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iscal year 2004. This is due to the increase in our orders received in the second half of the fiscal year and demonstrating the return of confidence from our customers following the implementation of our refinancing package.

The decrease of customer cash deposits at the end of fiscal year 2003 as compared to fiscal year 2002 was mainly due to translation effects.

### **Provisions for risks and charges**

At 31 March 2004, the provisions for risks and charges were 3,489 million compared with 3,738 million at 31 March 2003.

This net decrease was accounted for mainly by the following movements:

a decrease in provisions on contracts for 601 million, mainly resulting from application of the GT24/GT26 gas turbines and to the disposal of activities;

an increase in restructuring provisions of 247 million due to the numerous restructuring plans announced, for which we have recorded a high level of provisions in fiscal year 2004 that will be applied during the fiscal year 2005; and

a decrease in foreign currency translation effects.

At 31 March 2003, the provisions for risks and charges were 3,738 million compared with 3,849 million at 31 March 2002. The decrease was due to a decrease in provisions on contracts, restructuring and other provisions, foreign currency translation effects which more than offset the net increase in provisions for the GT24/GT26 gas turbines.

### **Shareholders' equity and minority interests**

Shareholders' equity at 31 March 2004 was 97 million, including minority interests, compared with 802 million at 31 March 2003 and 1,843 million at 31 March 2002. This decrease at 31 March 2004 was mainly due to the net loss for the period of 1,788 million, offset by the capital increase of 300 million, the issuance of convertible bonds for 733 million net of related costs and the positive impact of cumulative translation adjustments for 77 million. The decrease at 31 March 2003 was mainly due to the net loss and translation adjustments, partially offset by a capital increase of 622 million.

As at 31 March 2004, 152 million of bonds, out of the 901 million issued, have not yet been converted into capital.

### **Securitisation of existing receivables**

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In order to fund our activity, we sell selected existing trade receivables to a third party on an irrevocable, without recourse basis. The net cash proceeds from securitisation of existing trade receivables at 31 March 2004 was 94 million compared with 357 million at 31 March 2003 and 1,036 million at 31 March 2002.

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<sup>(1)</sup> 31 March 2003 and 2004 adjusted figures for the purpose of the filing of this Annual Report on Form 20-F. See Note 1(c) to the Consolidated Financial Statements.

**Table of Contents****Securitisation of future receivables**

In order to finance working capital and to mitigate the cash-negative profiles of some contracts, we have sold to third parties selected future receivables due from our customers. This securitisation of future receivables has the benefit of reducing our exposure to customers (since some future receivables are sold without recourse to us should the obligor under the receivable default for reasons other than our failure to meet our obligations under the relevant contract) and applies principally to Marine and Transport. The total securitisation of future receivables at 31 March 2004 was 265 million compared with 1,292 million at 31 March 2003 and 1,735 million at 31 March 2002. The decrease in fiscal year 2004 compared with fiscal year 2003 was mainly due to the delivery of two cruise-ships by our Marine Sector. During fiscal year 2004, we did not enter into any new securitisation of future receivables. The decrease in fiscal year 2003 compared with fiscal year 2002 was mainly due to the lower level of orders received in Marine.

**Financial debt**

Our financial debt was 4,372 million at 31 March 2004, compared with 6,331 million at 31 March 2003 and 6,035 million at 31 March 2002.

**Net debt**

We define net debt as financial debt less short-term investments, cash and cash equivalents. Net debt was 2,906 million at 31 March 2004, compared with 4,561 million at 31 March 2003 and 3,799 million at 31 March 2002. Our net debt decreased due to the capital increase, the issuance of bonds mandatorily reimbursable with shares and proceeds on disposal of investments partly offset by net cash used in operating activities. The increase in fiscal year 2003 was due to a decrease in cash and cash equivalents and the reclassification of our preference shares and undated subordinated notes.

**LIQUIDITY AND CAPITAL RESOURCES****CONSOLIDATED STATEMENT OF CASH FLOWS**

The following table sets out selected figures concerning our consolidated statement of cash flows:

	<b>Year ended 31 March</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>(in million)</i>		
<b><i>Total Group Actual Figures</i></b>			
Net income after elimination of non-cash items <sup>(1)</sup>	341	(1,181)	(973)

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Change in net working capital <sup>(1)</sup>	(920)	644	(85)
<b>Net cash provided by (used in) operating activities</b>	<b>(579)</b>	<b>(537)</b>	<b>(1,058)</b>
<b>Net cash provided by (used in) investing activities</b>	<b>123</b>	<b>(341)</b>	<b>1,561</b>
<b>Net cash provided by (used in) financing activities</b>	<b>(136)</b>	<b>621</b>	<b>1,173</b>
	<b>(592)</b>	<b>(257)</b>	<b>1,676</b>
Net effect of exchange rate	(12)	(41)	(7)
Other changes and reclassifications	16	(464)	(14)
<b>Decrease (increase) in net debt</b>	<b>(588)</b>	<b>(762)</b>	<b>1,655</b>

**Net cash provided by (used in) operating activities**

Net cash provided by operating activities is defined as the net income after elimination of non-cash items plus working capital movements. Net cash provided by (used in) operating activities was (1,058) million in fiscal year 2004 compared to (537) million in fiscal year 2003 and (579) million in the fiscal year 2002.

