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Moderator: **Andreas Spitzauer**

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Operator: Welcome to the Q1 2022 Conference Call of Knorr-Bremse AG. Today's conference is being recorded. At this time, I'd like to turn the conference over to Andreas Spitzauer, Head of Investor Relations. Please go ahead.

Andreas Spitzauer: Thank you, operator. Good afternoon, as well as good morning ladies and gentlemen. My name is Andreas Spitzauer, Head of Investor Relations of Knorr-Bremse AG. I want to welcome you to Knorr-Bremse's conference call for the Q1 22 results. Today, Frank Weber, our CFO and Bernd Spies, Head of CVS, will present the results of programs followed by a Q&A session, which will be also joined by Dr. Jurgen Wilder of the RV division. The conference call will be recorded and is available on our home page, www.knorr-bremse.com in the Investor Relations section. You can find today's presentation and later, a transcript of the call. It is now my pleasure to hand over to Frank. Please go ahead.

Frank Weber: Thank you, Andreas and welcome, everybody to our conference call. We appreciate you joining us today. Today's call is made up of two parts. First, I will present the highlights of the last quarter and my colleague Bernd Spies who is newly introduced into the management board, will introduce himself. Afterwards, we look forward to your questions and comments. Needless to say, Bernd is already here as well as my colleague, Jürgen Wilder, and we all three will be available for the Q&A session.

On chart two, I put together the key takeaways for today, both despite all market challenges such as supply chain issues, inflation, the war in the Ukraine, the market demand and the megatrends in rail and truck continue to be strong. Second, we have a clear action plan to fight increased input costs.

Third, we are prepared to face all the economic uncertainties around us. Fourth, walk the talk. We follow our focused M&A strategy, which we presented at the Capital Markets Day in November of last year, and also don't shy away from divestments. Fifth, we confirm the operating guidance before the direct negative impact by the war in the Ukraine. I will provide more details about those five topics during my presentation, but for now I would like to hand over to Bernd.

Bernd Spies: Well, thank you, Frank, and welcome to everybody on the phone. I'm happy to introduce myself. And meanwhile, you probably see the slide on the screen. That's the beta of a 56 year old man who's been all his life in automotive industry. I have been the last nine years with Knorr-Bremse. Amongst the first eight years I was out of eight years, I was happy heading as the chairman of the European System for Nutzfahrzeuge, Commercial Vehicle Systems. During this time, I was leading the board mainly responsible for global sales, controlling, quality and aftermarket amongst other business unit topics. Since March 12, I'm heading the Commercial Vehicle Systems Division, and I'm happy to do that in the Executive Board of Knorr-Bremse. Yes, I said, I have a longstanding background in the automotive world. Also, the truck industry having worked for Robert Bosch for 17 years in different divisions and different countries, and amongst them three years as head of commercial vehicle systems for one business unit.

Also, before I joined Knorr-Bremse, I was five years in the board of Hella, responsible for global sales. And for sure that might raise some questions regarding my involvement in the Hella project last year. That's why I would like to proactively bring that up. The project was initiated by the Executive Board back then in line with the relevant committee of the Supervisory Board. I was brought to the project as a member of the due diligence team, of course, being one of the key members in that team. The team very quickly came to the conclusion that Hella did not fit to Knorr-Bremse or commercial vehicle systems, and I'm absolutely convinced that this was the right decision that was taken back then. Overall, I would say the truck division of Knorr-Bremse is well positioned with product portfolio, current strategy and strongly benefiting from the megatrends like

E-Mobility, autonomous driving or digitalization. And also, I'm very convinced that with the colleagues around the globe, also our product portfolio, our R&D capabilities, I have everything on board to further develop commercial vehicle systems into a successful future. Manoeuvring through the current market challenges, geopolitical turbulences and inflationary headwinds, as well as technical changes and requirements. The truck industry continues to grow as the need for smart and green transport solutions increases, and we have a strong position there and can lead the transformation of our industry towards a more sustainable future. Our products and services are a key factor in this respect. So, having said that, I'm happy to be part of the executive board and look forward to working closely with my colleagues Claudia, Frank and Jurgen. With this, I hand it over to Frank.

Frank Weber: Yes. Thanks, Bernd. We are glad to have you on board, needless to say. Now to analysts and investors, allow me to walk you through our current market environment on chart four. Let me start with a view on the rail market. We see that the underlying demand in both OE and aftermarket business is quite high. Europe remains the strongest contributor to this development and North America offers good opportunities too. The Chinese market is challenging and I will dive deeper into this topic later in the presentation. Overall, we are confident that we will see a subsequential improvement in the global rail industry throughout the year, also benefiting from increasing ridership levels as a consequence of decreasing infection rates and less restrictions. The overall rail market fundamentals are strong and intact in the course of the year we expect demand to remain healthy, which should also be reflected, in a book to bill ratio above one. However, supply chains are also very tight in the rail industry and inflation is noticeable. The truck market also experiences ongoing strong demand, truck production rates in quarter one in Europe and North America where quite stable year over year with a positive outlook throughout 2022 while China remains weak as expected.

