Remuneration System for Executive Board Members

A. Modification of the Executive Board Remuneration System

The Supervisory Board regularly reviews whether the remuneration system supports the short- and long-term development of the company's value and has a motivating effect. The current system, which was approved at the Annual General Meeting on May 20, 2021, with 96.37% of the valid votes cast, has already largely achieved these aims, though the Supervisory Board sees potential for improvement. The Supervisory Board takes into consideration findings from the course of business in recent years, the development of the company's peer group, general remuneration trends, and shareholder feedback regarding the remuneration system and compensation reports.

Based on a careful analysis, the Supervisory Board passed a resolution on December 15, 2023, for modifications of the remuneration system. The key aspects of it are:

- stronger focus on the company's financial results;
- limitation of possible figure adjustments and increased transparency in relation to them;
- sharpening of the peer group relevant to the relative total shareholder return;
- strategic ongoing development of the company.

The changes in the remuneration system are reflected in the short-term incentive ("**STI**") and long-term incentive ("**LTI**") in particular, taking into account the respective time horizon. The STI puts a priority on profitability, while the LTI focuses on the development of value and the company's earning power. Before the fiscal year starts, the performance criteria for each of these incentives are defined according to their nature and their weighting defined. The Supervisory Board can accommodate long-term changes in business and the business environment by modifying the weighting for future fiscal years and LTI tranches. The remuneration system's target schema applies analogously to the management levels beneath the Executive Board, taking into consideration the relevant business responsibility.

The main modifications of the remuneration system can be summarized as follows:

(1) Short-Term Variable Remuneration (STI)

- Given the historic business performance and resulting target achievement, the target corridor for the performance criteria – which mainly remain unchanged in their nature – is being widened from the current 80%–120% to 60%–140% of the target value. The wider target corridor ensures a balanced risk–reward profile and an appropriate relationship between performance and the resulting remuneration. The higher weighting of EBIT makes for a stronger focus on profitability in the STI.
- Potential adjustments of figures when calculating target achievement against the performance criteria are limited to a conclusive, narrowly defined catalog of cases in order to evaluate actual management performance transparently and consistently.
- Bandwidths are defined for the weighting of the STI performance criteria and enable the Supervisory Board to adapt the prioritization of the performance criteria if there are significant, long-term changes in business.
- The modifier takes significant success factors into account. The relevant strategic and nonfinancial targets are set by the Supervisory Board in advance and disclosed transparently in the Compensation Report.
- The STI is capped at a uniform level of 200% of the target amount for the Chief Executive Officer (CEO) and ordinary members of the Executive Board.

(2) Long-Term Variable Remuneration (LTI)

- With the short-term variable remuneration already putting a significant focus on profitability, the long-term variable remuneration is intended to concentrate on the return on capital employed ("**ROCE**") to reflect the longer-term relationship between input factors and results better.

- The total shareholder return ("**TSR**") of Knorr-Bremse AG will be compared with the TSR of selected industrial goods companies and selected rail and truck peers in the future. The combined peer group contributes to a simplification of the remuneration system and strengthens the focus on companies that have a business model or industry comparable to Knorr-Bremse.
- Potential adjustments of figures when calculating target achievement against the performance criteria are limited to a conclusive catalog of cases even narrower than with the STI.
- Bandwidths are defined for the weighting of the performance criteria analogously to the STI so that the Supervisory Board has the necessary flexibility for prioritizing the performance criteria.
- The LTI is capped at a uniform level of 200% of the target amount for the Chief Executive Officer (CEO) and ordinary members of the Executive Board.

(3) Other

The modified remuneration system provides for common-practice malus and clawback arrangements which are progressively being implemented in the service agreements of newly appointed or reappointed Executive Board members. The arrangements are for instances of compliance violations and also take effect when there are errors in the Group's accounting.

The modified remuneration system for the Executive Board members adheres to the specifications of the German Stock Corporation Act (AktG) as amended by the German Act on the Implementation of the Second Shareholders' Rights Directive of December 12, 2019 (Federal Gazette Part I 2019, no. 50 of December 19, 2019) and incorporates the recommendations of the German Corporate Governance Code (GCGC) in the version passed by the German Corporate Governance Code governmental commission on April 28, 2022, and put into effect on June 27, 2022. It has applied since January 1, 2024, to all current Executive Board members and to all new service agreements to be concluded with Executive Board members.

B. Remuneration System Details

I. Remuneration Components in the Remuneration System

1. Overview of the Remuneration System, Integration with Strategy, and Remuneration Structure

Overview of the Remuneration System

The remuneration system of the Executive Board members is composed of fixed and variable components. The fixed components of the Executive Board members' remuneration are their fixed annual salary, fringe benefits, and allowance for post-retirement benefits ("**pension substitute**"). The variable components are the short-term variable remuneration ("**STI**") and long-term variable remuneration ("**LTI**"). Furthermore, the remuneration system provides for Share Ownership Guidelines ("**SOG**"), common-practice malus and clawback arrangements, and maximum remuneration pursuant to section 87a AktG for the Executive Board members.

Remuneration Components	**Basis for Calculation/Parameters**
Non-performance-Related Components	
Fixed annual salary	• Fixed, contractually agreed remuneration paid in twelve monthly installments
Fringe benefits	• Mainly private usage of the company car, insurance policies (accident, D&O), reimbursement of the employer share in health and long-term care insurance
Pension substitute	• Annual allowance payment for the purposes of post-retirement benefits • Aside from this, no company pension scheme is provided.

