, in respect of a GT26 contract currently suspended on which the customer has an option for termination. If this contract does not proceed, the orders in hand will need to be adjusted accordingly.

Notwithstanding the progress achieved to date, since November 2002, the Company experienced unexpected set backs and delays, which it believes it has now resolved, in validating and testing several important components of the recovery package, notably the GT24 compressor upgrade and the 'full lifetime' blades. These delays resulted in being unable to respect the duration of the recovery periods agreed with some of its customers under applicable agreements, including under conditional settlement agreements, prior to the implementation of the recovery package with the expected improvements in performance, efficiency and life of key components. In the current state of the energy wholesale markets,

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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. The Company also incurs additional costs because it has been forced to shut down the machines more frequently to replace short life components at our expense. The Company's previously expected targets were therefore not achievable in the current context.

As a consequence, the Company has revised its analysis of the residual financial impact of the GT24/GT26 issue on a contract by contract basis, which it now estimates at 1,530 million net. This amount reflects management's best estimate of the remaining gross exposure in March 2003 of 1,984 million, on which it expects to mitigate 454 million by taking numerous actions to reduce its estimated gross exposure.

In fiscal year 2000, ABB ALSTOM Power, of which the Company owned 50% at that time, recorded a total of 519 million of provisions in accrued costs in respect of the GT 24/GT 26 gas turbines. In fiscal year 2001, the Company recorded a total of 1,068 million of provisions and accrued contract costs related to the turbines. In fiscal year 2002, an additional 1,075 million of provisions and accrued contract cost were recorded relating to the turbines.

1,440 million of provisions and accrued contract costs was retained at 31 March 2002 in respect of these turbines. After application of 1,070 million during fiscal year 2003, the remaining amount of provisions was 370 million. To cover the total revised net exposure, an additional provision of 1,160 million has been provided during fiscal year 2003. As a result, the total provisions and accrued contract costs at 31 March 2003 in respect of these turbines were 1,530 million. This provision does not take into account interest to be paid to customers (cost of carry), the cost of which will be recorded when it falls due.

Actual costs incurred may exceed the amounts of provisions and accrued contract costs retained at March 31, 2003 because of a number of factors, including cost overruns or delays the Company may incur in the manufacture of modified components, the implementation of modifications or the delivery of modified turbines and the outcome of claims or litigation made by or against the Company.

### UK trains

In 1997, shortly after the privatisation of the British rail industry, the Company received five orders for a total of 119 new trains with an aggregate value of 670 million. At the end of March 2002, the Company reported that difficulties had been encountered on these UK Regional Trains, and 29 of the 119 trains remained to be delivered out. Measures taken to address the various technical and contractual issues enabled the Company to work with the operators

and the rail authorities to deliver all but one of the 119 trains ordered. Settlements have recently been agreed with customers under which the Company is obliged to implement programmes to ensure that all fleets achieve agreed levels of in-service reliability, which are on going and leading to additional costs. These commitments, which, in some instances, involve commitments for a number of years, have been provided for in fiscal year 2003.

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. Nevertheless, trains are currently being delivered at the rate of 2 a month in line with a revised programme agreed with our customer and the railway authorities.

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In fiscal year 2003, the Company provided for additional provisions of 140 million to cover the future costs of the continuing improvement programme on the Regional Trains and to complete the WCML contract.

Actual costs incurred may exceed the amounts of provisions and accrued contract costs retained at March 31, 2003 because of a number of factors, including cost overruns, delays the Company may incur in the manufacture or delivery of the trains or of the outcome of claims made by or against the Company which are, at such an early stage, that no meaningful assessment of amounts which may become due to or by the Company is possible.

### Restructuring provisions

During the year ended March 31, 2003, restructuring expenditure amounted to 297 million. New plans were adopted during the period in Power, Transmission & Distribution and Transport, for which provisions have been created. At March 31, 2003, restructuring and redundancy provisions mainly relate to Power and Transmission & Distribution Sectors.

During the 12 month period ended March 31, 2002, restructuring expenditure amounted to 344 million, principally in the Power, Transmission & Distribution and Transport Sectors. New plans were adopted during the period in Transport for which provisions have been created during the year. At March 31, 2002, restructuring and redundancy provisions mainly relate to Power, Transmission and Distribution and Power Conversion Sectors.

During the 12 month period ended March 31, 2001, restructuring expenditure amounted to 605 million, principally in the Power, Transmission & Distribution and Transport sectors. New plans were adopted during the period mainly in Transport for which provisions have been created during the year. The 306 million of change in scope of consolidation was mainly explained by the full consolidation of Power since May 11, 2000. At March 31, 2001, restructuring and redundancy provisions mainly related to Power and Transmission & Distribution Sectors.

### Other provisions

Other provisions include 144 million and 140 million at March 31, 2002 and 2003, respectively to cover Marine vendor financing exposure (Note 25 (b)).

### Note 21 -- Retirement, termination and post-retirement benefits

The Company provides various types of retirement, termination benefits and post retirement benefits (including healthcare benefits and medical cost) to its employees. The type of benefits offered to an individual employee is related to local legal requirements as well as the historical operating practices of the specific subsidiaries.

Termination benefits are generally lump sum payments based upon an individual's years of credited service and annualised salary at retirement or termination of employment. Pension benefits are generally determined using a formula which uses the employee's years of credited service and average final earnings. Most defined-benefit pension liabilities are funded through separate pension funds. Pension plan assets related to funded plans are invested mainly in equity and debt securities. Other supplemental defined-benefit pension plans sponsored by the Company for certain employees are funded from the Company's assets as they become due.

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Change in benefit obligation

(in million)	Pension Benefit			Other Benefits			Total	
	At March 31,			At March 31,			At March 31,	
	2001	2002	2003	2001	2002	2003	2001	2002
Benefit Obligation at Beginning of year	(2,985)	(3,865)	(3,527)	(80)	(206)	(242)	(3,065)	(4,071)
Service cost	(97)	(99)	(107)	(2)	(3)	(2)	(99)	(102)
Interest cost	(200)	(205)	(196)	(14)	(16)	(15)	(214)	(221)
Plan participants contributions	(20)	(19)	(20)	-	-	-	(20)	(19)
Amendments	-	(16)	1	-	-	-	-	(16)
Business Combinations / disposals (1)	(423)	359	(3)	(109)	-	-	(532)	359
Curtailment	-	9	12	-	-	-	-	9
Settlements	4	-	91	-	-	-	4	-
Actuarial (loss) gain	(353)	154	(97)	-	(31)	(12)	(353)	123
Benefits paid	169	178	149	14	17	17	183	195
Foreign currency translation	40	(23)	358	(15)	(3)	50	25	(26)
Benefit Obligation at end of Year	(3,865)	(3,527)	(3,339)	(206)	(242)	(204)	(4,071)	(3,769)

(1) In the year ended March 31, 2001, the business combination relates mainly to the full integration of Power In the year ended March 31, 2002, the Business combination relates mainly to the purchase of the integration of Railcare Limited and to the sale of GT Railways Maintenance Limited and Contractor sector

Change in plan assets

(in million)	Pension Benefit			Other Benefits		
	At March 31,			At March 31,		
	2001	2002	2003	2001	2002	2003
Fair value of plan assets at beginning of year	3,248	3,322	2,712	-	-	-
Actual return on plan assets	(34)	(165)	(282)	-	-	-
Company contributions	61	81	73	-	-	8
Plan participant contributions	20	19	23	-	-	-
Business Combinations /disposals (1)	223	(444)	(30)	-	-	-
Settlements	-	-	(75)	-	-	-
Benefits paid	(145)	(122)	(95)	-	-	-
Foreign currency translation	(51)	21	(314)	-	-	-
Fair value of plan assets at end of year	3,322	2,712	2,012	-	-	-
Funded status of the plan	(543)	(815)	(1,327)	(206)	(242)	(204)
Unrecognised actuarial loss (gain)	211	506	933	(1)	34	34
Unrecognised actuarial prior Service cost	(77)	18	11	-	-	(1)
Unrecognised actuarial transition	-	(26)	(24)	4	-	3
(Accrued) prepaid benefit cost	(409)	(317)	(407)	(203)	(208)	(168)

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Of which:

Accrued pensions and retirement benefits	(855 )	(786 )	(804 )	(203 )	(208 )	( 168 )
Prepaid assets (Note 11)	446	469	397	-	-	-

(1) In the year ended March 31, 2001, the business combination relates mainly to the full integration of the business combination ended March 31, 2002, the Business combination relates mainly to the purchase and the integration of the business combination and to the sale of GT Railways Maintenance Limited and Contracting sector.

Components of plan assets

	Year ended March 31,		%
	2002	2003	
Equities	1,646	1,156	57.5
Bonds	827	641	31.8
Properties	142	129	6.4
Others	97	86	4.3
Total	2,712	2,012	100

The actuarial assumptions used vary by business unit and country, based upon local considerations :

Assumptions (weighted average rates)

	Pension Benefit			Other Benefits	
	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2001	Year ended March 31, 2002
Discount rate	6.23%	6.14%	5.90 %	7.5%	7.25%
Rate of compensation increase	4.13%	3.31%	3.28%	N/A	N/A
Expected return on plan assets	6.93%	7.79%	7.57%	N/A	N/A

The following table shows the amounts of net periodic benefit cost for each of the three years ended March, 31, 2001, 2002 and 2003.

	Pension Benefit			Other Benefits
	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2001
Service cost	97	99	107	2
Expected interest cost	200	205	196	14
Expected return on plan assets	(227 )	(208 )	(193 )	-
Amortisation of unrecognised prior service	(6 )	(8 )	2	-

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cost				
Amortisation of actuarial net loss (gain)	14	11	16	
Curtailments/Settlements	(4 )	(32 )	9	-
Net periodic benefit cost	74	67	137	16

The Company's health care plans, disclosed in other benefits are generally contributory with participants' contributions adjusted annually. The healthcare trend rate is assumed to be 10 % in the year ended March, 31, 2003 and 8% thereafter.

In addition to the net periodic benefit cost disclosed above, the company charged in pensions costs contributions related to schemes mixing defined benefits and defined contributions for 32 million together with multi-employer contributions for 27 million.

The total of pension and other post retirement benefit costs for each of the three year ended March 31, 2003 are shown in Note 4 - Other income (expenses), net.

The total cash outflow of the 12 month period ended March 31, 2003 was 203 million.

### Note 22 - Financial Debt

#### (a) Analysis by nature

(in million)	At March	
	2001	2002
Redeemable preference shares (1)	-	-
Subordinated notes (2)	-	-
Bonds (3)	1,200	1,200
Syndicated loans (4)	200	1,550
Bilateral loans	633	283
Bank overdraft and other facilities	979	779
Commercial paper (5)	1,611	455
Accrued interest	30	33
<b>Total</b>	<b>4,653</b>	<b>4,300</b>
Future receivables securitised, net (6)	1,578	1,735
<b>Financial debt</b>	<b>6,231</b>	<b>6,035</b>
Long-term portion	2,352	3,644

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Short-term portion

3,879

2,391

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- (1) On 30 March 2001, a wholly owned subsidiary of ALSTOM Holdings issued perpetual, cumulative, non voting, preference shares for a total amount of 205 million.

The preference shares have no voting rights. They are not redeemable, except at the exclusive option of the issuer, in whole but not in part, on or after the 5th anniversary of the issue date or at any time in case of certain limited specific pre identified events. Included in those events, are changes in tax laws and the issuance of new share capital.

