**Transcript of Webast and Q&A session of Knorr-Bremse's preliminary FY22 financial results**

**Date: February 23, 2023**

**Andreas Spitzauer:**

Good afternoon as well as good morning, Ladies and Gentlemen. My name is Andreas Spitzauer, Head of Investor Relations, and I want to welcome you to todays Knorr-Bremse call for the preliminary FY22 results. Today, Marc Llistsella, our CEO, and Frank Weber, our CFO, will present the results of Knorr-Bremse followed by a Q&A session. The call will be recorded and will be available in the IR section on the website afterwards.

**Marc Llistosella:**

Thank you, Mr. Spitzauer. Ladies and gentlemen, I too wish to extend you a warm welcome to this capital market call. This virtual meeting is a first for me in my new role as Chief Executive Officer. On that note, let me begin by introducing myself. My name is Marc Llistosella. I am 55 years old, married, and a proud father of 6 children. I was born in Cologne, though I have spent most of my career outside Germany. As you have noticed, my surname is not German, but rather a mix of Spanish and Welsh. I have 28 years' professional experience in the commercial-vehicle business, 24 of which at Daimler. I started by selling light commercial vehicles in Cologne, then took up jobs in sales and strategy in Stuttgart, and eventually started a new chapter in India, a place where not many wanted to go back in those days. I was given a fantastic opportunity to start something from scratch and do it properly. In the shortest space of time, we erected a complete truck factory in Chennai and made the BharatBenz brand a success story. I moved on from there to Japan, where I worked for Fuso, Daimler's Japanese truck subsidiary. Many people had concerns back then, too, thinking that Japan was too complicated and too difficult to turn around. However, we turned things around and achieved success. My team and I not only rolled out the first electric truck in series production, but also changed the company's fortunes. Frank Weber and I were already working together back in those days, so we have known each other a long time and do well as a team. I have had an active role as a venture capitalist at Einride and Viaonic since 2018. These are two start-ups that develop electric, self-driving trucks, a very futuristic concept that I find highly important. That concludes my introduction for now. I will now hand over to Frank Weber, who will explain the financial indicators for the previous fiscal year in further detail.

**Frank Weber:**
Thanks Marc. The whole executive board is happy to have you on board and we are looking forward to forming a powerful team together with you. Let's kick it off with today's key take aways on chart 3: We executed on our strategy and – despite many headwinds - delivered solid growth as well as good profitability in 2022. We had and continue to have a high focus on "keeping our house clean" with stringent efforts regarding costs, pricing and portfolio streamlining. I would like to take this opportunity to thank all our employees, customers and business partners – together we mastered it quite well. Order intakes and order books were at record levels and provide good visibility for our foreseeable business activities. A core part of our strategy is to strengthen our activities in data-driven solutions and in aftermarket. With three successful M&A transactions exactly in those fields in 2022, we clearly walked the talk. Cojali, Nexxiot and DSB will sustainably support our digital and aftermarket business and pave the way for additional profitable growth. Sustainability also has a high priority for Knorr-Bremse, and ESG is an integral part of our daily activities and strategy. In 2022, we intensified our efforts in this respect, as can be seen, for example, from the successful placement of our ESG-linked bond and our SBTI commitment. Last but not least, we achieved our guidance for the full year 2022 with the exception of the FCF figure. Overall, the underlying market demand by end customers in both rail and truck remains strong in all markets. Even China now is expected to improve slowly but steady throughout 2023. But I want to be honest with you: 2023 will be another challenging year.

Chart 4 summarizes some operational highlights of 2022 that I would like to share with you. A highlight at the Innotrans rail fair was the premiere of our solutions for a digital automated coupler for freight and passenger trains. At the truck fairs Automechanica and IAA Transportation, we could demonstrate our leading product portfolio in the fields of automated driving, e-mobility and aftermarket products. Especially our innovations like the Rotary Vane compressor, our Global scalable brake control and the electronic power steering convinced our customers once more. In 2022, RVS again won major international contracts with large OEMs. I would like to highlight the contract with Alstom to equip 130 Coradia Stream regional trains with braking, entrance, HVAC and sanitary systems in Germany and with Siemens to equip further ICE 3s in Egypt. The Hitachi contract for passenger couplers was another big milestone. CVS also signed many major contracts last year. I would like to mention the TruckServices contract with Verkehrsvertriebe Hamburg-Holstein and a long-term agreement with a major truck OEM. We have not only focused our M&A activities on digitalization and data, but have also successfully started a test phase for the S4 Hana system that is a very large and essential internal IT project to further exploit our efficiency potentials via standardization.

Let's move to chart 5. As mentioned, we have achieved our FY22 guidance with revenues of 7.1 billion euros at an operating EBIT margin of 11.1%. The margin target was achieved despite additional inflationary costs of roughly 325 million euros, which we could offset by price increases and other measures via our profit and cash contribution program initiated early in 2022. Despite a very strong Q4 cashflow, we could not fully reach our FCF target due to payment delays by customers. I will provide more details later.

On chart 6, I want to share our market view with you. Looking at the rail market, underlying demand in Europe and North America remains strong driven by governmental support and the unremitting push towards green mobility. The elevated order books of our OEM customers are also proof of this. The market in China seems to be slowly recovering from two very weak years that were mainly driven by economic challenges and the zero-Covid policy. The end of this policy is positive for all of us, but it will take several months for the economy to return to normal and show effects. The biggest concern in the Rail segment at the moment is high inflation, as pricing in long-lasting OE contracts is not easily adjustable. It is much easier in aftermarket, but we also have our important long-lasting partnerships in mind. We do not want to risk them simply to achieve a positive short-term financial benefit. We expect to be significantly affected by high inflation throughout 2023 as around 30% of revenues in FY23 will be generated from orders we received before the inflation started to strongly increase last year. For moral reasons and due to sanctions, we decided to phase out of Russia, a very profitable market for us. This fact must also be taken into account when modeling financial expectations for this year as Q1/22 still saw good and very accretive business in Russia prior to the war. The truck market also faces ongoing good demand in Europe and North America. Truck production rates in both regions were stable in Q4 quarter-on-quarter and are also expected to be stable or grow slightly in FY23 vs. 22. Truck production rates in China in Q4/22 were weak as expected but should see a significant increase in 2023. We will benefit from this recovery due to our leading market position and the good potential for content per vehicle driven by the rather lower safety standards and the request for innovative and reliable technology. The situation in the global supply chain keeps improving but it is still not as smooth as it was before Covid. Inflationary headwinds are an ongoing challenge for the truck industry. After a successful first round of price increases, we have started the second round. It should enable us to achieve a better price/cost ratio. Aftermarket business benefits from high utilization and increasing mileage. Our recent Cojali acquisition will additionally benefit from these trends. All in all, demand in rail and truck is holding up nicely given all of the difficult business conditions.

Let’s now dive into full year numbers on chart 7. In FY22, Knorr-Bremse generated revenues of 7.1 billion euros at an operating EBIT margin of 11.1%, while operating EBITDA margin reached 15.4%. Order intakes and order books once more reached record levels and underline the robustness of our markets as well as the visibility going into 2023. Free Cashflow came in at 220 million euros. We consider these results to be quite solid despite all of the global challenges we face.

