



KNORR-BREMSE



Interim Report Q3 2018

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Munich, 28 November 2018

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Knorr-Bremse continues dynamic revenue growth in 3rd quarter

- Successful IPO and listing on the Frankfurt stock exchange on October 12th 2018
- Innovation: Successful tradeshows Innotrans, IAA and Automechanika setting new standards
- Strong growth: Group revenue 4,994 mEUR (+9.5% vs. PY) fuelled by both divisions
- Margin expansion: EBITDA 876 mEUR (+12.6% vs. PY), margin at 17.5% (PY: 17.1%)
- Good visibility: Order book 4,449 mEUR (+11.9% vs. PY), supporting medium-term growth
- Guidance FY 2018: Revenue 6,600 – 6,700 mEUR, EBITDA-Margin 17.5% - 18.5%

Successful IPO on 12 October 2018

3.85bn EUR
total issue
volume

~30% free
float

2nd largest
IPO 2018 in
GER

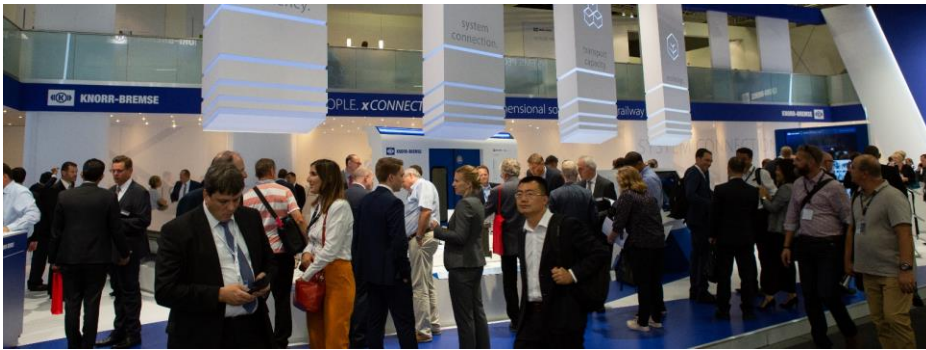


- Investor base (% of free float):
 - >80% institutional long only investors
 - 15% hedge funds
 - Remainder SWF and retail
- Geographical split:
 - 11% from Germany,
 - 45% from UK
 - 19% from the US
 - 25% from ROW
- KB Holding GmbH, through Heinz Hermann Thiele and family, holds 70.16% of shares in Knorr-Bremse AG
- Stock was up 1,55% on listing day compared to offer price
- Robust trading in challenging market environment

Successful tradeshow setting new standards in our industries



Innotrans – Systems. People. xConnected.



IAA – Shaping tomorrow's transportation. Together



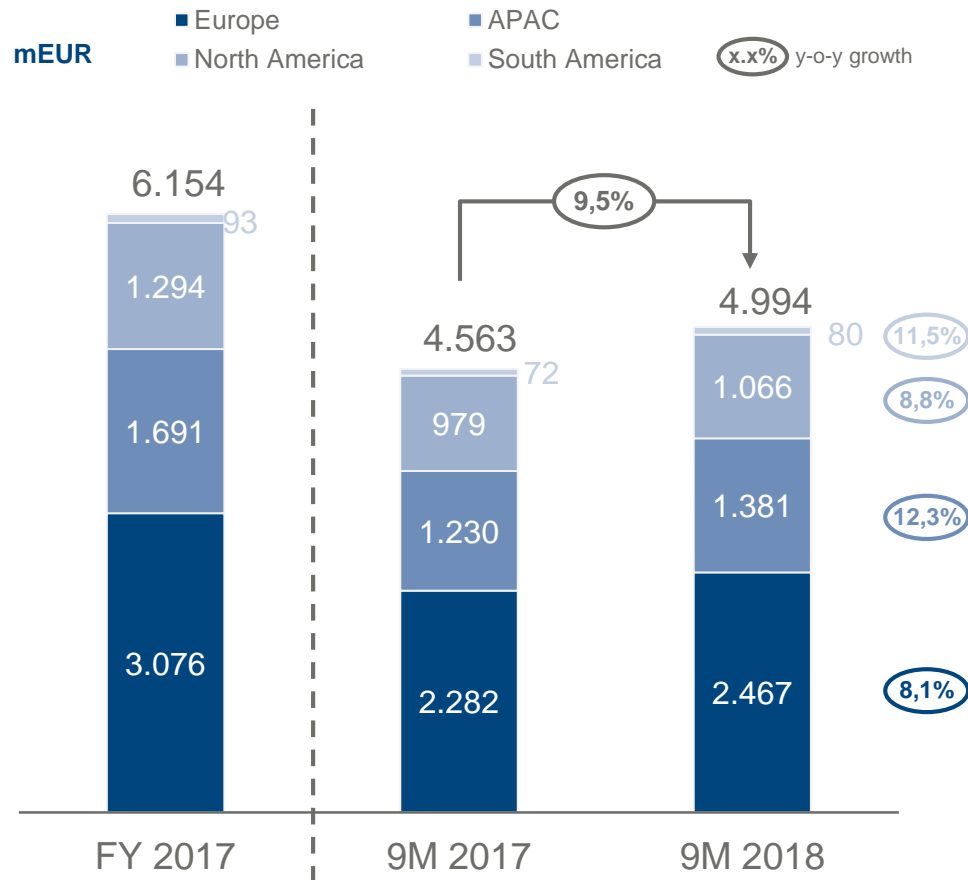
Strong 9M and Q3 2018 key figures

mEUR	H1 2018	9M 2018	9M 2017	Δ	Q3 2018	Q3 2017	Δ
Revenue	3,322	4,994	4,563	9.5%	1,672	1,587	5.4%
EBITDA	582	876	778	12.6%	294	260	13.1%
<i>EBITDA margin</i>	17.5%	17.5%	17.1%	40 bps	17.6%	16.4%	120 bps
Order book	3,514	4,449	3,977	11,9%			

- Continued growth in both divisions
- Increasing EBITDA margin – particularly against weaker Q3 2017
- Order book providing strong visibility for next quarters