In July 2002 an issue of shares was made triggering the contractual redemption of the preferred shares at 31 March 2006 at a price equal to par value together with dividends accrued, but not yet paid. As a result of the triggering event during the year, this instrument has been re-classified as long term debt and its related interest has been classified as interest and shown as Net interest income (expense) (see Note 5).

- (2) The Company issued, on September 2000, 250 million Auction Rate Coupon Undated Subordinated Notes. In March 2003, the terms of redemption were amended and the notes are now redeemable in September 2006. They retain their subordinated nature and rank "pari passu" with holders of other subordinated indebtedness. Interest is payable quarterly, at variable rates based on EURIBOR.

As a result of the change in the terms of redemption during the year, they are presented as financial debt at March 31, 2003.

- (3) On July 26, 1999, the Company issued bonds for a principal amount of 650 million with a 7 year maturity, listed on the Paris and Luxembourg Stock Exchanges, bearing a 5 % coupon and to be redeemed at par on July 26, 2006. On February 6, 2001, the Company issued bonds for a principal amount of 550 million with a 3 year maturity, listed on the Luxembourg Stock Exchange, bearing a 5.625 % coupon and to be redeemed at par on February 6, 2004.

- (4) Syndicated loans

At March 31, 2001, 2002 and 2003, in addition to drawn down amounts of syndicated loans, the Company has unused confirmed credit lines of 1,723 million, 1,660 million and 600 million (bridge facility maturing 15 December 2003).

In March 2003 an agreement was signed with a consortium of banks "the lenders" to extend until January 21, 2004 the maturity of a revolving credit facility of 400 million and two bilateral loans totalling 75 million out of the 358 million of bilateral loans at March 31, 2003 that were originally to mature in March and April 2003. A new bridge facility of 600 million maturing 15 December 2003 was also signed under similar terms and conditions.

Both extended and bridge facilities are subject to compliance with new financial covenants, which have also replaced existing covenants in the two other existing syndicated revolving credit facilities (totalling commitments of 1,250 million and 977 million respectively). They are unsecured and rank "pari passu" with the other revolving facilities.



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While the bridge facility and the extended facilities documentation were signed on 25 March 2003, they were further conditioned by the formalisation of amendments in particular with respect to financial ratios in some other financing arrangements of the Company. Those amendments were finalised and documented in the early part of April 2003.

The bridge facility and the extended facilities are repayable and cancellable upon receipt of proceeds from disposals subject to certain thresholds, with the bridge facility repayable prior to the extended facilities.

Subsequent to the year-end, the Company signed binding agreements to dispose its industrial turbines businesses for expected net cash proceeds of approximately 950 million. Other assets disposals which occur after 31 March 2003 generated net cash proceeds of 138 million (see Note 31 "Post balance sheet events").

The newly extended credit facilities of 475 million and the 600 million new bridge facility are immediately repayable if the Company fails to meet its financial covenants in the coming financial year set out below :

- "Total debt" defined as the sum of the gross financial debt and the net amount of sale of trade receivables (see Note 14) shall be tested on the last day of each

- month until maturity and shall not exceed at respectively 31 March 2003 and 30 September 2003 amounts of 7,000 million<sup>1</sup> and 6,800 million. At March 31, 2003, the "total debt" amounts to 6,688 million.
- "Economic debt" defined as the sum of the net financial debt and the net amount of sale of trade receivables ( see Note 14) shall be tested on the last day of each month until maturity and shall not exceed at respectively 31 March 2003 and 30 September 2003 amounts of 5,300 million, 5,500 million. At March 31, 2003, the "economic debt" amounts to 4,918 million.
- "Consolidated net worth" defined as the sum of shareholders' equity and minority interests shall not be lower at respectively 31 March 2003 and 30 September 2003 than 800 million and 500 million. At March 31, 2003, the "consolidated net worth" amounts to 900 million.

Financial covenants mentioned above also apply to the 1,250 million and 977 million syndicated revolving credit facilities. Similar ratios are applicable until maturity of the credit facilities. At March 31, 2004, "total debt" shall not exceed 4,800 million, "Economic Debt" shall not exceed 3,600 million and "Consolidated Net worth" shall not be lower than 500 million. Interest cover, the ratio between EBITDA<sup>2</sup> and consolidated net financial expenses(3), shall not be lower than 1.8 at March 31, 2004. Differing ratios apply in the periods up to the last maturity in 2006.

In addition to these financial covenants, under the 475 million newly extended credit lines and the 600 million new bridge facility, the Company's lenders may request the early repayment of all or part of these lines if at the shareholders' meeting to be held on July 2, 2003 the shareholders do not approve resolutions authorising the Board of Directors to increase the share capital.

- (5) The total authorised commercial paper program is 2,500 million, availability being subject to market conditions

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(6) The Company sold, in several transactions, the right to receive payment from certain customers for future receivables for a net amount of 1,578 million, 1,735 million and 1,292 million at March 31, 2001, 2002, 2003 respectively. Within the total of 1,292 million at March 31, 2003 :

- 581 million correspond to securitised Marine transactions of which:
  - 518 million relate to the sale of two cruise-ships to two customers. These transactions, which substantially limit the Company's exposure

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- (1) Additional flexibility of 500 million is granted at the two month-ends following this date.
- (2) EBITDA is defined as Earnings Before Interest and Tax plus depreciation and amortisation as set out in Consolidated Statements of Cash flow less goodwill amortisation and less capital gain on disposal of investments (see Note 4)
- (3) Consolidated net financial expenses are defined as net interest income plus securitisation expenses (see Note 5)

during the cruise-ship construction period, provide for limited recourse only in the event of customer default prior to the delivery of the cruise-ships to cover any eventual losses of the investors upon the resale of the cruise-ship in question, subject to a maximum of 82 million in respect of one cruise-ship sold to one customer and, a maximum of 84 million in respect of one cruise-ship sold to another customer. These transactions benefit from a security mortgage on the ships until delivery and final payment by the customer.

- 63 million relate to the sale of future receivables from another customer.
- 711 million correspond to securitised Transport transactions covering eleven contracts with three customers.

(b) Analysis by maturity and interest rate

		Short Term			Long Term	
		Less than	1-2 years	2-3 years	3-4 years	4-5 years
(in million)	TOTAL	1 year				
-----						

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Redeemable preference shares	205	-	-	205	-	-
Subordinated notes	250	-	-	-	250	-
Bonds	1,200	550	-	-	650	-
Syndicated loans	2,627	654	1,250	-	723	-
Bilateral loans	358	75	-	50	33	200
Bank overdraft and other facilities	266	238	3	3	3	3
Commercial Paper	83	83	-	-	-	-
Accrued interests	50	50	-	-	-	-
Total	5,039	1,650	1,253	258	1,659	203
Future receivables securitised, net (2)	1,292	1,034	254	4	-	-
Financial debt	6,331	2,684	1,507	262	1,659	203

(1) including the effects of interest rate swaps associated with the underlying debt.

(2) the reimbursement of which will come from the direct payment of the customer to the investor sold the right to receive the payment

(in million)	At March 31, 2003	
	Amount before Hedging	Amount after Hedging (1)
Financial debt at fixed rate	1,315	962
Financial debt at floating rate (2)	5,016	5,369
Total	6,331	6,331

(1) after taking into account 353 million of interest swaps converting the financial debt at fixed rates into variable rates (see Note 29 (b))

(2) Floating interest rates are based on EURIBOR and LIBOR

(c) Analysis by currency

(in million)	2001	At 31 March 2002
Euro	5,496	5,676
US dollar	106	125
Swiss franc	146	-
Mexican peso	-	59
Pound sterling	197	24
Other currencies	286	151
Total	6,231	6,035

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### Note 23 - Accrued contract costs and other payables

(in million)	2001	At March 31, 2002
Accrued contract cost (contract completion)	1,641	2,725
Staff and associated costs	751	910
Income taxes	259	158
Other taxes	294	239
Others	591	506
Accrued contract costs and other payables	3,536	4,538

### Note 24 - Customers deposits and advances

During the year the Company's marine subsidiary entered into a construction finance contract in respect of one ship presently under construction. Under the terms of this contract finance is made available against commitments to suppliers and to work in progress. The amounts financed are secured against the ship involved and the future receivable is collateralised by way of a guarantee of the pre financing.

Cash received has firstly been applied against amounts included in trade receivables then against work in progress and where commitments made have not yet become work in progress cash is shown as part of customer deposits and advances.

At 31 March 2003 cash received on this pre-financing was 453 million of which 434 million has been applied and the remaining balance of 19 million included in customers deposits and advances.

### Note 25 - Financing arrangements

#### (a) Special purpose leasing entities

At March 31, 2003, the Company has interests in eight special purpose leasing entities owning seven cruise-ships and sixty locomotives. Because the Company has no shares in these entities, they are not consolidated. Four special purposes entities are active at March 31, 2003.

During the year ended March 31, 2002 the leasing arrangements of four special purpose leasing entities owning four cruise-ships were re-organised following the bankruptcy of Renaissance Cruises which went into Chapter 11 bankruptcy proceedings in September 2001 and for which the Company had previously built and delivered eight cruise-ships.

The four cruise-ships owned by four special purpose leasing entities which were afterwards put into liquidation were subsequently sold to separate subsidiaries of Cruiseinvest L.L.C, a subsidiary of Cruiseinvest (Jersey) Ltd, an entity in

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which the Company has no shares.

Consequently, at March 31, 2003, the Company has four ongoing leasing arrangements three relating to Marine and one relating to Transport.

The summarised condensed balance sheets is as follows :

(in million)	2001	At March 31, 2002
<hr/>		
Assets		
Restricted long-term cash	92	88
Long-term receivables, net (*)	1,663	923
Advance payments	42	10
Other assets	61	43
<hr/>		
Total	1,858	1,064
<hr/>		
Liabilities		
Bank borrowings (1)	1,399	634
Alstom financing (2)	218	270
Customers retentions	241	160
<hr/>		
Total	1,858	1,064
<hr/>		

(\*) Long-term receivables, net are presented net of unearned income that amounts to 812 million 457 million at March 31, 2001, 2002 and 2003 respectively.

The decrease of total balance sheet in fiscal year 2003 is mainly due to the appreciation of Euro against US dollar during the period.

### (1) Bank borrowings

#### Marine

Borrowing of one entity totalling 137 million, 123 million and 111 million at March 31, 2001, 2002 and 2003, respectively is guaranteed by the Company. In the event of the guarantee of repayment of borrowings being called, the Company's position is secured on the underlying assets of the entity. The Company's exposure is disclosed in Note 27 (a) (2) "vendor financing".

Borrowings of two entities totalling 281 million, 207 million and 96 million at March, 31 2001, 2002 and 2003, respectively are guaranteed by Coface, a French state owned export credit insurance company, up to a maximum of 95% of their nominal value. The Company has no exposure in respect of these borrowings.

#### Transport

Borrowings of the entity involving sixty locomotives totally 251 million, 287 million and 252 million at March 31, 2001, 2002 and 2003, respectively are guaranteed by a Western European state with no recourse to the members of the entity in case of default. The Company has no exposure in respect of these borrowings.

### (2) Alstom borrowings

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### Marine

Two leasing entities are also directly financed by the Company for an amount of 218 million, 270 million and 223 million at March 31, 2001, 2002 and 2003, respectively, that will increase to a maximum of approximately 240 million in 2005. This financing is secured by ship mortgages. The Company's exposure is disclosed in Note 27 (a) (2) "vendor financing".

