

Alstom - Half Year Results Fiscal Year 2025/26

Thursday, 13th November 2025

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Operator: Hello and welcome to the Alstom Half Year Results for Fiscal Year 2025/2026. My name is George, and I'll be your coordinator for today's event. Please note this conference is being recorded and for the duration of the call, your lines will be in listen only mode. However, you will have the opportunity to ask questions towards the end of the presentation, and this can be done by pressing star one on your telephone keypad to register your question. If you require assistance any time, please press star zero and you'll be connected to an operator. I'd like to hand the call over to your host, Mr. Henri Poupart-Lafarge, CEO, and Mr. Bernard Delpit, Executive Vice President and CFO. Please go ahead.

Henri Poupart-Lafarge: Thank you. Thank you. Good evening. Good evening, everybody, and thanks for joining Alstom's First Half Results Conference Call. I'm Henri Poupart-Lafarge, group CEO, and I'm joined by Bernard Delpit, EVP and CFO. I will first comment on the highlights of the first half before Bernard will walk you through the financial results. I will then comment on guidance before opening the floor for your questions. So let me start with the key figures for the first half. Orders reached €10.5 billion with strong commercial momentum in Q2, particularly driven by rolling stock and North America. The book to bill ratios stood at 1.2, fully aligned with full year guidance.

Sales came in at €9.1 billion, reflecting 7.9% organic growth, with all product lines and regions contributing. Adjusted Ebit was €580 million, up 13% year on year, representing a 6.4% margin compared to 5.9% in the same period last year. Free cash flow was -€740 million as expected, reflecting typical in higher seasonality. The solid performance underscores the strength and resilience of our business model. Let me highlight three key competitive advantages that I believe will continue to drive commercial and operational success. First, the multi-local footprint is more relevant than ever in today's macroeconomic and geopolitical environment. It allows us to win business and execute projects effectively, and we are continuing to expand in this direction.

Second, the integrated approach across rolling stock, services, signalling and systems is delivering strong sales synergies. In particular, most of our rolling stock orders are now linked to long term service contracts, reinforcing revenue visibility. Third, the harmonization of the rolling stock portfolio is delivering results, particularly in high-speed rail. Progress towards the homologation of the Avelia Horizon platform is encouraging and we have secured additional orders for the platform in recent months. In the meantime, we continue to execute on our strategic priorities. With the Bombardier Transportation integration now complete, we are focusing on driving industrial and development performance. The transformation plan in Germany in particular is progressing well, and we are rolling out efficiency initiatives across engineering and manufacturing.

Looking now at page six, Alstom's addressable market remained stable for the three fiscal year beyond March 2026, at around €200 billion. Europe continues to stand as our first market, concentrating many rolling stock, commuter and mainline signalling opportunities. American customers will tender train replacement opportunities in the north, with mainline and urban network expansions being expected again in the south. Half of AMECA, €31 billion pipeline will be made of turnkey projects, and Alstom stands ready to tap into those. In Asia Pacific, Australia

and India will continue to be our main markets, with India focusing on freight and urban developments, while Australia could see the exercising of several rolling stock optional tranches.

Now turning to slide seven, focusing on orders in the second quarter. The Americas region had a very successful semester this year with two landmark orders. This includes a €2 billion rolling stock contract with MTA in New York, a €1 billion rolling stock option exercised by NJT in New Jersey. In Asia Pacific, commercial activity was also strong in the second quarter, with key wins such as another metro project in India confirming Alstom's long-lasting presence in the city of Mumbai, a €500 million rolling stock and maintenance contract in New Zealand, in addition to the KiwiRail signalling project signed by Alstom in 2022. A signalling order in Singapore enabling faster travel times from Changi Airport. Together with other small orders, Alstom recorded €6.4 billion in total orders for the second quarter. This brings the book to bill ratio for the first half of the year to 1.2.

Moving to slide eight, highlighting large orders announced and booked since the start of the second half. Let me start with Eurostar. Eurostar has placed an order for 30 Avelia Horizon double decker very high-speed trains for a total value of €1.4 billion. The agreement also includes an option for the purchase of 20 additional units. This is a strong validation of the Avelia Horizon platform, which is now close to homologation and has built a very solid order book of more than 170 trains serving multiple clients both in France and abroad. On the right-hand side, Polish operator, PKP, awarded a contract worth €1.6 billion for the supply of 42 Coradia Max trains, together with 30 years of maintenance. This award illustrates the strengths of the Coradia platform, as well as the increasing share of rolling stock contracts being bundled with long term maintenance. The agreement with PKP also includes an option for the purchases of 30 additional trains.

Turning now to the backlog on slide eight, the average gross margin in the backlog stands at 18% at the end of the first half, compared to 17.8% at the end of the same time last year. This represents a 20-basis point increase compared to the end of the last fiscal year. Considering the weight of rolling stock orders in the first half, the increase in the gross margin backlog demonstrates the quality of the order intake across all product lines. Our commercial wins this semester have shared a particular light on the North American rail market, as explained on slide ten.