All regions contributed to strong revenue growth

Revenue

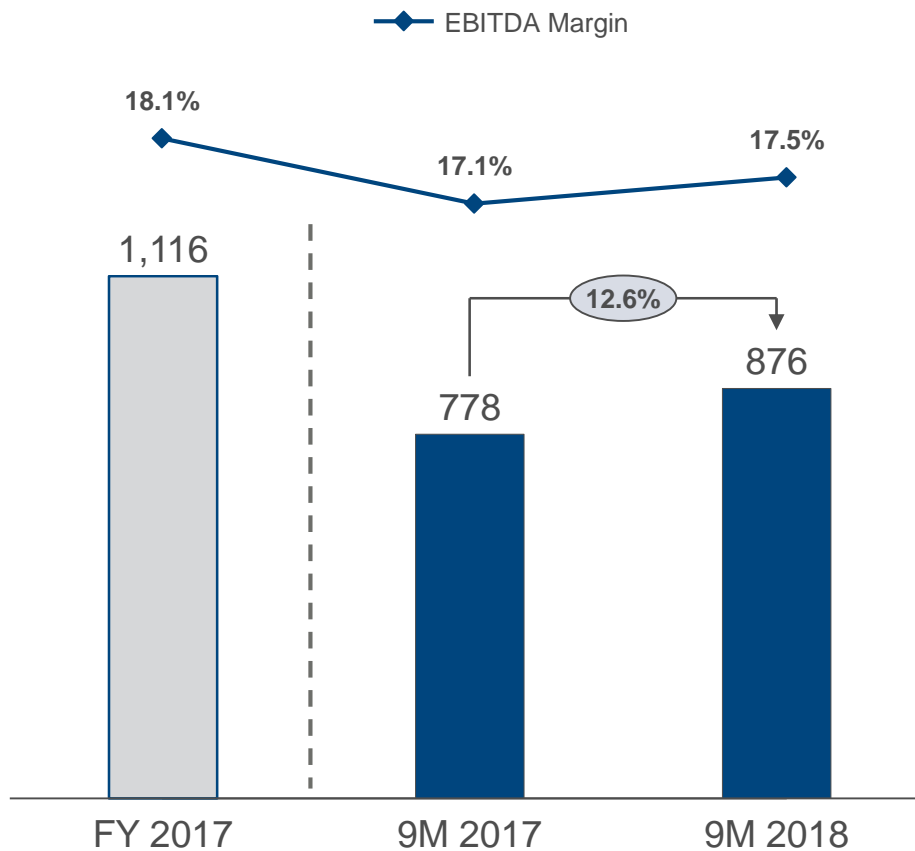


- Revenue +432 mEUR (+9.5%) vs. PY
- Further increase of order intake +8.2% vs. PY in both segments
- Order book +11.9% vs. PY
- Book-to-bill-ratio 1.05
- Both divisions contributed to revenue growth across all regions

Growth and margin expansion led to increase in EBITDA

EBITDA

mEUR

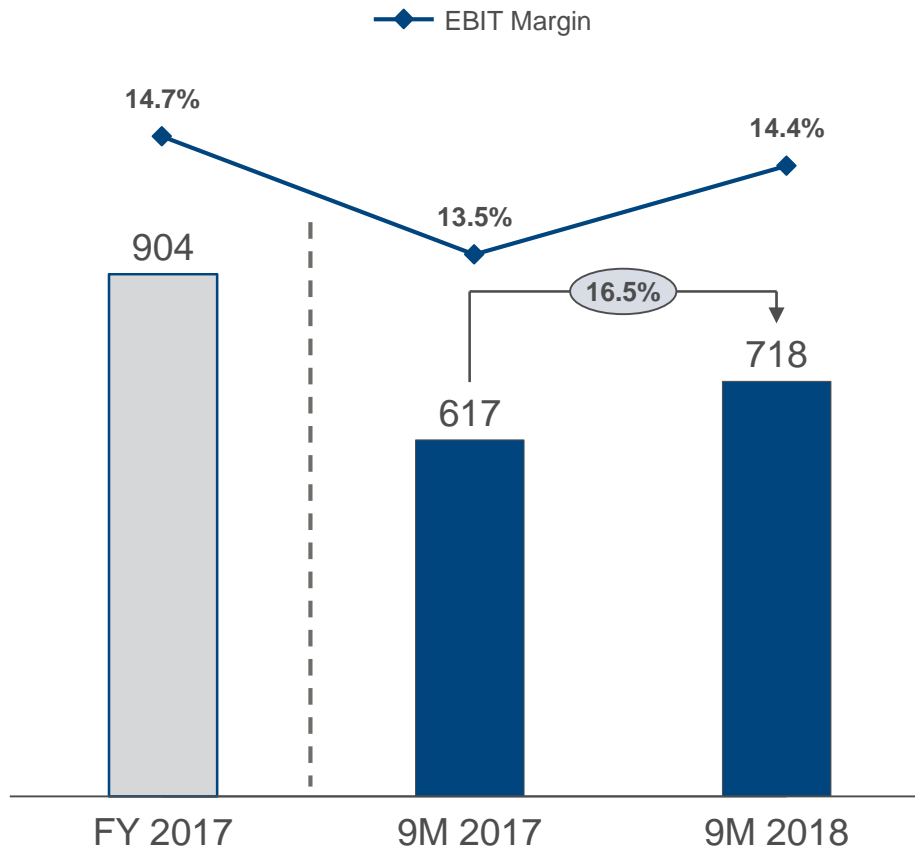


- EBITDA +98 mEUR (+12.6%) vs. PY
- EBITDA margin +40bps
- Increase volume & margin related; both segments contributed
- Material expenses at 50.5% of sales (+140bps vs. PY)
- Personnel expenses at 22.4% of sales (-100bps vs. PY)
- Other operating income & expenses at 11.0% (-110bps vs. PY)

