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Alstom Q1 Orders and Sales for Fiscal Year 2025-26

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Operator: Hello, and welcome to Alstom's first quarter fiscal year 2025-26 orders and sales call. My name is Saskia, and I will be your coordinator for today's event. Please note that this conference is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Bernard Delpit, Executive VP and Chief Financial Officer. Please go ahead sir.

Bernard Delpit: Good morning. Thank you, and welcome to this conference call to discuss orders and sales for the first quarter.

Starting with order intake on slide three. We recorded €4.1 billion of orders in the first quarter, up 12% compared to the same period last year. Book-to-bill was 0.9 for the quarter, considering adverse FX movements. This brings backlog to €92 billion at the end of June, down from €95 billion at the end of March.

From a regional perspective, Europe is again leading with large orders in France and in Bulgaria. The Group enjoyed strong commercial momentum in Rolling Stock with two large orders and the book-to-bill of 1 on track to deliver fully guidance of book-to-bill above 1.

The Signalling business is also off to a good start with contracts in Italy, Brazil, and Taiwan. We recorded €1.7 billion of base orders in the first quarter, which is consistent with the €1.5 billion to €2 billion range we have seen in recent years.

Turning to slide four, with a focus on the two large orders awarded in the quarter. First, we will provide Coradia Stream regional trains to Bulgaria together with maintenance for a total of €600 million. This contract illustrates the success of the Coradia platform with a high carryover rate for Coradia Stream trains already developed for other customers.

Second, French operator, SNCF, ordered an additional 96 commuter trains for the Paris region as part of a framework agreement signed in 2017.

A few additional remarks before moving to sales. First, we have already good visibility on orders for Q2. We signed a €2 billion order with MTA in New York for the provision of 316 cars with an option for 242 additional cars, and discussions with other public transport authorities in the US are also progressing well.

Second, the medium term pipeline of opportunities is solid. For instance, the German government has made great progress towards over €100 billion of investment allocated to rail over the next five years, which has nearly double the spend compared to the previous five-year plan. We've already got a framework agreement in place with Deutsche Bahn networks for wayside Signalling and around €10 billion is allocated to the rollout of ERTMS in Germany and it provides some upside to medium term pipeline in Germany.

Third, the quality of order intake remains a top priority and orders taken in the first quarter continues to be accretive to gross margin in the backlog.

Turning to sales on slide five. Sales reached €4.5 billion in Q1, driven by 7.2% organic growth. All product lines contribute to organic sales growth. In particular, sales in Rolling Stock reached

€2.4 billion representing a 5% organic increase. This was driven by the significant ramp up in Germany. France also continues to be a meaningful contributor, thanks to the railway as well as TGV projects.

In the US, continues ramp up for BART in San Francisco compensates for the ramp down of other projects including Amtrak. Sales in services reach €1.1 billion in Q1, up 2% on an organic basis. The product line continues to benefit from execution in the US, as well as the ramp up of projects in Germany, Italy and South Africa.

Sales in Signalling came at €0.6 billion. Organic sales increased by 9%, thanks to project execution mainly in France, Italy and Germany. So 5% decrease in reported terms is mainly due to the deconsolidation of the North American conventional Signalling business last year and represent the 1.5% negative scope impact for total on total sales.

Finally, Systems recorded €0.3 billion in Q1, representing 36% organic growth. Systems benefited from the strong ramp up in Brazil and the Philippines.

Turning to slide six and car production. We see it as a fairly good indicator of activity levels for the Rolling Stock business this year, which accounts for around 50% of sales. Cars produced were broadly stable in Q1 compared to last year. The mix was also positive with ramp ups for higher value cars, like high-speed and commuter train in France, for instance, compensating for the ramp down of lower value cars like metros, also in France or in Brazil.

Also in the first quarter, a higher share of projects were in their ramp up phase compared to the first quarter of last year. Overall, we continue to expect stable production for the full year and we expect a positive mix going forward explaining positive growth of Rolling Stock sales.

Turning to guidance on slide seven. Let me highlight again the key assumptions behind the guidance for this current fiscal year. We assume market demand remains supportive, no change. We assume stable car production compared to last year with ramp up in Germany, compensating for ramp-downs in metro cars in France and Brazil. We assume R&D expenses back to above 3% of sales for the full year compared to 2.8% in the last fiscal year.

Regarding tariffs, the impact on the Group's financials was minimal in the first quarter in part thanks to constructive discussions we are having with customers regarding the application of change in law clauses in the contracts. For the rest of the fiscal year, we assume, we will continue to mitigate the impact from US tariffs.