Let me give you a quick overview of Knorr-Bremse’s rock-solid balance sheet. One of Knorr-Bremse’s highest priorities is to maintain a high level of flexibility and stability in financial terms. We focus on a strong level of equity. This metric came out in 2022 at 2.7 billion euros, representing a stable equity ratio of 34%. Gross debt increased to almost 2.2 billion euros due to the issuance of our sustainability-linked bond of 700 million euros last September at very attractive terms to finance M&A investments in 2022 including our 20% share buyback from Bosch. From our perspective, the successful bond placement was another acknowledgement of our strong credit profile and business model. Our net debt to EBITDA ended with 0.70 end of 2022. Liquidity stood at 1.44 billion euros at the end of 2022. Our strong credit ratings, Moodys A2 and S&P A, were confirmed last year. Both underscore the strong resilience of our balance sheet and business activities going forward.

Moving to chart 9. Innovation and technology leadership are the key drivers for our global market leadership. This is why we continue to invest in important future technologies. Last year, Capex amounted to 352 million euros, representing 4.9% of sales. It is both in absolute and relative terms lower versus the previous year and at the lower end of our target range of 5-6% of revenues. Please be assured that we are not compromising on future investments at all. R&D spending amounted to 470 million euros in FY22, an increase of 40 million euros versus prior year mainly driven by the increase of R&D employees and software engineers to drive our digitalization strategy. Net Working Capital increased by 250 million euros. I will go into more detail on the next chart.

Free cashflow on the full year level reached 220 million euros, which was much lower compared to the previous year's level. Q4 with 449 million euros saw a very strong improvement versus the previous quarters as expected, but it was also a little behind our expectations. The development on full year basis is predominantly driven by reduced earnings and higher Working Capital. The main reasons for this were: First: Customers' payment behavior is currently more rigid, driven by higher interest costs and due to high covid costs for Chinese cities and municipalities. Let me be very clear: It is not a question of whether we receive the payments, but the exact timing is to some extent rather uncertain. Second: Due to supply constraints, we have deliberately and significantly increased our inventory levels to ensure delivery capacity. This Customer FIRST strategy sets us apart and is an important cornerstone of our strong customer-supplier relationship which also significantly supported our price negotiations with customers so far. In the course of this year, we aim to reduce these levels again due to an expected easing in supply chains. Keep in mind that free cashflow is not a snapshot-KPI but also needs to be seen over a certain period of time. In the last 3 difficult years our average Cash Conversion Rate was 88%, which is fully in line with our target range of 80-90%.

Let' s move on to chart 11. Sustainability is a fundamental layer of our business strategy. In 2022, we accelerated our activities in the various areas of ESG. First: We are fully on track to hitting our target of halfening production-related CO2 emissions, Scope1 and Scope 2, by 2030. In addition, we decided to expand our climate targets to our value chain processes (Scope 3) and to strive for a validation by SBTi. Second: A circular economy is a key lever to reach global climate goals – we already have reached a high share of remanufactured products of above 10%. Third: Diversity, Employee Safety and our strong commitment to Ukraine and Ukrainian refugees should be mentioned here. In 2022, we defined new gender-diversity targets of 20% at the management level and 25% at the global workforce until 2027. Employee safety figures were also significantly improved over the year. Last but definitely not least, I was overwhelmed by the enormous willingness of our employees to help Ukrainians at home and abroad. As I said earlier, sustainability is a fundamental layer of our business strategy. This is also proven by our activities to link financing and ESG. In 2022 we launched a ESG-linked syndicated loan in January, placed our first sustainability-linked bond in September and implemented our Green Supply Chain Finance Program in December.

Let's have a quick look at Q4 details on chart 12. Revenues on group level amounted to 1.95 billion euros, a 15% increase year-over-year at an operating EBIT margin of 11.6 % which is a slight increase versus the prior year as well as versus the previous quarter. Orders remained on high levels once again totaled more than 2 billion euros. I think, this was a very good end to a challenging year and gives us good visibility for 2023.

Let’s jump into divisional performances in Q4, starting with RVS on Chart 13. Order intake of RVS was again remarkably strong with 1.2 billion euros, despite tough comps year-over-year. The Book-to-bill ratio in Q4/22 was 1.22. Europe benefitted from strong regional and commuter business, but the region was clearly affected by missing Russian business which was quite high in the previous year. The main positive drivers in North America were aftermarket and freight as in previous quarters. The order book also increased by 27% year-over-year to a record level of 4.9 billion euros. This is an extremely solid foundation for the business development in 2023 and beyond.

Let’s move to chart 14. Revenues amounted to 949 million euros, an increase by more than 10% year-over-year. Aftermarket business and OE business supported this development, both up year-over-year. The aftermarket share increased from 49% to 50% in Q4/22. China was only flattish year over year. It benefited from a recovery in the OE business. Aftermarket in the fourth quarter was slightly weaker compared with the previous year.  In North America, we recorded growing revenues strongly driven by the aftermarket. Europe was, as expected, the main growth driver supported by improving ridership levels in Europe and generating strong growth in aftermarket business. The operating EBIT margin of RVS in Q4/22 was 14.1%, after 17.7% a year ago. In the past quarter RVS benefitted from growth in revenues, cost measures and price increases in the aftermarket business. In total, we were not able to overcompensate the negative drivers in the quarter, which were

1) Loss of very accretive Russian business
2) Market weakness of our very accretive China business
3) Headwinds by inflation as price measures do come in with a price lag
4) Negative product-mix effects

Especially higher input costs could be only partly offset by higher OE and AM pricing and cost measures. OE price increases were limited as they are fixed in longer contract periods. Therefore, the price/cost ratio of RVS was negative in Q4/22. We assume that this will also remain the case this year as around 30% of revenues in FY23 will be generated from orders that we received before the inflation started to strongly increase last year.

Let's continue with truck on slide 15. Incoming orders of CVS amounted to 1.04 billion million euros, which is an increase of 8% year-over-year and a clear proof of the strong underlying demand in Europe and North America. China is finally seeing the first signs of the expected recovery, visible in plus 10% order intake quarter-over-quarter. Please keep in mind that the extremely high order intakes of the past quarters in CVS are extraordinary and should not remain on such high levels forever.  As a result, book-to-bill in Q4/22 reached 1.04. The record order book of our truck division stood at 2 billion euros at the end of December, which is an increase of 17% year-over-year.

Let's move on to slide 16. CVS posted 1 billion euros in revenues in Q4 – which is an increase of almost 20% year-over-year and again a very strong result, considering ongoing supply chain disruptions and the very weak market situation in China. CVS saw a positive development in both channels, OE as well as AM, and in all regions. The utilization rates of truck fleets and demand for used trucks continue to be high, driving demand for spare parts and services. Due to the even stronger OE growth, the AM share of revenue decreased slightly to 29%. CVS should also be able to further post solid revenue growth in FY23. This positive outlook is founded on the strong underlying truck market and the market recovery in China as anticipated. In Q4, CVS achieved an EBIT of 101 million euros, which is a significant improvement year-over-year and also a solid increase versus Q3 as expected. The EBIT margin amounted to 10.1 % compared to 7.4% a year ago and 9.2% in the previous quarter. EBIT margin in FY23 should develop positively, with a rather sequential improvement in the course of the year.