The war in the Ukraine and the Zero-COVID policy in China clearly do not ease the ongoing tight supply chain situation and the already high raw material prices. In the coming quarters, we expect that global supply chains remain uncertain. Content per vehicle is one of the key drivers of CVS revenues, which is independent from economic cycles. The good development of content per vehicle was strongly visible in quarter one and will continue to be an important pillar of CVS growth strategy supported by our market leading air disc brakes, electronic brake systems as well as air treatment systems. All in all, the global environment is tough, but the underlying markets we are operating in our robust and KB is well positioned to fight those challenges.

Let's have a look on the key financials of the first quarter at a glance on chart five. Overall quarter one was a challenging quarter, but as expected and planned. Knorr-Bremse generated almost stable revenues of around 1.7 billion euros and an operating EBIT margin of 10.9% in the first quarter, which are impacted by both divisions. CVS posted revenues of 895 million euros at 8.5% operating margin and RVS 775 million euros in revenues, resulting in an operating EBIT margin of 15.7%. I will go into detail in the divisional slides. FX effects supported the development on the revenue side but did not positively impact the EBIT side. Free Cashflow in the first quarter was minus 231 million euros. The very positive highlight of the quarter clearly was the strong order intake of 2.1 billion euros, a 17% increase versus prior year – a clear prove of the strong underlying demand. Order book was up 18% to 6 billion euros.

At Easter, we successfully completed the global system conversion to IFRS – as promised, in quality, time and in budget. As a result, after a certain phase of stabilization, we will be able to report earlier in the future.

Let's move to chart six, CapEx in quarter one with €64 million were on a rather lower level and will increase in the course of the year among many different activities this year, I believe quite interesting projects will be the expansion of our Indian Rail footprint as well as our capacity for brake pads. In addition, we will invest in the relocation from the US to Mexico on the rail side. In CVS the focus is, for example, on supplier tooling or the expansion in China to safeguard our future growth. Due to the uncertain economic environment, we have increased the level of inventory to support our customer deliveries in these difficult times, as well as to mitigate disruptions in the supply chains best possible. Our policy "customer first" is important to us and has been a cornerstone of our success in the past, especially in the COVID phase. Therefore, we go for and accept a higher level of networking capital in absolute numbers and in days in the short-term. Secondly, higher inventory also enables us to support higher expected revenues in the upcoming quarters.

Consequently, and also additionally affected by a lower EBIT contribution, ROCE came in at roughly 18%.

Let's move to chart seven. Free cash flow was -€231 million in the past quarter. Traditionally, free cash flow is weaker in the first quarter and this year is no exception. An important driver for this development was the before-mentioned build-up of inventory intentionally. The past quarter therefore developed as expected and in the coming quarters this important KPI for us will improve, driven by increasing profits and less or no more further increasing on the inventory side. We have implemented stringent measures and I'm fully convinced to reach a free cash flow of above €500 million in the full year 2022.

Let's have a look on the division of performance in quarter one, starting with RVS on chart eight, after very good quarter four, order intake of RVS was again remarkably strong and the most notable highlight in the first quarter of 2022. It increased by more than 50% to €1.08 billion. This development was driven by basically all regions. The order book also increased by more than 15% year over year to €4.2 billion. This level provides a good visibility and is the basis for the revenue growth we expect for RVS on a full year basis this year, but also 2023. Nevertheless, the rail industry is still strongly impacted by COVID restrictions and supply chain issues, as well as ongoing postponements of projects, especially in China.

The book to bill ratio in quarter one stood at 1.39.

Let's move to page nine. We had already pointed out in February and our full year results that quarter one will be the weakest quarter of the year. The revenue and margin development in RVS was therefore as anticipated. Revenues amounted to €775 million, a slight decrease by 4%. RVS recorded declining sales in the OE business, primarily driven by the APAC region. The aftermarket business in absolute terms remained stable while the share increased slightly from 44% to 46% in the first quarter. This development is solid, despite the fact that many rail operators still have a lower number of trains in service compared with the time before the pandemic. Asia, an important market for KB, with unchanged future potential, was affected more than in previous quarters due to the development in China and its accretive margin contribution. The restriction related to the Olympics, the extended Chinese New Year with plant closures of our customers and the lockdowns due to the Zero-COVID policy since March 2022 strongly affected the development of the last quarter. In North America, we recorded an overall increase in the OE business with a flat aftermarket development. We expect a sequential quarterly improvement from now on and expect that in 2022 overall, RVS revenues should grow solidly, predominantly driven by the OE businesses in Europe and North America. The aftermarket demand should increase to strongly depending on the development of rail traffic and travel restrictions, especially in China. The EBIT margin of RVS in the past quarter reached 15.7% after 18% a year ago. The main influencing factors of this development was the regional mix, meaning the much lower profit contribution from the accretive business in China, especially driven by lower revenues as well as higher inflationary costs year over year in the coming quarters. Especially the second half of this year, we will benefit from price increases to our customers and to slightly better development in China.