We have seen over the recent years' ridership increasing closer to pre-COVID activity, with Amtrak ridership in the US already exceeding the pre-crisis level. The need for enhancing passenger experience and upgrading aging train fleets remained a powerful commercial driver, with 50% of the US installed base needing replacement in the short to medium term. The US railway supply market as addressed by Alstom has witnessed further concentration, with the three largest players accounting for about three quarters of all orders in the last three years. Finally, in Canada, Alstom enjoys a unique position thanks to five main sites and 5,000 employees.

Continuing with North America on page 11. On the delivery aspects, we celebrated in August the debut of the Amtrak's high speed, NextGen Acela on the Northeast Corridor. These are the fastest and most technologically advanced trains in the US that Alstom manufactured at its Hornell hub. This facility in upstate New York is the largest dedicated passenger rail manufacturing facility in the US. Hornell is also where the trains from the newly signed MTS M-9A order will be delivered, with further investment made there to manufacture car body shells.

On the West Coast, the Bay Area Rapid Transit BART in California accepted the 1,000th car from the fleet of the future. This railcar came from Alstom's Plattsburgh facility, where the group is also manufacturing the NJT multi-level three double deck EMUs. Turning our attention to France on page 12. The first MF 19 Metro entering service on Paris Metro line ten has brought the focus back on the widest generation of train innovations that Alstom has simultaneously matured. Within the time frame of only five years, no less than five new train platforms will have reached operational service stage, among which MF 19, RER NG and Avelia Horizon for high speed. The RER NG, in particular commuter trains, have been running on the RER E line since November 2023 and on RER D line since December 2024. Combining single and double deck cars, this train embarks numerous capacity, comfort and accessibility innovations.

And last, the Avelia Horizon platform witnessed several further milestones with TGV M starting endurance tests in France following completion of certification tests, and with another high-speed commercial success achieved with Eurostar. On page 13, we reflect again on car production levels, providing insights into the rolling stock business, which, together with the train components, represents about 50% of sales. Production volumes were broadly stable in the first half compared to last year. Some projects saw an increase in production, including RER NG and TGV France, commuter trains for BART in the US, or several German projects where volumes are on the rise.

At the same time, some large projects that contributed to volumes last year have now been completed. This includes some tyre metros in Paris, some metros in Sao Paulo, the Tren Maya project in Mexico, or the Avelia Liberty for Amtrak in the US. In addition to a favourable mix of cars and sales, it's worth noting that more cars produced in the first half were part of projects in ramp up phase compared to same period last year, which also contributed to rolling stock sales growth. Overall, we continue to expect stable production for the full year. Let me now pass it on to Bernard, who will comment the first half results.

Bernard Delpit: Thank you, Henri. Good evening, everyone. Let's start with the order intake as shown on slide 15. We recorded €10.5 billion of orders in the first half. The book to bill ratio that was 0.9 for the first quarter accelerated to 1.4 in the second quarter, resulting in a book to bill of 1.2 for the first half, of which 1.4 for rolling stock. The backlog reached €96.1 billion, up from €95 at the end of March. This increase was driven by a strong book to bill, but partly offset by negative currency effects.

Looking at the regions, the Americas had their best semester ever with large orders from New York and New Jersey. Europe remained the largest contributor, supported by strong momentum in France, and the signalling business had a solid start to the year, with contract wins in Italy, Taiwan, Brazil and Singapore. Turning to sales on slide 16. Sales reached €9.1 billion in the first half, up 7.9% on an organic basis. All product lines contributed to sales growth. In particular, rolling stock sales totalled €4.7 billion, reflecting 6% organic growth. This was driven by a strong ramp up in Germany, with double digit growth across multiple regional train projects. Continued momentum in France, notably supported by the RER NG program. In the Americas, increased production volumes for BART in San Francisco offset the completion of other projects, including Amtrak. In Asia Pacific, the locomotive business in India remained an important growth driver.

Services. Service sales reached €2.3 billion, with a 6% organic growth supported by strong performance in Italy, the UK, Australia and airport people movers in the US. Sales in signalling came in at €1.3 billion, with 17% organic growth driven by robust execution in France, Italy and Germany. Reported growth in signalling was more modest at 4%, mainly due to the deconsolidation of the North American conventional signalling business as of September last year.

Finally, systems sales totalled €0.8 billion, representing 10% organic growth. Second quarter performance was impacted by the ramp down of the Mexico Tren Maya contract, which was not fully offset by ramp ups in the Philippines, Taiwan and Brazil. The trend seen in Q2 will continue into the second half. Looking now at inorganic items, foreign exchange was a 3.3 headwind driven by euro appreciation against most currencies, and scope had a -1.2 impact due to the deconsolidation of the US signalling business that I mentioned above. Scope will be neutral in H2. So as a result, sales grew 3.2% on a reported basis.

Looking now at the PNL on slide 17, gross margin reached 1.2 billion, representing 13.6% of sales, a slight decrease compared to the prior fiscal year. In absence of a scope and FX impact, the gross margin percentage would have remained stable. The improvement in project execution and industrial efficiencies was offset by regional mix headwinds, with, for instance, Asia Pacific being broadly flat at current FX rates, while Germany grew solid double digits in the first half but at lower gross margin. Net R&D costs accounted for 2.7% of sales, notably due to cost discipline, project phasing, but also to the disposal of the North American signalling business, which was more R&D intensive.