### Transport

The entity involving sixty locomotives is also directly financed by the Company for an amount of 43 million at March 31, 2003, that will increase to a maximum of approximately 63 million in 2009. This financing is guaranteed by a Western European state. The Company has no exposure in respect of these borrowings.

As a consequence, at March 31, 2003, the Company's vendor financing exposure in respect of these entities is 351 million (see Note 27 (a) (2) "vendor financing").

### (b) Cruiseinvest

The ultimate owner of Cruiseinvest (Jersey) Ltd, a company, incorporated on November 12, 2001, is a Jersey charitable trust. The main assets of this structure through subsidiaries of Cruiseinvest LLC are six cruise-ships initially delivered to Renaissance, the ownership of which was reorganised following the bankruptcy of Renaissance Cruises, including the four cruise-ships referred to in Note 25(a), and acquired after a sealed bid auction process.

(in million)

	At March 31,	
	2002 (*)	2003 (*)
Cruise ships at cost	1,026	907
Other assets	26	6
Total assets	1,052	913
Retained earnings	-	(78 )
Bank borrowings (1)	857	804
Alstom limited recourse notes (including interests) (2)	195	169
Alstom credit line (3)	-	15
Other payables	-	3
Total liabilities	1,052	913

(\*) Unaudited and based on available figures provided by Cruiseinvest at December 31, 2001 and 2002

(1) The Company guaranteed some of the financing arrangements up to US \$ 173 million ( 197 million at March 31, 2002 and 159 million at March 31, 2003) of which US\$ 84 million ( 96 million at March 31, 2002 and 77 million at March 31, 2003) are supported by a cash deposit.

(2) The Company purchased US \$ 170 million ( 195 million at March 31, 2002 and 156 million

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March 31, 2003) of subordinated limited recourse notes issued by Cruiseinvest (Jersey) Ltd. These subordinated limited recourse notes are composed of a series of five notes bearing interest at 6 % per annum payable half yearly in arrears, and maturing in December 2011. The right of the Company as note-holder is limited to amounts that shall become payable up to the value of the notes. Related interests due and accrued amounted to 13 million at March 31, 2003.

- (3) The Company provided Cruiseinvest LLC with a 40 million line of credit, of which 15 million has been drawn down at March 31, 2003.

The decrease of total balance sheet in fiscal year 2003 is mainly due to the appreciation of Euro against US dollar during the period.

As current economic environment negatively affects the market to which the ships are dedicated, an impairment test of the carrying value of the ships was needed.

Based on current known facts and circumstances and cash flow forecasts based on the existing leasing arrangements of Cruiseinvest and on assumptions as to leases renewal and ships sales, the Company considers that its provision of 140 million at March 31, 2003 ( 144 million at March 31, 2002) is adequate to cover the probable risk.

At March 31, 2003, the Company's vendor financing exposure in respect of Cruiseinvest is 368 million, corresponding to the limited recourse note including interest of 169 million, the total commitment concerning the line of credit of 40 million and 159 million of guarantees given on borrowings (see Note 27 (a) (2) "Vendor financing").

Note 26 - Sector and geographic data

### a) Sector data

The Company is managed through Sectors of activity and determined its reportable segments accordingly.

During fiscal year 2003, the Company was organised in four Sectors:

- o The Power Sector offers a wide range of products and services related to electrical power generation including design, manufacture, construction, turnkey project management and related services.
- o The Transmission & Distribution Sector offers equipment and customer support for the transmission and distribution of electrical energy. From 1 April 2002 Power Conversion has been integrated within the Transmission & Distribution Sector and provides solutions for manufacturing processes and supplies high-performance products including motors, generators, propulsion systems for Marine and drives for a variety of industrial applications.
- o The Transport Sector offers equipment, systems, and customer support for rail transportation including passenger trains, locomotives, signalling equipment, rail components and service.
- o The Marine Sector designs and manufactures cruise and other speciality ships.

The composition of the Sectors may vary from time to time. As part of any change in the composition of its sectors, Company management may also modify the manner in which it evaluates and measures profitability.

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The Company evaluates internally the Sectors performance on a number of measures including Operating Income and Earnings Before Interest and Tax.

Some units, not material to the sector presentation, have been transferred between sectors. The revised segment composition has not been reflected on a retroactive basis as the Company determined it was not practicable to do so.

From April 1, 2003 the Power Sector is reorganised into three new Sectors, Power Turbo-Systems, Power Service and Power Environment and future reporting will reflect this Sector re-organisation.

Orders received (in million)	At March 31,		
	2001	2002	2003
Power	11,502	11,033	8,602
Transmission & Distribution(1)	3,619	3,877	3,732
Transport	5,558	6,154	6,412
Marine	1,835	462	163
Contracting	2,840	909	-
Corporate & others (2)	373	251	214
<b>TOTAL</b>	<b>25,727</b>	<b>22,686</b>	<b>19,123</b>

Sales (in million)	Year ended March 31,		
	2001	2002	2003
Power	12,040	12,976	10,901
Transmission & Distribution(1)	3,409	3,814	3,605
Transport	4,400	4,413	5,072
Marine	1,841	1,240	1,568
Contracting	2,485	759	-
Corporate & others (2)	375	251	205
<b>TOTAL</b>	<b>24,550</b>	<b>23,453</b>	<b>21,351</b>

Operating income (loss) (in million)	Year ended March 31,		
	2001	2002	2003
Power	448	572	(690 )
Transmission & Distribution(1)	275	226	227
Transport	266	101	49
Marine	80	47	24
Contracting	123	30	-
Corporate & others (2)	(41)	(35)	(44 )
<b>TOTAL</b>	<b>1,151</b>	<b>941</b>	<b>(434 )</b>

EBIT (in million)	Year ended March 31,		
	2001	2002	2003



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Power	313	271	(1,063 )
Transmission & Distribution(1)	196	122	81
Transport	171	83	(40 )
Marine	76	32	12
Contracting	219	28	-
Corporate & others (2)	(44)	(49 )	(46 )
<b>TOTAL</b>	<b>931</b>	<b>487</b>	<b>(1,056 )</b>

Capital employed (3) (in million)	At March 31,		
	2001	2002	2003
Power	2,661	3,012	2,383
Transmission & Distribution(1)	1,042	1,044	963
Transport	1,093	1,041	805
Marine	(157 )	100	(343 )
Contracting	1,268	-	-
Corporate & others (2)	918	1,491	1,208
<b>TOTAL</b>	<b>6,825</b>	<b>6,688</b>	<b>5,016</b>

- (1) Power Conversion is integrated into the Transmission and Distribution sector as of 1 April 2002. Previous years comparative figures have been restated accordingly.
- (2) Corporate & others include all units accounting for Corporate costs, the International Network and the overseas entities in Australia, New Zealand, South Africa (before disposal) and India, that are not allocated to Sectors.
- (3) Capital employed is defined as the closing position of the sum of Fixed assets net and current assets (excluding net proceeds of sale of trade receivables) less current liabilities and provisions for risks and charges.

b) Geographic data

Sales by country of destination (in million)	Year ended March 31,		
	2001	2002	2003
Europe	11,078	9,313	9,219
North America	6,863	6,255	4,719
South & Central America	952	1,439	1,534
Asia / Pacific	3,957	4,521	3,727
Middle East / Africa	1,700	1,925	2,152
<b>TOTAL</b>	<b>24,550</b>	<b>23,453</b>	<b>21,351</b>

Sales by country of origin (in million)	Year ended March 31,		
	2001	2002	2003
Europe	16,412	14,755	14,762

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North America	5,414	5,623	3,935
South & Central America	598	683	601
Asia / Pacific (*)	1,771	2,050	1,833
Middle East / Africa (*)	355	342	220
-----			
TOTAL	24,550	23,453	21,351
-----			

(\*) India and Pakistan previously included in Middle East are now included in Asia / Pacific. Previous years have been restated accordingly.

Net sales of 3,049 million (12.4 %), 3,258 (13.9 %) and 3,300 (15.5 %) in the years ended March 31, 2001, 2002 and 2003 respectively, are obtained from a group of state owned companies, independently managed, the largest of which represented 1.1 %, 2.4 % and 4.2 % in the years ended March 31, 2001, 2002 and 2003 respectively.

No client represented more than 10% of net sales in any of the three years.

### Note 27 - Off balance sheet commitments and other obligations

#### a) Off balance sheet commitments

(in million)	2001	At March 31, 2002	2003
	-----	-----	-----
Guarantees related to contracts (1)	14,156	11,451	9,465
Guarantees related to Vendor financing (2)	913	932	749
Discounted notes receivable	2	18	11
Commitments to purchase fixed assets	22	8	7
Other guarantees	-	58	94
-----			
Total	15,093	12,467	10,326
-----			

#### (1) Guarantees related to contracts

In accordance with industry practice guarantees of performance under contracts with customers and under offers on tenders are given.

Such guarantees can, in the normal course, extend from the tender period until the final acceptance by the customer, and the end of the warranty period and may include guarantees on project completion, of contract specific defined performance criteria or plant availability.

The guarantees are provided by banks or surety companies by way of performance bonds, surety bonds and letters of credit and are normally for defined amounts and periods.

The Company provides a counter indemnity to the bank or surety company.

The projects for which the guarantees are given are regularly reviewed by management and when it becomes probable that payments pursuant to performance guarantees will require to be made accruals are recorded in the Consolidated

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Financial Statement at that time.

Guarantees given by parent or group companies relating to liabilities included in the consolidated accounts are not included.

### (2) Vendor financing

The Company has provided financial support, referred to as vendor financing, to financial institutions and granted financing to certain purchasers of its cruise-ships for ship-building contracts signed up to fiscal year 1999 and other equipment. The total "vendor financing" was 1,259 million at March 31, 2003 ( 1,493 million at March 31, 2002).

The table below sets forth the breakdown of the outstanding vendor financing by Sector at March 31, 2002 and March 31, 2003 :

(in million)	At March 31, 2002			At March 31, 2003		
	Balance sheet (1)	Off balance sheet (2)	Total	Balance sheet (1)	Off balance sheet (2)	Total
Marine	561	483	1,044	510	423	933
Cruiseinvest/	291	141	432	261	107	368
Renaissance						
Leasing entities	270	123	393	223	128	351
Others	-	219	219	26	188	214
Transport	-	416	416	-	317	317
European metro operator	-	289	289	-	257	257
Others	-	127	127	-	60	60
Power	-	29	29	-	5	5
T&D	-	4	4	-	4	4
<b>TOTAL</b>	<b>561</b>	<b>932</b>	<b>1,493</b>	<b>510</b>	<b>749</b>	<b>1,259</b>

(1) Balance sheets items are included in "other fixed assets" (Note 11)

(2) Off-balance sheet figures correspond to the total guarantees and commitments, net of related cash deposits, which are shown as balance-sheet items.

The decrease of the total "vendor financing" is mainly due to the appreciation of Euro against US dollar and British pound during the period.

#### Marine

##### Cruiseinvest / Renaissance

At March 31, 2003, the "vendor financing" granted to Cruiseinvest relating to Renaissance Cruises amounted to 368 million ( 432 million at March 31, 2002) as described in Note 25 (b).

##### Leasing entities

At March 31, 2003, the Company finances and guarantees the financing of three special leasing entities relating to three cruise-ships for an amount of 351 million ( 393 million at March 31, 2002) as described in Note 25 (a).

##### Other ships

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The Company has guaranteed the financing arrangements of three cruise-ships and two high speed ferries delivered to three customers for an amount of 214 million at March 31, 2003 ( 219 million at March 31, 2002). One of these guarantees is supported by a cash deposit amounting to 26 million at March 31, 2003.