I would like to dive deeper into China Rail on chart ten. I know it's an important topic for you as well and I would like to provide more information today. Quarter one was super tough. China put extensive zero COVID measures in place to guarantee smooth Olympics and Paralympics. It went into strict lockdowns in several major cities in March, which of course, had an impact on the business we are doing there. Furthermore, several companies like CRRC prolonged furloughs in their production hubs around Chinese New Year for a few weeks. Already, the division was unable to fully decouple from these trends in China and based on that, recorded significant double-digit declines in revenues overall in the past quarter year over year. However, it is also important to highlight that we have been able to defend our market position in the aftermarket business as well and have recorded rising sales in this segment in the past quarter.

The long-term fundamentals in China are intact: New high-speed tracks are built and the focus of the Chinese government to reduce Co2 emissions is unchanged. We expect some recovery of the rail traffic once the Zero-COVID policy eases. Nevertheless, given the current political COVID measures in China, the market remains very volatile and is characterised by quite low visibility. Investments in additional capacity in the high-speed and metro market are not expected to see a strong recovery in the short-term. So, what are our measures to fight this weak environment? We will expand our aftermarket footprint further in China to be closer to our customers. We have implemented an efficiency program to reduce cost and most important, we will continue to convince in the market with quality and innovation of Knorr Bremse.

Let us continue with the development of our truck division on slide 11. Incoming orders of CVS came in at €1.03 billion, which is a decline of just 5% compared to the record year levels last year. Book to bill was well above one, reaching 1.15. The positive development was mainly driven by Europe and North America because of favourable market conditions in the transportation industry. In terms of order intake in 2022, CVS has probably already seen its strongest quarter for order intake. We do not assume a demand trend reversal on a full year basis, but component shortages on the supplier and customer side will take its toll.

The order book of our division amounted to €1.8 billion at the end of March, which is again remarkably 25% higher year over year, even considering the very strong quarter one of 2022 with a great China demand and again, new record level. This is the basis for our positive outlook for the remaining year.

Let's move on to slide 12. CVS posted €895 million in revenues in the first quarter, a slight increase year over year, and a good result considering supply chain disruptions overall and issues in China. In Europe and North America, CVS saw a positive development in all channels. The APAC region still ranges on rather weak levels after the China6 introduction in China last year and the zero

COVID measures in quarter one on top. The share of aftermarket sales increased from 24% in the previous year to 28% in the last quarter. In absolute terms, aftermarket increased by a strong €37 million. As mentioned before, in terms of revenue development on the full year basis, CVS should be able to post a solid increase year over year, mainly driven by a stronger expected second half of 2022. Currently, this positive outlook very much depends on an improvement in the supply chain globally and somehow a catch up of truck production rate in China in the second half of the year. The first quarter of this year, CVS achieved an EBIT of €76 million, which is 34% lower year over year. The EBIT margin amounted to 8.5% compared to 13.1% a year ago. This margin development was highly affected by a lost operating margin from China, the cost pressure from inflationary and supply chain headwinds. CVS was able to increase prices successfully already and continues its negotiations with its customer base. Please keep in mind that the effect of increasing costs that leads to increased prices will occur with a certain time lag and will be rather backend loaded in the year to come. In addition, the expansion in R&D was also reflected in the margin development. We expect that in terms of profitability, the second quarter could be on a comparable level versus the first quarter. The second half should then be better.

Let's move to chart 13. Since the presentation of our full year results 2021 the main topic globally is Russia's war in the Ukraine. Our hearts are with all people being affected by this catastrophe, and we hope that the fight will come to an end as soon as possible. We at Knorr Bremse do everything we can to support all affected colleagues, families and communities. We have made significant financial donations and have offered KB facilities and apartments to refugees. We also joined the initiative “Job Aid for Ukrainian Refugees”, not only giving the Ukrainian refugees the possibility to work at Knorr-Bremse, but also to support the integration of Ukrainians in Germany. There are also many examples of our colleagues going on and beyond that, in order to support the victims of this war, e.g. with fundraising activities or voluntary works as translators. From a business perspective, we have reduced all Russian activities to a bare minimum. We only fulfil our existing contracts regarding our Russian business in OE and aftermarket insofar as this is permitted under law sanctions. Following these sanctions we only supply products and components that are used for civil applications. We don't generate additional new OE business. And we also decided to exit the joint venture with Kamaz. The impact of the war cannot be fully assessed at this point in time but our direct exposure in Russia on a full year basis amounts to around €200 million in revenues and an impact of 50 to 80 basis points roughly on an EBIT margin per year. The Knorr Bremse has a high level of localization, meaning that we do not ship or receive much from Russia or the Ukraine. We continue to monitor the ongoing situation very closely and have set up a task force team to do so continuously as well as that we will provide an update on this topic at latest when we present our quarter two figures in summer of this year.

Let's move to page 14. Like all other companies currently we are also facing strong inflationary headwinds in rail and truck. To fight this, we have defined a clear action plan that is already being implemented. Our so-called PCPP Program, Profit and Cash Protection Program, is a joint effort with Knorr Bremse group that supports the other measures taken.
In particular, price increases, supply cost defence and cost optimizations in general across the group. Overall, we have initiated measures this year through price increases for our customers and cost measures that are expected to generate a total of up to €250 million. We have already achieved good results with our aftermarket customers in terms of price increases. This is also the case with some of our OE customers and we are currently in the middle of negotiations with the rest of our customer base. The clear target of Knorr-Bremse is, with its pricing power as innovation and market leader, to mitigate all cost increases via pricing measures. But as mentioned, with time delays between the cost increase and the pricing effects. Our long-lasting relationships are also a good foundation for our confidence in the remaining negotiations. These price increases are planned to have a positive impact on our earnings, with a slight time lag during the year 2022. We therefore expect higher profitability in the second half of 2022.