Moving to the guidance. We expect book-to-bill for Rolling Stock and the Group to be above 1 for the full year with a book-to-bill ratio in Q1 that is already encouraging. We confirm organic sales growth within the 3% to 5% range with the first half that is likely to be at the top end of that range.

We expect adjusted EBIT margin to be around 7% for the full year with the indication that in last year's H1 adjusted EBIT has been close to the full year margin of the fiscal year just reported. We expect free cash flow seasonality this year to be pronounced for two reasons. First, we expect downpayments to be more second half-weighted, commercial momentum is strong but several orders already booked in Q1 or in the pipe for Q2 are options for which cash payments at the time of booking are usually much smaller than downpayments received for first-time orders.

And second, the cash impact from the ramp up in certain geographies will be more visible in the first half than in the second half. For these reasons, we confirm H1 free cashflow guidance for up to minus €1 billion and we see very limited upside for this level.

We have not revised our views on the second half, that is to generate at least €1.2 billion of free cash, thanks to margin progression, favourable phasing of downpayments, and the seasonal distribution of activity and progress payments. Hence, we confirm the free cashflow guidance for the full year at €200 million to €400 million.

Thanks for listening, and I will now take your questions.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. And our first question today comes from Gael de Bray from Deutsche Bank. Please go ahead. Your line is open.

Gael de Bray (Deutsche Bank): Good morning, everybody. Thanks very much for the time here. The first question I have is on the car production level this quarter. I remember I think last year's Q1 production was impacted by supply chain challenges and this year's Q1 production level is not really any better. Is this just a question of mix, or do you still see some supply chain disruptions behind there?

Bernard Delpit: Thank you, Gael. No, we have not seen major issue with the supply chain in Q1. The fact that Q1 this year is comparable to Q1 last year is very much the guidance for the full year. So it doesn't mean that we continue to have supply chain issue. It means that because of the phasing of the production of cars, it's consistent with what we have seen last year. So that's why.

And as I said, maybe we should emphasise it again. This year we have a high share of what we call ramp up project. We make the distinction between a startup project, ramp up project and serial mode. So in startup, you have not started to produce the cars. You are really in a phase of development, let's say. And in ramp up, you are in the first train sets of a series. So that's where you have, I would say, not the most difficult part, but I mean you are starting the production and then you have serial mode.

So this year, in H1, we have a higher share of ramp-up project versus last year. Last year the supply chain had an impact on serial production. That's why it was quite significant. This year the mix between ramp up and serial is different with a higher share of ramp-up projects.

Gael de Bray: Okay. That's helpful. Thanks very much. The second question I have is on the free cash flow dynamics. I mean you've had obviously a big success recently with New York, which I think was not necessarily anticipated to be awarded so early, potentially not enough in the year. And you are talking about potentially all the projects down the road in North America likely to be backed maybe in the second quarter. New Jersey, for example, is certainly one of them, if I'm not wrong. With that in mind, do you still expect really to see the same negative seasonality in free cash flow as previously guided? Or do you feel maybe now slightly more confident to perform a bit better than the up to €1 billion negative number you guide it for?

Bernard Delpit: Well, Gael, as I said when I reiterated the guidance, the €1 billion - up to €1 billion is very much what I think. The downpayments or the orders that you mentioned were very much taken into account in fact in the guidance. So no, it's not bringing anything new. That's great. That's good news. But that was taken into account in the guidance. And I take the opportunity to say what is specific this year that we have a good visibility on a strong order intake that will be H2 weighted, and specifically on downpayments that will be H2 weighted as well.

So nothing new from that point of view. It's great news for you, for everybody, but for us, we expected these orders to come in.

Gael de Bray: Okay. Thanks very much.

Bernard Delpit: Thank you.

Operator: Thank you. Our next question now comes from Delphine Brault from ODDO BHF. Please go ahead.

Delphine Brault (ODDO BHF): Yes, hello. Can you hear me?

Bernard Delpit: Not so well, but we'll try Delphine.

Delphine Brault: Okay. Good morning, all. My first question relates to Germany. Can you update us a little bit on your strategy in Germany? Where are you in terms of efficiency improvement?

Bernard Delpit: Okay, first it's not strategy here, it's more execution, right? So we are at the very beginning of the turnaround plan, nothing much to report since we explained our plans in May. We are in the middle of discussions with unions on different sites that we plan to transform into service from Rolling Stock to service sites. We have good discussions with unions, so not much new but it goes according to plan.

