Management Report

For period ending
December 31, 2004

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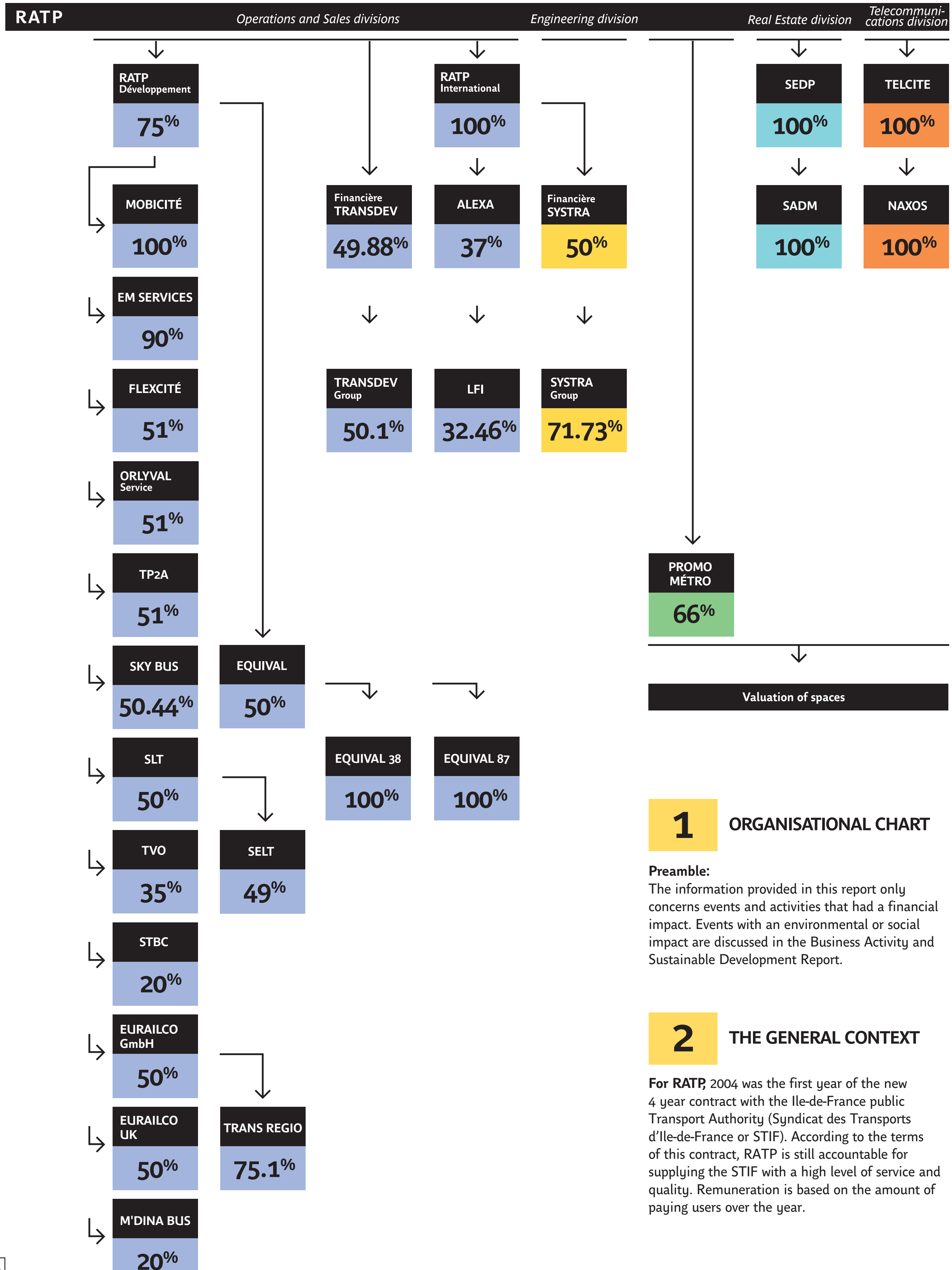

1 ORGANISATIONAL CHART

Preamble:
The information provided in this report only concerns events and activities that had a financial impact. Events with an environmental or social impact are discussed in the Business Activity and Sustainable Development Report.