The provision retained in respect of Marine Vendor financing is 140 million at March 31, 2003 ( 144 million at March 31, 2002).

### Transport

Guarantees given as part of vendor financing arrangements in Transport Sector amount to 317 million at 31 March 2003( 416 million at 31 March 2002).

Included in this amount are guarantees given as part of a leasing scheme involving a major European metro operator as described in Note 27 (b). If the metro operator decides in year 2017 not to extend the initial period the Company has guaranteed to the lessors that the value of the trains and associated equipment at the option date should not be less than GBP 177 million ( 289 million at 31 March 2002 and 257 million at 31 March 2003).

### Other Sectors

Other guarantees totalling 9 million at 31 March 2003 ( 33 million at 31 March 2002) have been given. There has been no default by any of the concerned entities under the underlying agreements.

### b) Capital and operating lease obligations

(in million)	Total	Within 1 year	1 to 5 years	Over 5 years
Long term rental (1)	667	6	48	613
Capital leases obligation (2)	278	31	93	154
Operating leases (3)	534	90	225	219
<b>Total</b>	<b>1,479</b>	<b>127</b>	<b>366</b>	<b>986</b>

#### (1) Long term rental

Pursuant to a contract signed in 1995 with a major European metro operator, the Company has sold 103 trains and associated equipment to two leasing entities. These entities have entered into an agreement by which the Company leases back the trains and associated equipment from the lessors for a period of 30 years. The trains are made available for use by the metro operator for an initial period of 20 years, extendible at the option of the operator for a further ten year period. The trains are being maintained and serviced by the Company.

These commitments are in respect of the full lease period and are covered by payments due to the Company from the metro operator.

If this lease was capitalised it would increase long-term assets and long-term debt by 754 million, 757 million and 667 million at March 31, 2001, 2002 and 2003 respectively.

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### (2) Capital leases

If capital leases had been capitalised, it would increase long term assets (property plant and equipment) by 54 million, 112 million and 212 million, increase long term financial debt by 55 million, 119 million and 216 million and decrease of shareholder's equity of 1 million, 7 million and 4 million at March 31, 2001, 2002 and 2003, respectively.

### (3) Operating leases

A number of these operating leases have renewal options. Rent expense was 110 million in the year ended 31 March 2003.

No material commitments are omitted in this note in accordance with current accounting rules.

### Note 28 - Contingencies

#### - Litigation

The Company is engaged in several legal proceedings, mostly contract disputes that have arisen in the normal course of business. Contract disputes, often involving claims for contract delays or additional work, are common in the areas in which the Company operates, particularly for large, long-term projects. In some cases, the amounts claimed against us in these proceedings and disputes are significant ranging up to 337 million. Amounts retained in respect of litigation, considered as reasonable estimates of probable liabilities are included in provisions for risks and charges and accrued contract costs. Actual costs incurred may exceed the amount of provisions for litigation because of a number of factors including the inherent uncertainties of the outcome of litigation.

#### - Environmental, health and safety

The Company is subject to a broad range of environmental laws and regulations in each of the jurisdictions in which it operates. These laws and regulations impose increasingly stringent environmental protection standards regarding, among other things, air emissions, wastewater discharges, the use and handling of hazardous waste or materials, waste disposal practices and the remediation of environmental contamination. These standards expose the Company to the risk of substantial environmental costs and liabilities, including liabilities associated with divested assets and past activities. In most of the jurisdictions in which operations take place, industrial activities are subject to obtaining permits, licenses or/and authorisations, or to prior notification. Most facilities must comply with these permits, licenses or authorisations and are subject to regular administrative inspections.

Significant amounts are invested to ensure that activities are conducted in order to reduce the risks of impacting the environment and capital expenditures are regularly incurred in connection with environmental compliance requirements. Although involved in the remediation of contamination of certain properties and other sites, the Company believes that its facilities are in compliance with its operating permits and that operations are generally in compliance with environmental laws and regulations.

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The outcome of environmental matters cannot be predicted with certainty and there can be no assurance that the amounts budgeted and provided will be adequate. In addition, future developments, such as changes in law or environmental conditions, could result in increased environmental costs and liabilities that could have a material effect on the financial condition or results of operations. To date, no significant liability has been asserted against us, and compliance with environmental regulations has not has a material effect on the results of operations.

### - Asbestos

The Company is also subject to regulations, including in France, UK and the US, regarding the control and removal of asbestos-containing material and identification of potential exposure of employees to asbestos.

It has been Company policy for many years to abandon definitively the use of products containing asbestos by all of its operating units world-wide and to promote the application of this principle to all suppliers, including in those countries where the use of asbestos is permitted. In the past some products containing asbestos have been used and sold, particularly in France, in the Marine Sector, and to a lesser extent in the other Sectors. As a result, the company is aware of to approximately 128 asbestos-related cases in France from employees, former employees or third parties arising out of its activities. The company believes that in those cases compensation will be borne by the general French social security (medical) funds or by the publicly funded Indemnification Fund for Asbestos Victims.

In addition, in the United States, the Company is currently subject to approximately 145 asbestos-related personal injury lawsuits which have their origin solely in the Company's purchase of some of ABB's power generation business, for which it is or will be indemnified by ABB. The Company is also currently subject to two lawsuits in the United States asserting fraudulent conveyance claims against various ALSTOM and ABB entities in relation to Combustion Engineering, Inc. ("CE"), for which it is also indemnified by ABB. In January of 2003, CE filed a "pre-packaged" plan of reorganisation in United States bankruptcy court. Hearings are still pending to determine whether the plan would be confirmed by the bankruptcy court. If the plan were to be confirmed by the bankruptcy court, it would then have to be approved by the United States federal district court, and is potentially subject to further appeal. Consummation of the plan also is subject to certain other conditions. In addition to the ABB indemnity, the Company believes that under the terms of the plan it would also be protected against pending and future personal injury asbestos claims, or fraudulent conveyance claims, arising out of the past operations of CE.

The Company is also subject to approximately 46 other asbestos-related personal injury lawsuits in the United States involving approximately 2,590 claimants that, in whole or in part, assert claims against the Company which are not related to it's purchase of some of ABB's power generation business or as to which the complaint does not provide details sufficient to permit it to determine whether the ABB indemnity applies. Most of the remaining lawsuits are in the preliminary stages of the litigation process and they each involve multiple defendants. The allegations in these lawsuits often are very general and difficult to evaluate at preliminary stages in the litigation process. In those cases where meaningful evaluation is practicable, the Company believes

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that it has valid defences and, with respect to a number of lawsuits, it is asserting rights to indemnification against a third party. The Company also expects a significant number of such cases will be dismissed by plaintiffs without prejudice, subject to being refiled in the future, following discussions with its lawyers. In some additional cases, which await court finalisation, agreements have been reached with plaintiffs for the voluntary dismissal of such cases on a without prejudice basis, which is to say the plaintiffs may refile these cases in the future.

The Company has not in recent years suffered any adverse judgement, or made any settlement payment, in respect of any US personal injury asbestos claim. Since 31 October 2002, a total of 101 cases involving approximately 15,516 claimants have been voluntarily dismissed by plaintiffs without prejudice. Generally plaintiffs agree to such dismissals because following discussions, they feel we are not responsible for the claims filed by them.

The Company is also subject to a minor number of asbestos related former employee personal injury related claims in other countries, mainly in the UK where it is subject to approximately 142 of such claims.

The Company believes that the existing asbestos-related cases described above will not have a material adverse impact on its financial condition. It can, however, give no assurances that such cases will not grow in number or that those it has at present or may face in the future may not have a material adverse impact.

### - Product liability

The Company designs, manufactures, and sells several products of large individual value that are used in major infrastructure projects. In this environment, product-related defects have the potential to create liabilities that could be material. If potential product defects become known, a technical assessment occurs whereby products of the affected type are quantified and studied. If the results of the study indicate that a product liability exists, provisions are recorded. The Company believes that it has made adequate provisions to cover currently known product-related liabilities, and regularly revises its estimates using currently available information. Neither the Company nor any of its businesses are aware of product-related liabilities, which would exceed the amounts already recognised and believes it has provided sufficient amounts to satisfy its litigation, environmental and product liability obligations to the extent they can be estimated.

### Note 29 - Market related exposures

#### (a) Currency risk

Due to the international nature of its activities, numerous cash flows of the Company are denominated in foreign currencies. The Company acquires financial instruments with off balance sheet risk solely to hedge such exposure on either anticipated transactions or firm commitments. The only instruments used are exchange rate guarantees obtained through export insurance companies, forward exchange contracts and options.

The Company may not, in specific circumstances, and as an exception to the policy described above, fully hedge certain identified exposures or anticipate the forthcoming risks on its operating transactions with management approval.

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With respect to anticipated transactions:

- o During the tender period, depending on the probability of obtaining the project and market conditions, the Company generally hedges a portion of its tenders using options or export insurance contracts when possible. The guarantees granted by these contract become firm if and when the underlying tender is accepted.
- o Once the contract is signed, forward exchange contracts or currency swaps are used to adjust the hedging position to the actual exposure during the life of the contract (either as the only hedging instruments or as a complement to existing export insurance contracts).

(b) Interest rate risk

The Company does not have a dynamic interest rate risk management policy. However, it may enter into transactions in order to hedge its interest rate risk on a case by case basis according to market opportunities, under the supervision of the Executive Committee.

At March 31, 2003, the following interest rate swaps are outstanding :

- 63 million paying fixed rates to hedge a portion of the Company's fixed rate financial assets.
- 353 million receiving fixed rates, 320 million hedging a portion of the 650 million bond issue and 33 million hedging a bilateral loan.
- 33 million receiving fixed rates with an effective starting date at January 20, 2004.
- 200 million receiving fixed rates to optimise the short term liquidity management.

	At March 31, 2003	1 year	1 - 5 years
Financial assets at floating rate	1,936	1,709	81
Financial assets at fixed rate	549	16	78
Financial assets not bearing interests	182	59	16
<b>Financial assets</b>	<b>2,667</b>	<b>1,784</b>	<b>175</b>
Financial debt at floating rate	(5,016)	(2,081)	(2,935)
Financial debt at fixed rate	(1,315)	(604)	(695)
<b>Financial debt</b>	<b>(6,331)</b>	<b>(2,685)</b>	<b>(3,630)</b>
Net position at floating rate before hedging	(3,080)	(372)	(2,854)
Net position at fixed rate before hedging	(766)	(588)	(617)
<b>Total net position before hedging</b>	<b>(3,846)</b>	<b>(960)</b>	<b>(3,471)</b>
Swap fixed to variable	290	18	272
Net position at floating rate after hedging	(3,370)	(390)	(3,126)
Net position at fixed rate after hedging	(476)	(570)	(345)



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Total net position after hedging	(3,846)	(960)	(3,471)
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The net short term borrowing position at floating rate after hedging amounts to 390 million. At the market rates would have increased the net interest expense by 4 million, representing 1.5% expense for the year-end March 31, 2003.

c) Nominal and fair value of financial instruments outstanding at year-end

Nominal value of financial instruments

(in million)	At March 31, 2003				Av Fix
	Total	1 year	Remaining Term 1-5 years	5 years	
Interest rate instruments:					
Interest rate swaps - pay fixed	63	15	48	-	
Interest rate swaps - receive fixed	586	233	353	-	
Foreign exchange instruments:					
Currency swaps - currencies purchased (1)	2,906	1,658	1,249	-	
Currency swaps - currencies sold (1)	6,898	4,867	2,031	-	
Forward contracts - currencies purchased	798	584	214	-	
Forward contracts - currencies sold	2,708	1,646	895	168	
Insurance contracts - currencies purchased	96	78	18	-	
Insurance contracts - currencies sold	-	-	-	-	
Currency options - purchased	591	568	23	-	
Currency options - sold	564	544	20	-	

(\*) Floating rates are generally based on EURIBOR/LIBOR.