What is happening today in Germany? There are two things maybe to underline. First, ramp up of projects. I mean contracts were awarded to our German sites some years ago. So they were in what I called startup phase for those years and now they are entering into the ramp up phase. So really execution of the last miles of engineering and the first miles of manufacturing is very much where we are today in Germany.

And the second thing that we are looking closely to the announcements of the German government in terms of Signalling and what we see is good. Maybe you've seen that a budget has been presented to the Bundestag and we've seen – even if it's still pretty difficult to understand how you articulate special funds and the budget, we see at least €10 billion of spending on Signalling for the next five years. Part of that is on the wayside and it has been subject to a contract already awarded last year, where we have our share of that and part of that comes on top of this programme on top of wayside could be onboard or other things. And that has not been taken into account in our pipeline guidance for the moment.

So we are working to see how these will be reflected in our activity. But I must say that today in terms of options or let's say implementation of the volume contract award last year, we've seen some delays in the implementation, but it will come and that's good news.

So in a nutshell for Germany, the strategy, I mean it has not much changed. We think that Germany will be a great country for rail and we prepare ourselves to respond to this stimulus in the best possible way.

Delphine Brault: Thank you. And then maybe a short one, some updates on the level of competition. Last time you mentioned more competition in some regions. I know three months is a short period, but was it still the case in the recent months?

Bernard Delpit: First, when I mentioned that it was in January, so it was not in the full year result. I mentioned some geographies where nothing changed but we've seen the competition quite active. We have not seen that again since the beginning of this fiscal year, maybe because we have been awarded contracts in geographies where we have a substantial market share. That's why. But no real change in the competition landscape as of today, Delphine.

Delphine Brault: Thank you.

Operator: Thank you. From Goldman Sachs, we now have Daniela Costa with our next question. Please go ahead. Your line is open.

Daniela Costa (Goldman Sachs): Hi. Good morning. I have two questions. One is just a quick clarification from the prior question on Germany, and then I'll ask the second main one. But just on Germany. So given the kind of ramp up phase you are going to get through now, how's your level of capacity utilisation there if we have a big pickup in orders in the coming year? So would you need to add more capacity now in Germany?

Bernard Delpit: Of course, not. I'm sure you have well understood that we disposed a plant in Germany is because we have some spare capacity here, and the idea is to reduce the overall Rolling Stock capacity. So for sure we have all needed capacity to phase a ramp up. Hello?

Daniela Costa: How much spare capacity do you have? Sorry.

Bernard Delpit: We don't give numbers, but I can tell you that we have not a problem of capacity in Germany. I mean the story is to reduce the overall Rolling Stock capacity in Germany rather than to be short of capacity. So I mean we will at least double our car production without any capacity issue in Germany this year.

Daniela Costa: Got it. Very clear. And then just, so you had 7% organic sales growth now, which is ahead, and as you said in the first half you'll stay at the top end of the 3% to 5%. But your car production was marginally down year-on-year. So you probably expect that to accelerate to meet the guidance. So is there a scenario where – what happens in the second half to get you back inside of the guidance range? Is it mix? Is it pricing? Is it something else? Or the guidance is conservative?

Bernard Delpit: Well, first, it's too early to issue a new guidance. I said clearly that I see H1 at the top end of the guidance. So by that time we'll have more visibility for the rest of the year. So yes, indeed, if we are the top end of the range at the end of H1, I see room for improvement in the guidance. But let me please have some more visibility to refine our assumptions. It's mainly a question of mix for the Rolling Stock, but what I've seen in Q1 is very much what we see for the full year.

In service, of course, the comparison basis is pretty tough because we had a strong year last year after kind of 10% CAGR since the merger with Bombardier. So the comps are high. That's why we've seen pretty low, I would say, soft Q1 in terms of service.

We see the same for the rest of the year, but we could see some improvement here. The moving parts were on system and Signalling, where what we have seen in Q1 is much better than what we forecast for the full year. So system is limited in terms of total size. So I don't think that it will be a game changer, but still it could account for some tens of basis points of growth.

and for Signalling, let's see, because part of sales are coming from what we call small base orders, so that could be a potential upside, but I'll be in a better place in November when giving the full year guidance to refine our sales guidance.

Daniela Costa: Got it. Thank you.

Operator: Thank you. Our next question now comes from Andre Kukhnin from UBS. Please go ahead. Your line is open.

Andre Kukhnin (UBS): Yes, good morning. Thank you very much for taking my questions. I'm sorry, but I'll start with another follow up on Germany please, given all the news flow. Could you give us some idea of how much of that €10 billion is wayside versus other? And also could you give some colour on what is your entitled market share in this market?