Performance-Related Components

Short-term variable remuneration (STI)	Plan type	• Annual bonus
	Limitation of payment amount	• 200% of the target amount
	Performance criteria	• EBIT* (30%–50%), in 2024 35% • Revenues* (15%–30%), in 2024 20% • Free cash flow* (10%–30%), in 2024 15% • Quality (0%–10%), in 2024 10% • ESG* (0%–20%), in 2024 20% • Modifier (0.8–1.2) for evaluating the Executive Board's performance
	Payout	• Month following approval of the consolidated financial statements
Long-term variable remuneration (LTI)	Plan type	• Performance share plan with 4-year performance period
	Limitation of payment amount	• 200% of the target amount
	Performance criteria	• Relative total shareholder return/TSR (40%–60%), in 2024 50%, benchmarked against selected companies in the industrial goods peer group and selected rail and truck peers • ROCE** (20%–40%), in 2024 30% • ESG** (0%–20%), in 2024 20%
	Payout	• Month following approval of the consolidated financial statements for the final fiscal year in the 4-year performance period

Other

Share ownership obligation	• Obligation to buy shares in Knorr-Bremse AG in an amount equivalent to one year's gross fixed salary, to be done within 4 years • The shares bought must be held for the duration of the Executive Board role
Malus and clawback	• ossibility to reduce ("malus") or claw back variable remuneration in cases of compliance breaches or erroneous consolidated financial statements
Maximum remuneration	• Chief Executive Officer (CEO): €8,000,000 • Ordinary Executive Board member: €4,500,000
Payments upon taking position	• Possibly compensation payments in connection with taking the position • Possibly payments in connection with a move to a new place of residence

*When determining the actual STI target achievement of the performance criteria EBIT, revenues, free cash flow and ESG, the actual values reported in the approved and audited consolidated financial statements (if available) are used as a basis. The Supervisory Board is entitled to exclude non-budgeted special effects at its equitable discretion in accordance with a catalog of criteria predefined by the Audit Committee. The aim of this adjustment is to measure the true management performance of the Executive Board members without distortion, e.g. through currency effects or effects from M&A activities. **When determining the LTI target achievement of the ROCE and the ESG criteria, the Supervisory Board is entitled to exclude non-budgeted special effects at its equitable discretion in accordance with a catalog of criteria predefined by the Audit Committee. The aim of this adjustment is to measure the true management performance of the Executive Board members without distortion, e.g. through effects from M&A activities.

Contribution to the Promotion of the Business Strategy

The modified remuneration system for the Executive Board members makes an additional contribution to the promotion and implementation of Knorr-Bremse AG's corporate strategy of growing more strongly than the market and continuously achieving an excellent margin. It adds value for customers, employees, and shareholders by defining performance criteria based on the company's long-term, lasting success and attaching challenging annual and multi-year targets to these criteria. The remuneration system will create incentives that correspond to this corporate strategy and support it. The aim of the short- and long-term variable remuneration is to drive – in parallel with each other – short-term profitability as well as long-term strategic development focusing on growth and differentiation potential.

The short-term variable remuneration is mainly connected to the financial performance in the current fiscal year and, in this respect, the performance criteria of earnings before interest and taxes ("**EBIT**"), revenues, and free cash flow. The quality target reflects operational capabilities, and quality is simultaneously a key success factor for customers. The modifier reflects the structure of the strategic and organizational foundation which, while having an effect in the medium and long terms, is intended to be incentivized and monitored at an early stage.

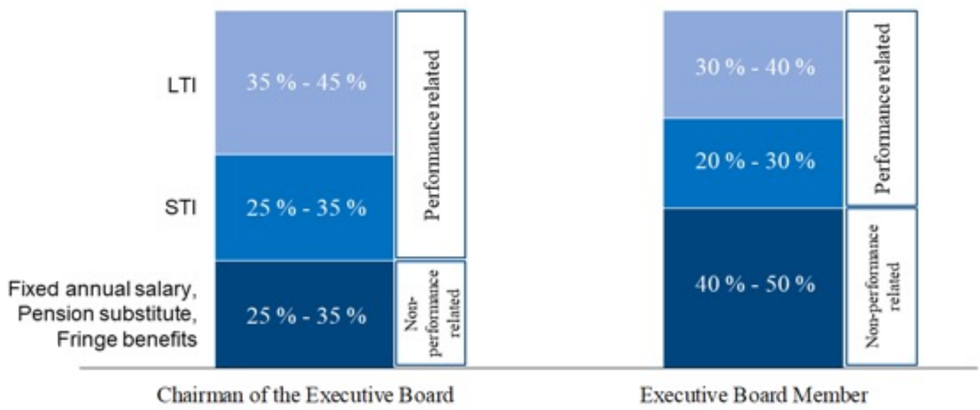
The STI is furthermore connected to environment, social, and governance ("**ESG**") targets. They take into account contributions and progress in the fields of environment, society, and sustainable company development. The ESG targets do not exist in isolation; they are essential success factors for the company. The LTI will also be connected to certain ESG targets in the future. While the focus in the STI is on incremental improvements, the LTI incorporates long-term targets. These dual connections to ESG targets clearly shift the focus of business activities to the sustainable development of the company and its employees.

A key focus of the compensation system is the company's long-term development. The members of the Executive Board, in this respect, face a dual orientation toward the company's shares and thus significant equity exposure – firstly, through the share ownership guidelines provided for in the remuneration system and, secondly, through the long-term variable remuneration's focus on market capitalization. Both ensure that the interests of the Executive Board and the shareholders are synchronized, with a view to the long-term and sustainable development of the company.

The longer-term development of the company is intended to be considered with an LTI term of four years each time and annual allocations. A combination of internal and external performance criteria takes the stakeholder and shareholder approach into account. ROCE here stands for the successful, profitable utilization of the capital invested. The comparison of Knorr-Bremse AG's capital market performance with the performance of a relevant group of comparable companies based on total shareholder return ("**TSR**") creates incentives for above-average capital market performance and additionally ties together the interests of the Executive Board and the shareholders.