Selling and administrative costs have reduced both in absolute terms and as a percentage of sales, now representing 5.7% of sales in the first half, demonstrating continued efforts on cost efficiency. We also benefited from a solid €100 million contribution from the joint ventures. This demonstrates both the resilience of the Chinese market and the dynamism of the broader Asia region, to which several of those JVs are exposed. Taken together, the adjusted EBIT increased by €65 million, reaching €580 million this semester.

Turning to slide 18 and the analysis of adjusted EBIT margin development in the first half. The 50 bps improvement to 6.4% is the combination of 40 bps headwind and 90 bps performance. On the one hand, adjusted EBIT margin faced a couple of inorganic headwinds scope at a -20-basis point impact, slightly less than the impact on gross margin, due again to the higher weight of R&D for the North American signalling business compared to the group average. FX had a -20-basis point impact from a translation effect. On the other hand, these headwinds were more than offset by progress on project execution and industrial efficiencies, contributing around 20 bps to margin improvement.

Fixed costs looking at R&D and SG&A together contributed to a 50-basis point increase. Other elements, including the increase in net interest in equity investees pick up contributed 20 basis points overall. Looking at net profit on slide 19, non-operating expenses have reduced further to €37 million in the first half. Non-operating expenses mostly relate to the impact of the German transformation plan and some legal costs. As a reminder, integration costs were nil the first half of this year as Bombardier Integration Program was concluded last year.

Net financial expenses decreased to €75 million from €107 million. As a consequence of deleveraging plan that occurred in H1 last year, effective tax rate came back to a structural level of 28% compared to 37% in the same period last year. Finally, adjusted net profit increased by 51% to €338 million for the half year and net profit group share after PPA reached €220 million four times last year's net profit. Turning now to free cash flow on slide 20. Free cash flow came at a -€740 million, consistent with expected seasonality. Let me highlight a few moving parts here. Adjusted EBITDA, including dividend payment from JVs, reached €800 million versus €708 last year.

Capex and CapDev together amounted to €225 million, or 2.5% of sales, with some favourable phasing impact of investments that will reverse out during the second half. Financial and tax cash out together amounted to €152 million, coming in close to the PNL expense. This results in a solid increase of funds from operations to €411 million for the first half, up more than €100 million compared to the same period last year, confirming the trajectory observed over the last three years.

Finally, working capital was a €1.2 billion headwind, slightly better than expected. Talking trade working capital on slide 21, trade working capital stood at 43 days of sales at the end of September, broadly stable compared to the first half of last year. The increase compared to March 2025 represented a €500 million headwind for cash generation in H1 this year. Inventories increased by €315 million over the six months and stand at 87 days of sales, not very different in terms from September 2024. This is largely explained by the anticipated acceleration in rolling stock production during the second half of the year, with higher value trainsets to be manufactured this year. In comparison, the days of payables progressed slightly less than days of inventories.

Looking now at contract working capital on slide 22, it went from a favourable 89 days of sales to 79 days at the end of September and stands at -€3.9 billion, so generating close to a €600 million headwind during the half. Net contract, assets and liabilities went from -59 to -48 days of sales, just below €2.5 billion. The vast majority of the decrease in the net position was driven by rolling stock with three dynamics. First, the increasing share of projects in a ramp up phase compared to last year. During this phase, when cars are being built and homologation milestone is not reached, then rolling stock contracts pivot from a contract liability position to a contract asset position and therefore consume working capital.

Second, the phasing of down payments this year is very different to last fiscal year. Less down payments in the first half. More to be expected in the second half and third a few large rolling stock contracts have only recently reached cash milestones, including, for example, Amtrak with the launch of commercial service in August and cash ins to be collected over the next quarters. We anticipate the three dynamics will remain valid through the rest of the year, but the timing of down payment will largely drive the improvement in contract working cap in the second half.

Finally, provisions are decreasing as expected with the execution of the legacy backlog. Net financial debt on slide 23, it increased to €1.4 billion at the end of September, up from 434 at the end of March. In addition to free cash flow changes, leases and dividends from minorities, combined with a €44 million annual bond coupon paid for the hybrid bond amounted to nearly €150 million total cash outflow during the first half and the strong appreciation of the euro had a negative translation effect on cash balances held in non-euro dominated currencies of €65

million. This translation adjustment is by definition non-cash, but does impact the net debt in Euro terms. You will find in appendix of this presentation the updated bridge computation from EV to equity value reflecting these evolutions.

Finally, looking at cash and debt profile at the end of September on slide 24, cash balances stood at €1.7 billion at the end of September, compared to €2.3 at the end of March. The amount of short-term debt entirely through commercial paper stood at €400 million, while the balance was nil at the end of March, leading to a net cash position excluding long term debt of €1.3 billion. These moves are explained by free cash flow consumption as detailed in previous slides. The agreement with the rating agency to earmark a portion of cash for future debt repayments, and the need to keep a certain amount of cash to run the business. This concludes the Financial Review. Let me pass it on to Henri for final remarks.