(1) the currency swaps include four swaps, two swaps - currency purchased for a notional amount of 1,200 million and two swaps - currency sold for a notional amount of 1,200 million, whose pay-off are also related to Company's share price. As a whole, these swaps do not create any net position and their future potential losses are capped.

(in million)	At March 31, 2003				Av Fix
	Total	1 year	Remaining Term 1-5 years	5 years	
Interest rate instruments:					
Interest rate swaps - pay fixed	73	11	-	62	1
Interest rate swaps - receive fixed	473	19	449	5	
Cap	2	-	-	2	
Foreign exchange instruments:					
Currency swaps - currencies purchased	1,581	1,550	31	-	
Currency swaps - currencies sold	7,143	6,243	898	2	
Forward contracts - currencies purchased	971	856	115	-	
Forward contracts - currencies sold	5,172	3,443	1,521	208	
Insurance contracts - currencies purchased	-	-	-	-	

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Insurance contracts - currencies sold	227	184	43	-
Currency options - purchased	854	854	-	-
Currency options - sold	547	547	-	-

(\*) Floating rates are generally based on EURIBOR/LIBOR.

(in million)	At March 31, 2003				Av Fix
	Total	1 year	Remaining Term 1-5 years	5 years	
Interest rate instruments:					
Interest rate swaps - pay fixed	67	-	-	67	1
Interest rate swaps - receive fixed	1,079	10	361	708	
Interest rate swaps - floating/floating	200	-	-	200	
Swaptions	146	113	33	-	
Cap	705	222	281	202	
Foreign exchange instruments:					
Currency swaps - currencies purchased	3,694	3,145	549	-	
Currency swaps - currencies sold	4,190	3,383	794	13	
Forward contracts - currencies purchased	1,579	1,036	543	-	
Forward contracts - currencies sold	6,255	4,105	1,945	205	
Insurance contracts - currencies purchased	66	46	20	-	
Insurance contracts - currencies sold	527	291	236	-	
Currency options - purchased	954	946	8	-	
Currency options - sold	453	453	-	-	

(\*) Floating rates are generally based on EURIBOR/LIBOR.

### Fair value of financial instruments

Publicly traded equity and marketable debt securities are disclosed at market prices. The fair values of all financial instruments other than specified items such as lease contracts, controlled businesses and Equity method investees and other investments and employers' pension and benefit obligations have been estimated using various valuation techniques, including the present value of future cash flows. However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations, including the following:

- Fair values presented do not take into consideration the effects of future interest rate and currency fluctuations,
- Estimates as at March 31, 2003 are not necessarily indicative of the amounts that the Company would record upon further disposal/termination of the financial instrument.

The use of different estimations, methodologies and assumptions may have a material effect on the estimated fair value amounts. The methodologies used are as follows:

Long term loans, retentions, deposits and other fixed assets

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The fair values of these financial instruments were determined by estimating future cash flows on an item-by-item basis and discounting these future cash flows using the Company's incremental rates at year-end for similar types of loan arrangements.

Cash and cash equivalents , bank overdrafts, short-term borrowings,

The carrying amounts reflected in the consolidated balance sheet approximate fair value due to the short-term nature of the instruments.

Long-term debt

The fair value of the long term debt was determined by either estimating future cash flows on an item-by-item basis and discounting these future cash flows using the Company's incremental borrowing rates at year-end for similar types of borrowing arrangements or using the market price when it relates to publicly traded instruments.

Interest rate swaps, currency swaps, options, and forward exchange contracts

The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements, valued upon relevant yield curves and foreign exchange rates as of, March 31, 2001, 2002 and 2003.

The fair value of forward exchange contracts was computed by applying the difference between the contract rate and the market forward rate at closing date to the nominal amount.

Export insurance contracts related to tenders are insurance contracts that are not marked to market. Export insurance contracts that hedge firm commitments are considered as acting as derivatives and were marked to market for the purpose of the disclosure.

The fair value of financial instruments outstanding is analysed as follows:

(in million)	At March 31, 2001		At March 31, 2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Balance sheet				
Assets				
Long term loans, deposits and retentions	776	738	778	750
Other fixed assets	79	79	79	79
Short-term investments	496	498	331	333
Cash & cash equivalents	2,524	2,524	1,905	1,905
Liabilities				
Financial debt	6,231	6,233	6,035	5,948
Off balance sheet				
Interest rate instruments:				
Interest rate swaps - pay fixed	-	-	-	(6)

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Interest rate swaps - receive fixed	—	13	—	11
Interest rate swaps - floating/floating	—	4	—	—
Cross currency swaps	—	—	—	—
Swaptions	—	(1 )	—	—
Cap	—	(2 )	—	—
Foreign exchange instruments				
Currency swaps - currencies purchased	—	15	—	16
Currency swaps - currencies sold	—	(71 )	—	(70 )
Forward contracts - currencies purchased	—	122	—	38
Forward contracts - currencies sold	—	(344 )	—	(197 )
Insurance contracts - currencies purchased	—	—	—	—
Insurance contracts - currencies sold	—	19	—	2
Currency option contracts - purchased	—	1	—	8
Currency option contracts - sold	—	(5 )	—	(13 )

The increase in fair value of forward contracts and currency swaps (currency sold) and the decrease in fair value of forward contracts and currency swaps (currency purchased) is mainly due to the appreciation of euro against US\$ during the period.

(d) Credit risk

The Company hedges up to 90% of the credit risk on certain contracts using export credit insurance contracts. The Company believes the risk of counterparty failure to perform as contracted, which could have a significant impact on the Company's financial statements or results of operations, is limited due to the generally high credit rating of the counterparties.

(e) Liquidity risk

The Company has diversified its sources of financing using bank financing, making use of sale of trade receivables and securitisation future receivables and other external sources of short term financing.

(in million)

	March 31, 2003	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years
Financial debt maturity (1)	6,331	2,684	1,507	262	1,659	203
Of which Future receivables securitised (1)	1,292	1,034	254	4	—	—
Available credit line (1)	600					

Cash & cash equivalents and  
short term investments (2)

(1) see Note 22 (a)&(b)

(2) see Notes 17 & 18

The Company has diversified its sources of financing using bank financing, making use of securitisation of existing and future receivables and other external sources of short term financing.

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At March 31, 2003 the financial debt of 6,331 million matures as follows :  
2,684 million in fiscal year 2004, 1,507 million in fiscal year 2005 and  
2,140 million in the following fiscal years.

Excluding future receivables securitised, the reimbursement of which will come from the direct payment of the customer to the investor to whom the Company sold the right to receive the payment, 1,650 million of financial debt matures in fiscal year 2004, 1,253 million in fiscal year 2005 and 2,136 million in the following fiscal years.

In addition, at March 31, 2003 available credit line together with cash and cash equivalents and short term investments amount to 2,370 million among which 1,210 million at parent Company's level.

The 600 million credit line matures in December 2003.

The Company must renegotiate or renew its credit facilities as they expire, enter into new facilities or obtain capital from other sources in order to refinance its indebtedness as it matures and to finance its working capital and capital expenditure requirements.

The Company's ability to maintain and obtain financing depends in large part upon its financial performance. The Company's lines of credit, as well as certain of its other financing agreements, contain covenants requiring it to maintain compliance with pre-established financial ratios. In the fourth quarter of fiscal year 2003, lines of credit were renegotiated in order to amend the financial covenants. The Company also obtained agreements from its creditors to amend on the same basis the financial covenants contained in certain other financing agreements. The Company's renegotiated financial covenants require that it maintain (i) a minimum amount of "Consolidated net worth", to be tested by reference to our latest annual and semi-annual consolidated financial statements, (ii) a maximum amount of "Total debt", to be tested by reference to the consolidated financial position, on the last day of each month and (iii) a maximum amount of "Economic debt" to be tested by reference to the consolidated financial position on the last day of each month. In our recently renegotiated syndicated revolving credit agreements, we have an additional financial covenant

expressed as a ratio of EBITDA to consolidated net financial expenses (see Note 22 (a)).

The Company's ability to maintain these financial ratios depends in part on the successful execution of its new action plan, including its asset disposal programme expected to generate 3 billion over a two year period, which could be adversely affected by events beyond the Company's control. In the event of a default under any of these agreements, the lenders could elect to declare all of the amounts outstanding under the agreements to be immediately due and payable.

In addition to these financial covenants, under its 475 million newly extended credit lines and 600 million new bridge facility, the Company's banks may request the early repayment of all or part of these lines if its shareholders do not approve resolutions at the next annual general meeting authorising the Board of Directors to increase the share capital.

Most of the financing agreements and outstanding debt securities include cross-default and cross-acceleration provisions pursuant to which a payment default, an acceleration, or a failure to respect financial covenants or other undertakings, may result in the acceleration of all or a significant part of the Company's debt and may consequently prevent it from drawing upon its credit

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lines.

Note 30 - Payroll, staff, employee profit sharing and stock options

(in million except number of employees)	Year ended March 31,		
	2001	2002	2003
Total wages and salaries	4,709	4,499	3,919
Of which executive officers(*)	7	5	5
Social security payments and other benefits	1,634	1,236	1,032
Employee profit sharing	25	5	18
Staff of consolidated companies at year-end			
Managers, Engineers and professionals	40,044	38,087	35,983
Other employee	102,970	80,908	73,688
Approximate number of employees	143,014	118,995	109,671

(\*) executive officers at closing.

Stock options

Main characteristics of Company's stock options plans are as follows:

	Plan no. 1	Plan no. 3	Plan no. 5
Date of shareholders' meeting	17 June 1998	24 July 2001	24 July 2000
Creation date	22 April 1999	24 July 2001	8 January 2000
Exercise price(1)	27.40	33.00	13.09
Beginning of exercise period(2)	22 April 2004	24 July 2002	8 January 2000
Expiration date	21 April 2007	23 July 2009	7 January 2000
Number of beneficiaries	850	1,703	1,653
Total number of options originally granted	2,035,000	4,200,000	4,200,000
Number of options as adjusted following the completion of the capital increase in July 2002 (3)	2,105,703	4,346,191	4,346,087
Total number of options exercised	0	0	0

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Total number of options cancelled	335,071	324,061	245,586
Number of remaining options as of 31 March 2003	1,770,632	4,022,130	4,100,501
Number of shares that may be subscribed by members of the executive committee	95,200	135,565	192,474
Terms and conditions of exercise	<p>Average opening price of shares to reach 38, for 40 consecutive trading days (between 22 April 1999 and 21 April 2004). If this condition is not fulfilled, the options will no longer be valid. As of today, this condition has not been met.</p>	<p>- 1/3 of options exercisable as from 24 July 2002 - 2/3 of options exercisable as from 24 July 2003 - all options exercisable as from 24 July 2004.</p>	<p>- 1/3 of options exercisable as from 8 January - 2/3 of options exercisable as from 8 January - all options exercisable as from 8 January</p>

- (1) Subscription price corresponding to the average opening price of the shares during the two preceding the day on which the options were granted by the board (no discount or surcharge).
- (2) Except specific conditions mentioned in "Terms and conditions of exercise".
- (3) Plans no 1, 3 and 5 have been adjusted in compliance with French law as a result of the capital increase in July 2002

Plans no 2 and no 4 previously granted are void as a result of the non fulfilment of their exercise conditions tied to the realisations of objectives. Therefore, no options have been exercised under these plans and 4 359 775 options have been cancelled.