On chart 17, I summarized some countermeasures that we took at KB to fight the challenging business environment. We consider KB as a very flexible corporation that is reacting quickly, if needed. In 2022, we decided to adjust our portfolio by taking such necessary steps such as

- The phasing out of our Russian business in rail and truck
- The divestment of our subsidiary Kiepe and
- The sale of our foundry and machining plants, which are part of our steering business in the U.S.

Additionally, we improve our fixed costs base and took immediate measures in China via the closure of one production site in rail as well as lay-offs in our CVS plant. In North America, we relocated parts of our rail production from U.S. to Mexico for clear cost benefit. We are now closer to our customers as well. All these actions are in progress and – once completely finalized – will support our profitability going forward. Nevertheless, economic circumstances remain tough and potentially require further actions in 2023.

I want to finish my part with the guidance for 2023 on chart 18. We expect revenues between 7.3 to 7.7 billion euros, an operating EBIT margin between 10.5% and 12.0% and a Free Cashflow between 350 and 550 million euros. On the right side of chart 18, I outlined our main assumptions for this guidance. Please let me give you some additional comments: Revenue increase at group level in FY23 should be driven by both, RVS and CVS. We also expect operating EBIT in absolute terms to increase. Looking at the quarterly development this year, we expect the lowest EBIT margin at group level in the current quarter, followed by a sequential improvement. Operating EBIT margin of CVS should be moderately higher in FY23 due to the before-mentioned pricing negotiations leading to a positive price/ cost ratio as well as implemented cost programs. RVS is expected to face a moderately lower operating EBIT margin, impacted by four major headwinds this year:

*1)* The product mix, namely a higher share of non-brakes business and potentially a lower aftermarket share in Europe
*2)* A rather flat Chinese business
*3)* No more accretive Russian business and
*4)* Especially high impact by inflation that will only be compensated with a certain delay. As mentioned, 30% of our revenues arise from the order book pre-inflation.

After this margin decrease of RVS in 2023, we expect a growth in profitability in 2024 again.

With this, back to you Marc.

**Marc Llistosella:**

Thank you, Frank. Based on these figures, I believe that our company will overcome this turbulent and difficult year with success. We know very well that we cannot relax. The times remain very challenging and demand maximum dedication from all of us. I am strongly convinced that this uncertainty is the “new normal.” It is something that we will have to adapt to, and we can do that. What do I plan to do specifically with my colleagues and all the team? I can summarize our plans in a single sentence: We want to lead Knorr-Bremse to profitable growth by innovation – and beyond. To make this happen, we are looking at the three most important factors for our success – our three Ps: “products, people, and processes.” Or, put simply, do we have the right offering, solutions, and products for our customers? How do we make our employees ready to meet these requirements? And, what processes and structures do we need in order to be ideally equipped for this future? When these three elements of “products, people, and processes” are perfectly integrated in a target vision, this will have a huge positive impact on our performance. Our employees have clear expectations: After four CEOs in a period of four years, they are seeking continuity and clear leadership. One of the most important duties for me and the entire Executive Board is therefore to ensure continuity and stability in the company’s management. That is what I stand for. Let us look together at what we specifically intend to do.

This company knows exactly where it stands. We know exactly what we do. And I think that is great. On the flip side, another thing I continually observe is this: Yes, we know exactly where we stan. Our divisions also have a clear understanding of where our two main markets will develop. However, we do not yet know exactly where we as an overall company want to go. We need to develop this shared target vision of where our journey will go. We will prioritize the foundational elements, then work on the elements that complement them. This foundation includes designing the target vision for “products.” It involves us examining and defining what our products should be in 10 to 15 years’ time. We want the best products of the highest standards – the solutions that our customers will need in the future. We will make targeted investments in precisely this and expand our technology base. Why is this so critical for us? We are a profitable and global market and technology leader. We will defend this pole position under my leadership – and extend our lead further as quickly as possible. The topics of ESG and sustainability were something that we could sell in marketing wonderfully for many years. We could say, “Look over here! See how green we are!” Those times are gone. Sustainability is here to stay and that is not up for debate. Companies that only pay lip service to sustainability will not have a place in the future. As a global market leader, we are among the world’s biggest players. For this to remain the case, we will need to be even more ambitious in the future and develop new ideas. We need to make our products and services more digital. To launch new business models and make money from data rather than only hardware. There are excellent approaches for this, and Knorr-Bremse already has more than 12,000 patents. This is a strong starting point. However, we need to become faster and actively drive our innovation management. This also means learning from mistakes, because it is very difficult to develop innovation rapidly without making mistakes. We cannot lead the market without innovating. Let’s now turn to the element of “people.”

I believe that we can only be strong as a team. We can only achieve our goals if we all know what our shared target vision is. At this moment, you could say that all CEOs talk about teams this way, which might be true. But I believe there is another team principle that counts: "The team comes first." There is no employee of this enterprise, not even Marc Llistosella, who is more important than the team or the company. That applies to the Executive Board, and we practice this principle throughout the company. We already possess the full potential to achieve all these goals. Knorr-Bremse is a knowledge corporation. Our employees have enormous know-how, which I was able to experience during my first site visits. However, it also means that we need to lay the foundations for our future processes and the organization now.

If we look at the world of today, I think we are all aware of one thing: We are in a state of permanent, hard-to-predict change. This is our 'new normal'. This 'new normal' brings with it ever shorter cycles, higher amplitudes and additional risks. To successfully master this state, we need to become faster and more resilient. And for that, continuity and stability in leadership are more important than ever. Leadership is an important constant that we need now at Knorr-Bremse to successfully further strengthen our resilience and agility. How are we achieving this? For example, by optimizing our portfolio. We will closely analyze where we can invest or divest sensibly. Our goal must always be to grow sustainably and increase the company's value. We analyze the entire process landscape and optimize it, rapidly if needed. The latter also includes continuing the profit optimization program that Frank already mentioned. On top of that, we are working further on harmonization and standardization, fields with potential to become even more efficient. After having established the foundational elements of our target vision, our next step will be to develop the complementary elements – a target portfolio of growth initiatives that we have embarked on. Our focus will be on further efficient organic growth as well as inorganic growth. As you can see, we are approaching the tasks ahead of us in a structured and foresighted manner. We have a clear time line. At the end of this process and its three Ps, we will create our target vision for the Knorr-Bremse of the future. I will be able to tell you in summer just what this future looks like. One thing I can tell you right now is that we are open to any results from this process. We will not silence any thoughts. I find that important.

I would also like to thank you greatly for your attention.

**Andreas Spitzauer**

We will end the webcast now and start the Q&A session in a minute or two. Please make sure to register for the conference call to receive the dial-in details.

