

November 2006

Letter to shareholders

ALSTOM & you



➔ *We expect the operating margin to exceed our previous target of 7% for the full year 2007/08.*

Dear Shareholders,

ALSTOM has achieved a strong performance during the first half 2006/07. The level of orders registered over the period has been remarkably high, up 46%, as we have managed to take advantage of favourable market conditions in power. Sales, at €6.6 billion, increased by 8% compared to the first half of last year, driven by the turnover growth in Power Turbo-Systems / Power Environment (+21%), reflecting the continuous increase in order intake in this Sector over the last semesters. The continuing selectivity in contracts, strict management of our costs and improved project execution have contributed to an operating margin of 6.3% in the first half 2006/07, compared to 5.3% during the same period last year. Net income has increased by 67% thanks to this better operating performance as well as lower restructuring and financial charges. An exceptional level of free cash flow, at €747 million, has been generated as a result of further improvement in working capital, notably on the back of strong commercial activity. This has allowed net debt to significantly reduce over the six months to €611 million. Combined with the increase of equity at more than €2 billion at 30 September 2006, the balance sheet is getting considerably stronger.

To face our strong commercial activity, an active management of human resources has been implemented. 1,900 engineers and managers have been recruited over the Sectors in the past six months, mainly in Asia and in Europe, accompanied with reinforced training programmes.

The recovery of orders taken in the last years coupled with a record level of orders received during this first semester should translate into sales growing by more than 10% over the current fiscal year. The operating margin should continue to improve in the second half of 2006/07 and we expect it to exceed our previous target of 7% for the full year 2007/08. ALSTOM has now decisively entered into a new phase of profitable growth, that our fruitful cooperation with Bouygues will support, and which will benefit our shareholders.

Patrick Kron
Chairman & CEO

Key figures

Net result at
€227 million
up **67%**

Orders at
€9.7 billion
up **46%**

Operating margin of
6.3%

Free cash flow at
€747 million



Focus on a project: Cartagena in Spain



ALSTOM is continuing to improve its project management. One good example is the Cartagena power plant in Spain. With three GT26 gas turbines and a power output of 1,200 MW, this is the most important combined cycle power plant in Spain, and it is capable of producing 4% of the country's electricity.

Awarded to ALSTOM in December 2003 by Gas Natural, this contract represented a significant challenge; the deadline for the construction of the power plant was short (two years) and added to that, space limitations caused by the physical size of the site. However, after more than three million man hours of work, the teams from the Power Turbo-Systems / Power Environment Sector successfully met this challenge, and the power station began operation nine weeks ahead of schedule. This performance was made possible by the cooperation between the different entities of the Group and the

project illustrates what good team work can achieve.

The Cartagena project also demonstrates Gas Natural's confidence in ALSTOM. Following several years of commercial operations at the power plants in San Roque and Besos, which are based on GT26 technology, Gas Natural has once again relied on the expertise of ALSTOM for the turnkey project in Cartagena. This confidence in ALSTOM was also confirmed last July, with a fourth order for a combined cycle power plant based on GT26 technology, to be built in Malaga.



A new product: **the AGV**

While the TGV celebrates its 25th anniversary, ALSTOM is already preparing a new generation of high speed trains; the AGV or ALSTOM Grande Vitesse. This new project aims at offering a modern transport solution for the inter-regional rail links between medium-sized towns.

Unlike the current TGVs, which use locomotives, the AGV will be an entirely articulated and modular train with a distributed traction.

This new design will increase the capacity of the trains to a range between 280 to 460 passengers,

and enable an overall reduction in operating and maintenance costs. Furthermore the AGV will have the technology required to achieve a commercial speed of 350 km/h, and will be equipped for the new European specifications for interoperability, to enable it to operate on the different rail networks in Western Europe.

Around 100 ALSTOM engineers and technicians have been specifically designated to the development of this project, with contributions from almost 500 employees overall. The first certification tests should take place at the beginning of 2008.



Cooperation



Commercial cooperation with Bouygues

ALSTOM and Bouygues have many activities in common, such as engineering and tramway infrastructures and concessions. Two recent projects in transport and energy illustrate how the two companies complement each other. A consortium formed by the two groups will build the first tramway in the city of Reims, France. Bouygues will be responsible for the civil works, whilst

ALSTOM will be in charge of the production and maintenance of the CITADIS trams and the infrastructure of the line.

The second example concerns the EPR nuclear power plant to be built in Flamanville (France). For this project, Bouygues will be responsible for the civil works on the site, while ALSTOM will produce the conventional island for the power plant.



A responsible company



FOCUS ON SECURITY IN THE WORKPLACE

For many years, ALSTOM has operated a voluntary policy aimed at improving safety in the workplace. In September 2005, Patrick Kron launched a programme called "Site Focus on Safety." The objective was to significantly reduce the number of workplace accidents in the Group.

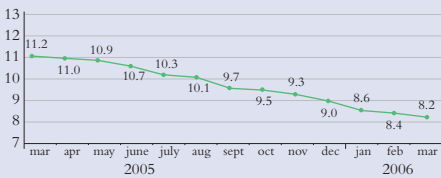
Ten pilot schemes were put in place; at each site, a diagnosis was made by the site general manager and the site safety manager together with the help of an experienced manager from the Group. Using this diagnosis and according to the types and causes of the accidents observed, an action plan was developed for each site, which is regularly monitored.