On chart 15, I would like to give you an update on our outlook. We confirm the operating guidance for the fiscal year 2022, first given on February 24th. To present it is not yet possible to fully and conclusively assess the financial impact of the Russian war in Ukraine. Accordingly, no direct negative effects are included in the guidance. This means that revenues and profitability in Russia are in the guidance still fully incorporated. We continue to expect revenues between 6.8 to €7.2 billion, an operating margin or EBIT between 12.5% and 14%, and the free cash flow between 500 and €600 million. If you were to deduct the direct impact of the Russian business from the operating guidance, then based on current estimates for a full year, you would end up roughly in the middle of the revenue range and would have to deduct then the 50 to 80 basis points from the middle of the EBIT margin range, I have just given. We will give you an update and narrow the guidance as in previous years with the release of our quarter two results in summer.

Let me summarize the current situation and our positioning on chart 16. Global supply chain constraints and global supply chains are disrupted. Inflationary pressure is high. The influence of the pandemic continues. And the war in the Ukraine is, from a business point of view, a major challenge. We at Knorr Bremse have the operational and financial strength to master this critical environment, as we have proven in the past. Firstly, we have a clear action plan to fight the inflationary mix with our comprehensive programme, PCPP, across the whole group that consists of three pillars: Firstly, increased prices among our customers in Aftermarket and OE segment. Secondly, procurement to defend proposed supplier cost increases. And thirdly, we are implementing cost measures in all regions across the group to safeguard our profitability further. We learned from the past year and are active on the M&A side in regard to adding new bolt on acquisitions to our business. At the same time, we are reviewing our existing portfolio and will actively and consequently act if parts of the business are not up to our strategy or profitability aspirations. All M&A activities follow our clear strategy communicated last year in November at the Capital Markets Day, meaning no second Hella. The rock-solid balance sheet of Knorr-Bremse and not only offers great flexibility to our strategic actions, but also is a strong foundation to master the challenges ahead.

Let me finish my presentation with chart 17, as said and an important part of our M&A strategy is to review our portfolio regularly as well. As a result, we have decided to start the sales process of

Kiepe Electric, which is consolidated within RVS. Kiepe’s operating results were predominantly negative in the past and significantly dilutive to the strong underlying margin profile of RVS. In addition, we see limited long-term opportunities of Kiepe within our core business. Therefore, we believe that we are not the right owner of this asset. For the short-to-medium term profitability of RVS, we expect the positive impact of 60 to 90 basis points on the RVS operating EBIT margin towards 2025. With that, I'll turn the call back to the operator in order to begin with the Q&A sessions jointly with my colleagues Bernd and Jurgen. Thank you very much.

Operator: Thank you. If you'd like to ask a question, please signal it by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. And we'll go first to Sven Weier with UBS.

Sven Weier: Good afternoon. Thanks for taking my questions. The first one is on your pricing that you just went through and I guess we appreciate the agility that you show. I was just wondering, what about the order backlog? Are you also trying to reprice the existing backlog in trucks and in rail or does it only refer to the new orders? That's the first one. Thank you.

Dr. Jürgen Wilder: Yeah, I can start with that. It's Jürgen here. Yes, the answer is yes and no, basically. In some contracts we have in a good chunk of contract, we have, for example, pricing that will be in retrospective adjusted based on indices and material price indices, that is adjustable and we will adjust that. But there might be a certain time lag since that is usually done at the end of the year. And therefore it is not so to say timewise simultaneously. The other one is, of course, we have also in our existing backlog some service parts which generally is a little easier to adjust those. And also then of course, when it comes to service business, that is also a shorter cycle business, which we get additional orders in for this year, for example, that are turned around and therefore we have already adjusted the prices. So yes, the answer is we can do that partially as a just explained.

Bernd Spies: Yeah. This is Bernd answering for truck. Our price requests and compensation requests on the table of every OEM since beginning of the year. It covers the full year or including what we have delivered. And at the end it's the result of the negotiations and how we go out of this request. But it's a clear yes, we want to be compensated for the full year.

Sven Weier: Yeah. Thanks for the details. Maybe as a follow up, especially on the rail side, does it mean that now all the new or let's say almost all new orders have these indices because we just talked only about the backlog. But can you change that now for the new contracts?

Bernd Spies: Yeah, it's for sure. There's a discussion going on with each and every customer that we are, especially going into the future where there's heightened insecurity in terms of how prices will develop. That is negotiated with the customers that we incorporate that and that we more or less mitigate that risk going into the future.

Sven Weiher: Very good. Thank you. And maybe also follow up for you, Dr. Wilder, on the RVS side, because in the slide deck on page ten, you mentioned that in China, the market share is under pressure, which sounds maybe more severe than it is. So, maybe it would be helpful if you could quantify what your market share has actually done in Q1.