The following is a summary of activity of the plans:

	Shares	Weighted average price
-----	-----	-----
Outstanding at April 1st, 2000	6,437,400	
Granted	-	
Exercised	-	
Cancelled	(350,900)	
-----	-----	-----
Outstanding at March 31, 2001	6,086,500	
-----	-----	-----
Outstanding at April 1st, 2001	6,086,500	
Granted	8,685,000	
Exercised	-	
Cancelled	(540,400)	
-----	-----	-----

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Outstanding at March 31, 2002	14,231,100
<hr style="border-top: 1px dashed black;"/>	
Outstanding at April 1st, 2002	14,231,100
Outstanding at April 1st, 2002 after Rights Issue	14,726,354
Granted	1,220,000
Exercised	-
Cancelled	(4,833,091)
Outstanding at March 31, 2003	11,113,263
<hr style="border-top: 1px dashed black;"/>	

### Note 31 - POST BALANCE SHEET EVENTS

#### a) Disposal of Industrial Turbines Businesses

On 28 April, 2003, the Company announced that binding agreements had been signed to sell its small gas turbines business and its medium-sized gas turbines and industrial steam turbines businesses in two transactions. The total enterprise value of the two transactions is 1.1 billion. Net cash proceeds are expected to be approximately 950 million after deduction of debt transferred and certain other adjustments for cash items.

The first transaction covers the small gas turbines business, and the second transaction will cover the medium-sized gas turbines and industrial steam turbines businesses. They include :

- o the small gas turbines business (3 MW - 15 MW) based principally in the UK;
- o the medium-sized gas turbines business (15 MW - 50 MW) based principally in Sweden;
- o the industrial steam turbines (up to about 100MW) business with manufacturing sites in Sweden, Germany and the Czech Republic, and global customer service operations.

In the year ended 31 March 2003, the Company's industrial turbines businesses generated sales of approximately 1.25 billion and an estimated EBIT margin of approximately 7%. They employ some 6,500 people.

The transactions are subject to regulatory clearances and documentation is being submitted to the relevant merger control authorities.

The completion of the first of two transactions was announced on April 30, 2003. The enterprise value is 575 million with net proceeds of approximately 525 million. Completion of this transaction follows receipt of a formal derogation from the European Commission under the EC merger regulation, allowing ownership of the business to be transferred with immediate effect. The purchaser has committed not to integrate the small gas turbine business with its own businesses until formal merger clearance has been obtained from the European Commission in relation to all the industrial turbines businesses.

Pending merger clearance, the medium gas turbines and industrial steam turbines businesses will continue to be owned and managed by the Company.

#### b) Disposal of real estate

In April 2003, the Company disposed of 15 sites in France, Spain, Switzerland and Belgium for a total amount of 138 million.



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### c) Restructuring

In line with the Company strategic plan discussion have begun to inform trade union representatives regarding overhead reduction and industrial restructuring plans.

The first of these restructuring plans, concerning mainly the Power Turbo-Systems Sector has been announced.

Note 32 - Major companies included in the scope of consolidation

The major companies are selected according to the following criteria :

- holding companies
- sales above 90 M

Companies -----	Country -----	Ownership % -----	Consolidation Meth
ALSTOM.....	France		Parent com
ALSTOM Holdings.....	France	100.0	Full conso
ALSTOM Gmbh (holding).....	Germany	100.0	Full conso
ALSTOM UK Ltd (holding).....	United Kingdom	100.0	Full conso
ALSTOM Inc (holding).....	United-States	100.0	Full conso
ALSTOM NV (holding).....	Netherlands	100.0	Full conso
ALSTOM Mexico SA de CV (holding).....	Mexico	100.0	Full conso
ALSTOM Espana IB (holding).....	Spain	100.0	Full conso
ALSTOM (Switzerland) Ltd.....	Switzerland	100.0	Full conso
ALSTOM Australia Ltd.....	Australia	100.0	Full conso
ALSTOM Belgium SA .....	Belgium	100.0	Full conso
ALSTOM Brasil Ltda.....	Brazil	100.0	Full conso
ALSTOM Canada Inc.....	Canada	100.0	Full conso
ALSTOM Controls Ltd.....	United Kingdom	100.0	Full conso
ALSTOM DDF SA.....	France	98.8	Full conso
ALSTOM Energietechnik GmbH.....	Germany	100.0	Full conso
ALSTOM Ferroviaria Spa.....	Italy	100.0	Full conso
ALSTOM K.K.....	Japan	100.0	Full conso
ALSTOM LHB GmbH.....	Germany	100.0	Full conso
ALSTOM Ltd .....	United Kingdom	100.0	Full conso
ALSTOM Power sro.....	Czech Republic	100.0	Full conso
ALSTOM Power Asia Pacific Sdn Bhd.....	Malaysia	100.0	Full conso
ALSTOM Power Boiler GmbH.....	Germany	100.0	Full conso
ALSTOM Power Centrales.....	France	100.0	Full conso
ALSTOM Power Conversion GmbH.....	Germany	100.0	Full conso
ALSTOM Power Conversion SA France.....	France	100.0	Full conso
ALSTOM Power Generation AG.....	Germany	100.0	Full conso
ALSTOM Power Hydraulique.....	France	100.0	Full conso
ALSTOM Power Inc.....	United States	100.0	Full conso
ALSTOM Power Italia Spa.....	Italy	100.0	Full conso
ALSTOM Power ltd.....	Australia	100.0	Full conso
ALSTOM Power Norway AS.....	Norway	100.0	Full conso
ALSTOM Power O&M Ltd.....	Switzerland	100.0	Full conso
ALSTOM Power SA.....	Spain	100.0	Full conso
ALSTOM Power Service.....	France	100.0	Full conso

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ALSTOM Power Sp Zoo.....	Poland	100.0	Full conso
ALSTOM Power Sweden AB.....	Sweden	100.0	Full conso
ALSTOM Power Turbinen GmbH.....	Germany	100.0	Full conso
ALSTOM Power Turbomachines .....	France	100.0	Full conso
ALSTOM Power UK Ltd .....	United Kingdom	100.0	Full conso
ALSTOM Projects India Ltd.....	India	68.5	Full conso
ALSTOM Projects Taiwan Ltd.....	Taiwan	100.0	Full conso
ALSTOM Rail Ltd.....	United Kingdom	100.0	Full conso
ALSTOM Signalling Inc.....	United States	100.0	Full conso
ALSTOM T&D Inc.....	United States	100.0	Full conso
ALSTOM T&D SA.....	France	100.0	Full conso
ALSTOM T&D SA de CV.....	Mexico	100.0	Full conso
ALSTOM Transport SA.....	France	100.0	Full conso
ALSTOM Transporte SA de CV.....	Mexico	100.0	Full conso
ALSTOM Transportation Inc.....	United States	100.0	Full conso
ALSTOM Transporte.....	Spain	100.0	Full conso
Chantiers de l'Atlantique.....	France	100.0	Full conso
Japan Gas Turbines K.K.....	Japan	60.0	Full conso
EUKORAIL Ltd.....	South Korea	100.0	Full conso
West Coast Traincare.....	United Kingdom	76.0	Full conso

A list of all consolidated companies is available upon request at the head office of the Company.

### OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion together with our Consolidated Financial Statements for fiscal years 2003, 2002 and 2001 and the notes thereto, "Description of Activities" and "Risk Factors", included elsewhere in this Annual Report. During the periods discussed in this section, we made 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 on 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.

This document contains certain information about the markets in which we operate (market size, competitive position). Unless otherwise stated, we have prepared all market share and statistical data contained in this Annual Report on the basis of internal sources and estimates.

#### OVERVIEW

Since our initial public offering in 1998, we have faced a dramatic transformation of the industries in which we operate, and have responded by

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reshaping our portfolio of products, systems and services. These changes have been principally due to continued deregulation of our markets and privatisation, which have increasingly changed our customer base from one composed of large state-owned companies to one composed of smaller private companies. We have addressed these developments by transforming our Group to broaden its technologies and range of products and by disposing of non-core activities.

We believe our core markets in energy and transport are sound, offering:

- |X| Solid long-term growth prospects based on customers' needs to expand essential infrastructure systems in developing economies and to replace or modernise them in the developed world; and
- |X| Attractive opportunities in service and systems.

We believe we can capitalise on our long-standing expertise in these two markets to achieve competitive differentiation. We are strategically well-positioned and hold good market positions:

- |X| We are one of the top three players in all market segments, very often number one or number two;
  
- |X| We benefit from one of the largest installed bases of equipment in power generation and rolling stock, which creates a solid base from which to grow our service business; and
  
- |X| We are a recognised technology leader in most of our fields of activity, providing best-in-class technology, with unrivalled global presence.

However, notwithstanding these opportunities we are pursuing our efforts to improve our performance, adapt to the current downturn in the Power market, solve our past operational problems and strengthen our financial structure.

In fiscal year 2003 we suffered an unprecedented 1,381 million net loss, as compared to a 139 million net loss in fiscal year 2002. In response to the continued deterioration of our financial condition and the market generally, our current priority is the successful implementation of a new strategy and action plan designed to secure our long-term future, discussed below under "Strategy and action plan".

### MAIN EVENTS OF FISCAL YEAR 2003

Fiscal year 2003 was characterised by the following:

- |X| Exceptional problems with our GT24/GT26 heavy-duty gas turbines and UK Trains;
- |X| A successful capital increase;
- |X| The disposal of businesses and real estate, and
- |X| The launch of a new strategy and action plan.

Exceptional problems with our GT24/GT26 heavy-duty gas turbines

In fiscal year 2003 progress continued to be made in implementing a variety of

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technical improvements to our GT24/GT26 gas turbines, with which we have experienced significant technical difficulties in the past. Our recent progress has enabled flexible and reliable operation of the fleet. As the repaired units accumulate hours in operation, we see that the technology has stabilised. The commercial situation is also becoming much clearer. We have reached commercial settlements on 61 of the 80 units sold, 24 out of which are unconditional, 7 units are currently subject to litigation, and negotiations are ongoing on the remainder. Since November 2002, however, unexpected delays were experienced in finalising the technical recovery package due to unexpected set backs, which we believe have been now recovered, in testing and validating several important components of the recovery package, notably the GT24 compressor upgrade and the 'full lifetime' blades. These delays, coupled with the tougher commercial attitude of customers as well as sub-contractors in enforcing their contractual rights due to the accelerated deterioration of the power market, have resulted in extra costs and crystallisation of significant exposures.

As a consequence, we have revised our analysis of the residual financial impact of the GT24/GT26 issue on a contract by contract basis, which we currently estimate at 1,530 million net. This amount is based on an estimated remaining gross exposure at 31 March 2003 of 1,984 million, of which we expect to mitigate 454 million by taking numerous actions to reduce our gross exposure.

We retained 1,440 million of provisions and accrued contract costs at 31 March 2002 in respect of these turbines. After application of 1,070 million during fiscal year 2003, the remaining provisions and accrued contract costs were 370 million. The net cash outflow on GT24/GT26 was 1,055 million during fiscal year 2003, and 700 million in fiscal year 2002. To cover our currently estimated total net exposure, an additional gross provision of 1,160 million was provided during fiscal year 2003. As a result, the total provisions and accrued contract costs at 31 March 2003 in respect of these turbines were 1,530 million. For more information regarding our GT24/GT26 gas turbines, including information relating to provisions taken in prior years, see "Power-Update on GT24/GT26 gas turbines Issue". For further information relating to our consolidated provisions for warranties, penalties and claims, see Note 20 to the Consolidated Financial Statements.

