Letter to our shareholders

JUNE 2005

Full year results 2004/05

- **Orders** received up 15%*
- **Operating margin** at 4.0%, multiplied by more than 3*
- **Net loss** cut by half
- **Net debt** down to €1.4 billion, divided by more than 2
- **Free Cash Flow** showing strong improvement
- FY 2005/06 **targets** confirmed

**On a comparable basis from fiscal year 2003/04.*

Dear shareholders,

Our results for fiscal year 2004/05 clearly demonstrate the ongoing recovery of ALSTOM. All key indicators are in line with, or better than the guidance previously given. These results enable us to confirm the FY 2005/06 targets announced in March 2003 when we launched our recovery plan: an operating margin of 6% leading to a return to profit and a positive Free Cash Flow.

Customers' renewed confidence in ALSTOM is clearly evidenced by €15.8 billion of orders, up 15% on a comparable basis from fiscal year 2003/04. On a geographical basis, our commercial success achieved in markets with strong growth potential, in particular in Asia, is encouraging.

Our operational performance is enhanced: the GT24/GT26 heavy-duty gas turbine issue is now resolved, with the remaining disbursements fully reserved. New orders – for a total of seven machines – have been secured in Spain and in Thailand, and new tenders are underway in several countries. We have focused on the improvement of contract execution and on the reduction of our cost base. These actions have allowed us to significantly increase our operational income, with the operating margin, on a comparable basis, rising from 1.2% to 4%.

Thanks to your participation to the capital increase which took place in July 2004 and to the disposal programme, our net debt has been significantly reduced during the fiscal year, from €3.7 billion to €1.4 billion in March 2005. The successful refinancing of our debt in February 2005, which improved our debt profile, as well as our current headroom give us a considerable buffer to cover our future liquidity needs.

The progress achieved makes us confident for the future: the ambitious targets we have set for March 2006 are confirmed. We obviously intend to further improve our performance beyond our current financial year: operating margin at the end March 2008 should be up by one or two additional percent, reaching 7 to 8%, and free cash flow, due to a strict management of working capital, should also grow. Thus, from a significantly stronger base, we will pursue an ambitious and profitable development strategy in ALSTOM's growing markets.

In this context, the Board of Directors has decided to submit several resolutions for your approval, such as a set of financial authorisations that any listed company needs and the consolidation of 40 existing shares in 1 new share, in order to reduce the volatility of the share price. We will have plenty of time to address these issues during the Shareholders' General Meeting to be held on 12 July (on second call).

I wish to thank you for your support, and the faith that you continue to show in the Group will be rewarded.

Patrick Kron
Chairman & CEO

ALSTOM

COMMERCIAL NEWS

GT26 in Thailand
ALSTOM signed a contract worth €700 million for a combined-cycle power plant in Thailand, including four GT26 gas turbines.

Power plant in the Middle East
ALSTOM won a contract to extend the largest power plant in the Middle East. The contract is worth €560 million.

Turnkey combined-cycle power plant in Singapore
ALSTOM won a contract worth €170 million to build a 500 MW turnkey combined-cycle power plant in Singapore. This order notably includes the supply of two GT13E2 gas turbines.

Modernisation of nuclear power plant in Sweden
ALSTOM will supply the steam turbine and generator equipment for the Ringhals nuclear power plant in Sweden which is undergoing a modernisation. The contract is worth over €190 million.

Hydro equipment projects in China
ALSTOM signed contracts for the supply of power equipment for three pumped-storage projects in China and the transfer of the related technology worth a total of around €350 million.

Annual results 2004/05

ALSTOM'S RECOVERY IS CLEARLY REFLECTED IN THE FY 2004/05 RESULTS.

ORDERS & SALES
During fiscal year 2004/05, we faced contrasted markets. Demand for new power generation equipment in Asia and particularly in China and India remained strong by contrast to the United States and some European countries, where demand remained very low. As a result of the increasing importance of environmental concerns, demand for environmental control equipment remained strong. In Transport, the European market has provided opportunities in France and in the Southern Europe, while the German and UK markets have been slower; the Asian market has been strong. The cruise ship market has become more active.