EBIT margin improved by 90 bps vs. PY

EBIT

mEUR

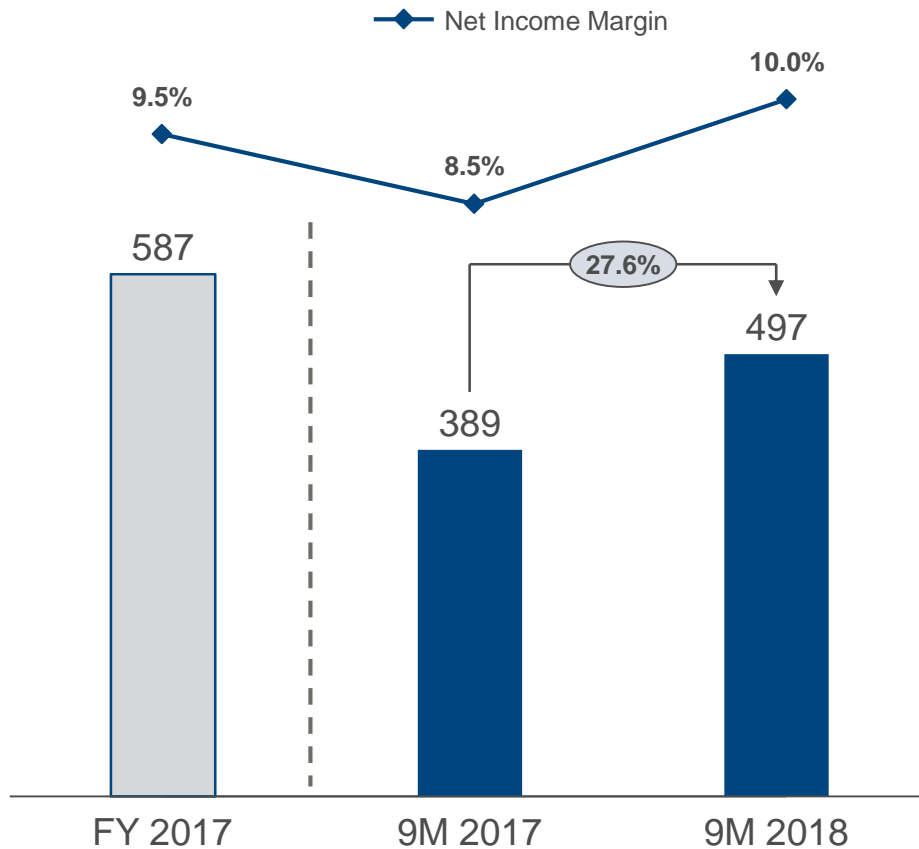


- EBIT +102 mEUR (+16.5%) vs. PY
- EBIT margin +90bps
- RVS: Impairment of assets held for sale of rail vehicle maintenance business in UK (“Blueprint West”) in 2017
- CVS: EBIT 2017 predominantly impacted by seasonal effects and FX effects (USD) in Q3

Net income grew by 28% vs. PY

Net income

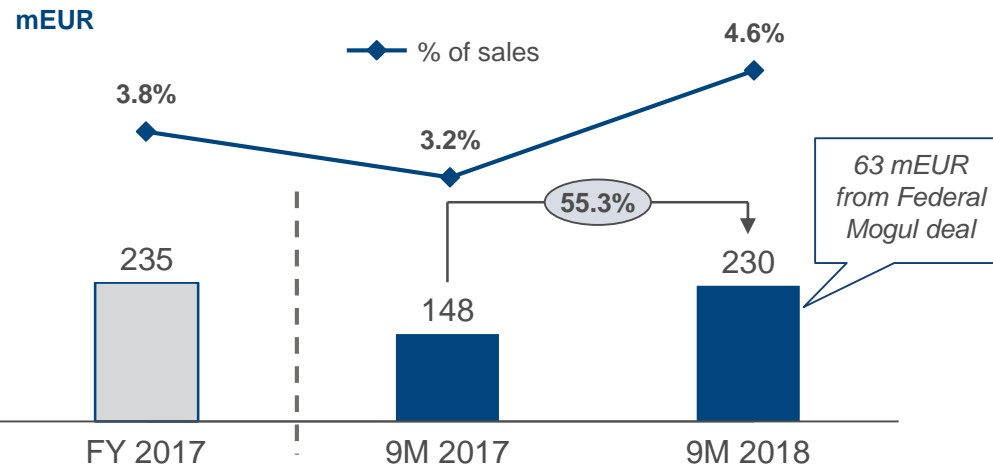
mEUR



- Net income +108 mEUR (+27.6%) vs. PY
- Net income margin +150bps, reaching 10.0%
- Moderately lower financial result
- Improved tax rate at 26.0% for 9M 2018 due to tax refund in North America and improved tax rate at entities
- Earnings per share improved at 2,89 EUR, up from 2,18 EUR (+32,6%)

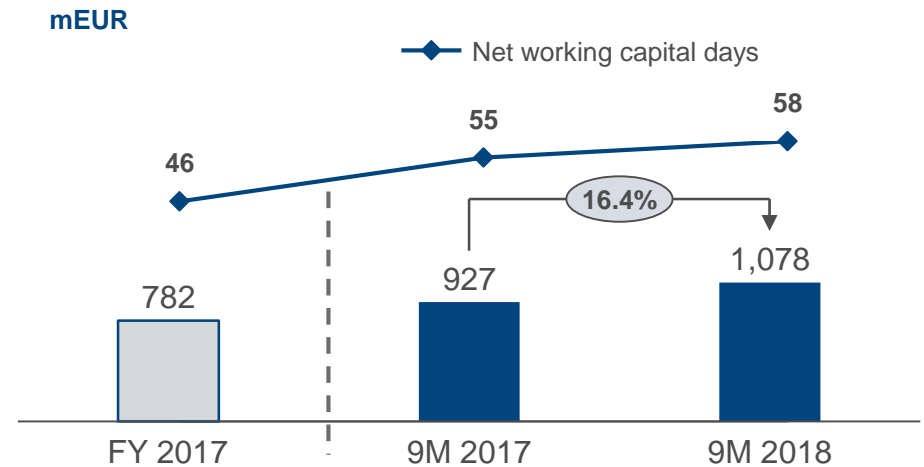
Capex & NWC grew in line with expectations – somewhat ahead of 9M 2017

Investments¹



- Investments increase by +82 mEUR
- Asset deal (IP) with Federal Mogul for friction business included (63 mEUR)
- Underlying driver: expansion of worldwide capacity, productivity enhancements & replacements