2 THE GENERAL CONTEXT

For RATP, 2004 was the first year of the new 4 year contract with the Ile-de-France public Transport Authority (Syndicat des Transports d'Ile-de-France or STIF). According to the terms of this contract, RATP is still accountable for supplying the STIF with a high level of service and quality. Remuneration is based on the amount of paying users over the year.

All objectives for 2004 saw good results: production and quality levels of service set for the STIF contract in 2004 were all met, and the level of quality provided generated a bonus of 70% of the maximum bonus achievable. Customer traffic has also increased up to 2,778 million journeys, which represents a jump of 6.3% in comparison with 2003.

RATP subsidiaries contributed around 4 times more to the Group's net income than in 2003.

The Operations and Sales Division benefited from an increase in net income of RATP Développement, which made a pause in its commercial investment. After the success in Greece in 2003, two new important International contracts have been won: in Morocco and Italy. TRANSDEV group has also seen an increase in earnings coming from the expansion of its operating strategy to Australia, Portugal, and the UK.

Overall **the Engineering division** had better results, despite the lasting unfavorable exchange rate variation of the Dollar and Pound with the Euro in areas where SYSTRA and its subsidiaries have important activities. Reorganization of contracts and margin controls have also brought benefits to the division.

The subsidiaries of the **Real Estate Division** maintain their performances with a better increase of the benefits of PROMO METRO and NEXOS.

Changes in the scope of consolidation

The scope of consolidation has expanded to include the most recent Group successes.

> full consolidation of FLEXCITE (this company manages, coordinates and operates all transport, travel reservation and accompanying assistance services for transport users that are physically disabled or with reduced mobility), a subsidiary of RATP Développement and its 2 partners TRANSDEV and GIHP,

> M'DINA Bus, the bus operating company of Casablanca is accounted for by the equity method,

> full consolidation of EM Services, a subsidiary 90% owned by RATP Développement, providing mobility consultancy services to companies.

The RATP / C3D agreement concerning the creation of joint subsidiaries in the two highest performing areas of the RATP Développement/ TRANSDEV partnership has led to, as of this year, the proportional consolidation (50%) of:

> subsidiaries named EQUIVAL providing account management for transport operators and managing authorities. EQUIVAL, who bought the shares of EQUIVAL 38 (Isere) and EQUIVAL 87 (Haute-Vienne), was awarded its first contract to manage the Rennes' bus station this year,

> the subsidiaries of EURAILCO responding to tenders and having stakes in railway activities. For the UK, it is EURAILCO UK and for Germany it is EURAILCO GmbH (which has the majority holding in the German regional transport company TRANSREGIO since May 2004).

RATP also bought the shares held by CDC Ixis in PROMO METRO thus increasing its stake in PROMO METRO from 51% to 66%.

Finally, RATP sold its stake in 2 projects no further developed: the industrial partnership within RATP International Investissement, and the company SITRAM, after the decision to abandon the tramway project in Verona.

3 KEY ELEMENTS WITHIN THE GROUP

3.1 Operations and sales division

The RATP company

The figures below have been lifted from the RATP company accounts.

Significant Events

RATP's 2004 net income after employee profit sharing amounted to €22,5 million. This was due to an increase of 5% in turnover and despite the increase in transport expenses described below in the income statement presented for the STIF contract:

Turnover

RATP's revenues represented €3,157 million, compared with €3,007 million in 2003 (+5%).

> Total revenues from RATP traffic (revenue from STIF linked to the contract, which means number of tickets sold multiplied by their contractual price) represents the biggest part of the turnover. After the revenues risk-sharing clause included in the STIF contract, they amounted to €2,745 million. This figure was up 4.4% on 2003 as a result of a volume effect (1.7% more than targets), and of a contractual change in the reference price.

> Additional earnings, of €118 million, benefited from an increase in sales incentive contribution, €102 million, i.e. +8.9%.

> Other incomes (€294 million) grew significantly following the rise of the income from services other than transport. It is mainly due to the increase of sales incentive contributions (linked to the augmentation of customer receipts collected by RATP for STIF), of advertising activities, of an increase in penalty fines, and of charged external services (engineering and re-invoiced work, Athens RER contract etc).