Remuneration Structure

On the basis of the remuneration system, the Supervisory Board defines a specific target total compensation for each Executive Board member, which is in appropriate relation to the duties and performance of the Executive Board member and the company's position and does not exceed standard remuneration without justification. The target total remuneration comprises the sum of all remuneration components relevant for total remuneration – the fixed annual salary, STI, LTI, fringe benefits, and pension substitute. For the STI and LTI, the target amount is in each case based on 100% target achievement. The share of long-term variable remuneration in the target total remuneration exceeds the share of short-term variable remuneration in the target total remuneration, ensuring that the remuneration structure is aligned with the company's long-term, lasting development. The relative shares of fixed, non-performance-related salary components and variable, performance-related salary components are presented below in relation to the target total remuneration.



These shares in the remuneration may differ slightly for future fiscal years due to the way the costs of the contractually agreed fringe benefits develop as well as for new appointments, if any. Furthermore, these shares may differ if payments are made in connection with a new appointment taking up his or her position.

2. Fixed Remuneration Components

The Executive Board members receive a fixed annual salary paid in twelve monthly installments.

Additionally, the following particular fringe benefits are provided: Knorr-Bremse AG provides each Executive Board member with a company car for private usage, including with a driver if applicable. Moreover, the Executive Board members are included in the D&O insurance held by Knorr-Bremse AG and the employer share of health and long-term care insurance premiums is reimbursed. There also exists accident insurance (for death and invalidity) paid by Knorr-Bremse AG for the Executive Board members.

As a pension substitute and for the purposes of post-retirement benefits, the Executive Board members receive a cash allowance payable at the end of the fiscal year in question. The responsibility for old-age financial provision is therefore fully transferred to the Executive Board members. Accordingly, the company does not bear any risk and does not need to recognize provisions for the Executive Board members' post- retirement benefits. Aside from this, no occupational pension plan is provided.

The Supervisory Board may, on a case-by-case basis, grant a payment on the occasion of a new Executive Board member taking up his or her position in the first or second year of the new member's appointment. This payment can be used to compensate for, for example, losses of variable remuneration that an Executive Board member faces from a former employer as a result of moving to Knorr-Bremse AG. Furthermore, in individual situations, the Supervisory Board can reimburse the costs incurred in connection with an Executive Board member's move to a new place of residence when taking up his or her position.

3. Variable Remuneration Components

The variable remuneration components are described below. This description illustrates the link between the achievement of the performance criteria and the amount of variable remuneration paid. It also explains the form in which the Executive Board members can access the variable remuneration amounts and when they can do so.

3.1 STI

The STI is a performance-related bonus with a one-year measurement period. The first step of the STI is dependent on financial performance criteria and the achievement of quality and ESG targets (collectively the **"company STI targets"**). In the second step, the Supervisory Board uses a "modifier" to consider the performance of the overall Executive Board based on the strategic and nonfinancial performance criteria set by the Supervisory Board at the beginning of each fiscal year.

STI Performance Criteria

The financial performance criteria for calculating the amount paid from the STI are EBIT, with a weighting of 30%–50%, revenues, with a weighting of 15%–30%, and free cash flow, with a weighting of 10%–30%. Besides that, the target achievement is also dependent on the quality performance criterion, with a weighting of 0%–10%, and on ESG targets, weighted at 0%–20%. The Supervisory Board can determine the weighting of the company STI targets within the specified bandwidths, taking into consideration the operational and strategic priorities at the given time, although the total weighting must always add up to 100%. The weighting for the previous fiscal year also applies to the following fiscal year unless another determination has been made. For the 2024 fiscal year, the EBIT performance criterion has been weighted at 35%, the revenues performance criterion at 20%, the free cash flow (FCF) performance criterion at 15%, the quality performance criterion at 10%, and the ESG targets at 20%.

The direct link to the company STI targets ensures the variable compensation's strategic alignment. The financial performance criteria and quality targets are used not only at Group level for this, but also to strategically align business activities in the individual business units.

- The EBIT refers to the earnings before interest, before the other financial result, and before income taxes as recognized in the company's approved and audited consolidated financial statements. Incorporating EBIT promotes an increase in the company's earning power.

- The revenues are the revenues recognized in the company's approved and audited consolidated financial statements. It is a core element for the implementation of the Knorr-Bremse AG growth strategy and value proposition of growing more strongly than the market.

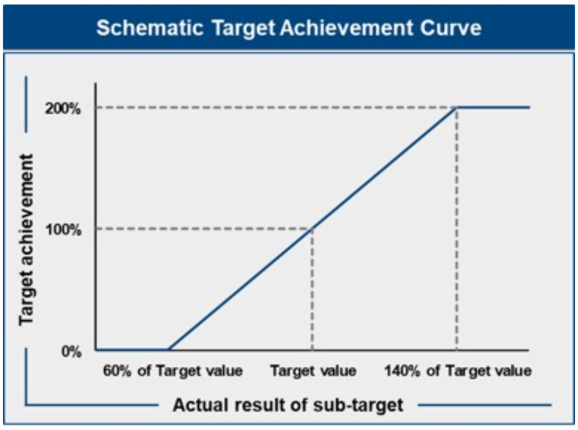
- Free cash flow is calculated by deducting disbursements for capital expenditure on property, plant, and equipment and intangible assets from the cash flow from operating activities, and by adding proceeds from the sale of property, plant, and equipment and intangible assets to the cash flow from operating activities The consideration of free cash flow incentivizes the company's cash conversion.

- The quality performance criterion puts a focus on the operational activities in the business units with quality subtargets such as "cost of poor quality."

Calculation of Target Achievement

Before the start of each fiscal year, the Supervisory Board sets targets for the individual financial performance criteria of EBIT, revenues, and free cash flow and for the quality performance criterion. When setting the targets for the financial performance criteria, the Supervisory Board usually orients itself with the budgeted figures in the financial target planning for the relevant fiscal year that it has approved.