Bernard Delpit: Hi Andre. I'm sorry, but I'm not in a position because I don't know in fact what is the mix for the €10 billion, what will come from wayside, on board, and potentially other segment of the Signalling business. So difficult to give more colours on that.

The only thing I can say that our market share on onboard Signalling is higher than our market share on wayside, and the volumes that were allocated last year were only on wayside. So I think that the additional volume coming from the €10 billion figures that I mentioned before, we'll see some higher share for Alstom going forward.

So from that point of view it's good news. But as soon as we have some news in the mix of the €10 billion, which for the moment is a draft. It has not been validated by the German parliament. As soon as we get some clarity, we'll update our pipeline to reflect that.

Andre Kukhnin: That's really helpful, thank you. Secondly, I just wanted to dig in a little bit more into the Rolling Stock business mix when you talk about the ramp up versus serial production. Could you give us some idea on what normal is, or where were we say last year in H1, H2 in terms of mix of revenues, how much was coming from ramp up projects versus serial? And maybe also indicated by how much it's shifting H1, H2 this year so that we can appreciate the cashflow and margin dynamics better?

Bernard Delpit: Well, we did not go into those details. We tried to explain why the car production level is at that level, but we don't go into much more details and it is difficult to have a read across of the mix in terms of volume, the mix in terms of sales. We just want to explain to you why with a car production that is stable, we still have some increase in sales because of the mix, and that's pretty logical.

When you produce less metros but more TGV, you have a mix impact and the cars that you produce have a higher value in terms of cost and in terms of sales and in terms of margins than

the one you produced before. So that's why, you know that Alstom has only published a number of cars recently and I can understand why because it's an indicator that is pretty difficult to interpret because one car could be a TGV or a loco or a metro. But I think it is good for you to have that because it reflects our industrial day-to-day life and it's one of the driver of sales and main driver in terms of cash.

The only thing that I could tell you that the ramp up projects, so not the startup and not the serial mode, will account between 15% and 20% of the total volume for this year. Okay? That's what I can tell you. Now the impact on free cash flow, the impact on margins, this is something else. But considering that we have a higher share of ramp up, it goes with some free cashflow headwind. So that's at least consistent.

Andre Kukhnin: That's really helpful. I'm sorry, if I may just. The 15% to 20% for this year, would I be right to think that it was similar last year but the mix between H1 and H2 is different this year versus last year enhanced the cash implication?

Bernard Delpit: No, that's higher than last year for the full year. The 15% to 20% is a full year picture and it's higher than last year.

Andre Kukhnin: That's great. Thank you very much for your time.

Bernard Delpit: You're welcome.

Operator: Thank you. From Citi, we now have Martin Wilkie with our next question. Please go ahead.

Martin Wilkie (Citi): Thank you. Yeah. Good morning. It's Martin. Just a question. Coming back to your opening remarks, you mentioned that the gross margin, the backlog has seen an increase of benefit from orders this quarter. If we go back to the full year numbers a few months ago, I think the backlog gross margin was unchanged and there were a couple of headwinds that caused that. What has driven the expansion this quarter? Is it just the quality of new orders or have some of those drags that you saw last time around, I think it was FX and some other inflation that limited the expansion last quarter. Has that now reversed? Or what has driven that expansion this time around? Thank you.

Bernard Delpit: Hi, Martin. I think it has to do with the quality of the order intake. I would say that the FX is more or less neutral in terms of order intake margin. So no, it's not the question of FX. It has to do with, first, the mix between Rolling Stock and the rest and where we have put the bar in terms of gross margin.

Yeah, I slightly changed the wording because the previous wording was always to say we are happy with the quality of order intake, which is above the average gross margin in the backlog, which in turn is above the P&L. So I slightly changed it, but the meaning is the same. We are happy with the order intake margin because it's accretive to the backlog. It means that it's above the average backlog, but it reflects both quality of the orders, increased gross margin in the same segment for Rolling Stock and also the mix.

But the mix in terms of service has not played a role in the quality of the gross margin this quarter.

Martin Wilkie: Great. That's helpful. Thank you very much. And if I just have a follow on question as well. When we think about the order intake that you've seen so far this quarter,

you mentioned already this was partly in your expectations already. When we think about the remainder of the year, the Rolling Stock portion of orders has been very, very strong. But obviously you've got an intention in the medium term for Rolling Stock to become a gradually smaller part of the mix. It doesn't seem that's happening yet. So just in terms of how we should expect that the mix of orders over two or three years. Do you still have that view that Rolling Stock gradually becomes a smaller part as Signalling, systems, and so forth become larger?