Dr. Jürgen Wilder: Well, I mean, for Q1, we have to say we had some special impacts there and I would not draw general conclusions out of market share. First of all, I mean, what happened in Q1: the aftermarket business was suffering much less than the OE business in Q1. It was suffering a little bit because we had less ridership in the metro side and there were cancelled trains on the high-speed side. As you can imagine, for example, between Beijing and Shanghai, with those lockdowns that we had. There was way of reduced traffic, sometimes only 40% or even currently only 40% of the long distance trains are in operations. We will see that impact also over the course of the year to a certain extent in the service business. But worse so, what happened in the OE business during the Q1 is during Chinese New Year and with the Olympics, as Frank said earlier, there were the companies that sent everybody on furlough. The trains were not built, they were not delivered. And therefore, we had very, very weak OE business while a service business for the time being was held up. But that doesn't necessarily mean a market share loss because there was no demand in the market on the OE side in the first quarter.

We expect that it will change of course, now going forward. And it changed already because some of the car builders started to produce again but we might see some delayed impact also on the service business.

Sven Weier: Okay. Understood. Thank you for that. And maybe the final question, if I may, is just in terms of the new CEO. Now we have Mr. Spies on board, but I was also wondering if we could expect an announcement of the new CEO maybe until the upcoming AGM. I know it's not you hiring the new CEO. I should probably ask the supervisory board but anything you can share with us would be appreciated. Thank you.

Frank Weber: Thanks, Sven. Somehow, needless to say, expected that question. I mean, that process, as you rightfully pointed out, is led by the supervisory board. Professor Mangold, as we hear in very, very close alignment with Mr. Ploss. So, they both are ending that process. We have a presidential committee, as you know, in place that will take the decision whenever the process is ready. We hear somehow that the process is running good and smooth. So, that's all we can from our point of view say in that regard. We expect it to be well handled with the supervision of Mr. Ploss, so to say.

Sven Weiher: Okay good to hear. Thanks to all. Thank you.

Operator: We'll go next to Ingo Schachel with BNP Paribas.

Ingo Schachel: Thanks for taking my question. And the first one would be on your full year and Q2 guidance, I think on full year of course, it's a very complex situation. So, understandable that you make a few assumptions there. Just want to understand that we will of course, have to translate your guidance and all the assumptions into, let's say, a base case assumption what your profit margin this year is going to be. I think you explained quite well to us how to get from the midpoint, how to deduct the Russia impact. That's clear. But just wondering on China, because you're also saying your assumptions do not yet fully incorporate, let's say, the COVID related upcoming lockdowns. So, if we say midpoint -50 to 80 for Russia gets us to 12.5, I guess we have to deduct even more for the China lockdowns then, including those we are closer to 12. Or would you rather say the China related stuff is already ordinary cost of business and would be offset by other effects on the Q2 guidance? Would be curious to know whether you can give us a hint whether you would expect both divisions to have similar margins in the second quarter, or whether one could see another drop of the margin compared to Q1.

Frank Weber: You know, thanks for the question. Let me maybe start with the latter half of your question that maybe also shed some light already on the first half. We do expect that we have reached the low point of our profitability in this first quarter. That's already considering basically everything that we know in regards for the potential full year environmental developments. So, margins should improve as we move along in the new year. They will slightly improve towards quarter two and improve them again in quarter three and towards the end. So, that's what we see at this point in time based on our analysis and the plans that we also have decentrally very much aligned. In regards to and that should then also tell you that our margins will grow coming from the 11% roughly that we have in this fourth quarter in order to come to you. You mentioned the midpoint of our guidance and this is already baking in, of course, our assumptions in regards how the market's, market demands would develop. But of course, do we know everything at this point in time? Clearly not. But with all the disclaimer that we have been given on the right side of this chart, that puts you potentially also referring to, we do not mean that every further lockdown that happens in China or some other demand that is coming up in North America or anything will dramatically change the guidance that we have been given. We fully think that we have, to the best of our knowledge as of this point in time, anticipated everything in what we were just saying, this disclaimer basically means, I don't know, let's take, for example, if there would be another geopolitical issue with China, I mean, if sanctions would come up for China, such as they have been coming up for Russia, then of course, the guidance would not be of existence anymore.

That's the only thing that we mean in that regard. So, what you were referring to, the midpoint of the guidance is with the best of our knowledge, even though given the yearly development towards December, we do expect some slightly higher TPRs in China, heavy duty truck, compared to the first half year level. And as Jurgen also outlined, we do expect that the business in China is getting better than the levels we have seen in the first quarter and that's also the assumption, right.

Ingo Schachel: Okay. Yeah, that's it's very helpful. Thanks for providing us such a detailed framework and uncertain times. Can I also ask a question on the on the CVS segment? And I think it's great that Bernd Spies is already available for questions of this early stage, at this early stage of his current position. And I think you make very clear points that you don't need another Hella that you are I think we are under pressure to do deals. But I wanted to understand a bit more how you expect the strategic process to evolve from here, because even if you're not under pressure, I mean, competitors have consolidated a lot, there have been big M&A transactions among your competitors in the last few years. So, I mean, leaving aside automotive suppliers and other things that you should not acquire and which is appreciated, do you think there's a need for more technology driven M&A or at least for a comprehensive review of the portfolio you've got? Or are you based on your very comprehensive experience in the sector already, based on what, you know, confident that the current ecosystem set up with certain corporations and so on is superior to the setup that some of your competitors have chosen. And that context would also be nice to hear your view on the synergies between the CVS and RVS segments.