Net Working Capital²

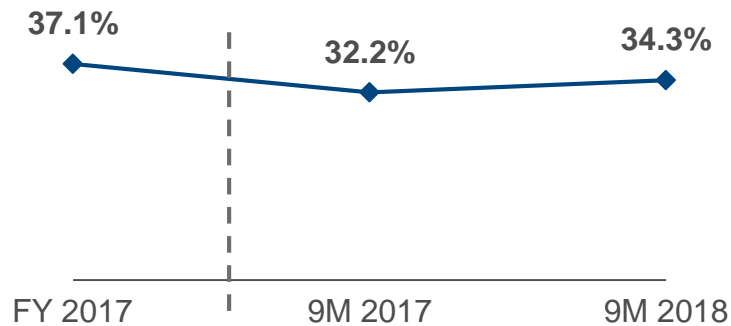


- Increase mainly due to
 - Revenue growth
 - Higher receivables
 - Growth in inventories
- Relative to revenue growth only 3 days NWC expansion

[¹ As per asset register, defined as investments in fixed and intangible assets incl. finance leasing; ² Net Working Capital defined as Inventory + Accounts receivables + Construction contracts with positive balances – Accounts payables – Construction contracts with negative balances – Prepayments received]

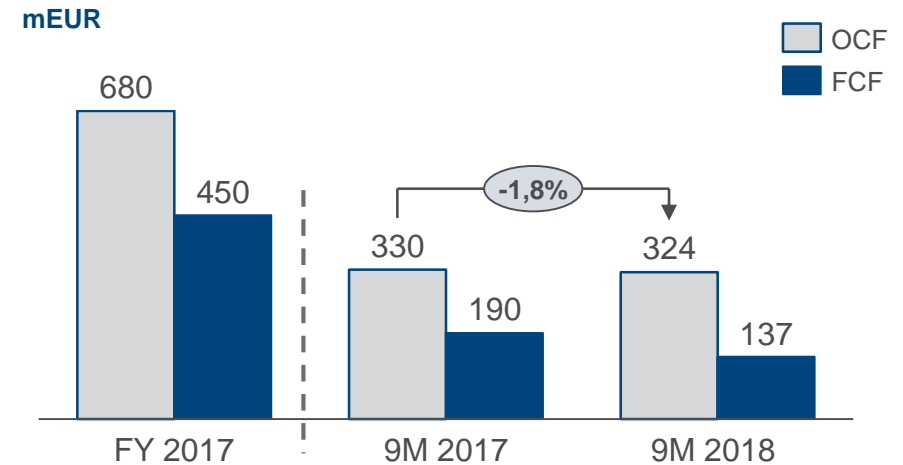
Strong ROCE, temporarily weaker cashflow

ROCE (annualised)¹



- Annualised 9M 2018 ROCE at an attractive level, 210 bps above 9M 2017
- Further improvement expected towards year-end

Operating/Free cash flow²

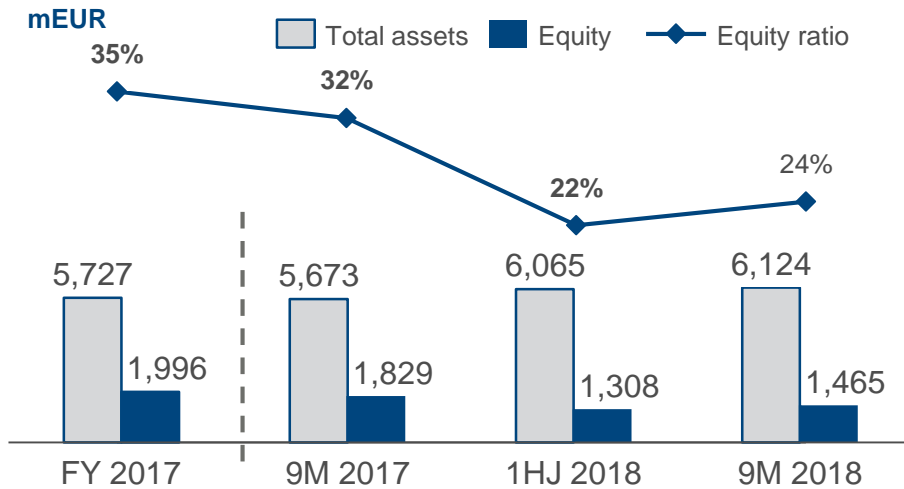


- Growth related NWC increase
- Global capacity increase, asset deal
- OCF and FCF to improve in Q4

[¹ ROCE defined as EBIT divided by capital employed (Fixed + intangible assets + Net Working Capital); ² FCF defined as cash-flow from operations minus cash-relevant capex]

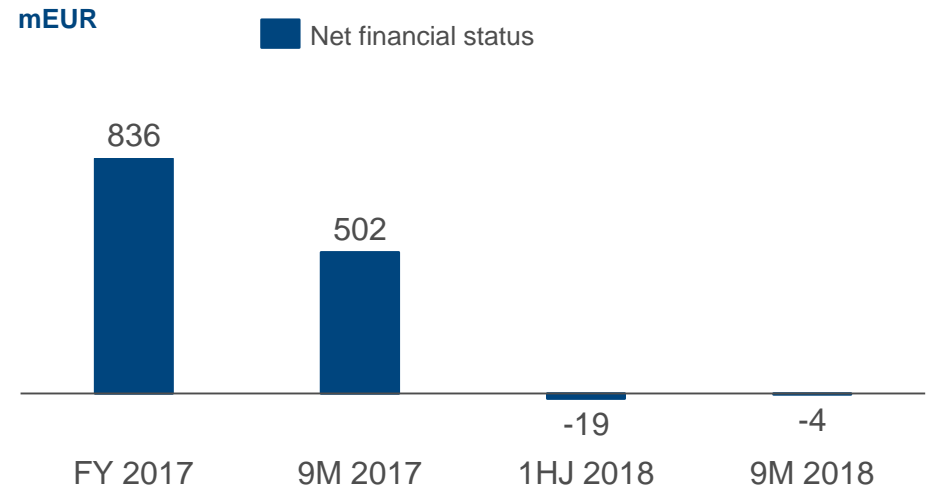
Healthy balance sheet metrics

Assets & Equity



- Strong equity base of almost 1.500 mEUR
- After the special dividend payment in Q2, equity ratio increased again (+230bps vs. H1 2018)