**Q&A Session Knorr-Bremse AG**

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| O | Operator |
| SW | Sven Weier (UBS) |
| BU | Ben Uglow (Morgan Stanley) |
| AG | Akash Gupta (JP Morgan) |
| IS | Ingo Schachel (BNP Paribas) |
| VM | Vivek Midha (Citi) |
| GB | Gael de Bray (Deutsche Bank) |
| CC | Calvin Chen (Credit Suisse) |
| WM | William Mackie (Kepler Cheuvreux) |

O [00:35:21] Ladies and gentlemen, we will now start the Q&A session. If you'd like to raise the question, please press nine and star on your telephone keypad. In case that you like to withdraw your question, please press nine and star again. And the first questionnaire comes from UBS, Sven Weier. Your line is open now.

SW Yes, thanks for taking my questions and the two questions are for Marc. And first of all, wishing you all the best for the new role, looking forward to work with you. The first one is really on what you just said regarding the strategic update you are aiming to give us next summer. I would assume that probably also then refers specifically to the midterm targets that the company had been providing in November 2021. I was just wondering, I mean on your initial observations, the margin targets that the company has given itself back then are obviously a bit away from the current profitability. Do you generally feel that this is a margin level that the company like Knorr-Bremse can achieve and it's only you need to define which steps you need to take in the coming months to get there or do you also think that the entire margin target needs to get some further thinking? That's the first one.

ML Thank you very much for the welcome. I'm looking forward also to proceed with you. To say it in a very straight form, midterm, I see the margins more critical than long-term because the substance of the company is there. And if you have just a look on the order book of RVS, the good thing is the orders which we receive by 2022, most of them have incorporated the inflation. So that means these orders will lead to the original usable and used margins. What we have to consider is that everything what is from pre-February 2022, in terms of EBIT, not in terms of anything else, it could be seen as a burden, but this burden will be smaller by time. And the smaller it will be and the more the other rises up and therefore I think the order intake is very significant for the year 22 to be observed. I think here we can expect much more, and we can expect what we are used to expect from Knorr-Bremse RVS. In terms of CVS, I can say this kind of delay, you know, this time shift. This is not because the business is different and here, I see already that the programs which Frank and the team initiated are coming to, you know, the fruits are coming up and I think in CVS we have a rock-solid business which could get into a range which is very, very attractive, especially when you grow in this segment. So overall

I would say the operational margin, what you used to know from Knorr-Bremse, it is achievable, it's not easy, it needs hard work, yes, but it can be. And I think that's the most important for the company, there is the substance to get it.

SW That's good to hear. Thank you, Marc. The second question is basically coming back to the recent interview you gave in Handelsblatt I think, that we talked about the divisional structure and that you will look open-minded to it, but for now, you think the structure makes sense. It's a good cyclical hatch given the different dynamics. Do you see that so far as the own main advantage or have you come across other major synergies? Because as a shareholder, I might argue I could hatch the cycles maybe myself, and was just wondering if there's anything else that you would watch a name here as a big advantage of the structure.

ML Thanks for this question. You tempt me already even after two months. I must say that the structure so far from just today, especially with the difference in cyclicality of the business, it's an intelligence strike and I think it was well prepared and well done by Mr. Thiele. Now the question is how we live it. And that means we should not always refer to the cyclicality. We have to see some scales, we have to see some integrating layers. Otherwise, you could easily say, okay, besides the cyclicality, what is it? And that's exactly where I have to find out. You know the business at least as good as me, at least from the reporting point of view, that the rail business is a completely different animal to the truck business and this kind of business has a different business structure and business logic, and I think it makes the company very attractive for talent because it's not only focused on one business logic, in fact, it has two business logics. And that makes it attractive for employees, it makes it attractive also for investors because it's not only one layer and it makes it attractive to grow beyond what eventually is seen only in one or any of the other dimension. So overall, I'm more attracted to this kind of setup than I am not. So, this gives you just an indication, but as I said, and I emphasize it again and again, there is no "Denkverbote" and every form of critics is taken seriously when it is constructive, and the target is value creation.

SW Thank you, Marc. That's very clear.

O And the next question comes from Morgan Stanley, Ben Uglow. Your line is open now.

BU Yep. Good morning everyone and thank you for taking the questions. My first one is to understand the margin profile in RVS, and I just want to make sure I understand this correctly. So Frank, what you are saying is 30% of your kind of order book at the moment is essentially, you know, "legacy contracts" which are lower margin, they're pre-February 2022 and which have got no escalation clauses. I guess my questions are number one, is that essentially correct? Number two, if we strip that out, if we take away that 30%, is it fair to assume that the rest of it is back at the old margin? So, if I look at where margins were in 2020/2021, you know, we were looking at high teens numbers, 18 to 19%. So, my first question is excluding that factor, would we be back where we were in 2020, 2021? Thank you.

FW Thanks Ben for your question. I mean, first of all, let me express it in my words crisp and clear, at least as much as I can do. The 30% of the RVS revenues that we are generating in '23 is stemming from an order book that is before February 2022. That is the facts also say, we have realized already kind of a lot of this order book back then in the year 2022 also with kind of prices from those days, but also with lower input costs on the material side, etc. So those margins weren't under that much stress test, so to say, but the biggest comes with this chunk of 30% and also with a higher input cost in the year '23. It will then, as also Marc said, go down in '24 is this is only a 10% plus, so to say, share of revenues from the old days and this should bring us up again in overall profitability. That is the very first. You also mentioned price sliding clauses. We had back in the days before the high inflation as well as now in the vast majority of our contracts already, price sliding clauses. We have not only newly introduced with some, but we already had them before. That's why we also did have some positive results in price negotiations in the OE business as well. So that's that answer. And then coming to what's the remaining part, so to say, whether this is back to the once reached levels, this is not the case. This is not the case. And I give you one simple reason for that, why it's not the case, it's because in the previous years of '18, '19 when we saw the margins peak, it was to extreme extent, also driven by peak of the cycle in China with extremely accretive margins in China. If we would take that out and normalize China, then I would say yes.

BU I see, I understand. And we can calibrate the China amount. Just to finalize on that point, the China revenue in the presentation you gave in October, November was supposed to be about 650, about 19% of the division, is there anything to change that assumption today?

FW I'm not sure that I fully understood the question just from listening, but I can confirm that also figures that we showed in quarter two in regards to our expectations for mainland China revenues came in on those levels that we somehow forecasted them to be. Yeah. Was that a full question?

BU Yeah, no, I understand the point, Frank, thank you. And then final one really quickly for Marc. And I guess, you know, you alluded to there's been a lot of changes, there's been a lot of CEO turnover, etc. I guess what people maybe want to know, and certainly, we do here, is what attracted you to this job? If I look back at your resume and you yourself mentioned setting up the business in Chennai and what you've been doing for the last couple of years, it's been very entrepreneurial. I think your background has been as an entrepreneur and investor for the last couple of years. So, what brings you to Knorr-Bremse? What do you see as the main attraction on a personal basis? Thank you.