Henri Poupart-Lafarge: Thank you. Thank you, Bernard. So turning to the outlook, with first taking stock of the assumptions that we laid out in May and that underpin the full year guidance. First, commercial momentum has been particularly strong, driven by robust underlying demand and Alstom competitive positioning in key markets. Second, car production remains stable in the first half, and we expect this trend to continue through the full year. Third, innovation remains a strategic priority for the group. However, given stronger than anticipated sales momentum, we now expect R&D to represent around 3% of sales for the full year compared to slightly above 3% previously. Fourth, exposure to US tariffs remains limited as most projects meet minimum US sourcing requirements, and we have legal safeguards through change in law clauses. Year to date, the vast majority of tariffs paid have been agreed for re-invoicing with clients.

On that basis, and in light of our first half performance, we confirm the objective of a book to bill ratio above one, both at a group level and for rolling stock. We now expect organic sales growth to exceed 5% compared to 3 to 5% previously. We confirm the adjusted EBIT margin guidance of around 7%, and we continue to expect free cash flow generation within the €200 to €400 million range. Finally, as mentioned in the press release issued earlier tonight, medium term ambitions are unchanged, including the three-year free cash flow objective of €1.5 billion. This concludes the presentation, and Bernard and I will now be happy to take your questions.

Questions and Answers

Operator: Thank you very much, sir. And ladies and gentlemen, as a reminder, if you wish to ask any questions, please press star one on your telephone keypad and just make sure that your line is unmuted to allow us to reach your equipment. Our very first question this evening is coming from Akash Gupta calling from J.P. Morgan. Please go ahead, sir.

Akash Gupta (J.P. Morgan): Yes. Hi. Good evening, everyone, and thanks for your time. I got two, one for Henri and one for Bernard. The first one I have is on the pipeline of projects that you show in the presentation. So we see a European pipeline reduced by €12 billion in the past six months. And the question is, is this largely reflecting the awards that we have seen in the period, or is there something else that has moved as well? And similarly, if I may also ask, what is driving the increase in pipeline in AMECA region where you see €9 billion increase in next year's award? So that's the first one.

Henri Poupart-Lafarge: No, thank you, Akash. On the first on the pipeline. So first, let me reiterate that the market is extremely positive. As you know, we have still a long-term market growth, which is estimated around 3% by Unife. And that is the kind of macroeconomic view and the pipeline which we look at, which is the sum of all the opportunities which we have in front of us, as you have seen, is still very positive. So you're right on Europe. Time goes, a lot of as you have probably seen in the press and the media, a lot of orders which have been allocated to Alstom, but not only in the recent period. And therefore, there is a slight decrease of the pipeline. On the growth, the second part was on which region you were asking for the growth.

Akash Gupta (J.P. Morgan): It's AMECA region where your pipeline has increased by €9 billion.

Henri Poupart-Lafarge: So we have - it's true in AMECA. Particularly in Middle East, we have a number of turnkey projects which are coming and which have been rejuvenated, if I may say. Riyadh, for example, line seven of Riyadh and so on. So we have increasing turnkey jobs which are coming in the region.

Akash Gupta (J.P. Morgan): Thank you. Then the question for Bernard is on cash flow. So when you gave €200 to €400 million free cash flow guidance in May, you had much lower visibility than what we have today. And now we have roughly six months gone. And the H1 outflow was much better than expected. And you have already announced a couple of large orders for Q3. So my question is how do you feel about the range? And could we say that upper half of the range may be more likely, or is it still too early to conclude that? Thank you.

Bernard Delpit: Thank you for that. Frankly, I will not refine the guidance that we have just reiterated of €200 to €400 million. It's, by the way, a quite narrow range from my point of view, there is nothing really new. It's true that H1 was better than anticipated, but kind of phasing rather than anything else. All the good news that you have seen from commercial momentum point of view were also in the initial guidance. So no change. I hope that by the end of Q3, I will be in a position to refine this, the assumption. But let's keep the €200 to €400 million range positive free cash flow as our assumption today.

Operator: Thank you so much, sir. We'll now move to Mr. Andre Kukhnin of UBS. Please go ahead, sir.

Andre Kukhnin (UBS): Yes. Good evening. Thank you very much for taking my questions. Could I ask about the margin first? You've put in pretty solid H1 performance, and it looks like the revenue guidance increase is coming mainly from service and signalling judging by the bips in Q2 and that R&D intensity slightly lower. So I was kind of thinking about the 7% now as a number that starts with seven and could be something around seven, but seven one, two, as opposed to sort of high sixes. Is that - would that be the right way to think about the way the margin is progressing? And then I've got another one.

Bernard Delpit: Okay, Andre. I will take this one. No, frankly, we keep the guidance absolutely intact. To tell you the truth, we have some headwinds coming from FX, and we mitigate this negative with the R&D new guidance. But for the rest, we keep it as we issued it in May. And I think it's already good to mitigate the FX impact and sales growth will have limited impact on our adjusted EBIT as well. So here again, I think it's good to keep the same line. I know that you guys are waiting for an upgrade. We have upgraded the sales growth. But when talking

cash and adjusted EBIT, I mean, keeping the initial guidance was I think a good thing. Let's stick to what we said.