Net financial debt / cash



- Pre-IPO, net cash “overhang” was reduced to -3.7 mEUR
- Federal Mogul asset purchase (63 mEUR) in Q3
- No financing transactions in Q3 2018

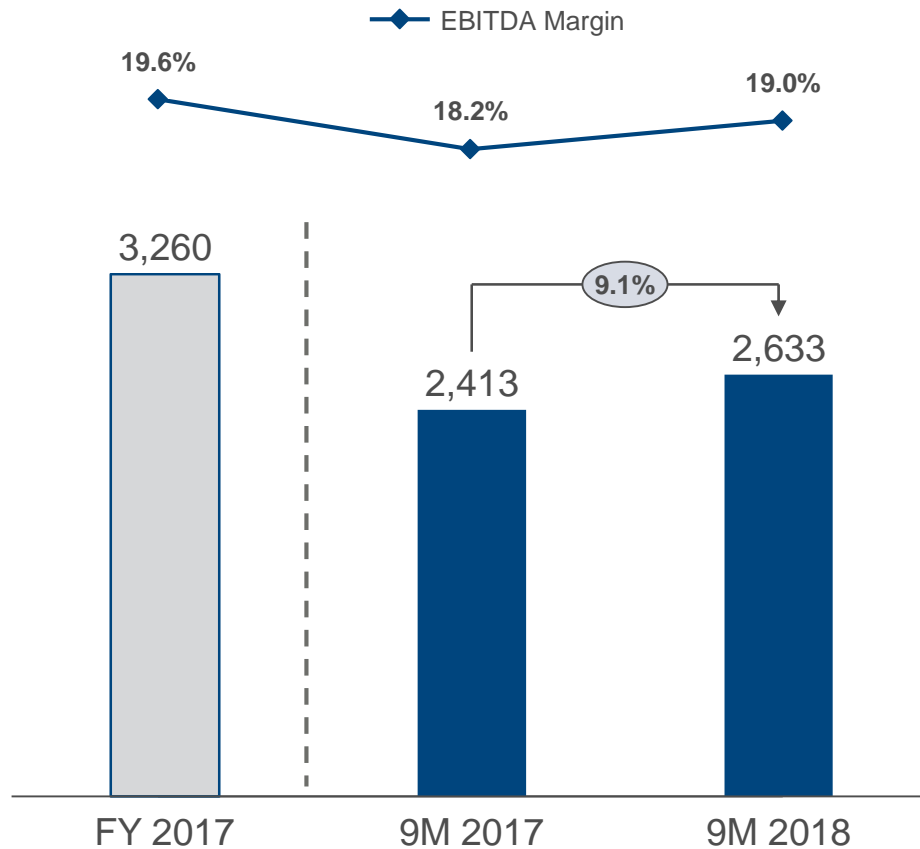
[Note: Based on financial statements prepared in accordance with IFRS]

RVS: Increasing sales due to robust order situation and mix-effects



Revenue & EBITDA margin

mEUR



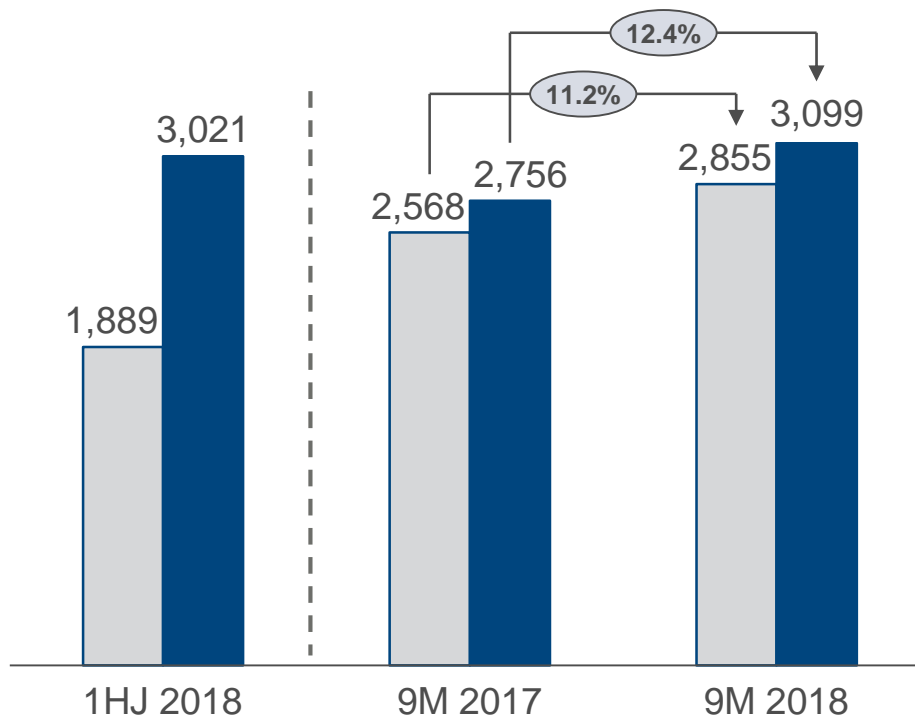
- Revenue increase +220 mEUR (+9.1%) vs. PY
- EBITDA margin +80bps
- Europe: General brake business growth in OE & AM
- China: Positive development in mass transit, regional / commuter, locomotives & AM
- North America: Increase in freight brake segment, both OE & AM
- India: Continued LHB growth
- Impairment of assets held for sale of rail vehicle maintenance business in UK ("Blueprint West") in 2017