Bernd Spies: Yes. And let me start with the competitive landscape, for sure, there is movements going on at the moment. There's consolidation going on. Majority of this consolidation is driven out of technology backgrounds. The ones are missing access to vehicle dynamics, the others are missing access to access to electronics capabilities. And I have to say, we actually have everything in-house. We have the dynamics in-house, the capabilities to fully spec and fully develop electronic system. The only difference compared to us is we use partners for production. Our electronics verticalization is basically limited. And we use partners, which makes us actually competitive and agile. And so far, I see not a clear need to merge with anybody unless there is clear advantages in synergies in capabilities that we don't have in-house. And we are in a process to constantly monitor the market. We constantly look at potential targets, we assess them, we check for synergies and there's more to come. You will hear from us, but it's no need and no desperate move into any direction. Neither size nor technology is needed on our end.

Ingo Schachel: They would have to stay tuned for those updates. And do you see those clear advantages and synergies in the current setup with RVS?

Bernd Spies: We are developing synergies. They are, let's say, to a certain extent already harvested. And in other areas like connectivity and other topics, there is more to come. Digitalization is also one topic where we see synergies product wise, we on and off use exchanges between our both divisions, truck started for example and it was actually the start of a great adventure, very successful adventure with electric compressors used, that were used from the rail division. Meanwhile, we are the market leader in electric compressors and have a have a boosting future in front of us. And those synergies will come more and more. However, it's let's say at the end of the day, it's still two different technologies, different cycles and different divisions. But we will constantly check for synergies here as well.

Ingo Schachel: Okay great, thanks for the answer. We're looking forward to the updates and congratulations on your new role.

Bernd Spies: Thank you very much. Very happy about it.

Operator: Next to Akash Gupta with JP Morgan.

Akash Gupta: Hi. Good afternoon, everybody. My first question is on Russia. Thanks for providing the update. I guess if I understood you right then, basically you are saying we have to take the share out. You would be towards the midpoint of the guidance range on revenue and towards the low end of the guidance on margins. Is that correct interpretation? And then maybe a follow up to that would be if you have to completely withdraw from Russia like we see some of the other companies are doing in the sector. Can you tell us what could be the total cost in terms of write downs and maybe you need to pay some severance or other costs? That's question number one.

Frank Weber: Now, fully right understood. And this is what we intended to say. We would, with the best of our knowledge, so to say, end up in in the ballpark of the lower end of our guidance, absolutely right. But you have to understand also, Akash, that's why we're not including, so to say, precise figures in the guidance yet. For example, if you take our 550 people that we have as of Knorr-Bremse in Russia, you need to take certain decisions on whether you, so to say, get rid of or reduce the number of headcount in the respective country that has to follow certain assumptions that you do. And unless this is not finally clear what you can do and what you are not allowed to do, you can make those decisions.

That is the reason why I ask for a little bit of, so to say, time until we can fully calculate those numbers but fully right understood. In total, when it comes to the assets that we are having with and in Russia, all in so to say, we talk about roughly €120 million and this exposure number of roughly €120 million is also containing accounts, payables etc. that we have at this point in time and according to your question, we this would be an exposure if you would consider from this second one, none of the existing projects running businesses would be paid any more at all, not just to give you a clue on that. So, the total number of assets is that, roughly €120 million.

Akash Gupta: Thank you. And my second one is on inflationary pressure. So, when I look at slide number 14, when you when you have given some data on the counter measures, maybe the first one is that these 250 million, is that incremental to what you had in 150 or that that is the gross amount? And secondly, is this 250 million counter-measures, is that enough? So basically, can we say that this to 50 million could also be a proxy of the headwinds from inflationary side that you might be experiencing?

Frank Weber: Thanks Akash. First of all, it's a year over year figure so basically somehow, we saw and did file for inflation in 2021 in the amount of roughly 150 million overall. And additionally, on top in the year 2021 to 2022 comes 250 million on top as additional cost pressure, which we are trying to fight with roughly 60% on the pricing side and maybe some 40% on the cost side. And this is what we are striving for. Have we baked in everything? Let's see, this is the best of our knowledge in regards to all the respective raw materials, in regards to all the indirect materials, in regards to the personnel cost in the different countries where we are operating. So, we have to wait and see. But this is the best estimate and whether this is enough, half an answer I've been given. And the other answer is that the measures in order to compensate for those 250 is a daily fight, of the two colleagues that are sitting with me at this table here, and clearly the customers tell us this is enough to strive for, but needless to say, we want to long-term compensate basically why our pricing only all the cost increases. But this is a situation here that is focusing on 2022. And as we have time delays between cost occurrence in the needs and the revenue occurrence of price increases after negotiation, you would have a certain delta in between that you would need to fight with other measures. And we have pointed out on cost measures here hope that explains your question, Akash.