Net operating expenses

Net operating expenses amounted to €2,725 million in 2004, up 5.1% (€2,592 million). Not including the effect of price changes of +1.7%, the growth rate of 3.4% is attributable to:

> external expenses: for example energy with a cost premium due to the variations of the fuel price (which was offset by financial incomes thanks to a hedging strategy, taxes and duties, exceptional factors in personnel costs: these types of costs represent 50% of the activity mentioned above,

In € m	2004	2003	Change in € m	Change as %
Revenue	3,157.1	3,006.9	+150.2	+5 %
Net operating expenses	(2,724.7)	(2,591.5)	+133.2	+5.1 %
Operating profit	**432.5**	**415.4**	**+17.1**	**+4.1 %**
Amortization, financial expenses and extraordinary transactions	(633.8)	(637.6)	(3.8)	(0.6 %)
Net RATP employee benefit plan cost				
Not including the CNAM contribution	(444.2)	(430.4)	+13.8	+3.2 %
Standard contribution	**677.2**	**662.8**	**+14.4**	**+2.2 %**
Gross income	31.6	10.2	+21.4	+210 %
Employee Profit Sharing	**(9)**	**(3.7)**	**+5.3**	**+143 %**
Net income	**22.5**	**6.5**	**+16**	**+246 %**
Cash flow from operating activities	491.2	472.6	+18.6	+3.9 %

> expenses linked to the activity, and therefore to the turnover growth: cost of increasing supply (decided and financed by the STIF), of the Bus Attitude project (which should reduce the number of passengers travelling without tickets, and therefore increase paying traffic), and of the costs incurred from automatic ticket machines and subscriptions etc. They explained a 1.1% of the increase in volume,

> new controlling needs: mainly linked to the expansion of rolling stock and to the fact that it is becoming older, with an impact of +1.2% in volume,

> productivity has financed half of these new controlling needs, i.e. (0.6) %.

Operating profit

RATP's operating profit (operating income before fixed-sum contributions, net RATP employee benefit plan cost, depreciation and amortization, financial expenses and extraordinary transactions) rised to €432 million (13.7% of turnover), up €17 million on 2003's operating profit (€415 million).

After taking into account, on the one hand, **company costs** (depreciation and amortization and the employee benefit plan cost, decreasing financial and exceptional expenses), and on the other hand, **standard contributions,** RATP's gross income before profit sharing amounted to €31.6 million, and its net income to €22.5 million after application of the employee profit sharing agreement. The employee profit sharing agreement for 2004-2006 completes the STIF contract by associating employees with the targets of the contract. Those who signed the agreement decided to use financial income and the system for improving the quality of service as reference points in the agreement.

The company's cash flow from operating activities came to €491.2 million, that is an augmentation of €19 million since 2003. Increased cash flow is essential to finance the investments' growth.

Total investment amounted to €720 million.

RATP's internal program financed entirely by itself represented €591 million, an increase of €103 million since 2003. For 60%, this increase is due to the acquisition and renewal of rolling stock: €233 million for 2004, €95 million of which is related to the acquisition of MI2N materials (up €54m since 2003) almost 2/3 subsidized by RIF (Region Ile-de-France). The remaining is entirely attributable to the improvement of transport infrastructures and supporting services (workshops, buildings, security and information systems). The total number of different types of operations has increased and particularly for electromechanical, maintenance and development of spaces, modernization and maintenance of workshops and buildings, as well as for information systems, and electric energy supply network.

In addition, as a partner in extension operations to the transport network in the context of the "Contrat de Plan Etat Région", the company spent €78million in 2004, to which €43million were added for operations other than those financed by the STIF and the RIF, totaling an overall more stable investment compared with 2003. Finally, in 2004, €8m were invested in development outside Ile-de-France, as opposed to €20m the previous year.

Net financial debt amounted to €4,028m at December 31, 2004, a level close to that of 2003 (€4,034m). This includes investment financing needs of €58m, given that the internal program is no longer fully covered by the cash flow of operating activities, despite its growth over the last year.

This relative stability of net financial debt is the result of a decrease in working capital requirements, which more than compensates the long term investment financing requirements.