Andre Kukhnin (UBS): Got it. Thank you. I guess I had to try. Can I just ask a quick follow up in terms of - so you've told us a backlog margin has improved by another 20 basis points. Could you comment on where your order intake margin is trending at the moment?

Henri Poupart-Lafarge: Thank you for the question. I mean, it's a very important and I think very positive development in the first half. We had indeed a very nice gross margin in order intake in all our segments, in all our activities. Because as you have seen, as compared to previous years, where we had a good gross margin in order intake, but which was supported by the mix, which was, I would say, more favourable to signalling and service. Here we have recorded a number of rolling stock orders, and I would say despite that, which can have a mechanical negative mix impact, we have recorded a very healthy gross margin in the order intake. So which has enabled us to increase. It's always slight increase because we are talking a very large order backlog. So of course, a six-month addition has only a relatively limited accretive impact, but still an accretive impact, which reflects the good level of margin in order intake.

Bernard Delpit: And if I may, on this, we have also a negative, Andre, we have also a negative FX impact when we translate all those orders in Euro. So having a 20 bips improvement in this environment, including the 1.4 book to bill for rolling stock. I think it's a great performance.

Andre Kukhnin (UBS): Very helpful. Thank you.

Operator: Thank you, sir. Next question will be coming from one second please. I'm just going to remove that one, one second please. The question will be coming for that is from Gael De-Bray of Deutsche Bank. Please go ahead, sir.

Gael De-Bray (Deutsche Bank): Hi. Good evening, everybody. Thanks for the time. Can I ask you again, I'm curious about the free cash flow performance. I mean, what surprised you to the upside in H1? And it's not expected to be repeated in H2.

Bernard Delpit: Yes, this one is for me, Henri. Yeah. So it's really a question of phasing things that were expected to be in H1 will be pushed to H2. And we have also some VAT phasing because some of the cash came later than expected. So we had no time to repay that to the Treasury. It's limited, of course. But I mean, when we are talking about tens of millions here, €10 million there, it can play. So nothing really changed our view. I remind you that yes, we said up to and in July, I said I had no visibility to improve that. But there is absolutely no reason why the way we have described the year with a seasonality will not happen like we described it. So it's very much like I call it seasonality or cut off. But as we planned initially, Gael.

Gael De-Bray (Deutsche Bank): Okay. Thank you. And the second question is on the gross margin development. So you said it was about flat if we exclude FX and scope, but it is only flat. Not disappointing given the higher share of signalling and service revenues in the mix in H1.

Bernard Delpit: Well, I wouldn't say disappointing. It's a combination of many things and maybe something that was not flagged. We have kind of regional mix impact as we have a strong growth of some programs in Germany. And we have some more flattish situation in APAC, for example, it explains why we have this kind of impact on the gross margin. So I

wouldn't say disappointing. It was much expected, but I suspect that gross margin will come back to a larger growth in H2.

Gael De-Bray (Deutsche Bank): These regional mix impacts may reverse to a degree in the second half.

Bernard Delpit: I wouldn't say so. No, you'll see some improvement coming from performance, from volume, from different things. But the increase of our production for programs in Germany will continue in H2.

Gael De-Bray (Deutsche Bank): Okay. I guess there is no way you could separate the volume and the mix impact, the 20 bips you mentioned?

Bernard Delpit: No, it's difficult to refine it More than that.

Gael De-Bray (Deutsche Bank): Okay, anyway, I tried. Thanks very much.

Bernard Delpit: Thank you. Bye.

Operator: Thank you very much, sir. Next question will be coming from Daniela Costa of Goldman Sachs. Please go ahead.

Daniela Costa (Goldman Sachs): Hi. Good afternoon. I have two as well. One is kind of a follow up actually on the topic of Germany and on the topic of the pipeline that Henri commented on the first question. Can you clarify that pipeline includes the potential opportunities going forward with German stimulus already or shall we think about a top up to that once it becomes concrete what those opportunities are and what sizes should we think about in there? And then I'll ask the second one.

Henri Poupart-Lafarge: Yeah. So Germany, it includes the orders and which are today, I would say, under submission and which are part of our actual commercial plan, but it does not include a kind of theoretical view of the German market which will be triggered by the investment plan of Germany. So if it has not been translated into actual tender and projects, it's not been included. So the vast majority is not included of basically the €10 billion which will flow one way or another on the German market for infrastructure.

Daniela Costa (Goldman Sachs): Thank you. And then the second point relates to Siemens at their investor day today was talking to about being less interested in pursuing metro and city opportunities given those weren't, I guess, as good on margin for them. Can you talk about sort of like how you view the attractiveness of those type of orders for yourself? And also, I guess, the market share you have in the opportunity that Siemens pulls out more actively of that market that could give for you.

Henri Poupart-Lafarge: Sorry, I didn't get what was dropped by Siemens, which kind of -

Daniela Costa (Goldman Sachs): No, I think they were saying that they were less interested in sort of actively pursuing the metro and the city part and more focused in other segments in rail going forward.