### Exceptional problems with our 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. 118 of the 119 trains under the UK regional contracts are now in service. Settlements have recently been agreed with our customers, under which we are obliged to implement programmes to improve the trains' reliability, which are ongoing and which are leading to additional costs. Trains are also being delivered on the West Coast Main Line (WCML) contract, registered in February 1999, at the rate of two units per month, in line with customer requirements. Services on the line began in January 2003 and the remaining 38 trains to be delivered are scheduled for delivery by September 2004, but there have, however, also been major delays and cost-overruns on this contract.

In fiscal year 2003, we recorded gross additional provisions and accrued contract costs of 140 million to cover the estimated future costs of the continuing improvement programme on the UK Regional Trains and to complete the WCML contract. A part of the additional provision and accrued contract costs was applied during fiscal year 2003. For more information regarding the UK Regional

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Trains, including information relating to provisions taken in prior years, see "Transport-UK Trains".

### Capital increase

Initially announced in March 2002, a capital increase by way of a rights issue (droits préférentiels de souscription) was completed in July 2002.

Pursuant to this offering, 66.3 million new ALSTOM shares were issued at the price of 9.6 per share. The net proceeds of the offering, after deducting underwriting and other discounts and commissions and expenses, amounted to 622 million.

ALSTOM's share capital was composed of 281,660,523 shares as at 31 March 2003.

### Disposal of businesses and real estate

Total proceeds from non-core business disposals of 151 million by end of March 2003

In the first step of our initial programme to divest non-core businesses, our South African activities were sold to local participants and financiers for total gross proceeds of 50 million. The sale contract was signed with effect from 1 October 2002. This business generated annual sales of around 170 million in fiscal year 2002 and had 4,000 employees. In January 2003, we also announced the sale of our captive insurance company for total gross proceeds of 101 million.

Total proceeds from real estate sales of 231 million by end of March 2003, from investment in real estate for 36 million by end of March 2003, and 138 million in April 2003

In December 2002, our UK real estate portfolio was sold for 175 million. In January 2003, the Group also disposed of one site in France for 22 million. During the last quarter of the fiscal year, we received other disposal proceeds of 34 million, mainly from the disposal of one site in Sweden and one site in the United Kingdom. During the year, we sold the 39% interests in La Maquinista Vila Global for proceeds of 36 million, the company hold real estate assets. Additional proceeds amounting to 138 million were received in April 2003 from the disposal of 15 sites, mainly in France, Spain, Switzerland and Belgium. We have taken leases back on most of the properties we have disposed.

### Launch of a new strategy and action plan

We have launched a new strategy and action plan designed to reduce our debt and improve performance. This plan is discussed below under "Strategy and action plan".

### STRATEGY AND ACTION PLAN

On 12 March 2003, we presented our new strategy and action plan to overcome three current key difficulties: an insufficient level of profitability and cash generation; past problems with the GT24/GT26 gas turbines and the UK trains

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contracts; and a high level of debt. Our action plan, designed to improve the Group's operational performance significantly and to reduce our high level of debt, is now underway. It comprises three main elements:

- |X| Focusing our range of activities while strengthening our financial base;
- |X| Improving our operational performance and adapting to market conditions; and
- |X| Building a more efficient organisation.

Focusing our range of activities while strengthening our financial base

Focusing on power generation and rail transport

As we cannot provide the resources needed to ensure the future of all those activities which are part of the Group today, we are refocusing our activities in the power generation and rail transport markets through the sale of the Transmission & Distribution Sector (T&D) and the Industrial Turbines businesses. We will also review options to consolidate our Marine activities in the medium term through partnerships or alliances at either national or international levels.

The decision to sell T&D and the Industrial Turbines businesses was taken after a thorough review and appraisal of our current portfolio: both are good, high-value businesses but, we believe, their sale will not impact the coherence of our remaining activities. They are autonomous and self-sufficient entities in terms of management, commercial organisation and presence, and research and development. They have different business models: Industrial Turbines, for example, is active in diverse markets other than power generation. There are, therefore, limited commercial synergies with our other ongoing activities.

The process to dispose of the T&D Sector was initiated in March 2003. The sale of the Industrial Turbines businesses, which comprises small gas and steam turbines was concluded through the signature of binding sales agreements on 26 April 2003. Please see "Recent Developments" for further details.

Developing service

As part of our business refocus, our objective is to continue to develop our service business by taking advantage of our strong market positions, technology leadership, broad commercial presence and large installed base. The after market in our Power Sectors, which in fiscal year 2003 represented roughly half of our power generation related sales, has benefited from annual growth rates of over 10% over the past years, generates attractive margins and positive cash flow and has good risk-reward profiles.

We have one of the largest installed bases of power generation equipment in the world, and intend to optimise this competitive advantage to better grow this profitable activity. A third of our sales in fiscal year 2003 were generated by new build activity in power generation, comprising both new equipment and power plant engineering and construction. Our objective is to improve the reliability of our products for new equipment and to be more selective in our power plant engineering and construction activity to improve our risk profile. We have launched restructuring plans to adjust our capacity to market conditions in this area. As far as our sales to the transport markets are concerned, our intention is to focus particularly on our high added value, higher margin service and signaling activities in Transport.

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### Strengthening our financial base

Disposal programme increased to 3.0 billion. As part of our new plan, we have increased our disposal programme target proceeds from 1.6 billion as intended a year ago to 3.0 billion by March 2004. This programme comprises:

[X] 600 million of targeted proceeds from real estate disposals, of which 267 million was achieved during fiscal year 2003 (231 million of proceeds from real estate sales and 36 million from disposal of investment), and an additional 138 million received in April 2003; and

[X] 2,400 million of targeted proceeds from business disposals including both Transmission & Distribution (T&D) and 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. An additional 1,100 million has been achieved with the signature in April 2003 of agreements for the sale of our Industrial Turbines businesses, generating net proceeds of around 950 million.

Thus, total proceeds secured from disposal of businesses and real estate have now reached 1.5 billion.

Capital increase. Though we expect the disposal programme to enable us to reduce our level of debt substantially, our equity will remain too low because of the net loss accounted for in fiscal year 2003. In order to strengthen our balance sheet, we intend to raise up to 600 million in net proceeds through a capital increase by way of a rights issue. Resolutions regarding the capital increase will be submitted for approval at ALSTOM's Annual General Meeting to be held on 2 July 2003. The timing, terms and final amount of the capital increase will be decided by our Board of Directors, and will depend on market conditions.

Cash generation initiatives. We are pursuing our efforts to improve cash generation and the management of working capital throughout the Group. These efforts are crystallised under our 'Cash for Growth' programme, which aims to strengthen the Group's cash culture: specific cash objectives are set at every level of the organisation, and the practical methodology, tools and measurement systems needed to meet these objectives are provided. Deployment is ongoing through extensive training sessions at Unit level, and by means of in-depth

initiatives which assess the potential for cash release within ALSTOM over the longer-term. As discussed below under "Liquidity and Capital Resources - Consolidated Statement of Cash Flows - Net cash provided by operating activities", we believe working capital improvements in fiscal year 2003 were encouraging.

In the short-term, we increased our available sources of cash pending disposals by obtaining a new credit line of 600 million at 31 March 2003, in addition to 610 million of cash immediately available at parent company level, and 1,160 million at subsidiary level at 31 March 2003.

### Improving our operational performance and adapting to market conditions

We have launched restructuring and cost-reduction programmes necessary to adapt our organisation to current market conditions. We consider this to be vital, in particular, as we estimate, following the end of the US gas turbine ordering boom, the market downturn is set to continue over the next 2-3 years. These

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programmes will improve our operational performance. The annual restructuring costs are expected to increase to 300 million over the next two years. We believe these measures should lead to recurring annual savings of 500 million by fiscal year 2006.

Industrial restructuring. We intend to accelerate our industrial restructuring. The industrial base will be optimised and within each plant, processes revised to increase productivity.

Overhead reductions. An extensive programme is to be implemented to reduce our overhead significantly, notably through the simplification of administrative processes and a reduction of layers. Some central functions will be reallocated to the Sectors or eliminated, leading to a significant downsizing of our corporate structure. Globally, savings at Corporate and International Network levels are targeted to reach 35% of current costs. Simultaneously, vigorous plans will be launched in the Sectors, with a target to save 15% of overhead costs in each Sector.

Stricter risk management to improve margins. Improvements in margin and in our risk profile will result from a more stringent selection of the projects we bid for and the contract terms we are prepared to accept combined with a stricter control of contract execution. A thorough overhaul of the reporting system is being launched in order to enable "fast track" reporting. A Corporate Risk Committee, chaired by the Chairman & CEO is regularly reviewing offers for the major projects and the performance of ongoing large project execution.

Changing the way we work. ALSTOM's umbrella quality and operational improvement programme, Quality Focus Six Sigma, covers all Company functions and operations. It aims to modify the way we work in order to enhance customer satisfaction and improve our results.

### Building a more efficient organisation

In order to meet our operating margin objective, our internal organisation is being changed based on two key elements: decentralisation and stronger controls.

#### Decentralisation

We are implementing rapidly a more efficient organisation. Most notably, our Power Sector, which accounted for 55% of Group sales in fiscal year 2003, was reorganised into 3 new Sectors on 1 April 2003. In addition to having five balanced Sectors, plus T&D pending its disposal, we believe the delaying of the new organisation will substantively reduce overheads. For example, the Power Sector management layer has been removed and the former Segments have been partially merged: the Gas and Steam Power Plant Segments are merged into Power Turbo-Systems, while the Boilers & Environment and Hydro/Turbine Segments are merged into Power Environment; Customer Service is renamed Power Service.

A simpler and more reactive structure is being implemented, with a clear P&L accountability in the Sectors, and a fast-track reporting system. Empowerment and full responsibility are given to the Sector management with the removal of any "matrix" between business and country organisations.

#### The new organisation

Following the disposals and the re-organisation of the Power Sector, we will have a balanced portfolio of well-positioned activities:



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X  Power Turbo-Systems	No. 1* in steam turbines, generators and plant engineering & construction, while recovering its position in gas turbines
X  Power Service	No. 1* in an attractive and growing business
X  Power Environment	No. 1* in boilers, hydro and environmental control: a clear leader in the growing environmental markets
X  Transport	No. 2* with a world-class business
X  Marine	Leading cruise-ship supplier

\*ALSTOM estimates

The new management team

During fiscal year 2003, we renewed our top management, more specifically:

|X| Patrick Kron was appointed Chairman of the Board of Directors of ALSTOM on 11 March 2003, in addition to his role of Chief Executive Officer to which he was appointed on 1 January 2003; and

|X| The Group's senior management has been renewed, with five new members joining ALSTOM's Executive Committee out of a total of 11 (10 after the disposal of the T&D Sector).

### GENERAL COMMENTS ON ACTIVITY AND RESULTS

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

- (1) 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 (excluding proceeds from the sale of real estate as part of our strategic plan) and Increase (decrease) in variation in existing receivables considered as a source of funding of our operations. However, this measure is not a measurement of performance either under French or US GAAP. See "Change in business composition and in 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 as described in "Change in business composition and in presentation of our accounts, non-GAAP measures - Comparable basis".