Public support is close to what was anticipated at the time of drawing up the new STIF/RATP contract. Tariffs offsetting (difference between total customer receipts at contractual price and customer receipts received at prices fixed by STIF) is at its predicted level.

RATP Subsidiaries

For RATP's subsidiaries, significant events for 2004 can be summarized as follow:
> **RATP Développement** has benefited from the International commercial prospecting of the previous years:
• in Italy, where they will operate the future tramway in Florence;
• in Morocco, where they have acquired 20% of the new bus operating company in Casablanca.
• and in France:
  - the successful launch of EM Services, a subsidiary affiliated with Paris' Chamber of Commerce and Industry, responsible for providing consultancy services to companies in the Ile-de-France region regarding mobility,
  - benefiting from outsourcing public transport for persons of reduced mobility in Val de Marne,
  - a good relationship between SQYBUS and the town of St Quentin in Yvelines, with the signing of an additional clause in the operating contract,
  - uncertainties concerning MOBICITE.

> Good results from **TRANSDEV**, the group in which RATP has a 25 % stake, comprising:
- extension of the Yarra Trams franchise to the entire tramway network in Melbourne,
- launch of the tramway in Nottingham,
- awarding the tramway contract in Edinburgh.

For the two companies, the quality of the file submitted for the tender concerning the outsourcing of public transport services in Lyon was high and even if it has not been selected (despite its technical and commercial superiority), the work carried out will have proved that in France as well the two partners are complementary.

3.2 Engineering division

2004 was marked by the improvement if SYSTRA, whose consolidated net income came to 2% of the year's turnover, despite the decrease of the revenues generated by the transfer from the CTRL contract (the main contract for the high speed trains between Paris and London), and thanks to measures taken in the second half of 2003 to reorganize management structures, extend controlling, manage margins and exert control over subsidiaries.

3.3 Real Estate division

For the **Telecommunications division,** the decrease of TELCITE's revenue and net income follows the re-negotiation of current contracts to extend the length of their guarantees, thus avoiding losing clients. This is done with a decrease of tariffs aligned to a level slightly lower than the market price. This decline has been offset by NAXOS's contribution linked to a plan to equip all metro stations with cellular telephone systems, which surpasses the break-even point.

Despite an increase in the rate of fees paid to RATP, **PROMO METRO** experienced an increase in net income compared with 2003, which had been plagued by exceptional circumstances.

The Real Estate division remains stable, the settlement of the Denfert Montsouris operation led by SADM should generate a surplus.

4 MAIN CONSOLIDATED FINANCIAL DATA FOR RATP GROUP

4.1 Changes in consolidated turnover

Group turnover increased by 4.94%, a variation comparable with RATP's one.

	Breakdown of revenue by Company				Change in turnover
	In volume	As %	In volume	As %	compared to 2003
In € m	**2004**		**2003**		
RATP	3,125	94.90%	2,979	94.94%	4.90%
Others	43	1.32%	33	1.05%	30.30%
Operations-sales contribution	3,168	96.20%	3,012	95.98%	5.18%
Engineering contribution	89	2.69%	96	3.06%	(7.29%)
Promo Métro contribution	17	0.53%	17	0.54%	0.00%
Telecommunications contribution	11	0.35%	12	0.38%	(8.33%)
Real Estate contribution	8	0.23%	1	0.03%	N/A*
Total	**3,293**		**3,138**		**4.94%**

* Not applicable

The turnover increase of the Operations and Sales division's subsidiaries (+30.30%) can be explained by RATP's (+4.9%), RATP Développement's (+40.8%) and its subsidiaries' growth.
The diminution of the turnover linked to the Engineering division reflects the worsening exchange rates with the British Pound and American Dollar.
The decrease in turnover of the Telecommunications division is attributable to the re-negotiation of current contracts. Increased turnover of the Real Estate division is linked to the sale of the Maraîchers' land by SEDP.