Once the fiscal year has ended, the target achievement on the individual performance criteria is calculated. For this, the Supervisory Board compares the actual result for each performance criterion against the targets for the relevant fiscal year. The quotient of the actual result and the respective target set by the Supervisory Board (expressed as a percentage) reflects the relevant target achievement here. For the performance criteria of EBIT, revenues, and free cash flow, the values recognized in the approved and audited consolidated financial statements of Knorr-Bremse AG are used as a basis. The quotient that is calculated – for the performance criteria of revenues, EBIT, free cash flow, and quality – is used to assess target achievement as follows: With a quotient of 60% or less, the target achievement is 0%; with a quotient of 100%, the target achievement is 100%; and with a quotient of 140% or more, the target achievement is 200%. For quotients between these values, the target achievement is determined through linear interpolation.

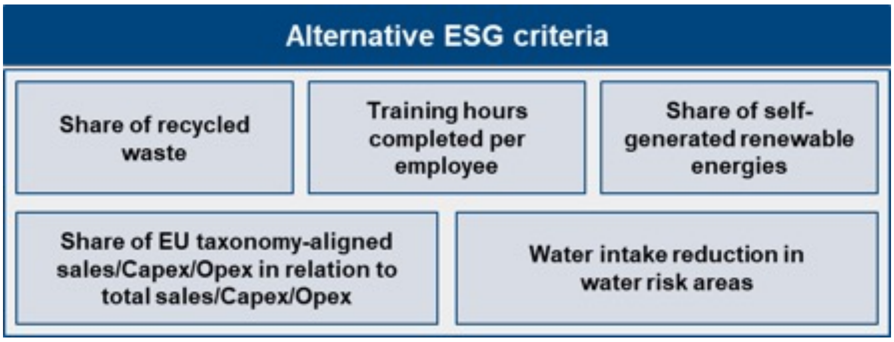


The Supervisory Board is authorized to deviate from this and determine a minimum value corresponding to 0% target achievement, a target value that corresponds to 100% target achievement, and a maximum value that corresponds to 200% target achievement for individual or all financial performance criteria for individual fiscal years in the future if the Supervisory Board believes that this is better suited for representing the subtargets and incentivizing the Executive Board members accordingly.

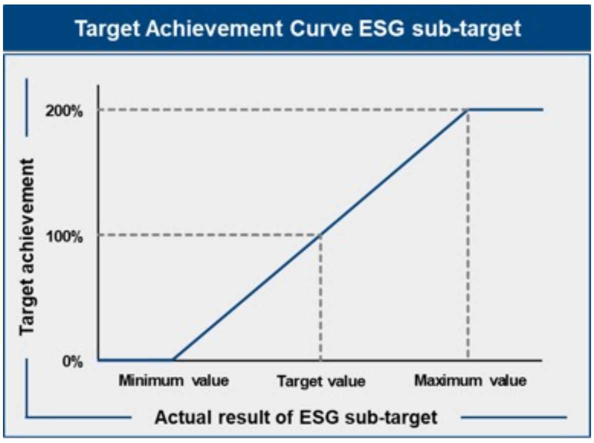
ESG targets are additionally included as material nonfinancial performance criteria in the form of two "ESG criteria" each weighted at 50%.

The ESG criteria are, firstly, the company's own contribution to carbon neutrality, consisting of the sum of energy efficiency increases and internally generated solar power in relation to the Group's total energy demand, and, secondly, the development of workplace accidents per 200,000 hours of work.

The Supervisory Board is authorized to swap the ESG criteria for future fiscal years in full or in part, to remove them, to add new ESG criteria, and to modify the weighting mix when this is better suited for representing ESG developments and incentivizing the Executive Board members accordingly. The Supervisory Board can choose from the following possible ESG criteria in particular:



The Supervisory Board sets a minimum value corresponding to 0% target achievement, a target value corresponding to 100% target achievement, and a maximum value corresponding to 200% target achievement for each ESG criterion for each fiscal year. If the actual result is equal to the minimum value or is less, the respective target achievement will be 0%. Between the minimum value and the target value, the target achievement is interpolated on a linear basis between 0% and 100%, and between the target value and the maximum value, the target achievement is interpolated on a linear basis between 100% and 200%. If the actual result exceeds the maximum value, the target achievement will be 200%. The target achievement is rounded up or down to integer percentage values.



The company STI targets can, depending on the relevant Executive Board member's duties, be set solely based on the full Group (e.g., for the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), or 50% based on the full Group and 50% based on the segment for which the respective Executive Board member is responsible (e.g., Rail Vehicle Systems or Commercial Vehicle Systems).

When determining the actual STI target achievement of the performance criteria EBIT, revenues, free cash flow and ESG, the actual values reported in the approved and audited consolidated financial statements (if available) are used as a basis. The Supervisory Board is entitled to exclude non-budgeted special effects at its equitable discretion in accordance with a catalog of criteria predefined by the Audit Committee. The aim of this adjustment is to measure the true management performance of the Executive Board members without distortion, e.g. through currency effects or effects from M&A activities.

The total STI target achievement is calculated from the weighted arithmetic mean of the target achievement on the individual company STI targets and takes into account the weighting determined by the Supervisory Board.

Modifier

At the beginning of the fiscal year, the Supervisory Board determines – in addition to the company STI targets – further strategic and nonfinancial performance criteria and their weighting as part of a modifier for evaluating the overall Executive Board's performance. Performance criteria for evaluating the performance of the Executive Board might be, for example, collaboration within the Executive Board, lasting strategic, technical, or structural business development, the achievement of key strategic company targets, or the successful restructuring of business units.