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<sup>(1)</sup> 31 March 2003 and 2004 adjusted figures for the purpose of the filing of this Annual Report on Form 20-F. See Note 1(c) to the Consolidated Financial Statements.

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Net income after elimination of non-cash items was (973<sup>3</sup>) million in fiscal year 2004. This amount represented the cash generated by net income before working capital movements. As provisions are included in the definition of our working capital, provisions are not part of the elimination of non-cash items. This negative amount was mainly due high levels of restructuring and financial expenditures.

Change in net working capital was (85<sup>3</sup>) million. The principal movements in working capital were due to:

a decrease of 267 million in sale of trade receivables (securitisation of existing receivables);

a decrease of 332<sup>2</sup> million in contract-related provisions due to the application of GT24/GT26 provisions partially offset by new provisions recorded on other contracts and for restructuring not yet applied;

stable customer deposits and advances; and

a decrease of 1,005<sup>4</sup> million in trade payables and other payables, a decrease by 389 million of inventories and contracts in progress and a decrease of trade and other receivables by 747<sup>7</sup> million, these movements are mainly due to the decrease in sales by 10% on a comparable basis and a high level of delivery in the fiscal year 2004. The positive cash flow of 131 million triggered by this net decrease in working capital resulted from the application of accrued contract costs for the GT24/GT26, a positive change for Marine following deliveries and the combined effect of a decrease in activity and a better working capital management (mainly reduction of overdue receivables from customers).

The net cash used in operating activities of (537) million in fiscal year 2003 was mainly due to the net loss for the fiscal year, partly offset by positive change in working capital. The net cash used in operating activities of (579) million in fiscal year 2002 was mainly affected by the net outflow from change in working capital.

### **Net cash provided by (used in) investing activities**

Net cash provided by investing activities was 1,561 million in fiscal year 2004. This amount comprised:

proceeds of 244 million from disposals of property, plant and equipment (including 206 million from the disposal of real estate);

capital expenditures for 254 million;

decrease in other fixed assets of 125 million mainly due to the proceeds from the early reimbursement of receivables due to us by two special purpose entities in connection with Marine vendor financing; and

cash proceeds from the sale of investments, net of net cash sold for 1,454 million, comprising of mainly the proceeds from the sale of our Industrial Turbine businesses for 784 million and our T&D activities for 632 million.

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Net cash provided by (used in) investing activities was (341) million in fiscal year 2003 and 123 million in fiscal year 2002. The net cash outflow in fiscal year 2003 was mainly due to 410 million of capital expenditures and 154 million of cash expenditures for the acquisition of the remaining 49% in Fiat Ferroviaria Spa.

The net cash inflow in fiscal year 2002 was mainly due to sale of investments (Contracting and GTRM).

### **Net cash provided by (used in) financing activities**

Net cash provided by financing activities in fiscal year 2004 was 1,173 million, including a capital increase for 300 million and ORA issuance for 901 million, compared with 621 million of net proceeds in fiscal year 2003, including primarily proceeds from a capital increase completed in July 2002.

The net cash used in financing activities in fiscal year 2002 of 136 million was due to dividends paid.

### **Decrease (increase) in net debt**

As a result of the above, our net debt decreased by 1,655 million in fiscal year 2004, compared with an increase of 762 million in fiscal year 2003 and of 588 million in fiscal year 2002.

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(1) 31 March 2003 and 2004 adjusted figures for the purpose of the filing of this Annual Report on Form 20-F. See Note 1(c) to the Consolidated Financial Statements.

**Table of Contents****MATURITY AND LIQUIDITY**

We rely on a variety of sources of liquidity in order to finance our operations, including principally borrowings under revolving credit facilities, the issuance of commercial paper and asset disposals. Additional sources include customer deposits and advances and proceeds from the sale of trade receivables, including future trade receivables. In the past, we have also used the issuance of securities, including debt securities and preferred shares, as a source of liquidity.

In August 2003, we entered into a new financing package with more than 30 of our commercial lenders and the French State, and in September 2003 we amended this financial package, as described above under Status of Our Action Plan and Main Events of Fiscal Year 2004 2003 Financing Package . Implementation of this financing package has reduced and substantially changed the maturity profile of our debt.