4.2 Changes in consolidated net income

	Consolidated net income		Variation 2004/2003
In € m	**2004**	**2003**	**In volume**
RATP	18.1	4.8	13.3
Others	1.7	(1.1)	2.8
Operations-sales contribution	19.8	3.7	16.1
Engineering contribution	1.1	0.4	0.7
Promo Métro contribution	0.9	0.4	0.5
Telecommunications contribution	1.6	1.6	0.0
Real Estate contribution	(0.2)	(0.1)	(0.1)
Total	**23.2**	**6.0**	**17.2**

Net income after minority interest was almost multiplied by four between 2003 and 2004. It amounts to 0.7% of consolidated turnover, while subsidiaries' contribution to the Group's net income (€5.1m), represents 3% of their contribution to consolidated turnover (€168m). This conveys improved results in the Operations and Sales division, mainly due to a slowing down in commercial expenses (prospecting and responses to tenders) and to a very good income of the "Société des Lignes Touristiques"(SLT).

4.3 Net financial debt at December 31, 2004

In € m	Group debt	RATP	Others	Operations-sales division	Engineering division	Promo Métro	Telecom. division	Real Estate division
Financial Assets	**650**	591	8	599	17	9	5	20
Financial Liabilities	**4,661**	4,649	7	4,656	5	0	0	0
Net financial debt*	**4,011**	**4,058**	**(1)**	**4,057**	**(12)**	**(9)**	**(5)**	**(20)**
Incl. lease back	30	30		30				
RATP Payroll Debts		**4,028**						

* Not including accrued interest, financial assets and liabilities linked to leasehold and deposits

Net financial debt at December 31, 2004 amounted to €4,011m, that is a decrease of €32m compared to 2003. This decrease in net financial debt is attributable to the Real Estate division (which reduced its debt level by €13m: increase in downpayments for work not yet paid for, concerning RATP's management assignment for SEDP), to the Engineering division (which lowered its debt by €9m: improvement in SYSTRA Group's results), and RATP's reduction of €8m.

5 OUTLOOK

For RATP, 2005 seems to be a year marked by institutional environment changes. Conforming to the decentralization Law "local responsibilities and freedom" (Loi de decentralisation "Libertés et responsabilités locales") of August 13, 2004 (which must be in effect no later than July 1, 2005), the Ile-de-France region, Paris and the 7 departments which make up the Ile de France are going to be in charge of STIF. This change should have repercussions on RATP's business, its main partners within STIF henceforth being locally appointed representatives, more aware of passenger's needs.

Furthermore, the revision of the transportation plan this year in the Ile de France should lead to several new projects.

In 2005, the projects concerning the rolling stock and services should be implemented: introduction of the modernized MF77 on line 13, arrival of the MF2000, introduction of double carriages on tramway T2, implementation of additional services (new night bus services - Noctambus - decided by STIF in 2004).

RATP's Financial Department is planning to issue between €200m and €250m worth of bonds to mature in 10 to 15 years on the financial markets. They will be issued under the Euro Medium Term Note (EMTN) program and probably take place at the end of the year. Taking into account the historically low long term rates, they will ultimately be issued at a fixed rate.

Finally, EPIC RATP will keep striving towards its targets concerning the STIF contract and its company plan: its budget predicts a traffic growth of 1% in volume and an increase in the productivity of operating expenses before tax of 0.5%. In addition, the transportation activity has expanded by 0.5% with an additional 100 agents, following decisions taken by the Organizational Authority: the STIF.

With regards to subsidiaries, the Operations and Sales division will continue to follow its double orientated development program:

> Partnership with TRANSDEV
The goal will be to develop technical and financial skills with EURAILCO and EQUIVAL, particularly concerning the development of activities in Germany thanks to TRANS REGIO for EURAILCO, and responding to tenders in England after a year of pause from competition.

> Internal development of RATP Développement:
The objective will be, on the one hand, to reinforce the first international acquisitions (in Greece, Italy and Morocco) where the implementation of the Casablanca bus service should be reviewed thoroughly. In France, 2005 will see the launch of the subsidiary EM Services, and the first year of activity of FLEXICITE 94 for persons of reduced mobility. On the other hand, the objective will be to identify possible future targets by improving commercial efforts in France and internationally.

For the engineering division, SYSTRA group will try to keep and to improve its contribution by reorganizing its strategies and management of its North American subsidiaries and by compensating its loss from the CTRL contract.

In the Real Estate division, PROMO METRO and TELCITE/NAXOS will try to maintain their position and the quality of their services in order to generate financial returns to RATP through incomes from the charging of the use of public spaces and dividends.