Henri Poupart-Lafarge: Yeah. Yeah. It's first, thank you. It's a good indication. Yes. It's not new from Siemens time. I mean, there are always difficulties in Metro. And their last order was, for example, in London where they suffered a lot. And we've seen then - and they were, it was not their priority, the metro business. City, they are probably, as you see, they are still in S-Bahn, for example, in Germany. But they are not our main competitors in that area. As you

know, we have different competitors depending on the market. If you are, of course, in India, you have local Indians. If you are in Europe, you are more people like CAF. Stadler is just entering into the metro market.

So it's not a surprise to us what you say. It will not dramatically change the picture. What was interesting is that, as you know, we are more and more in turnkeys, in cities or in both rolling stock and signalling. So to some extent, Siemens may have some difficulties to sustain a signalling business in an urban signalling business if they totally withdraw from the metro one. So it's probably more complex. So I would say not totally a surprise, not a radical shift, but a confirmation that the market is consolidating around a few players.

Daniela Costa (Goldman Sachs): Thank you.

Operator: Thank you very much, ma'am. Next question will be from William Mackie of Kepler Cheuvreux. Please go ahead, sir.

William Mackie (Kepler Cheuvreux): Good evening, gentlemen. Thank you for taking the question. A couple, please. Firstly, on cash flow for the second half, I think if I heard you correctly, you said it remains highly dependent on the inflow of prepayments. So could you explain, first of all, how much visibility you have on that and how you also expect the contract assets and inventories to develop in your working capital calculations in the second half? I'll come back to the second question.

Bernard Delpit: I will take this one. So yes, definitely we expect a strong inflow of coming from new contracts with down payments expected in H2. I would say that we have good visibility. We're still some uncertainty about the amount and the timing of those. But we expect, as I said, a strong book to bill in H2. So there is always uncertainty, and it could be a couple hundred millions by definition, considering the size of certain of our contracts, as you've seen for Eurostar or PKP in Poland. So I wouldn't go beyond those comments in terms of visibility. But it's true that there is uncertainty here by definition. But it was also the case last year, by the way.

Contract assets will continue to grow as we are in a ramp up phase for a lot of projects with some homologation dates that will create some contract assets namely in Germany or for some local markets. So well, I don't expect contract assets to go down in H2. Regarding inventories, it will depend on the quality of execution. In our second half we have a strong ramp up as well. So we are ordering parts. It's what you've seen in H1. It will continue because we have also a strong Q4. But we expect we will consume part of those inventories. So as you've seen in H2 the last two years, we have consumed some part of our inventories. So I expect that in terms of turns, it will come back to what we've seen in the past.

William Mackie (Kepler Cheuvreux): Thank you. A couple of quick questions to clean up some points on the PNL and how you're building the budget and thinking. I know you've achieved a very good contribution in the equity pickup in JVs, particularly from the Sifang JV. Just how are you thinking about the continuity of that in the second half? Should we expect a similar sort of performance, the way that you've been speaking to your partners and the sense of how you expect that to develop?

And then on the R&D, I'm just interested. I wasn't sure how you were communicating whether the change in R&D guidance relates to higher sales, or whether there's an absolute change in the expectation for spend or provision on R&D. And if there's an absolute reduction, then what is it that's driving that against the backdrop of rising activity across the group?

Henri Poupart-Lafarge: Thank you for the question. So two things. First, let me say that the joint ventures are doing extremely well on the Chinese market. Just one word on the Chinese market. We have seen contrasted trends on the Chinese market. The mainline market is going fast. The urban market is slower. And we are not at the - in the past, I don't know if you remember, there were like 15 lines being opened per year. We're probably half this amount today. There are some extensions and so forth. So it's more than - it does not mean that the market has halved, but it means that it has decreased.

And as you said, the AST, which is our high speed joint ventures, is benefiting from this growth on the high-speed market. Having said that, the phasing of the profitability of the joint venture is such that H2 will be not as good as H1, but don't take it as a sign of any slowdown of the market. It's just the fading of the profitability in the year. For your second question, no, it's just a question of relative terms. So in absolute R&D is as expected. But sales are higher. So we have slightly revised downwards the assumptions in terms of percentage of sales but no change in terms of absolute number and investment.

William Mackie (Kepler Cheuvreux): Thank you very much. Helpful.

Operator: Thank you so much, sir. Ladies and gentlemen, as a reminder, if you have any questions or follow up questions, please press star one. We'll now go to Delphine Brault of ODDO BHF. Please go ahead.

Delphine Brault (ODDO BHF): Yes, sir. Thank you. Good evening and thanks for taking my questions. Sorry, I've been disconnected. So I hope my questions have not been asked already. First, it relates to gross margin. Your gross margin in the backlog further improved to 18%. Do you plan this type of improvement, same kind of improvement by the end of the year?