Akash Gupta: Yes, that does. Thank you very much.

Frank Weber: You're welcome.

Operator: We go next to Vivek Midha with Citi.

Vivek Midha: Thanks very much, everyone. Good afternoon. I have two questions. I'll take them one at a time. The first is on the aftermarket in CVS. It looks like it's been growing strongly for several consecutive quarters now. So, how long do you expect this growth to persist and do you see any risk of normalization perhaps in 2023? Thank you.

Bernd Spies: I'm a bit more careful now with my forecasts, to be honest. This is Bernd here. Our planning assumptions where that in 2022 second half of the year will see a relaxation on the on the situation. This has changed and it has changed because, first of all, the assumptions of the industry were too optimistic. Second, now we have a war and all the sanction system around the globe, including all kinds of impacts in supply chains. I'm for sure do not forecast much of a relaxation for 2022, for 2023. we'll have to make up our mind in the second half of the year, to be honest.

Vivek Midha: Okay. Understood. Second question is for on rail and the last call, you highlighted increased tensions in supply chain and rail. It sounds like those have persisted. Can we be clear that would you say overall that in rail, at least outside of China, these have deteriorated further from the last call? Or are they as bad just staying on the same sort of level of disruption? Thank you.

Dr. Jürgen Wilder: I know I would say it hasn't gotten much better. I would say that it has at most stabilized and it's not I would say that we that we see that in only specific parts. We see that also in sea parts or across the globe. And we are really struggling to keep up. But the good news is really despite the situation, we don't get much complaints or almost no complaints from our customers that we deliver late or that we don't deliver, which is good news and bad news at the same time, the good news is we are probably better than other suppliers in terms of keeping up with the deliveries. Bad news is, it might also have some downstream impact in terms of delivery of vehicles into the market when other parts are missing. So, yes, we are struggling with that. But by and large, we can really say that we fulfil the needs of our customers.

Vivek Midha: Thank you very much.

Operator: Go next to Gael de-Bray with Deutsche Bahn.

Gael de-Bray: Oh, thanks very much. Good afternoon. Regarding to €250 million countermeasures you've mentioned, how does it compare to the cost inflation you've seen so far in Q1 on an annualized basis? So that's question number one. Question number two, if I take 60% of that, so it implies price rises of only about 2%. So, can you comment about this, please? I mean, because it looks fairly low, at least compared to the price increases we've seen elsewhere at so many other industrials so far. Thank you.

Frank Weber: Yeah, thanks Gael. First of all, I would say in regards to the quarterly distribution, it's very difficult to answer. Why? Because we have two characteristics of businesses. We have rail business, which is kind of a project business where you can't just easily in the bookkeeping that you have cut to like cutting coupons and compare one quarter with another in regards to inflationary effects because each and every project is basically a different one that each and every quarter consists of a completely different structure and a different customer in the end. That's important. So it's difficult to divide, so to say early figures and then also into quarters. I would roughly say we're discussing that, I would roughly say it's a fourth of what you see. So not very sophisticated this answer, but you have to keep in mind that already last year we did have some first increases in the very first months of the year for freight cost, increases for increased costs for semiconductor via broker parts. So, keeping that into consideration, I would say it's a fourth out of that.

Secondly, whether this is enough or not enough, as I said, it's a full year basis, the 60% you have to keep in mind. So, that means if the negotiations, if you started and have an agreement with the customer to increase the prices as of - to make it simple - as of 1st of July, and you can only agree upon price increases for the latter half of the year, then you have to double basically in order to come to an annualized effect. So, we think we think roughly 100, 140, 150 million of pricing to have it in the P&L in this year. Given the fact that we are already in the first quarter or beyond, the first quarter is a tough one for us as Jürgen also outlined, not each and every contract can't be opened up so easily. And even those where you would have the ability to open it up, you first have to reach a negotiation result in the end. But I'm open for my colleagues also to join in. So, it's more on an annualized basis. It's much, much more than the 2% that you mentioned, first of all. And second of all, I just wanted to say it's not that easy.

Dr. Jürgen WIlder: Maybe just a few comments to add. You also should consider I mean, if you say, okay, it's not too much and it's only 2% or something like that. I mean, the dynamic that's in the project business, in the rail business, of course, it's not only that the order is locked in between us and the customer. In many cases also the material is already locked in between us and the supplier, so to say. That also, of course, helps short-term to keep those prices stable. Of course, we have the concern that not everything like that is covered and there is other price increases that are to come. And therefore, the fastest way to increase prices is really on the spare parts, which we have dedicated initiatives and then we go through the contracts where we have possibilities to increase. But what I can say is that there's probably to a certain extent or a cost increase that is delayed where we have a possibility to bid new contracts and incorporated and then in retrospective within the indices. So, over time I fully support what Frank already said, that is that all of those cost increases, we should be able to pass it through to our customers. That's our business model and I don't see a reason why it should get in large scale, or get stuck with us.