ML Thank you, Ben. Yeah, you're right, I see myself more as an entrepreneur than a manager. I think that we have to discuss in the near future. Knorr-Bremse for me is good base, but you can get more out of it. And that is for me, a change story. And that was India, it was a change story, it was, of course, a greenfield approach. Then Fuso was a change story, it was a brownfield approach, and Einride, startup, this is also a change, you can say. You changed the environment; you changed the industry. And Knorr-Bremse is a mixture of that. It is partially greenfield for me because we can do new things, and it's partially brownfield, you can do the things better than you did it in the past. And I think this combination that made it up. And last, not least, to be very honest to you, because it's not always easy to go along with me because I'm a free mind, is that the surrounding circumstances with Knorr-Bremse is a new setup: You have a new chairman of the supervisory boards who had by himself an exceptionally successful track record within the Infinion, so he knows what he's talking. You have a board which is new settled, with people like Theodor Weimer. You have very, very much expertise and also growth stories there. Half of the board itself is a growth story. All of them are representatives or drivers of growth. So, with these people, I think it is much easier for us to set up a new tone, you know, a new set up where we want to go, that some things have to be changed. And I think it's a blessing for me. I didn't do anything for that, that these circumstances are completely different than it was two, three, or four years ago. And then that made me think that I could join and that we could do it. And last not least is Frank, you know, you come newly in your company and one of your friends is already there, settled for the last three years. And Frank, as you know, you know him in this regard, eventually, better, he's very, very, very reliable. He's very clear, he's very structured. So it's, it's really a pleasure to work with him.

BU Understood. That's brilliant. Thank you very much for the time and best wishes in the new role.

ML Thank you.

O And the next question comes from JP Morgan. Akash Gupta, please go ahead.

AG Yes. Hi. Good afternoon, everybody. Thanks for your time. My first question is for Marc and congratulation Marc for this role. The question I have for you is that in earlier remark, you said you are open to any results from the process. Are you hinting that the process which is currently undergoing in terms of defining the future and strategy and processes could be quite radical and therefore in the medium term, we may see Knorr as a somewhat different company in terms of the mix of portfolio than what we see today? So that's the question number one.

ML Akash, thank you for the question. And the answer is in short, yes. But change for it to change itself will not happen. It's not an eagle shooting show of Mr. Llitsosella or whoever. It has to contribute and create value. Why do I say that? The last 20 years, this company had a lot of unorganic growth, right? So the question for me is, what is the contribution in terms of value creation of this unorganic growth? And we are really going deep dive here. What kind of premises were set? What kind of results were expected and why did it not happen? In fact, to make it very short, I have a first indication that on the M&A process, Knorr-Bremse was not as good as in product solutions. So this gives me an indication, and Frank is already on it, that we have really to look on this and this is the ugly truth, and we have to face the ugly truth that eventually our aspirations were high, but our post-merger integration capabilities were not that high. And here we have to start: you know, admission is the first step for improvement. If we don't admit, we cannot change. The change has to come especially from the attitude. When I try to hide, when I try to give excuses, I will not make it better. And especially when we acquire companies, it has to be very clear. Is it a RoS diluter? Is it something on the long term which is adding value? Is it's small enough to be covered by the others, or is it too big to be compensated by the others? And these questions they're always answered before we do anything. So, when you say drastic changes, they have to make sense and it has to create value. Without that, it won't happen. Not with me.

AG Thank you. And my second question is for Frank. I mean, there is big hope on China recovery in rail, given the ridership is picking up, and also the faster than expected Covid restriction that we have seen in there. You are guiding for flattish China business, and my question to you was that internally, what's your expectation in terms of recovery of China? Do you think it could be more '24 or is it beyond 24? And do you also see a potential upside risk that given its China and if things go right, we might see some upside in late 2023, which is not currently part of your forecast? Thank you.

FW Yeah, thanks, Akash. First of all, what we indicated in Q2 in regards how we see in the midterm the Chinese market and our revenues in that market, I think basically still holds true. So, there are not so big, so to say, growth drivers, but for sure the zero Covid policy that is now abolished should bring the ridership levels back to normal. Will not immediately happen, will not happen overnight.[00:54:00] It will take some time until we see effects as well. Then also on the supply chain side, which might then have a global impact or positive global impact for us all. We do think that there is something that somehow is a growth expectation that could come earlier than initially expected, so there is an upside potential, I would say there is as well. I think rather end year loaded kind of recovery expected, it should not happen within the first month immediately, as you know, it usually first comes ridership levels, then come more trains on the tracks, the depots get freed up, so to say. New orders then for OE businesses would come in. This is kind of the mechanism how it would run, and this would take a certain time until it could come up. [00:55:00] And if that development is really getting rock-solid in China, there could be within, of course, the guidance range, there could be an upside potential on this year. That's clear.

AG Maybe just summarize, you are basically saying that because any potential recovery would be backend loaded, which is why you are not currently including in the guidance, but there could be some upside if that comes towards the end of year.

FW Yes, towards the end of the year, then supporting us, then going into '24, this is what we rather currently think. As things are not changing with that effect down to our P&L, so to say, in terms of top-line that quickly.

AG Thank you. Thank you.

FW You're welcome, Akash.

O And the next question comes from BNP, Ingo Schachel. Your line is open now.

IS Yeah, thank you. My question would be also to Marc and a follow-up on the acquisition philosophy. I think you already mentioned the point with regards to acquisition targets that could be a return on sales diluted. Just wanted to understand what your philosophy is when it comes to high-growth, lower-margin assets. Are you looking for Knorr-Bremse be a high-margin or double-digit-margin company for the sake of it or could you also imagine by tapping to new growth fields, that Knorr-Bremse might end up being a higher growth, but only high single-digit margin company in the long run? If you add a certain new segment and, on the EBITDA new segments, maybe you can also clarify whether you've already identified certain markets that, or end markets that would be of interest for you or definitely rolled out when it comes to potentially adding new pillars, new segments.

ML Thank you for the question, Ingo. I take one question out of it, or I try to structure it. Which targets will be allowed to be dilutive? Let's say it's so. Targets which have existing business, targets with a significant size of revenue and cash flow are not permitted in our philosophy or my philosophy to be diluted. Because if we have the belief that we can do the business better than the original management, then sorry to say I haven't seen this in the track record so far. I would like to have a proof of this. If the company's small but innovative, like a startup or someone like the Cojali and other acquisitions or shareholdings, which we have received last year, here we have a vertical increase of all products. So you know the work deal on horizontal matrix, everything what is horizontal that is from the existing business in very adjacent fields, they have to carry themselves. If they don't do it, we should not touch it because we don't have the resources. We have the money, but we don't have the resources. That is, for me, a clear fact. We don't have it like other companies that we can spare 100 people for two years, we cannot. So that means it has self-containing. In terms of vertical growth when it comes to new technologies, when it comes to data, monitorization of data, then I must say we have still, and that's the question of philosophy, we see here a potential growth, not eventually in the next three years, but in the next five years, and then profitability comes. And if you ask me, describe me the segments. If you go conventional, then India is a horizontal increase of our business by ourself, by a higher market penetration, by growing with the markets. If we go for Africa, which will come sooner or later, of course, compared to China it's insignificant of size, but it will be significant of growth. Then the step with our current products adapted to customer needs into these markets. When it comes to, example to Cojali or when it comes to Nexxiot, then we have companies where we can add, we can add functionalities, we can go beyond what we are offering so far. And here the margin structure and the business logic is new and it's new to us, but eventually even new to the market. And if this is the case, it makes sense to invest, it makes sense to be there for three to five years, but it makes no sense to go in something which is already in the market and is not performing well. Here, I would expect a massive turnaround plan in advance. And sorry to say, I have seen so many turnaround plans, and before we touch this, we should make sure that we are doing our homework at our own, because here is a certain form of potential in this company before we go beyond and we please other companies.