The following table sets forth our outstanding financial debt obligations (including future receivables securitised) and available credit lines as of 31 March 2004:

<b>Outstanding lines as of 31 March 04</b>	<b>1<sup>st</sup> quarter FY2005</b>	<b>2<sup>nd</sup> quarter FY2005</b>	<b>3<sup>rd</sup> quarter FY2005</b>	<b>4<sup>th</sup> quarter FY2005</b>	<b>Fiscal Year 2005</b>	<b>Fiscal Year 2006</b>	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2008</b>	<b>Fiscal Year 2009</b>	<b>After Fiscal Year 2009</b>	
Redeemable preference shares	205					(205)					
Subordinated notes	250						(250)				
Subordinated loans (PSDD)	1,563								(1,563)		
Subordinated long-term bond (TSDD)	200									(200)	
Subordinated bonds reimbursable with shares TSDD R <sup>A</sup> )	300									(300)	
Bonds	650						(650)				
Syndicated loans	722						(722)				
Bilateral loans	260					(27)	(33)	(200)			
Commercial paper	420			(420)	(420)						
Bank overdrafts/other facilities/accrued interests <sup>(2)</sup>	320	(278)			(278)	(14)	(6)	(3)	(3)	(16)	
<b>Sub-total</b>	<b>4,890</b>	<b>(278)</b>	<b>0</b>	<b>0</b>	<b>(420)</b>	<b>(698)</b>	<b>(246)</b>	<b>(1,661)</b>	<b>(203)</b>	<b>(1,566)</b>	<b>(516)</b>
Future receivables <sup>(3)</sup>	265	(68)	(69)	(68)	(60)	(265)					
<b>Total<sup>(4)</sup></b>	<b>5,155</b>	<b>(346)</b>	<b>(69)</b>	<b>(68)</b>	<b>(480)</b>	<b>(963)</b>	<b>(246)</b>	<b>(1,661)</b>	<b>(203)</b>	<b>(1,566)</b>	<b>(516)</b>
<b>Financial debt</b>	<b>4,372</b>										
<b>Available lines</b>	<b>783</b>										

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- (1) Subordinated bonds reimbursable with shares (TSDD RA) will only be reimbursed in cash in the event the European Commission does not approve their reimbursement with shares. See Status of Our Action Plan and Main Events of Fiscal Year 2004-2003 Financing Package .
- (2) Facilities entered into by subsidiaries have been classified as being immediately due because such facilities are generally uncommitted.
- (3) Excluding the reimbursement of which will come directly from the direct payment of the customer to the investor to whom we sold the right to receive the payment.
- (4) Under US GAAP, as our covenants have been suspended until 30 September 2004, all outstanding debt has been classified as short term. See Note 33(D)(g) to our Consolidated Financial Statements.

Total available unused credit lines, together with cash available in the Group, amounted to 2,249 million at 31 March 2004, compared with 2,370 million at 31 March 2003. The amounts consisted of:

Available credit lines at Group level, which were constituted of 420 million of commercial paper and 363 million of the tranche B of the Subordinated loans (PSDD), for 783 million at 31 March 2004, compared with a bridge facility of 600 million at 31 March 2003;

Cash available at Group level was 532 million at 31 March 2004, compared with 610 million at 31 March 2003; and

Cash available at subsidiary level of 934 million at 31 March 2004, compared with 1,160 million at 31 March 2003.

ALSTOM, the Group parent company, may readily access some cash held by wholly owned subsidiaries through the payment of dividends or pursuant to intercompany lending arrangements. Local constraints can delay or



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restrict this access, however. Furthermore, while we have the power to control decisions of subsidiaries of which we are the majority owner, our subsidiaries are distinct legal entities and the payment of dividends and the making of loans, advances and other payments to us by them may be subject to legal or contractual restrictions, be contingent upon their earnings or be subject to business or other constraints. These limitations include local financial assistance rules, corporate benefit laws and other legal restrictions. Our policy is to centralise liquidity of subsidiaries at the parent company level when possible, and to continue to progress towards this goal. The cash available at subsidiary level was 2,069 million, 1,160 million and 934 million, respectively, in March 2002, 2003 and 2004.

## **PENSION ACCOUNTING**

We provide various types of retirement, termination and post-retirement benefits (including healthcare and medical) to our 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 and involves us in the operation of, or participation in, various retirement plans.

These plans are either defined-contribution, defined-benefit or multi-employer plans.

### ***Defined contribution plans***

For the defined-contribution plans, we pay contributions to independently administered funds at a fixed percentage of employees' pay. The pension costs in respect of defined-contribution plans are charged in the income statement as operating expenses and represent the contributions paid by the Company to these funds.

### ***Defined-benefit plans***

These plans mainly cover retirement and termination benefits and post-retirement medical benefits.

For the defined benefit plans, which we operate, benefits are normally based on an employee's pensionable remuneration and length of service. These plans are either funded through independently administered pension funds or unfunded. Pension liabilities are assessed annually by external professionally qualified actuaries. These actuarial assessments are carried out