Bernard Delpit: Yes. Absolutely, Martin. Definitely, we don't intend to grow again the share of our Rolling Stock. I mean we like Rolling Stock because it's core to a pure player such as Alstom, but the direction of the journey is clear. We want to have an activity balanced between Rolling Stock and service, and on top of that to have a good business in Signalling. So the 40-40-20 which is a mix between Rolling Stock, services and Signalling is very much what we intend to have in the backlog in the coming years.

So it will take some time before being reflected in sales, of course, because the duration of Rolling Stock contract and service contract is not the same. But there is absolutely no change in the strategy. You've noticed that the book-to-bill for Rolling Stock was below 1 for the last two years. So I mean we have in a way accelerated the transition to a more service weighted backlog, but if we continue like that, we would be below 40% for sure for Rolling Stock.

So there is a kind of rebalancing in terms of order intake, but there is absolutely no change in the strategy. We want to reduce the share of Rolling Stock on our sales. It was above 50% last year on sales and it will be in the next decade below 40 - 50%, sorry. No change in the strategy, Martin.

Martin Wilkie: Great. Thank you very much.

Operator: Thank you. We now take a question from Jonathan Mounsey[?] [00:34:59] from BNP Paribas. Please go ahead. Your line is open.

Jonathan Mounsey (BNP Paribas Exane): Hello. Good morning, everyone. Yeah, maybe the first question. I see in the assumptions underpinning the guidance. It's just a very minor tweak compared to the last quarter for your results. I think you say the US tariffs, you now expect to be able to mitigate them, whereas I think previously you were sort of saying guidance was given, excluding any impact of tariffs. Maybe just an update on why you're able to feel more confident on that? Is it purely that the larger tariff threat has maybe waned a bit? Or you are able now to sort of scope the actions that you are going to take? Just really why are we now confident that the tariffs will not actually be an issue?

Bernard Delpit: Hi Jonathan. I would say it's a combination of two things. First, some months ago it was pretty difficult to say where this tariff discussion would lead us in terms of impact on our backlog. Now we have more clarity. One of the important aspects of that is the end game for Northern America with Canada and Mexico. And so I think that the landscape is now clearer and that's important for us. So we have a better views of the impact on tariffs and it's not as extreme as we thought few months ago.

It has an impact for sure. It's not good but it has an impact. And the second reason is that we manage it. We had a very constructive discussion as I said with our clients in order to absorb that because that's just a reflection of our contract structure. We have change-in-law and we

just need to make sure with the clients that we have the same reading of the contracts and we have a very high confidence that based on that we'll be able to, I would say, to reflect in our sales the impact of something that was not in the initial contract. So that's why first the gross impact and then the net impact. We have better visibility and we think we'll manage that.

Jonathan Mounsey: Maybe just a follow up. The guidance on free cash flows, really specifically for the first half, the up to €1 billion burn, it's always sounded to me like you're effectively describing the worst case scenario. I mean you're four months into the half now. Are you any more able to understand the true outlook? I'm really thinking what's the best case scenario? What's the expected value?

I mean I guess the range of outcomes is perhaps on a bell curve. What's the outcome with the largest probability? I'm saying that in the context, I think consensus has maybe got a burn of about €750 million, so it hasn't gone to the worst case scenario, but are you happy with that? Do you think that's fair as a consensus assumption?

Bernard Delpit: You know that I never comment consensus. I would reiterate the wording because we have put a lot of ourselves in wording exactly what we think on H1. We see limited upside, very limited upside on the €1 billion. I still consider that €1 billion is kind of maximum, but I see limited upside on that. That managing for a few hundred millions, the landing is extremely difficult in our industry.

I will not elaborate more. But I mean I'm sure you have well understood what I said, limited upside to the €1 billion max on H1 and at least €1.2 billion in confidence on the €1.2 billion cash generation on H2. So when you combine both, I think you should have a good understanding of where we sit today. It has to do with what we think about FFO progression over the full year and it has to do with the downpayment weighting, and total amount between H1 and H2.

And again, I want to maybe something that could come as a surprise to you, but when you have large options, so that's big in terms of orders but that's not as big as in terms of downpayments because options do not come unless we negotiate differently with downpayments.

So when looking at that, it explains why we see more downpayments in the second part of the year, and that's why we see a significant increase in H2 free cash flow versus last year.

Jonathan Mounsey: Thank you. Very clear.

Operator: Thank you. Now we take a question from Vlad Sergievskii from Barclays. Please go ahead. Your line is now open.