Order book & order intake

mEUR

Order intake
Order book



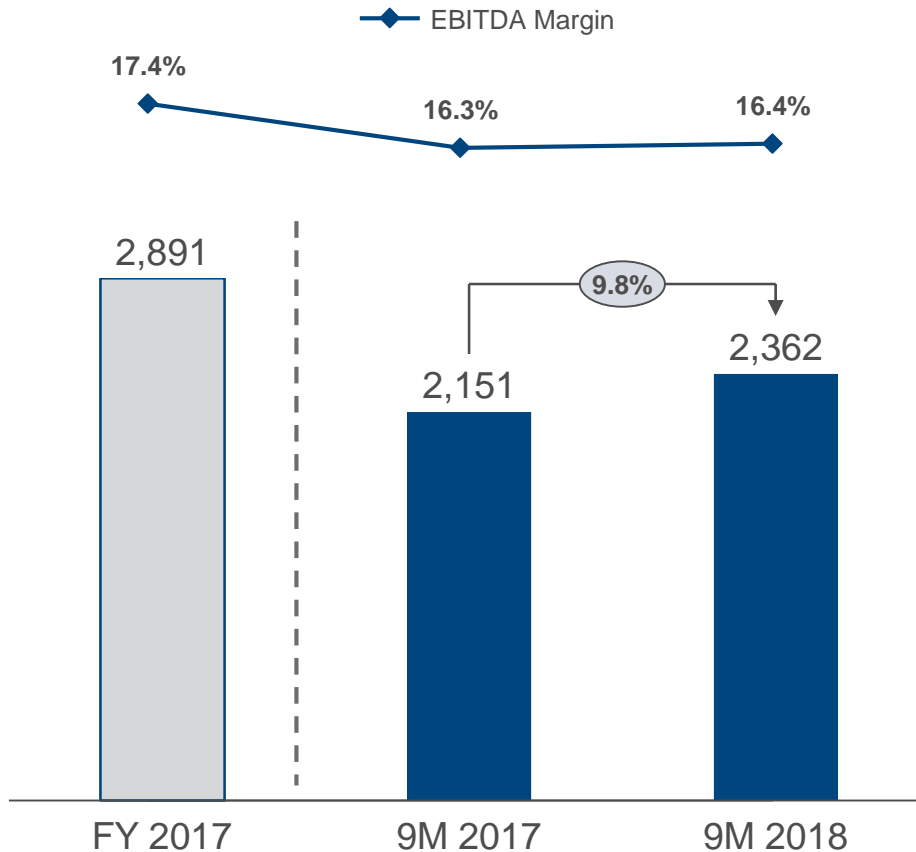
- Order intake increase +287 mEUR (+11.2%) vs. PY
- Growth drivers:
 - Asia: India, China, Australia
 - Europe: Brakes & Kiepe
- Order book increase +343 mEUR (+12.4%)
- Robust order situation on global level

CVS: Increasing global truck production rate driving OE revenue growth



Revenue & EBITDA margin

mEUR



- Sales growth +211 mEUR (+9.8%) vs. PY
- EBITDA margin +10bps
- Especially higher truck production in North America responsible for sales growth
- Moderate truck production growth in other regions
- Continued investment in Steering, ADAS and HAD over the next several quarters

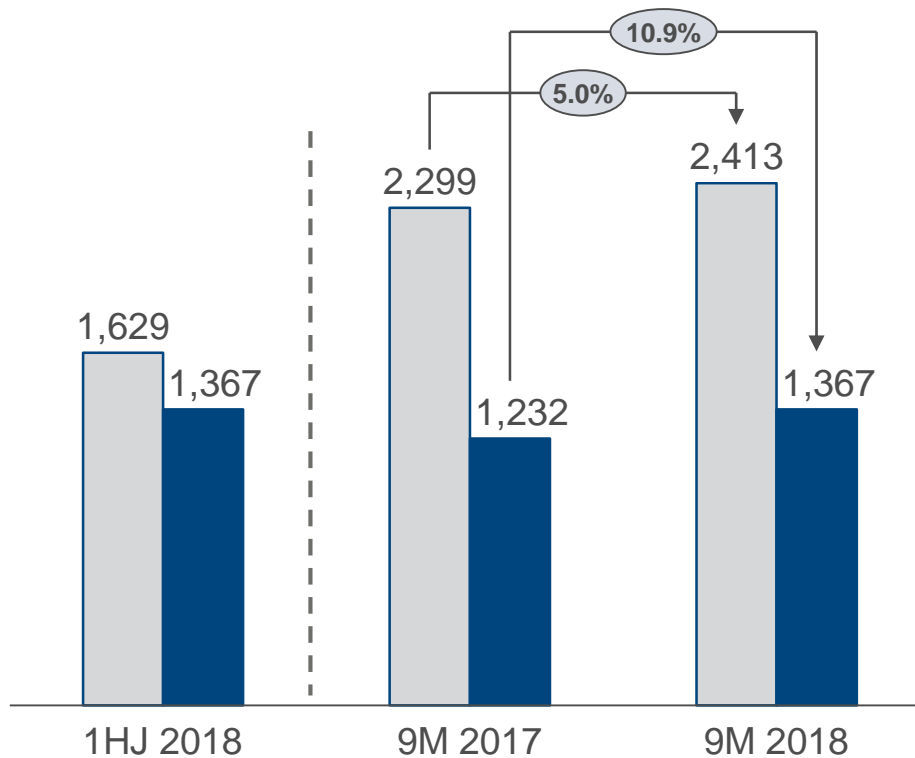
CVS: Growing truck production rate leads to order intake & order book increase



Order book & order intake

mEUR

Order intake
Order book

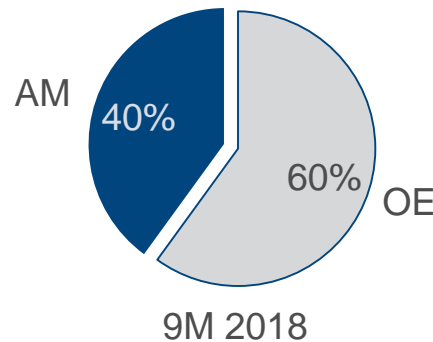
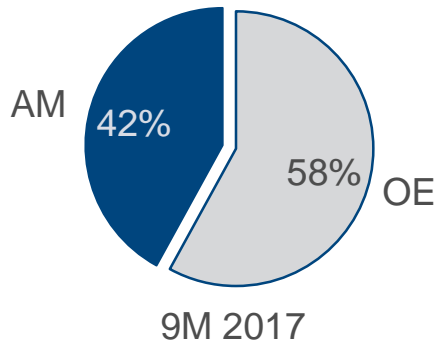