IS Okay, thank you.

O And the next question comes from Citi, Vivek Midha. Your line is open now.

VM Thank you very much everyone. Good afternoon. I had two questions. So, my first question is for Frank, and within the 2023 guidance, could you maybe give us an indication on the breakdown between volume and price within the organic revenue growth? Thank you.

FW Yeah, thank you, Vivek, for this question. I would say, you have seen that we indicate or have best signals available for another inflation kicking in towards '23, driven by energy cost basically, and personnel cost developments around the globe of roughly €300 million, similar ballpark like it was in the year 2022. And also, our crystal clear target to compensate for all of that within the year with price and cost measures like we have done last year. So, for this year, you could expect that there is a certain kind of spillover going into '23 from the price measures of last year, just looking at the full-year effect then of those measures. So, we should be able to see, I would say another year-over-year 3% plus price increase which is reflected in the top-line growth. So if you deducted, you end up with the remaining organic kind of element of the top line growth, you have to keep in mind that also we guide figures of course, including a fixed effect as we move into '23. There is also a slight burden FX-wise, going into the new year. So you have to add this then up again in order to come to the organic figure out of that, that you are seeking for now. But 3% plus roughly overall globally, all business elements is somehow the price increases that we would aim for.

VM Thank you. Very helpful. My second question is on the restructuring charges you've taken in Q4, particularly, this appears to be on Russia, could you give us any indication of the cost savings arising from these measures? When you expect these to be kicking in, whether it's saying '23 or '24, and so on? Thank you.

FW Yeah, you're welcome. Very valid question. I mean, needless to say, the Russian, so to say, there is no payback in that regard on the Russian write-offs that we have done. Unfortunately, this is the case, it's just write-offs that we have been doing in assets and inventory levels, that's clear. On the other for project T it's already starting. It has been already starting towards, I would say end of the year, as you have seen Project T, for example, which is the relocation from North America to Mexico for some rail operations. Already slightly moving in into figures of 2022 and should be full year effective in '23. When it comes to the Chinese saving potential, I would say they start with beginning of the year '23 to kick in. On the one hand side with rail, it's a joint venture that we are having, so it needed certain kind of alignment also with the other shareholder in order to kick those off. So it should come in starting in '23 and then move into full-year effect into '24.

VM Perfect. Thank you very much.

FW You're welcome, Vivek.

O And the next question comes from Deutsche Bank, Gael de-Bray. Your line is open now.

GB Hi, good afternoon, everyone, and thanks for taking my questions. My questions would be for you actually, Marc. Really wanted to know what you learned in the past two months of being with the business. Is there anything materially different from what you thought it would be when you accepted the job? And secondly, could you perhaps elaborate on your current perception of the group's pricing strategy and organization? I mean, do you find it agile enough, flexible enough? I mean, what's your take on the relationship between the groups? Very strong R&D investments on the one hand and the pricing development on the other hand. Thank you very much.

ML Thank you. What I did not expect is the competence on the top management. Now you can say, oh, what do you want to say with that? Do you have other experiences in other groups? And I must just say yes. The competence level of the top management is extraordinary deep, it's wide, you have a lot of intelligence. What is different is there is a willingness to work together, but you have to explore it with them. And this is the same with the board. The board has characters, which if they would turn together in one direction, I think they could much, much achieve more than what have passed, especially in the last two, three years. I think they were a little bit influenced by the external effects, influenced by the external gossip, and whatever came to them. I think I did, first, to answer your question clear, the competence level is extraordinary. And number two, the disturbance which was perceived was from my point of view, I underestimated it. Now, second question, my current perception of the group's pricing strategy, I think, and that's my perception coming from truck, they are in a very, very stringent way to forward the prices to the market when it comes to cost CVS. The truck team, they seem to be really trained on this because you know it's a very unpleasant thing and you have to have good reasons to go to your customers twice a year and change the contract. And especially, if you have a price inflation and aggressive pricing strategy based on your inflation environment, but it is not pleasant to do so. And I think there you need really a very, very strong approach to get it true because not all of that has a price escalation process included. So, I think here in truck I see it is really brought forward, and you call it the conversion of costs to price, my perception is that we reach sometimes more than 90%, which is good, which is really good. In rail, it's a different animal, it's a different business logic. We spoke about it already. Here I see that pricing it's for them, they're not that used. It's something which is not a typical animal, which you are confronted with. So, I can imagine, but that's just a perception, there was a certain form of hesitation at the beginning when it came to these terms which we are facing. And now this is getting more and more established, and that is now more and more understood that especially in the new projects, and they call it projects, and the new orders, they establish it with a certain form of buffer because they know now that they can't come around the corner next year. So, you know, the sensitivity of the topic had to place in RVS more than in CVS. So this is my perception. So from a pricing strategy, it's also very important. You have the short-term effect that you get just your new pricing level through. The problem is we are B2B. On the one side, it's good because you know your customer quite well. On the other side, the customer recognized and remembers very well how you behaved. And here you have to be very sensitive. You cannot just go through and say that it is, that are the arguments, and if you don't sign, we don't supply you. You can't do this. Even in our position where we are in a legal ballistic position, yeah, we can very, very much manage who gets what, but you know, it comes back to you. So it's a boomerang. So to deal with it needs a lot of expertise, competence, and also a lot of graph in terms of gravitas because otherwise, you're never getting this through. So it's not easy. It's not just easy that you say, oh, we increase it by 8%. You need to have strong arguments. And the second wave is underestimated by a lot of people. They say, oh, material goes down, but not the salaries. The salaries are not going down now, they're coming now into full potential. Now it comes in 2023. So this understanding has to be settled. And I think this, the group is doing quite well. CVS first and RVS is now getting used to it, which is good because that means, we spoke about resilience, whatever comes, this is now known. Two years ago, it was not known, especially not with RVS, not with rail. Now they understand it, now they know what to do.

GB Thank you very much, Marc. Can I squeeze in a very small question on Kiepe Electric, any other date on the plan divestment?

FW Yeah, I'll take that if you allow me. Yes, we're in good progress here. I mean, it always depends on who is, so to say, then the ultimate buyer. We are in the last round, I would say, in front of crossing the finish line. The buyer needs to fulfil some formal regulations, which are not extremely usual. I can tell you more once it's then through in the end. But we basically orally agreed on negotiations, agreed on what we want to do, what we want to sell in detail, to what price and etc. So it should be signed rather sooner than later if nothing bad happens. So it's a bit a complicated process, you will understand later on once we've done it, why it is the case, but it's looking good.

GB All right. Thank you very much.

FW You're welcome.