Vlad Sergievskii (Barclays): Yes, good morning, and thank you very much for taking my two questions. Both of them are on Service. Service grows 2% as you mentioned in the first quarter. Is there upside or ramp up to this 2% rate through the rest of the year and perhaps into next year, particularly given how strong the order intake in service was over the past years?

And second, a more conceptual question on Service. Obviously, you mentioned very strong 10% CAGR of Service revenue growth since BT deal, but the book-to-bill was even greater than that, much greater than 1.5 since the BT deal. Why there is a fundamental difference and such a big difference between revenue growth in Service and book-to-bill in Service? Is it something

to do with expansion of the Service backlog and duration or something else? Thank you very much.

Bernard Delpit: Well, I think that I already answered on Service growth, if I understood well your first question. The 2% is indeed less than last year, but the comps were tough last year. I think that last year Q1 for Services was something like 13% up. So that's why it's below that this year, but it's still growing. Now, and maybe also back to your second question, it has to do with the phasing of a service contract.

Some service contracts start with what we call a mobilisation phase. We need to get prepared. So it's not really development, but we need to prepare for the maintenance to start. So at the very beginning, we have kind of startup phase like in Rolling Stock but not as pronounced, and you know it's not funded where we have to mobilise resources. So it comes with costs ahead of what we can invoice in terms of maintenance.

Because the book-to-bill was very high and we were in a phase where we have increased our service base, we had a kind of mobilisation phase we have been through and this phase now as I would say not ended but is less pronounced than in the past. So it explains kind of phasing of service growth versus last year.

Vlad Sergievskii: Thank you very much.

Operator: Thank you. Now from JP Morgan, we have a question from Akash Gupta. Please go ahead. Your line is open.

Akash Gupta (JP Morgan): Yes. Hi, good morning, and thanks for squeezing me in. I have just one question left, and that is on the pipeline of orders. Can you provide us a bit more colour in terms of what size of projects are you expect to see in the remaining part of the year? We had already two very large orders in first four months. But I'm wondering if we have more orders of €1 billion or €2 billion size, or the pipeline is skewed with a high triple-digit mid-size orders?

The background of the question is just because larger order size and lumpy they are in terms of the timing of those orders. So any colour on the pipeline, size of pipeline in orders, that would be great. Thank you.

Bernard Delpit: Hi Akash. Well, I will not give you too much colour because we have a view on the total size of the orders. We are keeping the same optimistic view on the total order coming in the next quarters. But in terms of kind of orders, we are working on multiple different opportunities, should it be a high-speed commuters, regional trains and Signalling as well. So I think it is going to be a combination of all that.

I do not see mega contracts coming in the next, I would say, seven month even if we are working on significant opportunities. But no, the large ones are the one that have not been recorded in Q1, but that you have seen in July in the US. We are also working on different opportunities in APAC as well and in Canada as well. So it's coming, but I think it's too soon to give you more granularity.

The only thing you can say that we are pretty optimistic that the total size of the order intake will be higher than last year and with a book-to-bill for Rolling Stock above 1. Because of the two orders that you've seen in July that could come through and be booked on Q2, I think that

the book-to-bill of Rolling Stock will be substantially higher in Q2 than in Q1. So that's what I can say, Akash.

Akash Gupta: Thank you. Maybe just to follow up to that. When we look at your base orders in Q1, they were somewhere in the middle of the €1.5 billion to €2 billion range. For rest of the year, how do you see prospect of base orders versus last year? Do we see similar growth in base orders as well or these higher order intake is entirely coming from your expectation on larger orders or more than €200 million [inaudible] [00:46:02]?

Bernard Delpit: Well, yeah, I see where you stand. I would say that I do not see a major difference in terms of base orders this year versus last year. So we are still in the region €1.5 billion to €2 billion per quarter. Nothing has really changed. And we don't bet on higher base orders to reach our order intake target this year.

Akash Gupta: Thank you, Bernard.

Bernard Delpit: You are welcome.

Operator: Thank you. We now move on to a question from James Moore from Rothschild and Company. Please go ahead. Your line is open.

James Moore (Redburn Atlantic): Yes, thank you, and good morning, everyone. Bernard, maybe I could start with one and two follow-ups. I noticed you dropped the language on R&D to sales being above 3%, and I wondered if that was a function of gross margin progression being perhaps a touch short of your a 100 bps for the year and wanting to hit the 7% adjusted margin, or more a function of timing and the challenge of spending that amount of R&D dollars. I guess that's the first one. And maybe I could come back on the other two.