The strong rebound in our commercial activity illustrates the return of customer confidence: we have booked €15.8 billion of orders in fiscal year 2004/05, an increase of 15% compared with fiscal year 2003/04 on a comparable basis. Among the main orders received, we booked in November 2004 a contract for four new GT26 heavy-duty gas turbines in Thailand (the second order for these machines following an order received in Spain in January 2004), a contract in China for passenger trains and an order for two cruise ships.

Sales were €13.6 billion in fiscal year 2004/05, decreasing by 4% compared to previous fiscal year on a comparable basis, due to the impact of the low level of orders in 2003.

Our backlog was €27 billion at 31 March 2005, representing approximately two years of sales.

OPERATING INCOME
Our operating income was €550 million or 4% of sales, improving strongly, as a result of continuing cost reduction and a better control in contract execution.

NET RESULT
Our net result showed a loss of €865 million, resulting notably from the high level of restructuring charges, financial expenses and tax expenses (write-off of deferred tax assets for approximately €200 million).

The net loss was cut by half compared with -€1,836 million in fiscal year 2003/04.

FREE CASH FLOW
Our Free Cash Flow was negative at -€170 million, improving strongly compared to the previous fiscal year (-€1 billion) despite cash outflows of €366 million related to GT24/GT26 gas turbines and the high level of restructuring and financial cash expenses.

NET DEBT

Net debt was reduced during the fiscal year from €3.7 billion to €1.4 billion on 31 March 2005. This significant decrease is due to the capital increases and the proceeds of the disposals.

STATUS ON DISPOSALS

In order to reduce its debt, the Group launched an important programme of disposals. The activities disposed of in fiscal year 2003/04 (mainly Transmission & Distribution and Industrial Turbines) represented 25% of turnover. In May 2004, we committed to the European Commission that additional disposals, representing approximately 10% of the Group's turnover, would be made. As part of these disposals, we identified three activities:

– the locomotives manufacturing unit of Valencia, Spain, which is sold,
– our transport activities in Australia and New Zealand for which a binding agreement has just been signed,
– our industrial boilers business for which the disposal is underway.

In order to complete our disposal programme, we have also identified miscellaneous activities in Australia which have been sold, our activity FlowSystems (district heating) for which an agreement has just been signed, and we have launched the sale of Power Conversion.

The completion of these disposals should cover our commitment made to the European Commission with respect to disposals of industrial activities.

KEY FIGURES

TOTAL GROUP COMPARABLE FIGURES* (IN € MILLION)	YEAR ENDED 31 MARCH 2004	2005	% VARIATION MARCH 05/MARCH 04
ORDER BACKLOG	24,792	27,203	10%
ORDERS RECEIVED	13,776	15,841	15%
SALES	14,202	13,662	-4%
OPERATING INCOME	168	550	
OPERATING MARGIN	1.2%	4.0%	
NET INCOME	-1,836	-865	
FREE CASH FLOW	-1,007	-170	

* ADJUSTED FOR CHANGES IN SCOPE AND EXCHANGE RATES.

COMMERCIAL NEWS

Regional trains in China

The Ministry of Railways of the People's Republic of China has awarded orders worth around €620 million to ALSTOM and its local partners for the supply of regional trains.

Shanghai metro

ALSTOM, in consortium with two Chinese companies, has been chosen to supply 16 METROPOLIS trainsets, each containing 8 cars, for the extension of line 1 of Shanghai's metro in China.

Washington metro

ALSTOM won an order for the construction of 120 cars for the Washington metro worth around €150 million.

Madrid metro

ALSTOM won a €150 million contract to supply 70 vehicles for Madrid's new light rail network.

Tunis tramway

ALSTOM will supply 30 CITADIS tramways, as well as infrastructure work for an extension of the new tramway line in Tunis.

Order for cruise ships from MSC

ALSTOM Marine will build two 1,275 cabin cruise ships for the ship-owner MSC Cruises for use in the Mediterranean and Caribbean Seas.