O And the next question comes from Credit Suisse, Calvin Chen. Your line is open now.

CC Hi, thank you very much for taking my questions and of course the very warm welcome and best wishes to Marc for taking the new CEO position and really look forward to working with you in the future. I have two questions, please. The first one is probably for Frank. So could you... May I ask, what is the main driver of your guidance of the 350 to 550 million cash flow in 2023? And also, what level of inventory do we expect for '23, and in particular for H1? Please. And also, if you look at the cadence for free cash flow, how does it look like for 2023? And also, in terms of the cash flow, if you look a little bit more into '24, or even after, do we expect it to go back to the previous levels in '18 or '19, or at least in line with the new kind of margin level anticipated by the management team? Please.

FW Yeah, thank you, Calvin. I would say two root causes or two ingredients are baked in this expectation of 350 to 550. First is the pure empirical evidence that we have been seeing always also towards the end of 2022, that were just that not all levers are in our hands. If the customer doesn't pay in December, then they don't pay in the end, then you have to face reality and your free cash flow figure is then all of a sudden lower also. That also led us to that 350 to 550 guidance range, because this might, in those more rigid times, happen more often also in the future. That's what we, of course also baked in a bit for 2023, that's the first thing I would say. Secondly, of course, the supply chain situation, so to say, led to a certain level of inventories and accounts receivables and accounts payable in the end, so the whole working capital is influenced by that in the end that we are now having. I would say in absolute terms we should not go down significantly because we have to also finance revenue growth into the next year, as you have seen. And we are seeing further inflation, also price increases on our side towards the customer. So you will, in absolute terms, first see that it probably will go up in terms of absolute working capital, and then comes the efficiency measures with hopefully a release on the supply chain side that we will get better in our processes going into the future. So that should help us bring it down a bit. So first up, down effects, I would assume we should be able to manage it on a rather stable level going into the next year. Not up but definitely not down, given all the revenue increases that we plan to realize because FX is in there, in our inventories, price increases are in our inventories, all that and in our accounts receivables. So I think that is somehow we see it. Will we get back to the previous FCF margins? Yes, that is the clear task in terms of cash conversion rate. In terms of cash conversion rate, once we have, so to say, gone through the rather challenging times of the supply chain situation, extremely high inflation, we should be able to normalize our scope of days especially, and then come to cash conversion rates of 80% to 90%. That's what we truly believe in, that is clear. In terms of absolute levels, no, we won't be able because you have two years of extremely high inflation and that counts in absolute terms. But when it comes to scope of days improvements, and when it comes to the improvement of cash conversion rate, there's a clear, yes, this we will improve again. But the major prerequisite for that will be supply chain situation getting better.

CC Thank you very much. That's very clear. And my second question is for Marc. So obviously, really appreciate that you share a little bit of thoughts on the margin for the midterm. Can I just follow up on that question on your midterm targets for growth? So if we simply just pull out your organic growth numbers for the past few years, probably post Covid versus this industry or rail OEMs, there seems to be some extent an underperformance there. And what is your thought on that? And do we expect we come back to an outperformance if we compare ourselves to the industry for the next few years? Thank you.

ML So when we speak about midterm, everything goes beyond '24 months, starts for me, midterm, only to have the exact definition. Everything, what is in the range of 24 to 48 months is a midterm. And here, from my point of view, we absolutely think that a margin target of around 12% for trucks is something which is achievable. So 12% to 13% is achievable for trucking industry, especially when we do our things right. Now, I would like always to separate between do the things which you do right, so that means also restructuring, efficiencies, standardization, optimizations, and here we have some space for improvement. So whatever I say positive, there's also indications then you could do some things better. And especially in the compilation of the portfolio of the truck group, there's at least one or two areas where I see for us for the next 24 months, a massive area for improvement. So far these two are diluting the overall result. It's a fact, it's a dilution which is... So I would call it even stop the bleeding. So the other business units are overcompensating with their productivity and also their profitability, what is done by the other business units, with their product groups. Here it is very clear this has to be fixed or it has to get lost. So in rail we don't see this, we hear here not this kind of structural changes. We have, for example, one area which has to be more professionalized, that is receivable management. So the management of receivables seem to be something which can be still improved. So this is one, this is less the margin, more the free cash flow. And second, we see here a concentration on one market. And you know, in 2015, the profit of RVS was given by 51% from one single market, so it was China. So this kind of cluster and this kind of concentration on one cluster, we have to avoid. And now you can say, yeah, can you do this? Now I say, yes, we can because we have reached last year, 2022, historic heights in orders, right, with nearly €5 billion. So if this is the case and China was not really contributing that overproportionally, there is a chance that also China can be normalized. China's importance can be normalized. That's number two. Number three, China is over-proportional, profitable. This is a fact. Even the business now it's over-proportional, profitable. So the question is how can you compensate it? Because otherwise, you can't guarantee a profitable growth because you have said the €5 billion are most of that, which was now taken all into the order books by 2022, so inflated. So that means where we have the right pricing to the right cost, but how you compensate China? And that is something where we have to really work on that because I call that in German “the Kür”. You know this is not “the Pflicht”, this is not the basics, it's not the brownfield, that's the greenfield, we have to reinvent ourselves. The margins of the business are still in a very, very profitable territory, but it is not, as you will say in '19, '20, '21, and especially '18, '19, we have seen something in the range of between 16 and 20, right? That was the marginal expectation for RVS. And now we see much, much be lower. So yes, in the midterm it will be well lower, but do we see that it can reach this, can it exceed 14% to 60% what we see as an EBIT margin? Yes, it can, but it can only when you do the two things, first, we have to clean the whole house, and if we go outside, if you go for unorganics, we have to make sure that everything, what comes in the basket, it's giving us above 16. Otherwise, it makes no sense. So having said that, after two months in the company, what you see, I have a look, a very brutal look on the buffet. I have a brutal look on what was bought. I have a brutal look when this, what we bought will ever come to the level which we expect, and that means that is now what we do the next three, four months. And this kind of disinvestment or rearrangement of investment is already started with Frank and the team. They started it last year and it's good that they started because that's the right attitude. You know, sometimes you have to face it, we bought it for the aspiration, which was high and it never came. Latest of the five years, you have to face the truth, it's not coming. And that's exactly where we will accelerate in the next 12 to 24 months.

CC Thank you very much for the extra colour specifically on the margin. But if you look at the organic growth numbers, they're 5.5% to 6.5%, as you lay out before. If you look at the next 24 to 48 months, is this a number that you think is achievable?

FW So you want to hear the genuine voice of the CEO or do you accept me? I would say yes, of course. We definitely do think, and we have to be honest to ourselves, if we will be successful on the pricing side this year, '23 and also sticking to our kind of expectations from last year that we ultimately want to wipe out after several years inflation completely with pricing and not by the help of other cost measures, this should be possible. Yeah, because then nearly half of that should come from price measures. And then the remaining 3% to 4%, which is not price increases year over year should be organically driven via market development, our content per vehicle in truck and in rail. Also so to say, more sophisticated products over time. Yes, it should be achievable based on this knowledge.