Bernard Delpit: Yeah, please. On R&D, it was not intentional to change the wording on that, but it's my job to make sure that you manage different moving parts of profitability bridge. So it doesn't mean that we will reduce the R&D targets that we believe needs to be above 3% to get to the 7%, but that's one of the possibility that we have in order to reach the around 7% commitment. So no change in the plan, so don't see in the wording any implied consequences in the gross margin. We are still in the same perspective as in when we issued the guidance in May.

James Moore: Very helpful. And you mentioned the change of law clauses. Maybe this is a question about the fact that in the supply chain crisis, Alstom talked about trying to add more escalation clauses. I wondered if you could help me understand the difference between what those escalation clauses that were added a couple of years ago, how that differs to now adding surcharge for tariffs. Presumably they're the same sort of mechanism. I wondered why that wasn't covered already in the old surcharge adjustments that were put into contracts.

Bernard Delpit: Well, at the end of the day when you take a kind of helicopter view, it has the same impact because you want to pass through your clients some things that were not priced or costed like that at the very beginning of the contract. But I mean next time I will bring my legal people to answer to your question, but contractually you do it. There are things that where you make provisions for at the time of the bid and things, you don't want to increase your price because you will be less competitive. But you are clear on the formula of escalation of your price to reflect different landscape or potential events that could happen in the execution of the contract.

So it is a bit kind of contract management issue here. But when it comes to tariffs, when we offer a price and that a large part of the bill of material is built in the country but sometimes come from outside, you have to be very specific and will be more and more specific considering the landscape in terms of tariffs.

But in a nutshell what we call CPA. So escalation and change in law is different. I mean, you can't escalate a cost base for tariff. You have to be extremely detailed and you have to come to your client to say, well, at the time of the bid, we thought that tariffs on such and such part of the bill of material was such. Now it has changed. It has nothing to do with the economic environment, it has to do with what your government is deciding. So it has to be reflected in the price.

So we have both escalation formula. And you know that we think that we are well protected from that point of view, and change in law, where things that cannot be reflected in an escalation formula have to be implemented.

James Moore: Yeah, thank you. And lastly, if I could. You mentioned the €100 billion German budget and you mentioned the Signalling opportunity, but didn't seem to expand so much on the Rolling Stock opportunity. I presume you see a very attractive Rolling Stock opportunity also in Germany. I wondered if you could expand a little on that.

Bernard Delpit: It's a bit early James to elaborate on that. I understand that there is a lot that will be done on the infrastructure of the network in Germany. You know that some part of that infrastructure we are not in. I think it will be a material part of the €100 billion. So we don't know exactly. We have not changed our views.

I mean when you want to modernise your network, you have to start with a network itself in terms of Signalling if you want to improve your traffic management, but in terms of infrastructure as well. So we have not seen a lot in terms of Rolling Stock. By the way, our backlog is quite heavy in Germany with the existing backlog for Rolling Stock. We now have to deliver in the years, I would say since the merger we have taken some good order intake and some great ones. So now we have to execute. We are in the ramp up phase of those contracts.

So if it comes with new Rolling Stock orders, that will be great. But I have no details on the granularity of these because again, the government has to fund infrastructure Deutsche Bahn. But when it comes to local public transport authorities, we don't know yet. It's too early, James. Too early.

James Moore: Thank you, Bernard. Thank you.

Operator: Thank you. We now move onto Louis Billon from AlphaValue. Please go ahead. Your line is open.

Louis Billon (AlphaValue): Hi. Good morning, everyone. Thank you for taking my question. Could you provide more details on the projects in ramp-up phase? What are the projects in ramp-up phase? Is there a risk in the development of those projects? And if yes, to what extent is this risk included in the full year free cash flow guidance?

Also maybe could you give us the recent development for the TGV M project?

Bernard Delpit: Okay. I mean, generally speaking, all our projects come with risk and opportunities. So it's our task to manage both. And yes, when you have a higher proportion

of ramp-up projects into the year, from that point of view, it's more risky than a year with only serial projects. When you have a high proportion of serial projects, what you face could be supply chain issues. That's what happened last year.

Now we are in a different environment. We don't think that the supply chain will be the driver. It's more the end of the engineering phase and the handover between engineering and manufacturing. That's where we are.

Is it taken into account in our free cash flow guidance? Yes, in a way that by definition, when you have more ramp-up projects, I mean, you burn cash because you are ordering raw material, you have a higher proportion of WIP and finished goods waiting for the homologation. That's why by definition, a year with heavy ramp-up project is more challenging in terms of cash generation.