Bernard Delpit: Well, the name of the game is not to grow it up to, I don't know 20%. So at a certain point, the question is more on the execution of the backlog than growing it, growing it, growing it. So we think that will continue to grow the gross margin in the backlog. Now the magnitude of the growth in H2 might be a little too early to tell you because it will depend also on the mix. We have a large mix of rolling stock on the order intake. By definition, it has an impact on the growth of the gross margin and then FX also. So it's a bit too early to tell you, but I think that kind of 10 to 20 bips improvement is what we could see in the next half.

Henri Poupart-Lafarge: You have heard from us a confident outlook on the order intake. So we have a good visibility of the commercial momentum and orders, which are already won but not yet booked and which are containing healthy margin. So this will support the growth. But indeed, some of the service orders are still being negotiated, so it will depend as well on the mix between rolling stock and service during the second half. But yes, it will continue to increase. The gross margin in the order intake for the first half is much higher than the gross margin in the backlog. So we still have some way to continue to improve the gross margin and the backlog.

Delphine Brault (ODDO BHF): Okay. Thank you. And my second question is the European Commission recently called for more standardization in the railway sector, including rolling stock. And I'm wondering if you believe that the European operators will follow this this recommendation.

Henri Poupart-Lafarge: As you have seen, there are several recommendations, recent recommendations from the European Commission. We had also a long paper on very high-speed development in Europe and investment in Europe for interoperability. So the answer for all these papers basically, and also to your question is twofold. On one hand, what says the commission never occurs as planned. So it takes always more time. And it's not, as I would say, as dramatic as they would like it to be.

But at the same time, it pushes the needle in the right direction. And not only when they say they want standardization. It's not only the operators which are at stake, it's also all the national rules. And there is a huge program being made by the ERA, the European Railway Authority agency, which is trying to make all national rules progressively converging. And this will help. And this is helping the standardization. Now there are some, I would say, some opposite directions because of course all the operators, they want to have their own trains, they want to have their optimized trains for 50 years and so forth. So they want to have their own dedicated trains, but at least the main standards and the main norms are progressively converging.

Delphine Brault (ODDO BHF): Thank you.

Operator: Thank you very much, ma'am. We will now move to Martin Wilkie of Citi. Please go ahead, sir.

Martin Wilkie (Citi): Thank you. Good evening. It's Martin at Citi. Just to come back to the question on revenue growth, and you touched upon it already. But just to clarify, the faster growth, normally, of course, you're delivering largely from the backlog and that sort of defined by the customer schedules. So what drove both the better growth in the quarter and the uplift from the year? Is it sort of Alleviating bottlenecks, whether it's labour or supply or what allowed you to drive the growth in revenue faster than previously expected? Thank you.

Henri Poupart-Lafarge: Yeah, you're right. On a number of projects, it's being driven by customers' ability to take the trains. But on other projects, when we're delivering infrastructure projects in signalling, it's also our own speed, I would say. So we have some flexibility in some places where, depending on our own speed, we can deliver more or less fast the backlog. So on that one, we made some progress. And also, we have some short-term orders, and we have put a lot of attention in the recent period on being much better into what we call gardening, i.e. to harvest very short-term orders. And this has been particularly positive during the first half. And this has led to also a positive move on the sales.

Martin Wilkie (Citi): That's great. Thank you. If I could just have one other question on the pipeline. I mean, obviously, you've announced the Eurostar order quite recently. Obviously, a lot in the press about additional operators using the Channel Tunnel and not just between London and Paris, but elsewhere. Is that included in your pipeline that that line could potentially be a lot larger for that particular platform or train?

Henri Poupart-Lafarge: We are very pleased because as you have seen we have been awarded the Eurostar order, but as you have probably seen, it's a very technical decision, but

this has quite important consequences. There was a decision by the ORR, so the regulator in the UK on the access to Temple Mills, which is one of the maintenance depots in the UK, and this access has been provided to Virgin, and Virgin being our partner also for the Paris to London route with high-speed trains not coming from the same platform. So it's not a double deck, it's a single deck platform which we are developing in Italy. We have high speed single deck in Italy and high-speed double deck in France. And this has been, I would say, awarded to Virgin, which was competing against other operators coming with other trains from competitors.

So it's a very good news. So yes, we have a particular success of our various platforms, and they are in the - this is in the pipeline. In the pipeline you have also a number of operators wanting to go outside their domestic markets. You have SBB who wants to go outside Switzerland. You got Trenitalia with some ambition as well in Germany as well as in France. You have private operators trying to also establish new routes, whether it's Dutch, in the Netherlands, Dutch operators or other French operators. Yes. All that is included in the pipeline.

Martin Wilkie (Citi): Great. Thank you very much.

Operator: Thank you very much, sir. We'll now move to James Moore of Rothschild & Co. Please go ahead.

James Moore (Rothschild & Co.): Yes. Good evening and thanks for the time. A number of my questions have been asked and answered, so maybe I could switch to Germany and German production. It looks to me like your car production in units is relatively stable in the first half and you're looking for German production to potentially double this year. Could you talk a little bit about German production? Is that something that's more loaded to the second half and how's that developing?