YOUR QUESTIONS

What is a consolidation of shares?

A consolidation of shares is an operation which reduces the number of outstanding shares without any modification of the company's capital. ALSTOM will propose to shareholders at the upcoming General Meeting a consolidation of its shares with a parity of one new share for every 40 existing shares. For each lot of 40 shares held, the shareholder will automatically be attributed a new share. In order to deal with the leftover shares, old shares will remain quoted for six months, to allow shareholders to buy or sell shares to complete their lots of 40.

ALSTOM intends to launch a consolidation of shares in order to reduce the volatility of the share price and to return to a level of price more consistent with market standards.

What impact is the introduction of IFRS standards having on the Group?

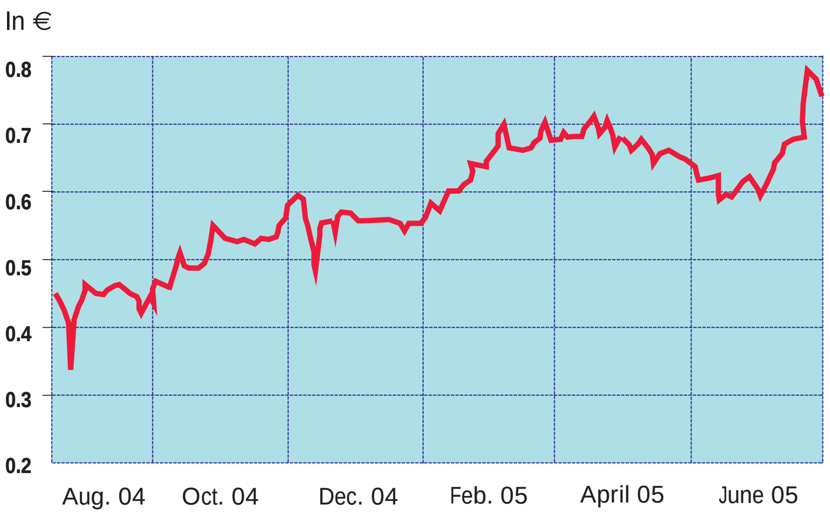
Since 1st January 2005, all listed companies in the European Union are subject to new international accounting standards, known as IFRS (International Financial Reporting Standards) for the preparation of their consolidated accounts.

ALSTOM's consolidated accounts for the 1st half of fiscal year 2005/06 will, therefore, be published according to the IFRS standards and an opening balance sheet at 1st April 2004 will be restated according to IFRS, in order to allow for comparisons with the previous fiscal year. Adopting the new IFRS standards will notably have the following effects: no more goodwill amortisation, consolidation of capital leases and long term rental in the balance sheet (formerly disclosed as off balance sheet commitments) and the adoption of the retrospective approach for pensions limiting effects on equity.

What is ALSTOM's position in China?

ALSTOM has been present in China since the 1950s. The Group now has around 1,500 employees working for various entities in the towns of Peking, Shanghai, Wuhan and Hong Kong. In order to establish our presence in the country, we have created numerous joint ventures, with as many in the field of energy as in rail transport. China represents the principal market in ALSTOM's two main activities. The level of orders in China illustrates this growth: in fiscal year 2002/03 we recorded orders in China totalling €250 million, in fiscal year 2003/04 €600 million and then exceeded €1.5 billion in fiscal year 2004/05. We also intend to continue to strengthen our presence in the coming years, by increasing our industrial and commercial capabilities.

SHARE PRICE PERFORMANCE FROM AUGUST 2004



AGENDA

Key dates in fiscal year 2005/06

12 JULY 2005
Annual General Meeting
(on second call)

Orders and Sales for the first quarter 2005/06

11 OCTOBER 2005
Individual shareholders' meeting in Nantes (France)

17 NOVEMBER 2005
First half results 2005/06

18 & 19 NOVEMBER 2005
Actionaria 2005
Palais des Congrès – Paris

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