Of course, it still has some risk of execution, but that's our day to day job. There is nothing much I can elaborate. The only thing I could say that this year, ramp-up projects are mostly in Germany and in France. And you mentioned one of those, which is the TGV M, not much I can say. By the way, it's the client that will decide when to go for revenue service. We are ahead of this moment. We are still in the testing phase, and we'll have the homologation phase. So still a long way to go. And it's not to me to give any specific news on the TGV, it's the client.

Louis Billon: Okay. Thank you.

Operator: Thank you. As a brief reminder, that is star one if you would like to ask a question. We now move on to a question from William Mackie from Kepler Cheuvreux. Please go ahead. Your line is open.

William Mackie (Kepler Cheuvreux): Good morning, Bernard, and team. A couple of questions. I guess the first one would be, could you update us on the progress of a number of the legacy contracts, the tail risk at the end of your backlog? I'm thinking particularly the Amtrak contract for high speed. There's a number of contracts in Denmark and France, which are perhaps under some scrutiny externally. Update on how you see those progressing and the potential impact or drag that's going to have on the full year operating profitability.

My second question moves across to Asia and just to see if you can provide any more colour on your thoughts about progress of the business in China and some of the assumptions you might be making for contributions from JVs this year?

Bernard Delpit: Okay. So we are moving from orders and sales to profitability here. So not much I can share with you today, Will. But by definition, all contracts that have a high percentage of completion are in the dedicate phase of the end of the programme. So you mentioned some of them.

As I said before, as now the Aventura is totally executed in terms of manufacturing, we are at the end of it. So I don't mention it as a major drag on our margin. Having not Aventura will be kind of improvement versus last year, even if we are still refining some discussions with the client for the reliability phase of the programme. So we are not definitely out of it.

But I mean the most painful part of that has been done and has been provisioned, I would say. Nothing specific to discuss on DSB.

Maybe on Amtrak, we are expecting some news. Could have been this morning, could be in the next days in terms of start of the revenue service. So still expecting some good news. We have had some cash, I must say, since the beginning of the year. We see more coming, and it will take some quarters in order to reduce what we see as a positive working cap, so waiting on our cash situation. So it will be recovered over the next quarters. I think it will take between two and six quarters to recover the cash from Amtrak. So we're optimistic about this one. It will come shortly. I hope that you will see some news from our client in the coming days.

Yeah, look, I shouldn't say days because I don't know exactly. It could be weeks, and this is beyond my control. So don't forget about the horizon. It's up to the clients, not up to me.

In terms of Asia, we have no specific news to share with you on our business in China. We've seen some good results from the JVs. So nothing to flag in terms of potential negative impact in H1. I mean the contribution remains robust.

When I mean robust, I mean in line with what we've seen in previous years, both in terms of contribution to adjusted EBIT and to dividends and cash. So nothing really new here.

William Mackie: Thank you very much. A quick follow-up, just to frame this discussion about contracts in ramp-up or serial phase. You talked about the 15% to 20% share on a number of occasions. Just to frame it in perhaps a medium-term context, do you have in mind a sort of balance of how the mix of Rolling Stock, the ebbs and flows of the business through a cycle should normally sit? Do you think ramp-up should be 5% to 10%, or it's about where it should be? Or is it just only possible to sort of make an observation about the current state of development of the business?

Bernard Delpit: Well, it's already pretty difficult to have a view of the end game in terms of total cars. For the moment, I keep my view that 5,000 cars will be the cruise speed level in the next years. So we are not there yet.

I think a book-to-bill above 1 is the journey, book-to-bill in this year and the next year maybe 2 there. But now elaborating on the mix between serial ramp-up and start-up is very difficult. By definition, as we will have a book-to-bill above 1, it means that we'll have more start-up projects coming in the pipe for the next two years, and that will be reflected in the ramp-up in, let's say, three to five years. Then serial mode, five to six. That's what I say, what I believe.

Now it's extremely difficult because it depends on the number of cars and the delay and the execution risk that we have. And all projects have not the same development phase. It depends on the carryover. So the more gaps you have to bridge between your solution and the client ask, the longer it takes in terms of development and the longer intake to switch from start-up to ramp up. So sorry to be a little bit vague here, but it's extremely difficult to give you more granularity on what is the ideal mix between serial start-up and ramp-up.

But I will think about that if you think it's really a key parameter into thinking about the cash, normalised free cash flow going forward could be important.

William Mackie: Thank you for the insights, Bernard.

Bernard Delpit: You're welcome, Will. I think that we are done now. Thank you very much for your time, and let's have a good summertime, summer break, and we'll be happy to talk with you when necessary. Thank you. Bye-bye.

Operator: Thank you for joining today's call. Ladies and gentlemen, you may now disconnect
[END OF TRANSCRIPT]