The modifier is determined individually by the Supervisory Board depending on the level to which the strategic and nonfinancial performance criteria have been achieved for the respective Executive Board member. It can be between 0.8 and 1.2. The targets and the evaluation of the extent to which the targets have been achieved are explained afterward in the Compensation Report for the respective fiscal year.

Payout

The total target achievement, measured on the basis of the company STI targets, is multiplied by the individually defined modifier (0.8 to 1.2) and the relevant target amount in euros to produce the payment amount. The payment amount of the STI is limited to a maximum of 200% of the relevant target amount. The payout amount is due for payment in the month after the approval of Knorr-Bremse AG's consolidated financial statements for the fiscal year relevant for the STI.

The Supervisory Board is entitled to temporarily adjust the plan terms of the STI in the event of extraordinary events or developments – e.g., on the acquisition or disposal of a business unit.

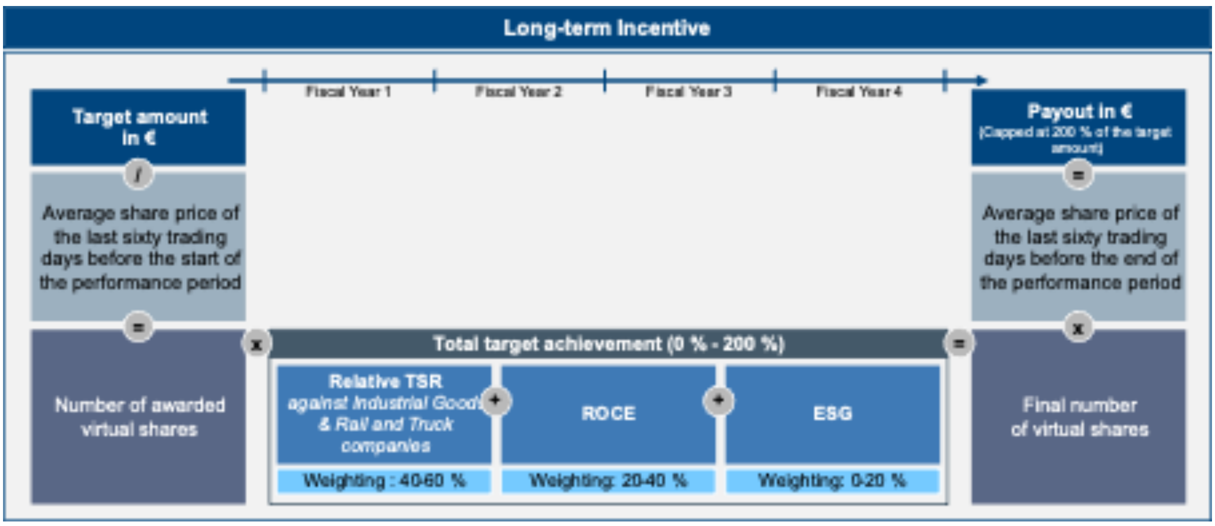
If a member's appointment begins or ends during a fiscal year, the target amount is prorated to the time at which the appointment begins or ends. If the service agreement ends with a notice period, the target amount is prorated to the point in time at the end of the notice period. If the service agreement ends, the STI is calculated for the current fiscal year in accordance with the general STI rules and paid at the normal point in time.

3.2 LTI

The LTI is designed to be a performance share plan with a four-year performance period ("**performance period**") where virtual shares in Knorr-Bremse AG are allocated in yearly tranches. Each performance period starts on January 1 of the first fiscal year in the performance period ("**award year**") and ends on December 31 of the third year following the award year.

At the beginning of the award year, the Executive Board members are awarded a provisional number of virtual shares (performance share units), calculated using the ratio of the target amount and the average XETRA closing price of Knorr-Bremse AG shares in the sixty exchange trading days before the first day of the performance period.

At the end of the performance period, the target achievement for the LTI is measured and the payment amount defined for each Executive Board member, depending on the target achievement and the absolute share price performance, as follows:



LTI Performance Criteria

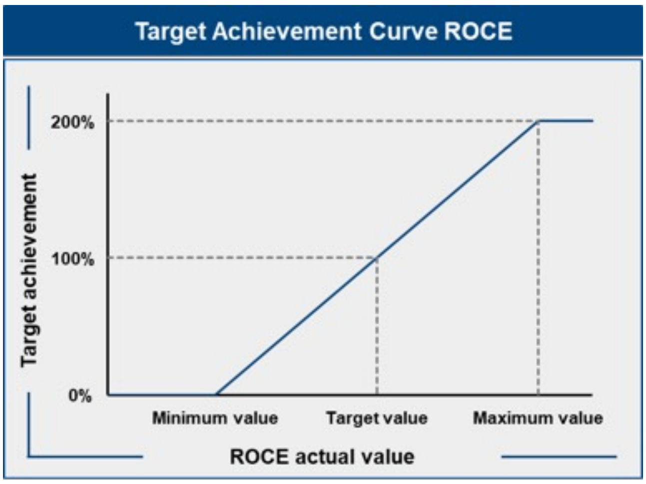
The relevant financial performance criteria for the performance share plan are the total shareholder return (“**TSR**”) for Knorr-Bremse AG compared with the TSR for companies from a peer group (“**relative TSR**”), with a weighting of 40%–60%, and the return on capital employed (“**ROCE**”), with a weighting of 20%–40%. The combination of an internal financial performance criterion (ROCE) with an external, capital market-based criterion (relative TSR) ensures that the LTI depends on the company’s long-term performance in terms of both internal and external factors. On top of that, the performance share plan also incorporates nonfinancial performance criteria in the form of ESG targets (“**ESG**”) with a weighting of 0%–20%. The Supervisory Board can determine the weighting of the performance criteria within the specified bandwidths, taking into consideration the operational and strategic priorities for each tranche at the given time, although the total weighting must always add up to 100%. The weighting for the previous tranche also applies to the following tranche unless another determination has been made. For the 2024 tranche, the weighting of the relative TSR is 50%, the weighting of the ROCE 30%, and the weighting of the ESG targets 20%.