- Order intake increase +114 mEUR (+5,0%) vs. PY
- Truck production rate growth by 1.0%; therefore outperformance relatively to market, mainly due to market share gains in China
- Order book increase +135 mEUR (+10,9%)
- Growth due to rising global truck production rate
- Increase in content e. g. ADB North America,

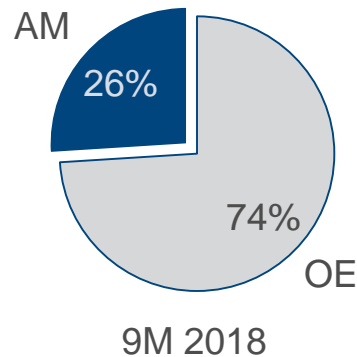
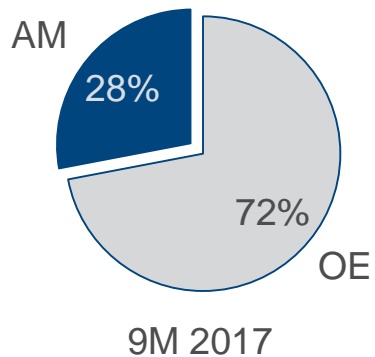
Strong OE sales in both divisions led to smaller aftermarket share

Aftermarket (German GAAP)

RVS Aftermarket



CVS Aftermarket



- Stronger OE growth continues to dilute aftermarket contribution
- Aftermarket continues to grow
 - RVS: +3% vs. PY – impacted by shrinking revenues of disposed entities
 - CVS: +4% vs. PY
- RVS: LTAs w/ Siemens to overhaul brake systems & calipers in EU, Russia & UK; furthermore CRRC Sifang (brake calipers) and Metro in EMEA
- CVS: New LTAs in EMEA (e. g. Schmitz Cargobull, SAF, DAF) & North America (Volvo, Paccar Parts) as well as for products (brake shoes)

2018 guidance

P&L	Revenue	<ul style="list-style-type: none"> 6,600 – 6,700 mEUR Assuming constant currencies, organic growth only
	EBITDA Margin	<ul style="list-style-type: none"> 17.5 – 18.5% Assuming no structural changes
Cash flow	Capex	<ul style="list-style-type: none"> Capex ratio in line with 2014–2017 average <ul style="list-style-type: none"> ➤ RVS: c. 4% of revenue ➤ CVS: c. 4% of revenue
	Working capital	<ul style="list-style-type: none"> DWC requirements expected to be in line with 2014-2017 average
Capital structure	Leverage	<ul style="list-style-type: none"> Maintain solid investment grade Target leverage <1x Net debt/EBITDA, incl. post financing of acquisitions
	Dividend	<ul style="list-style-type: none"> Target payout ratio of 40–50% of IFRS net income
Other	Tax rate	<ul style="list-style-type: none"> IFRS tax rate @ ~30%

Medium-term guidance unchanged

Medium-term guidance

P&L	Revenue	<ul style="list-style-type: none"> ▪ Group organic CAGR of c. 4.5%–5.5% <ul style="list-style-type: none"> ➢ RVS c. 5–6% ➢ CVS c. 4–5% ▪ Assuming constant currencies
	EBITDA Margin	<ul style="list-style-type: none"> ▪ Margin expansion c. 150 bps compared to 2017 <ul style="list-style-type: none"> ➢ Driven by both divisions ➢ RVS division slightly ahead vis-à-vis CVS division
Cash flow	Capex	<ul style="list-style-type: none"> ▪ Capex ratio in line with 2014–2017 average <ul style="list-style-type: none"> ➢ RVS: c. 4% of revenue ➢ CVS: c. 4% of revenue
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Other	Tax rate	<ul style="list-style-type: none"> ▪ IFRS tax rate @ ~30%

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- Guidance FY 2018: Revenue 6,600 – 6,700 mEUR, EBITDA-Margin 17.5% - 18.5%

Upcoming investor relations events

Event	Date [mm/dd/yyyy]	Location
Investor Roadshow	11/29/2018	London
Berenberg – European Conference	12/05/2018	Pennyhill Park (near London)
Commerzbank – German Investment Seminar	01/14-16/2019	New York
Kepler Cheuvreux – German Corporate Conference	01/21/2019	Frankfurt

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Group income statement

Consolidated statement of profit or loss

	Nine Months		3rd quarter	
	2018	2017	2018	2017
	TEUR	TEUR	TEUR	TEUR
Revenues	4.994.045	4.562.514	1.671.805	1.586.521
Changes in inventories of unfinished/finished products	29.098	46.516	(177)	(12.610)
Other own work capitalized	40.851	23.848	21.079	9.263
Total operating performance	5.063.994	4.632.878	1.692.706	1.583.174
Other operating income	52.511	51.390	4.707	10.492
Cost of materials	(2.519.520)	(2.237.916)	(839.127)	(774.279)
Personnel expenses	(1.119.837)	(1.067.007)	(373.381)	(358.624)
Other operating expenses	(601.286)	(601.297)	(191.250)	(200.696)
Earnings before interest, tax, depreciation and amortization (EBITDA)	875.862	778.047	293.655	260.067
Depreciation and amortization	(157.569)	(161.370)	(47.691)	(66.505)
Earnings before interests and taxes (EBIT)	718.294	616.678	245.964	193.563
Interest income	17.403	16.874	6.179	5.007
Interest expenses	(28.566)	(30.954)	(10.328)	(9.640)
Other financial result	(35.973)	(25.223)	(1.157)	(299)
Income before taxes	671.158	577.374	240.659	188.631
Taxes on income	(174.235)	(187.907)	(50.727)	(68.789)
Net income	496.923	389.467	189.932	119.842
Thereof attributable to:				
Profit (loss) attributable to non-controlling interests	30.964	37.683	7.508	4.425
Profit (loss) attributable to the shareholders of Knorr-Bremse AG	465.958	351.783	182.424	115.416
	496.923	389.467	189.932	119.842
Earnings per share in Euro				
undiluted	2,89	2,18	1,13	0,72
diluted	2,89	2,18	1,13	0,72
EBITDA Margin	17,5%	17,1%	17,6%	16,4%
EBIT Margin	14,4%	13,5%	14,7%	12,2%
EBT Margin	13,4%	12,7%	14,4%	11,9%