CC Thank you very much, Frank. And I'm sure that's the general view from Marc as well. Thank you very much.

ML Okay. Yeah, good.

O So currently there are no further questions, so I may repeat, please press nine and star if you have any further questions now. I'll just wait a few seconds. There is another question. And we have another question here, and the question comes from Kepler, William Mackie. Your line is open now.

WM Yes. Hello. Good, good afternoon. Thank you for taking the time and welcome Marc, congratulations. I have two questions. The first, well both directed to Marc really. the first relates to your insights and experience around trucks and autonomous driving. When you review Knorr-Bremse's strengths and capabilities across the CVS division in the field of autonomous driving, either directly through ownership or through partnership, what do you consider to be the particular strengths or weaknesses that the customers particularly see in the company? And do you see any white spots for technology that should be filled to strengthen your go-to-market capability around digitization and autonomous driving?

ML Thank you. Very interesting question. And that's the right question because autonomous trucks, and now of course you know my background with Einride, this will be the future whether we like it or not. And it will lead to some effects, which eventually some of the current OEMs will not like to hear. The thing is, the efficiency currently in the trucking industry is in the range of 40% of the assets. The utilization of trucks is at 40% in some markets, more in some markets even less. If you come to an autonomous truck, you will have a truck which can run at any time. So you will have less need for trucks because you will go up in efficiency from 42% to 70%, 80%. So that has an impact on the overall market. On the other side, which is a good story, these trucks will run in a shorter time period, more kilometres, and if they run more kilometres, they will be replaced sooner. So the market size will not completely damaged and hammered by the autonomous. Number two, the portion, the part, the value, which is then in the truck will shift away from the power pack, which is currently in the range of the power pack itself, with the after-treatment of $25,000 to $30,000 U.S. dollars when you come to class eight, even more when you have the respective transmission on it, then you can easily come to $35,000, this will nearly go down to something below five. What will go up is the braking, steering, sensoring, and in the sensoring we see something where Knorr-Bremse is currently not that greatly positioned. Is this a weakness? I would say yes and no. If you go for the OEMs, the power pack will be out sooner or later. I don't say it'll come the next five years, I don't say it'll be digital, yes or no, you will have a peril system. You will have ICEs, you will have them at least for 20 more years, especially in countries like India, Indonesia. And you will have them less and less like in Norway or Germany or Netherland, but they will coexist. The interesting thing is that if you have this kind of electric/autonomous trucks, by the way, whether they will be fully electric or something else, that's a different question, you have, we call it the skateboard. The skateboard itself will have no cap, the skateboard itself will be completely differently looking. And the bill of material of this truck, when you call it like that, or this skateboard, will have completely different value drivers and cost drivers than it is today. But one thing is for sure, Daimler, Volvo, Scania, Paccar, they will fight for the existence because when you imagine you have this kind of platform, then this platform will be very differently to be used, except as a USP. You know, the platform as the platform, then you must be more in sensoring, in prediction, in objectification, in managing and controlling, that you must be in the future. This is why some of our peers are going completely into it. But I ask you the simple question, would you like to be completely dependent from someone who is not in your house? So that means you have no longer the power pack, you have no longer the cabin, so what do you have? You have just the platform of two axles if you have the axles. So long story short, I expect that the OEMs are going exactly in this kind of bracket function, where they have the perception, where they have the prediction, where they have also the management. But when it comes to the execution, because you need a mechanical execution of the system, otherwise it does not work, break by wire and steer by wire, that's where we have to go, especially in the two last. And here we have the EPS, we have the electronic ESP, the steering, the electric power steering, that is something where we are already in a very good position. Now the problem is because you asked how is this coming to you? In midterm, it will be insignificant. This is my clear saying, midterm defined is 24 months, it will be insignificant. It will be a cost driver, not an over-driver, and it will cost us more even in the next four to five years to come. The question is, will the customer, the OEMs ask for this? Knorr-Bremse has this kind of attitude that they only start with an innovation when they have contracts in sight. So if there's no contract in sight, Knorr-Bremse is very reluctant to invest. On the one side, this is good because you really invent only things which are to be used, and you have already a secured order book for the innovation you do. On the other side, it could be that smaller companies are coming across and that they just go ahead of us. So we have to walk the line, we have to be very careful what we do. And this is where I see white spots because it's not only the customer, the existing customer, who is asking you for the future, sometimes it is a completely new setup which is asking you for a solution. So here we have to find a way to go.

WM Thank you. A very deep subject to be explored going forward. My second question is a follow-up for your comments on RVS margin. I think during your most recent comment just then, you highlighted the importance of the contribution to profits from one market, we're talking China. Could you share your thoughts on the sustainable profitability of RVS within the core European and North American markets? If we were to think about it on a midterm, sustainable going forward basis across the mix of the business?

FW Okay. I try to take that...

ML Let's do the following, you give the first part and I try to do the best. Okay.

FW Okay. Fine. Yeah. I would say there I see the situation, of course, different. Like in Asia Pacific, I do think that we should have in Europe as well as in North America significant potentials out of operating leverage going into the future. We have optimized, so to say, with that example of the restructuring that one of your colleagues was asking before, done optimizations and will be continuously doing optimizations on the footprint side in North America. So Europe and North America, for me should be on the OE level side and our competitive advantage with our products, the excellence of our products should be able to grow profitability-wise towards the future midterm. This is what we of course would expect. Also midterm is then, according to Marc, I take our CEO's definition, of course, of midterm. Who am I to come up with a different definition? But I would say in that period of time, we should be also able to drive through our price increases that we set. And we always set also for rail that we will, over a certain period of time, totally compensate the cost increases, inflationary cost increases via pricing and don't need additional cost measures ultimately anymore. So I see that in those two markets positive, different to Asia, what we just discussed before. And please my message is only valid if you take from the past a normalized Russia. Yeah. So coming from today's standpoint, looking into the future, this is how I see it from Europe and North America in rail.

ML So if you allow me.

FW Yeah, of course.

ML To be very bold already at the beginning because I was told fortune favours the bold, hopefully, this is true. In RVS in Europe, we have four business units, and if I'm right, they have six centres of competence. The good thing with this separation is you see exactly the profitability of this. And here we can also, like in truck, we can identify that something which was acquired in the past with high aspirations after five to seven years, eventually does not come to the profit line in guidance, which we had in mind. So now the question is either we cover this up, either we try to overcompensate it or we ask us the question, is this really substantial to the business? Number one, if it is not substantial to the business, do we have spillovers, carryovers? Like you can sell it together or you don't sell it at all. And third, if it's not the case, why do we have it and what can we do out of it? Do we have the critical mass to do it right? I think this is the part of the portfolio analysis which we have to do. And of course, there's some things which we would like to keep, which we would like to have, but you know, if the logic speaks against it, you have to ask always yourself, how would we look without it? How would it look like? And if then the question is too promising, you know, the call has to be made. And that's exactly what we do, not only overall in the portfolio of markets, but in the portfolio of products.

AS Okay. Thank you very much. And thank you very much for your participation. Looking forward to you next time again. And if you have further questions in between, please call us and have a great afternoon. Thanks, and bye.