Activity impacted by difficult market conditions

The last twelve months were characterised by major market uncertainties, a tightening of the financial markets and a weakening world economy with an economic downturn in Europe and a slowdown in the US, while the US dollar weakened by 20% against the Euro. In this depressed environment, many companies

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and governments adopted a 'wait-and-see' policy towards infrastructure investments.

Despite this unfavourable context, markets remained generally buoyant in rail transport and at a sustained level both in electricity transmission and in power generation service. Conditions were less favourable, however, in large gas and steam-related plant and equipment activities in power generation, following the end of the 'gas' boom in the US market, and were difficult in electricity distribution. Our main Marine market, cruise-shipbuilding, was flat, with only three cruise-ship orders (one new contract and two confirmations of previous options) placed in the world-wide market during the fiscal year.

Overall, orders decreased by 4% on a comparable basis versus last year, mainly during the last quarter of the fiscal year. Our sales increased by 1% on a

comparable basis. The order backlog amounted to 30.3 billion at 31 March 2003, representing 17 months of sales.

### Results affected by exceptional provisions

Operating income was (434) million in fiscal year 2003, compared with 941 million in fiscal year 2002. Our profitability was affected by the exceptional gross provisions of 1,300 million provided in fiscal year 2003, to cover the additional costs of our GT24/GT26 gas turbines and to a lesser extent the remaining costs of our UK trains issues.

Excluding these exceptional provisions, operating income and operating margin were respectively 866 million and 4.1% in fiscal year 2003.

Net income was (1,381) million in fiscal year 2003 after exceptional gross provisions of 1,300 million.

### One-off proceeds

1,040 million of one-off proceeds had been achieved by March 2003 through our capital increase in July 2002 of 622 million, proceeds from the disposal of businesses of 151 million as well as proceeds from the sale of real estate and from investment in real estate of 267 million.

Since 31 March 2003, we have signed agreements that resulted or will result in additional proceeds from disposals. Thus, total proceeds secured from disposals of businesses and real estate assets have now reached 1.5 billion, 2.1 billion including our capital increase in July 2002.

### Improvement of Free cash flow

Our Free cash flow was (265) million in fiscal year 2003 compared with (1,151) million in fiscal year 2002. These amounts included net cash outflows resulting from:

- |X| The GT24/GT26 issue of (1,055) million in fiscal year 2003 and (700) million in fiscal year 2002; as well as from
- |X| Over-financed contracts for (222) million and (607) million in fiscal years 2003 and 2002. Large contracts obtained prior to fiscal year 2002 provided substantial up front payments to Power on three such contracts and to Transport on one contract.

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Excluding these cash outflows, the Free cash flow would have been 1,012 million in fiscal year 2003, compared with 156 million in fiscal year 2002.

Reduction of Economic debt by 372 million

Our Economic debt (See definition in "Change in business composition and in presentation of our accounts, non-GAAP measures - Use and reconciliation of non-

GAAP financial measures") was 4,918 million at 31 March 2003 compared with 5,290 million at 31 March 2002, a decrease of 372 million in fiscal year 2003. This decrease resulted mainly from a Free cash flow of 1,012 million, the capital increase of 622 million, net proceeds from disposals, and despite exceptional net cash outflows of 1,277 million as described above.

(1) Redeemable preference shares and undated subordinated bonds reclassified in Financial debt as of 31 March 2003. See Note 22 to the Consolidated Financial Statements.

### RECENT DEVELOPMENTS

Disposal of our Industrial Turbines business

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. This is a key step in our continuing disposal programme to strengthen our financial base.

The total enterprise value of the two transactions is 1,100 million. Net cash proceeds are expected to be approximately 950 million after deduction of transferred debt and certain other adjustments for cash items.

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

The industrial turbines businesses being sold accounted for approximately 10% of Power Sector revenues in fiscal year 2003. They include:

- |X| the small gas turbines business (3 MW - 15 MW), based principally in the UK;
- |X| the medium-sized gas turbines business (15 MW - 50 MW), based principally in Sweden; and
- |X| 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 Turbines businesses generated sales of approximately 1.25 billion and an estimated operating margin of approximately 7%. At 31 March 2003, these businesses employed approximately

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6,500 people.

These transactions are subject to regulatory approval and documentation has been submitted to the relevant merger control authorities. On 30 April 2003, we announced the closing of the sale of the small gas turbines business. The enterprise value of this transaction is 575 million, with net proceeds of approximately 525 million. Completion of this transaction followed receipt of a formal derogation from the European Commission under the EC merger regulation, allowing ownership of the business to be transferred to Siemens AG with immediate effect. Siemens AG has committed not to integrate the small gas turbine business with its own businesses until formal merger clearance has been obtained from the European Commission in relation to all the industrial turbines businesses. Pending merger clearance, the medium gas turbines and industrial steam turbines businesses to be acquired by Siemens AG will continue to be owned and managed by ALSTOM.

### Disposal of Real Estate

In April 2003, we received proceeds of 138 million in respect of the disposal of 14 sites in France, Spain, Switzerland and Belgium.

Total proceeds to date from our real estate programme reached 405 million (267 million received in fiscal year 2003 and 138 million in April 2003).

### Status of T&D disposal

The process to dispose of the T&D Sector was launched on 12 March 2003. On the basis of indicative offers, potential buyers have been selected with whom the bidding process is continuing. Completion is expected by the end of the calendar year 2003.

### Restructuring

In line with the plan announced on 12 March 2003, we have begun the process of informing trade union representatives regarding the social consequences of the overhead reduction and industrial restructuring plans. This process is expected to continue in the coming months. On 25 April 2003, we announced the details of the Power Turbo-systems restructuring plan, covering 3,000 job reductions out of 11,000 currently employed.

## 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, activity is likely to decrease following this year of exceptionally high activity. While we expect overall demand to be generally low over the next months due to the depressed power generation market, we are confident that market fundamentals will lead, in the medium to long-term, to growing demand for both new equipment and service in our markets.

Sales should decrease in the next fiscal year due to the lower level of orders

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received in fiscal year 2003 mainly in Power, but we expect them to subsequently recover on a comparable basis.

Due to our extensive restructuring plans and given our achievement on underlying operating margin in fiscal year 2003, we expect to be able to achieve 6% operating margin by fiscal year 2006.

Our Free cash flow is highly affected by cash outflows linked to the GT24/GT26 gas turbines and financial costs due to our high level of debt. Once this cash outflow ceases, we expect the Group to generate strongly positive cash flow.

We expect our Economic debt to be reduced from around 5.0 billion in March 2003, to a level in the range of 2.0-2.5 billion by March 2005, depending on the magnitude of additional funds raised through the planned capital increase by way of a rights issue.

1,879 million of our financial debt, consisting of our 600 million bridge facility, our 475 million extended credit facilities, 254 million of credit lines and 550 million of bonds, is to mature in fiscal year 2004. Other lines are to mature in fiscal year 2005. We currently believe that we will meet these payment obligations as they come due through the application of net cash provided from operations, the proceeds of real estate and business disposals, the proceeds of a proposed capital increase, from the renewal of existing lines of credit and from new credit lines we expect to obtain.

Our targets, therefore, are the following:

- |X| to achieve consolidated sales of over 15 billion by end of fiscal year 2005;
- |X| to achieve operating margin of 6% by fiscal year 2006;
- |X| to generate strongly positive Free cash flow; and
- |X| to reduce our Economic debt to the range of 2.0-2.5 billion by March 2005.

The success of our new 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 the section entitled "Risk Factors", or other unknown risks, materialise.

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

#### Changes in Business Composition

Our results of operations for the three years ended 31 March 2001, 2002 and 2003 have been significantly impacted by the acquisitions and disposals described below. The table below sets out our main acquisitions and joint ventures during the periods indicated. Sales and numbers of employees are presented for the fiscal year preceding the acquisition, except as otherwise indicated.

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The table below sets out our main disposals during the periods indicated. Sales are presented for the fiscal year preceding disposal.

### Power

Under the terms of the agreement we signed on 23 March 1999, we sold our heavy-duty gas turbines business to General Electric (GE) for net proceeds of US\$ 912 million. The heavy-duty gas turbines business we sold to GE contributed 609 million to our sales for the year ended 31 March 1999. Also on 23 March 1999, we entered into an agreement with ABB to create a new joint venture, ABB ALSTOM Power. On 30 June 1999, we transferred to ABB ALSTOM Power all of our Energy operations, except for the heavy-duty gas turbines business that we had sold to GE. ABB transferred to ABB ALSTOM Power substantially all of its power generation business, except for its nuclear operations, Combustion Engineering Inc. and its asbestos liabilities. At the time of the transaction, the combined sales of ABB ALSTOM Power amounted to approximately 9.9 billion, of which approximately 7.2 billion was contributed by ABB and approximately 2.7 billion by us. To offset the difference in the size of the contributions made by us and by ABB and to reach ownership parity, we paid ABB 1.48 billion, approximately US\$ 1.53 billion at that date, upon the creation of the joint venture. On 11 May 2000, we acquired ABB's 50% interest in ABB ALSTOM Power. We paid ABB 1.25 billion in cash. This transaction included the resolution of all outstanding matters related to the formation of the joint group. In these two transactions, we acquired substantially all of ABB's power generation business for approximately 2.7 billion.

As a result of this repositioning, the reported figures for Power in fiscal years 2001, 2002 and 2003 are not directly comparable. For fiscal year 2001, the figures reflect the 50% consolidation of ABB ALSTOM Power under the proportional consolidation method from 1 April 2000 to 10 May 2000 and the 100% consolidation of Power from 11 May 2000 to 31 March 2001. The figures for fiscal years 2002 and 2003 reflect the full consolidation for the entire year.

### Power Conversion

Power Conversion was created on 1 July 1999 from the merger of our Drives and Controls, Motors and Generators and several smaller related businesses previously part of our former Industry Sector. Power Conversion replaced Industry within our reporting structure from 1 April 2000. We integrated this Sector into T&D with effect from 1 April 2002.

### Contracting

We sold our former Contracting Sector on 20 July 2001 to CDC Equity Capital (CDC IXIS Group) and Charterhouse Development Capital, which financed a management buy-out. The transaction was finalised with a sale price of 756 million.

Change in presentation of accounts

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The following changes have been made to the presentation of our accounts and previous years' figures have been restated accordingly. See Note 2(a) to the Consolidated Financial Statements.

- |X| Amortisation of goodwill is now presented immediately above net income and no longer included in Earnings Before Interest and Tax (EBIT).
- |X| Securitisation of future receivables is no longer included in Customer deposits and advances and is being added to our financial debt.
- |X| The related costs of securitisation of future receivables is accounted for in Financial income (expenses) rather than in Other income (expense).
- |X| Cash effects of securitisation of existing receivables are now shown separately in the Consolidated Statement of cash flows.
- |X| Deferred tax assets and liabilities are shown net to reflect the effects of tax groupings within the same scope.

The following changes have been made to the presentation of our accounts, however, previous year's figures have not been restated. See Note 22 of the Consolidated Financial Statements.

- |X| Our 205 million preference shares, redeemable in 2006, have been reclassified in long-term financial debt; and
- |X| Our 250 million undated subordinated notes have been reclassified in financial debt.

In addition, we are now disclosing Earning Before Interest and Tax ("EBIT"), Capital Employed and Return on Capital Employed ("ROCE") by Sector, as described below.

Use and reconciliation of Non-GAAP financial measures

From time to time in this section, we disclose figures which are non-GAAP financial measures. Under the rules of the United States