Henri Poupart-Lafarge: So your analysis is correct. The German production is more loaded in the second half definitively. There have been a start of increase at the end of the first half. So if you look at the monthly numbers, obviously, but the second quarter was higher. So we start to see the ramp up. But it's true that the large ramp up is during the second half in Germany. We are in general at a stage where we are waiting for some homologation and certification. So we are a project which are what we call the ramp up phase. So after a startup phase where we are just developing, where ramp up phase, so we are starting to produce, but in parallel we need to monitor very closely the speed of and the timing of the homologation and certification, so that we adjust our production schedule to the actual ability to deliver the trains to the customer once certified. So we are in this delicate phase, but yes, it's H2, which we see the growth in production in Germany.

James Moore (Rothschild & Co.): Thank you.

Operator: Thank you, sir. We have a follow up question from William Mackie of Kepler Cheuvreux. Please go-ahead, sir.

William Mackie (Kepler Cheuvreux): Thank you very much for the follow up. I just wanted to dot the I's and cross the T's on a couple of points. There's a note where you talk, I think about customer advances being revised from €320 to €511 million within the half year period. But it's not well explained. Could you provide a bit of colour on what that advanced payment reassessment is within the period that you've put as a note to the accounts? That was the first. And then secondly, with regard to the rating agencies, could - have you spoken to the rating

agencies recently in this interim period, and could you share any feedback from your perspective of the input you may have received?

Bernard Delpit: Yeah, I will take the last one, giving time to my colleagues to look for this note, because I can't answer off the top of my mind on this advanced payment scheme. On the rating agencies, by the way, we should say rating agency because as you know, we are only rated by Moody's. Yes, we've discussed this print with Moody's. And I mean, they are - I mean, it's up to them to react to our print, but nothing new, nothing has changed as they've taken a 12-to-18-month view when they issued the last press release. So they are totally aware of the seasonality of our free cash flow if it's the question. And there is nothing new on that front. And we'll come back to you on this note on the prepayments from customers, because I don't see exactly what you refer to.

William Mackie (Kepler Cheuvreux): Okay. It's on note 15.2, but I'll try something else then. Just to answer a follow up from Andre's question and a couple of points you've made earlier. You've stated that the gross margins on recent order intake has been significantly better than the 18% in the backlog, and that the change in the backlog is going to evolve slowly due to its scale. But can you give us a sense of what sort of differential there is between the average and the backlog and what you're typically booking now, having changed the nature of your sales acceptance and the landscape of the competitive environment, having shifted perhaps to a more consolidated and perhaps sensible or disciplined environment?

Henri Poupart-Lafarge: Yeah. So good question. So that's the scale is significant. Basically, this first half, we are again at a record high again, despite the mix. And we are talking some in the vicinity of four points.

William Mackie (Kepler Cheuvreux): Thank you very much.

Bernard Delpit: Will, on the question of advance payments, I guess it's just on options or something like that. It's not really a down payment. It's maybe something like that, but we will refine the answer and come back to you. I've just read the note, and I will come back to you with more details on that.

William Mackie (Kepler Cheuvreux): Thank you very much. Good evening.

Operator: Thank you very much, sir. We'll now go to Louis Billon of AlphaValue. Please go ahead, sir.

Louis Billon (AlphaValue): Hi, good - hello. So just my question on the order intakes. So since orders were more weighted at the end of the quarter, therefore I guess down payment are not yet reflected in the cash position. So should we expect this to amount to impact future free cash flow, and would it be significant?

Henri Poupart-Lafarge: The phenomenon that you are describing as, frankly, a non-significant impact, very small. We expect a larger amount of order intake during the second half than during the first half. I mean, we said that it's book to bill above one, but as you have understood from our comments, we are quite optimistic on this part. So we expect down payments to be higher during the second half, on the back of larger orders in the second half. And the phenomenon that you are describing is insignificant.

Louis Billon (AlphaValue): Okay. And maybe another question. So what is the competition in the Americas? Do you see some less competition? Do you see less competition with the tariff in place? And yeah, what is the competitive environment in North America?

Henri Poupart-Lafarge: So the market, I think I said it a little bit in the text, the market has consolidated around a few players. So we have Siemens still being present. We have Kawasaki specialized on New York. Stadler has a few orders. So I would say it's a classical competition. Traditionally in the Americas you had a Japanese player. So Kawasaki is there and another Nippon Sharyo in the past, but which is not very present anymore. What has changed recently is in Canada because as they have passed a kind of Buy Canadian Act, for example, in the metro of Toronto, they are now discussing a kind of direct negotiation with us because we are the only one to be able to provide local manufacturing capabilities. So this has changed the competitive landscape of course. But in the US, it's, I would say, the usual suspects. Plus, from time to time, some Japanese players that we don't see anywhere else.

Bernard Delpit: Okay, I come back Will to the note 15.2 to say that it relates to two contracts with Deutsche Bahn in Germany that are included in a program of hybrid forfaiting. So it has increased our progress payments in the first half.

Louis Billon (AlphaValue): Okay. Thank you.

Operator: Thank you. Thank you, sir. As we have no further questions at this time, ladies and gentlemen, this concludes today's conference. Thank you very much for your attendance. You may now disconnect. Have a good day and goodbye.

[END OF TRANSCRIPT]