ROCE

The term “ROCE” refers to a business management metric which is used for assessing a company’s earning power and the efficiency of its capital employed. ROCE is defined as the percentage ROCE presented in the Group Management Report based on the EBIT and capital employed presented in the approved and audited consolidated financial statements. Capital employed includes the sum total of intangible assets, net working capital, and property, plant, and equipment.

The relevant figure for the ROCE financial performance criterion is the average ROCE (“**average actual ROCE**”) of the performance period. The average actual ROCE is calculated from the arithmetic mean of the actual ROCE, as calculated according to the above definition, of all fiscal years during the performance period.

The Supervisory Board sets a minimum value corresponding to 0% target achievement, a target value corresponding to 100% target achievement, and a maximum value corresponding to 200% target achievement for the average ROCE at the beginning of each performance period. If the actual average ROCE is equal to the minimum value or is less, the target achievement will be 0%. Between the minimum value and the target value, the target achievement is interpolated on a linear basis between 0% and 100%, and between the target value and the maximum value, the target achievement is interpolated on a linear basis between 100% and 200%. If the actual average ROCE exceeds the maximum value, the target achievement will be 200%. The target achievement is rounded up or down to integer percentage values.

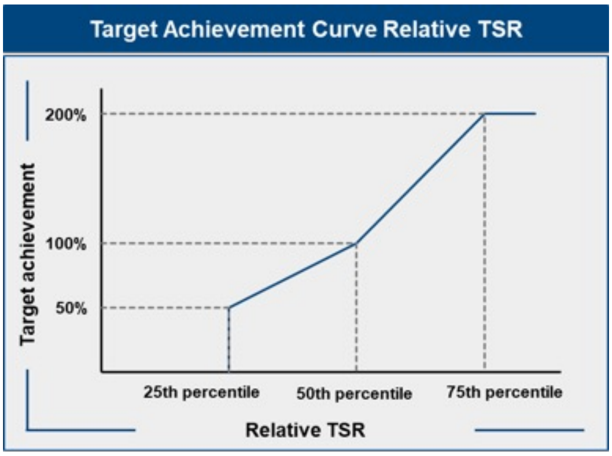


Relative TSR

The TSR refers to the share price performance, on the fictitious assumption that dividends are reinvested, and taking all capital measures into account. It indicates the increase in enterprise value from the perspective of the shareholders. To take into account the competitive position of Knorr-Bremse AG and incentivize above-average capital market performance, the TSR of Knorr-Bremse AG is compared against selected, relevant, comparable companies from a peer group of companies in the industrial goods as well as rail and truck sectors (“**peer group**”). The peer group currently consists of Alfa Laval AB, Assa Abloy AB, Atlas Copco AB, Kone Oyi, Schindler Holding AG, Alstom SA, CAF, Stadler Rail AG, Talgo SA, Wabtec, Jost Werke SE, Daimler Truck, Paccar Inc, SAF Holland, Traton SE, and Volvo AB.

If companies lose their suitability as a comparable company during a performance period, e.g., because they have been delisted, they are removed from the peer group and not replaced. The Supervisory Board is authorized to unilaterally modify the peer group for future tranches before the relevant performance period starts. There must be at least 12 companies in the peer group at the start of a performance period.

To measure target achievement for the TSR of Knorr-Bremse AG in relation to peer group companies, the TSR ranking achieved by Knorr-Bremse AG within the peer group is determined. If the relative rank of Knorr-Bremse AG is at the 25th percentile, the target achievement will be 50%. For a relative rank below the 25th percentile, the target achievement will be 0%. For a position at the 50th percentile, the target achievement will be 100%. A position at the 75th percentile or above results in target achievement of 200%. Target achievement is interpolated on a linear basis for values between these points.

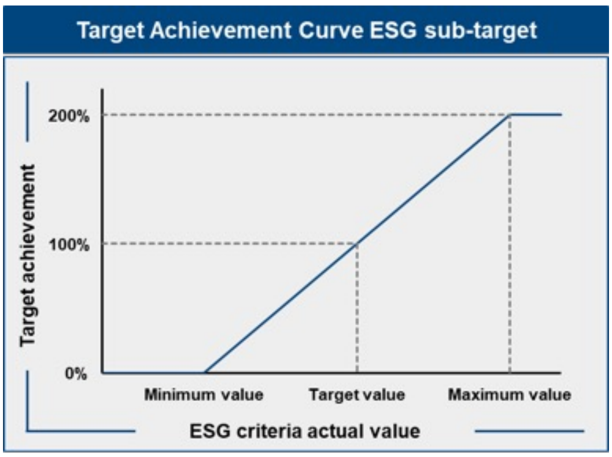


ESG

The nonfinancial ESG performance criterion is formed of two ESG criteria. The ESG criteria are, firstly, the reduction of Scopes 1 and 2 CO_2e emissions ("**Scopes 1 and 2 reduction**"), weighted at 70%, and, secondly, employee satisfaction, weighted at 30%.

- The applicable figures for the Scopes 1 and 2 reduction criterion are the CO_2e emissions in tCO_2e as presented in the company's Group management report for the final year in the performance period.
- The applicable figure for the employee satisfaction criterion is the final engagement score, in index points, that was calculated during the performance period.

The Supervisory Board sets a minimum value corresponding to 0% target achievement, a target value corresponding to 100% target achievement, and a maximum value corresponding to 200% target achievement for each ESG criterion for each fiscal year. If the actual result is equal to the minimum value or is less, the respective target achievement will be 0%. Between the minimum value and the target value, the target achievement is interpolated on a linear basis between 0% and 100%, and between the target value and the maximum value, the target achievement is interpolated on a linear basis between 100% and 200%. If the actual result exceeds the maximum value, the target achievement will be 200%. The target achievement is rounded up or down to integer percentage values. Alternatively, the Supervisory Board can opt to calculate staggered levels of target achievement from the engagement score in (integer) index points for the ESG criterion of employee satisfaction.