Bernd Spies: From the truck side. Same, same aspiration. We don't want to be stuck with the cost increases that we have to suffer from. Also, we have long-term contracts with customers, but also with suppliers. So not every supplier is increasing prices at the same time. And this all- price level modifications that we suffer from, they are in our claim in front of our customers. And what this makes in total in the map is what we see here. But there's no reason to be worried that we are somewhere not forwarding what we are suffering from.

Gael de-Bray: Okay. Thank you very much. Do I have time for a follow up?

Frank Weber: Yes. Yes, please.

Gael de-Bray: Yeah, well, thanks very much. I'm asking because I attended Alstom CMD yesterday. Well, virtually but one of the building blocks to improve their competitiveness and performance is to integrate vertically a bit more some of their core components in particular breaks. So, what's the risk that this verticalization pattern that we've started to see at CRRC in China? Now Alstom. So, basically the two largest customers, I mean, what's the risk that it will impact your ability to price up in the future, in particular in the aftermarket segment?

Dr. Jürgen Wilder: I see that risk rather limited. I mean, first of all, as Knorr-Bremse I mean, what they integrate is on the component level, we are keen on selling systems. That's one of the things I mean if you refer to, for example Ibre and Flertex that they have acquired, then those are rather products also for niche application, not for the broad applications as we have that. They are in a rather small revenue scheme. And by the way, I mean, it's not that this is new or so. I mean, there's always an alternative source and also with other customers. I mean, on those specific components, we are used to that already for years. I don't think that that affects our business model largely. We have just recently had - I mean, over the past year - good strategic discussions with Alstom, discussing how we participate in their platforms and things like that, which I don't want to disclose the details of course, but that gives me a lot of hope for the future that our share of business also with those customers. We do that because there's a new tendency we're not declining, let me put it that way, cautiously.

Gael de-Bray: Okay very clear. Thanks very much.

Operator: We go next to Andre Kukhnin with Credit Suisse.

Andre Kukhnin: Hi. Thanks for taking my questions. Firstly, can I just follow up on the Russia size because you gave the revenue size and also the margin contribution and said that would have to come out if Russian business hypothetically stopped. That kind of implies about 8% profit contribution from Russia in my calculations. Is that right?

Frank Weber: Let me put it this way, we have been given a profitability range, assuming certain cost counter actions. And I would say in a nutshell, at this point in time, the Russian business is a very accretive business for us at Knorr Bremse and with that, I would like to leave it at this point in time, but some of you can triangle around the figures being given. But it's a very accretive business for us. Right.

Andre Kukhnin: Got it. Thank you. And the main question really is about China manufacturing situation. Could you give us an update on your current status of whether you've been able to manufacture across the country in the second quarter, given the lockdowns in April and how that's developing that now things are unlocking?

Dr. Jürgen Wilder: Yes. I mean, when it comes to our manufacturing, we could continue. But as I said, it was especially in the first quarter and to a certain extent certainly also in the second quarter, there is a weakness on the demand side because the car builders were basically shutting down their plants for an extended period of Chinese New Year and the Olympics and also then drawn out a little bit because of the COVID situation. But it's not that we cannot deliver because our plants would be closed.

Bernd Spies: The same on the truck side; we've been constantly delivering. There is of course a cooldown in the market as before mentioned, but the plants are working full steam according to requirements.

Andre Kukhnin: Thank you. And very final one just on the inventory build that you saw in Q1. Can I just check it off? Check whether there was any potential benefit to the margin from that overproduction or not?

Frank Weber: No. No, there was not. On the contrary there was, as I outlined before, a slight negative FX effect only out of elimination for the elimination process for some of the inventories. No, the answer is no.

Andre Kukhnin: Good to take off. Thank you very much for your time.

Frank Weber: Yeah. You're welcome.

Operator: Well then. That's next to Marc Zeck with Stifel.

Marc Zecki: Hey. Thank you for having me. I'm afraid just one question left for me. We heard from Vossloh today that they've got quite some troubles to pass on to customers, and they single out Deutsche Bahn, which seems to be like rock steady and refusing to accept any price increases from suppliers. Could you maybe elaborate a bit on your relationship with Deutsche Bahn, why you think that you don't have the same problems with this major customer? Thank you.

Andreas Spitzauer: Mark. One request, could you ask the question again because the connection was not clear. It was a price increase regarding Deutsche Bahn but from which company?

Marc Zeck: So we heard today from Vossloh that they have troubled to pass on price increases and they singled out that Deutsche Bahn is one of the companies who is like refusing to accept any price increases from suppliers. And I was wondering, given that Deutsche Bahn is one of major customers as well, if you experience the same thing with this major customer or not?

Dr. Jürgen Wilder: Obviously I cannot comment on the Vossloh situation, but I would generally not single out especially, let's say one of those customers that Vossloh might have named, that it's impossible to have any discussions. Maybe I'll leave it there.

Marc Kozuki: Okay understood thank you.

Operator: And once again, if you'd like to ask a question, that star one on your telephone keypad.

Andreas Spitzauer: So, in case there are no further questions thank you very much for your time and for the questions. Please reach out to the IR team. We wish you a healthy and nice afternoon and looking forward to talking to you next time. Thanks and bye.

Operator: This does conclude today's conference. We thank you for your participation.