In less than one year, the programme "Site Focus on Safety" has encouraged new behavioural practices, which have contributed to the accident frequency rate in the Group falling by 27% over the year 2005/06. The objective is to further reduce the number of accidents in the workplace by 15% over the next three years.

FOCUS ON ENVIRONMENTAL RESPONSIBILITY

Environmental responsibility for ALSTOM is, above all, linked with the nature of its products and activities. We are aware that 30% of greenhouse gases come from power generation and that these gases contribute to global warming. It is, therefore, fundamental that the R&D within the Group focuses on improving the efficiency of power stations: to produce the same quantity of energy with less fuel and by doing so, reduce emissions of greenhouse gases. The Group is also actively working towards capturing pollutants, most notably carbon dioxide (CO₂), to reduce them to a minimum. ALSTOM is very much involved in the European Community's projects on these subjects and has an objective to produce "zero emission" power plants by 2015.

Injury Frequency Rate March 2005 to March 2006



Site Visits

La Rochelle

September 2006

Around 50 shareholders visited the Transport site in Aytré, La Rochelle. They were able to observe the TGV Duplex and the CITADIS tramway assembly lines.



Valenciennes

April 2006

A group of 25 shareholders were taken on a tour of the Transport site in Valenciennes where metros, regional trains and double deck inter-urban trains are manufactured.

Belfort

January 2006

Around 50 shareholders were invited to see the site in Belfort, which produces steam turbines, generators, magnets and superconductors, in addition to TGV motor coaches and freight locomotives.

Did you know?

Congratulations to Virgin for their record-breaking run from Glasgow to London.

On 22 September, Virgin Trains' Pendolino train, manufactured by ALSTOM, travelled the 645 km which separates the two cities, in 3 hours and 55 minutes. The previous record stood at 4 hours and 14 minutes.



ALSTOM will build a pilot plant to test its CO₂ capture process.

The plant will be located in the US and used in collaboration with the Electric Power Research Institute (EPRI) and the American utility, We Energies.

Diary

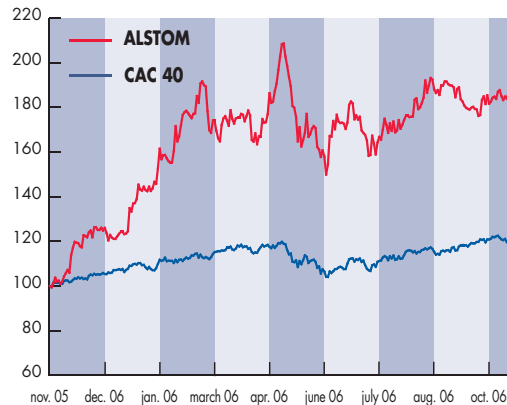
- ORDERS AND SALES FOR THE FIRST NINE MONTHS OF THE FISCAL YEAR 2006/07
18 January 2007
- ANNUAL RESULTS FOR THE FISCAL YEAR 2006/07
14 May 2007
- ANNUAL GENERAL MEETING
26 June 2007



Shareholder Information

➔ What the **analysts** think...

Share price (Base 100)



+86%
in one year

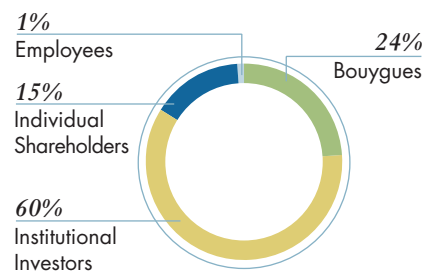
The opinion of analysts on ALSTOM is mostly favourable. 55% of analysts who follow ALSTOM's share price give a positive recommendation, 25% have a neutral recommendation and 20% a negative one. According to a study published in September by Crédit Suisse, ALSTOM offers the best growth profile in its sector, not only in terms of growth rate but equally in terms of the visibility of its activity profile. The analyst believes that the resurgence of coal technologies in developed markets could result in a major increase in investments in energy production equipment.

On the other hand, certain analysts, for example from JP Morgan and Bear Stearns, believe the current share price fully values ALSTOM, and therefore the stock presents less potential for growth.

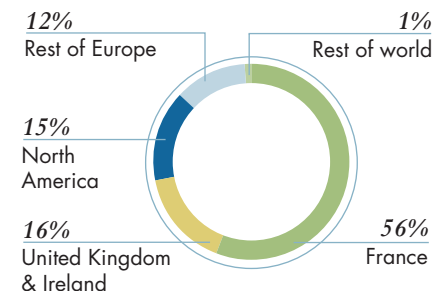
➔ Focus on shareholding

In June, Bouygues acquired the 21% shareholding previously owned by the French State. With shares acquired on the market, Bouygues position at the end of September stood at 24.4%. Institutional shareholding has increased slightly compared to last year, and individual shareholders have decreased from 21% to around 15%. In geographic terms, we observe a reduction in the shareholding in France giving rise to that in North America and the United Kingdom & Ireland.

By shareholder type



By geographic location



Contacts

ALSTOM Investor Relations

By post:
3, avenue André Malraux
92309 Levallois-Perret Cedex
France

By telephone:

In France, a free-phone number is available to shareholders from Monday to Friday, 9am to 7pm:

N° Vert 0 800 50 90 51

From abroad: +33 (0)1 45 30 85 75

By e-mail:

investor.relations@chq.alstom.com

Internet:

www.alstom.com

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