The Supervisory Board is authorized to swap the ESG criteria for future fiscal years in full or in part, to remove them, to add new ESG criteria, and to modify the weighting of the ESG criteria when this is better suited for representing ESG developments and incentivizing the Executive Board members accordingly. The Supervisory Board will take care that the ESG criteria for the single-year and multi-year variable remuneration amounts differ from each other. The Supervisory Board can choose from the following possible ESG criteria in particular:

Alternative ESG criteria		
Proportion of renewable energies	Revenue from reconditioning and overhaul work	Share of recycled waste
Share of EU taxonomy-aligned sales/Capex/Opex in relation to total sales/Capex/Opex	Share of products/product groups covered by LCA (Life Cycle Assessments)	Proportion of women in management positions
Proportion of secondary material (recyclates) in purchased products	Share of Scope 3 reduction (upstream) compared to the baseline (2021)	Share of suppliers with an ESG rating

When determining the LTI target achievement of the ROCE and the ESG criteria, the Supervisory Board is entitled to exclude non-budgeted special effects at its equitable discretion in accordance with a catalog of criteria predefined by the Audit Committee. The aim of this adjustment is to measure the true management performance of the Executive Board members without distortion, e.g. through effects from M&A activities.

Target Achievement and Payout

The total target achievement is calculated from the weighted arithmetic mean of the target achievement on the individual performance criteria and takes into account the weighting determined by the Supervisory Board.

The final number of virtual shares is calculated by multiplying the number of virtual shares awarded by the total target achievement at the end of the performance period.

The payment amount is obtained by multiplying the final number of virtual shares by the average XETRA closing price for the company share in the last sixty exchange trading days before the end of the respective performance period.

The payment amount of the LTI is limited to a maximum of 200% of the target amount. The payout amount is due for payment in the month after the approval of Knorr-Bremse AG's consolidated financial statements for the last fiscal year of the performance period.

It is not possible to make any subsequent changes to the performance criteria. The Supervisory Board is entitled to temporarily adjust the plan terms of the LTI in the event of extraordinary events or developments – e.g., on the acquisition or disposal of a business unit.

If the position of an Executive Board member begins partway through a fiscal year, the target amount of the LTI tranche starting with that fiscal year is prorated to the time at which the position begins. All claims associated with unpaid tranches and a current performance period lapse without substitution or compensation if, prior to the end of the performance period, the service agreement is terminated for good cause by the Knorr-Bremse AG, i.e., for extraordinary reasons for which the Executive Board member is responsible, or if the Executive Board member's appointment is revoked due to a gross breach of duty, or if the Executive Board member resigns from office without good cause and without the agreement of Knorr-Bremse AG. If a member's appointment ends for other reasons before the performance period has finished, the relevant LTI tranches remain as they are. On departure partway through a year, the LTI tranche of the award year in which the appointment ends is prorated to the end of the appointment. The payment amount is not paid out early.

3.3 Malus- und Clawback

Starting in the 2024 fiscal year, the Supervisory Board has, in certain circumstances, the possibility of retaining short-term and long-term variable remuneration components that have been earned ("malus") or reclaiming part or all of them if less than three years have passed since payment of the variable remuneration component ("clawback"). In particular, such circumstances include a major breach of criminal law provisions or of material duties of care in the leadership of the company by an Executive Board member, or a breach of organizational and monitoring obligations by an Executive Board member leading to such a breach by an employee of the company, a member of a governing body, or an employee of an affiliate of the company. Such circumstances furthermore include the subsequent correction of an objectively incorrect presentation in the consolidated financial statements for a measurement period related to the variable remuneration component, insofar as no variable remuneration payment or a smaller variable remuneration payment would be due based on the corrected consolidated financial statements.

4. Share Ownership Guidelines (SOG)

In addition to the LTI as an equity-based performance share plan with a four-year performance period, the share acquisition and retention obligation for the Executive Board constitutes a further key component of the remuneration system with the objective of promoting the long-term and sustainable development of the company. The members of the Executive Board are required to acquire and keep a minimum holding of shares in Knorr-Bremse AG amounting to 100% of their fixed gross annual salary for the duration of their service agreement (the "**SOG target**"). A member of the Executive Board is obliged to acquire shares in Knorr-Bremse AG equal to at least 25% of the SOG target in each fiscal year until the SOG target is achieved. In individual cases, the Supervisory Board can use its reasonable discretion to depart from the SOG provisions, taking into account the circumstances of the case (e.g., on account of restrictions on the acquisition of shares as a result of contractual, internal, or legal provisions)

II. Maximum Remuneration

The total compensation to be granted to the Executive Board members for a fiscal year (sum of all the remuneration amounts spent for the fiscal year in question, including fixed annual salary, variable compensation components, pension contribution, and fringe benefits or any compensation payments made when new members are appointed) – irrespective of whether they are paid out in this fiscal year or at a later date – has a maximum absolute limit ("**maximum compensation**"). The maximum remuneration is € 8,000,000 for the Chief Executive Officer (CEO) and € 4,500,000 for the ordinary Executive Board members.

The maximum remuneration may differ from the fixed maximum remuneration in the first or second year of their appointment when a new member of the Executive Board takes office, provided that the Supervisory Board in exceptional cases grants the new Executive Board member payments on taking office to compensate for payments lost from their previous employment. In this case, the relevant maximum remuneration for this particular fiscal year is increased by up to 50%.

Regardless of the maximum remuneration, the amount of individual variable remuneration components paid is also capped at 200% of the target amount.