Group balance sheet (1/2)

Consolidated statement of financial position

	30.09.2018 TEUR	31.12.2017 TEUR
Assets		
Intangible assets and goodwill	610.190	540.495
Property, plant and equipment	1.101.799	1.116.398
Investments accounted for using the equity method	1.703	1.950
Other assets	80.742	93.102
Costs to fulfill a contract	18.601	11.539
Employee benefits	29.072	21.625
Deferred tax assets	125.572	85.009
Non-current assets	1.967.679	1.870.117
Inventories	850.788	748.823
Trade accounts receivables	1.416.996	1.147.879
Other financial assets	32.823	12.518
Other assets	120.850	132.118
Contract assets	125.296	0
Receivables from construction contracts	0	116.171
Income tax receivable	104.796	67.637
Cash and cash equivalents	1.504.780	1.600.033
Assets held for sale and disposal groups	0	32.116
Current assets	4.156.329	3.857.295
Total assets	6.124.009	5.727.412

Group balance sheet (2/2)

Consolidated statement of financial position

	30.09.2018 TEUR	31.12.2017 TEUR
Equity		
Subscribed capital	161.200	67.600
Capital reserves	12.252	1.310
Retained earnings	20.724	106.956
Other components of equity	-185.885	-166.407
Profit carried forward	888.498	1.302.834
Profit attributable to the shareholders of Knorr-Bremse AG	465.958	535.504
Equity attributable to the shareholders of Knorr-Bremse AG	1.362.747	1.847.798
Equity attributable to non-controlling interests	102.219	147.951
thereof share of non-controlling interests in net income	30.964	51.716
Equity	1.464.966	1.995.748
Liabilities		
Provisions for pensions and similar obligations	301.909	310.234
Provisions for other employee benefits	34.633	28.433
Other provisions	252.616	234.147
Financial liabilities	1.526.264	738.746
Other liabilities	70.756	17.347
Income tax liabilities	25.725	71.704
Deferred tax liabilities	62.191	27.262
Non-current liabilities	2.274.092	1.427.873
Provisions for other employee benefits	10.163	15.206
Other Provisions	241.866	231.714
Trade accounts payable	1.013.955	894.119
Financial liabilities	643.666	570.955
Other liabilities	144.353	269.382
Contract liabilities	253.070	0
Liabilities from construction contracts	0	230.750
Income tax liabilities	47.243	53.141
Liabilities directly associated with assets held for sale	30.634	38.524
Current liabilities	2.384.950	2.303.791
Liabilities	4.659.042	3.731.664
Total equity and liabilities	6.124.009	5.727.412

Group cashflow statement

Working Capital	9 Months		
	30.09.2018	30.09.2017	31.12.2017
	TEUR	TEUR	TEUR
Inventory	850.788	785.716	748.823
Trade accounts receivables	1.416.996	1.284.560	1.147.879
Contract Assets	125.296		
Receivables from construction contracts		133.735	116.171
Trade accounts payable	-1.013.955	-957.374	-894.119
Contract liabilities	-253.070	0	0
Liabilities from construction contracts	0	-244.918	-230.750
Prepayments received	-47.579	-75.016	-105.990
Working Capital (IFRS)	1.078.476	926.702	782.014
Revenue (IFRS)	4.994.045	4.562.514	6.153.543
Working Capital Days (IFRS)	58,3	54,8	45,8
Working Capital Days (HGB; as comparison)	57,7	58,0	44,2

P&L per Division

Consolidated statement of profit or loss

	September 2018 YTD		June 2018 YTD		July - September 2018	
	RAIL	TRUCK	RAIL	TRUCK	RAIL	TRUCK
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Revenue	2.632.769	2.362.167	1.744.226	1.577.288	888.542	784.879
Changes in inventories of unfinished /finished products Own work capitalized	37.488	23.496	25.164	12.224	12.324	11.272
Total operating performance	2.670.257	2.385.663	1.769.390	1.589.512	900.867	796.151
Other operating income	30.735	34.447	27.111	31.585	3.625	2.863
Cost of materials	(1.159.493)	(1.354.701)	(764.483)	(904.523)	(395.010)	(450.178)
Personnel expenses	(651.932)	(416.142)	(440.756)	(274.518)	(211.176)	(141.624)
Other operating expenses	(390.237)	(262.795)	(269.061)	(182.411)	(121.175)	(80.385)
Earnings before interest, tax, depreciation and amortization (EBITDA)	499.329	386.472	322.199	259.646	177.130	126.826
Depreciation and amortization	(82.826)	(62.186)	(62.506)	(40.890)	(20.320)	(21.296)
Earnings before interest and taxes (EBIT)	416.503	324.286	259.693	218.756	156.810	105.530

Consolidated statement of profit or loss

	September 2017 YTD		June 2017 YTD		July - September 2017	
	RAIL	TRUCK	RAIL	TRUCK	RAIL	TRUCK
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Revenue	2.412.748	2.150.734	1.549.378	1.427.306	863.370	723.428
Changes in inventories of unfinished /finished products Own work capitalized	32.856	33.083	47.478	24.796	(14.622)	8.287
Total operating performance	2.445.604	2.183.817	1.596.856	1.452.102	848.748	731.715
Other operating income	28.679	26.909	26.700	17.408	1.979	9.501
Cost of materials	(1.011.105)	(1.223.811)	(657.390)	(805.200)	(353.715)	(418.611)
Personnel expenses	(635.204)	(385.577)	(422.813)	(256.456)	(212.391)	(129.121)
Other operating expenses	(388.780)	(251.699)	(267.293)	(165.007)	(121.487)	(86.692)
Earnings before interest, tax, depreciation and amortization (EBITDA)	439.194	349.638	276.060	242.847	163.134	106.791
Depreciation and amortization	(90.810)	(60.706)	(56.141)	(32.240)	(34.668)	(28.467)
Earnings before interest and taxes (EBIT)	348.384	288.932	219.919	210.607	128.465	78.325