III. Remuneration-Related Legal Arrangements

1. Agreement Duration and Requirements for Ending Remuneration-Related Legal Arrangements

The service agreements for the Executive Board members are valid for the duration of the members' appointment. Executive Board members are normally appointed for no more than three years if it is their first appointment. If they are reappointed, their appointment will be for no more than five years. Their service agreements are extended for the duration of their reappointment unless other arrangements are made.

The service agreements end prematurely if there is mutual agreement to ending the appointment and if the Supervisory Board approves it ("**mutual ending of appointment**"), effective as of the time that the appointment is ended by mutual agreement. If the Supervisory Board revokes the appointment, the service agreement will end prematurely after a notice period pursuant to section 622 (2) of the German Civil Code (BGB). The notice period is extended to up to 24 months, counted from the end of the month, if the Executive Board member's appointment is blamelessly revoked due to incapacity to conduct business properly or due to a vote of no confidence at an Annual General Meeting, though is not extended any longer than the end of the regular agreement term. The extended notice period also applies if the Executive Board member resigns from his or her position on the Executive Board for good cause prematurely, unilaterally, and effectively. During the notice period, the members of the Executive Board receive their fixed annual salary. The claims to STI and LTI are based on the rules on leaving the Executive Board prematurely described above.

There is no right of special termination in the event of a change of control or any commitment to make payments based on the premature termination of Executive Board membership as a result of a change of control.

2. Termination Compensation

In the event of a mutual ending of appointment, members of the Executive Board may receive a compensation payment. The compensation payment must generally not exceed the value of two years' remuneration, and no more than the value of the remuneration for the remainder of the service agreement. The compensation payment is set off against any noncompete compensation paid by Knorr-Bremse AG. Even if the appointment is terminated by mutual agreement, the Executive Board member is not entitled to the compensation payment if the premature termination of the appointment was made at the request of the Executive Board member or if Knorr-Bremse AG had good cause to revoke the appointment or terminate the service agreement without notice or if the Executive Board member is subsequently reappointed to the Executive Board following the termination of the appointment by mutual agreement.

The Supervisory Board may sign noncompetition agreements with Executive Board members for a period of up to two years after they leave the company. During this period, the Executive Board members are entitled to noncompete compensation amounting, per month, to one-twelfth of the most recent fixed annual salary. The noncompete compensation is set off against any benefits otherwise owed by Knorr-Bremse AG for the period after the termination of the service agreement. Any income received for activities not covered by the noncompetition agreement is offset against the noncompetition compensation.

IV. Consideration of the Employees' Remuneration and Employment Conditions in the Establishment of the Remuneration System

The Supervisory Board regularly reviews the Executive Board's remuneration. The evaluation of the remuneration's appropriateness considers the peers of Knorr-Bremse AG (horizontal comparison in relation to the Executive Board members' remuneration) as well as the company's internal remuneration structure (vertical comparison).

The vertical comparison refers to the ratio of Executive Board remuneration to the remuneration of the upper levels of management as well as the overall workforce of Knorr-Bremse AG. For this purpose, the Supervisory Board has defined the upper levels of management as management level 1 (including members of the Management Boards of the Knorr-Bremse AG subsidiaries) and management level 2. For the overall workforce, the Supervisory Board uses as a basis the employees covered and not covered by collective bargaining agreements, excluding the members of the Management Board of Knorr-Bremse AG subsidiaries. The Supervisory Board considers the development of the remuneration for the groups described here and how the proportion has developed over time.

V. Process for Establishing, Implementing, and Reviewing the Remuneration System

The Supervisory Board passes a resolution for a clear and comprehensible remuneration system for the Executive Board members. The Executive Committee is responsible for preparing the Supervisory Board's resolution concerning the remuneration system and the regular review of the remuneration system. The Executive Committee provides the Supervisory Board with all the information needed for reviewing the remuneration system. The Supervisory Board carries out a review of the remuneration system according to its due discretion, though no later than every four years. When the Supervisory Board does this, it performs a market comparison and also considers changes in the business environment, the company's overall business position, the company's strategy, changes and trends in the national and international corporate governance standards, and the development of the employees' remuneration and employment conditions in accordance with section B.IV., above. If needed, the Supervisory Board consults external remuneration experts and other advisers. It makes sure that the external remuneration experts and advisers are independent of the Executive Board and takes precautions to avoid conflicts of interest.

The Supervisory Board proposes the remuneration system, as based on the passed resolution, for approval at the Annual General Meeting whenever there is a significant modification and at least every four years. If the proposed system is not approved at the Annual General Meeting, the Supervisory Board proposes a revised remuneration system for approval no later than the subsequent regular Annual General Meeting.

The Supervisory Board and the Executive Committee take suitable measures to ensure that possible conflicts of interest with Supervisory Board members involved in the discussions and decisions about the remuneration system are avoided and, if applicable, resolved. Every Supervisory Board member is required to notify the Chairman of the Supervisory Board of conflicts of interest. The Chairman of the Supervisory Board discloses to the Executive Committee any conflicts of interesting concerning him. The Supervisory Board decides in the individual situation on how to respond to a conflict of interest that exists. One particular option is for a Supervisory Board member affected by a conflict of interest not to attend a meeting or individual discussions and decisions of the Supervisory Board or Executive Committee.

VI. Temporary Deviation from Remuneration System

The Supervisory Board can temporarily deviate from the remuneration system (procedures and rules relating to the remuneration structure) and its individual components and from individual remuneration components in the remuneration system or introduce new remuneration components by passing a resolution if this is necessary in the interests of the long-term health of Knorr-Bremse AG. The Supervisory Board reserves the right to make such deviations for extraordinary circumstances, such as an economic or company crisis. Such deviations may lead to a temporary deviation from the maximum remuneration for the Chief Executive Officer (CEO) or other ordinary Executive Board members.