



## **Annual General Meeting of Knorr-Bremse AG**

Speech by Executive Board member Dr. Peter Laier  
Commercial Vehicle Systems Division

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*Check against delivery on the day of the Annual General Meeting.*

Welcome address:

Thank you very much, Dr. Wilder.

Dear shareholders and shareholder representatives,

ladies and gentlemen,

it gives me great pleasure to speak to you today and give you an insight into the Commercial Vehicles division's business activities.

Report on the business performance of the Commercial Vehicle Systems division:

The current situation in the commercial vehicle division is certainly different from the rail division because it's a more cyclical business. For example, in the past year we've seen the production figures for commercial vehicles decrease in some regions following a lengthy period of strong growth in the second half of last year.

Overall, however, 2019 was a good year for the commercial vehicle market, with very high production in China and North America and stable production in Western and Eastern Europe and South America. The year was divided into two parts: whereas the global market developed outstandingly in the first half of the year, the number of commercial vehicles produced deteriorated significantly in the second half – initially in Europe, followed by North America in the fourth quarter, while the Chinese market grew in the fourth quarter in particular.

Despite a decrease of about 4.5 percent in global commercial vehicle production, the commercial vehicle division increased its revenues by 3.8 percent.

The provisions recognized for the closure of the plant in Wülfrath and other one-time effects meant the EBITDA margin fell by 90 basis points to 15.4 percent. The relatively low decrease in the EBITDA margin is partly due to a cost-cutting program that was introduced at an early stage in the second half of 2019.

The closure of the plant in Wülfrath I just mentioned, which was announced in 2019, is part of the portfolio management we're doing in the commercial vehicle division to safeguard our profitability. We're going to discontinue the production of steering systems there, as planned, during 2020. At the same time, we've transferred the plant's engineering team to a newly created engineering center – where it will remain part of Knorr-Bremse – in order to safeguard these employees' know-how for the expansion we're planning of our steering activities. At this point, I'd again like to thank all those involved in Wülfrath for the fact that after long negotiations, in December last year we were finally able to find a socially acceptable solution that was agreeable for all sides.

### Customer contracts:

2019 was a successful year for the commercial vehicle division in terms of customer orders. I'd like to give you a few examples of this:

- In North America, we received a large follow-up order for brake control and for driver assistance systems from one of the leading commercial vehicle manufacturers.
- In Asia, we signed a new supply contract with one of the leading commercial vehicle manufacturers in China. The agreement, which runs from 2020 to 2025, covers the supply of safety technologies such as EBS, ESP, and pedestrian AEB systems for all the manufacturer's important vehicle types.
- In Europe, a leading manufacturer awarded Knorr-Bremse a major contract in the double-digit million euro range in the area of semitrailers. The supply agreement covers trailer air disc brakes – initially the well-known ST7 dual piston disc brake, and after the start of its production, also NEXTT, the new trailer-specific disc brake.

After several strong fiscal years, the expected slowdown of commercial vehicle production resumed in the European and North American markets in the first quarter of 2020.

### Impact of the Covid-19 pandemic and Q1 2020:

In addition, the Covid-19 pandemic had an influence on global business performance.

Specifically, the developments in the first quarter of this year led to a 13.0 percent drop in revenues year-on-year to EUR 735.8 million in our division. This represented significantly better development than the global truck production rate, which decreased by 27 percent in the same period.

Due to lower revenues, EBITDA fell by 23.5 percent to EUR 107.6 million in the first three months. The cost-efficiency program I already mentioned, which was introduced in the second half of 2019, and the COVCAP global cost adjustment program, which was set up proactively and at an early stage due to the coronavirus crisis, meant that the EBITDA margin of 14.6 percent was only 200 basis points lower than the previous year.

After we had to deal with major restrictions and lockdown measures in China in February and to some extent in the first half of March due to the rapidly rising number of Covid-19 infections, Europe has been the focus of the Covid-19 pandemic since the second half of March, followed shortly thereafter by North and South America. In the truck division, we reacted early and set up a global team to define and implement the necessary measures. For example, we immediately set up a global supplier management program in order to ensure the supply of parts to our plants even during

the coronavirus situation and taking account of the national lockdowns in many countries. Furthermore, we've been able to quickly adapt our own plants to the changing situation by closely monitoring our customers' and suppliers' circumstances and could therefore supply our customers individually based on their needs and, in the last few weeks, support customers in restarting production following the shutdowns of their plants. We're proud to be able to serve our customers in close collaboration with them and without any interruption based on their needs, even in this unusual, volatile and dynamic situation.

All in all, we've adapted ourselves to the current circumstances exceptionally fast and have introduced the appropriate measures. And we always put the safety of our employees first.

The fact that we've outperformed the market is particularly because of three factors:

1. Firstly, our aftermarket business is proving extremely stable, even in the Covid-19 crisis.
2. Secondly, we have products in our portfolio that – even more so as a result of legislative regulations and safety and emission requirements – are now also increasingly becoming mandatory in commercial vehicles, especially in non-European markets, and are therefore boosting what is referred to as our content per vehicle.
3. Thirdly, we gained market share even in Q1 2020, particularly in China.

In China, we're currently seeing a V-shaped recovery – back to the strong growth situation that we saw in the fourth quarter of 2019. We're optimistic that this trend will continue – as long there's no second wave of the coronavirus.

In addition to good capacity utilization of our plants in China, we're currently exploiting this positive trend by having our European plants manufacture for Chinese needs and thus making use of our existing capacity. China is the largest Asian market, and we want to further expand our market leadership there. Our close customer relationships in China, which we've spent years building, our innovative product portfolio, and our strong team in the region are an advantage here.

Let's now look at China, and specifically our Dalian site, which is located in northeast China. Dalian is one of our large production facilities for the commercial vehicle division in China and our largest site for compressor production worldwide. Baoping Xu, a member of the Board of Directors of Knorr-Bremse Asia Pacific, has been working at Knorr-Bremse for eight years and will report on his experiences of dealing with the pandemic over the past few months.

[...]

### Growth drivers:

Ladies and gentlemen,

as you can see from this example from China, our global presence with a high degree of localization is a key success factor for the commercial vehicle division and means that we're also outperforming the global market during the Covid-19 pandemic.

It's still too early to forecast the future impact of Covid-19 on our business. But it's clear that the truck production rate also depends on the development of gross national product in each region and the related transport volume. We continue to keep in close communication with our customers around the world.

2020 will certainly be an unusual year for the commercial vehicle sector and therefore also for the truck division. However, we're convinced that our resilient business model means that we have better-than-average ability to handle the current decreases in revenue and will emerge stronger from the current situation. We're therefore currently systematically continuing to work on our growth strategy for the commercial vehicle division. In addition to organic growth, acquisitions are another revenue growth factor for us. The focus here is on the company acquired being a fit for our product and technology strategy and further strengthening our approach as a system provider.

In connection with this, we also worked on expanding our steering activities in 2019 and undertook further targeted M&A activities using a string-of-pearls strategy.

We're pursuing two objectives here: Firstly, becoming a leading, global provider of steering systems for commercial vehicles and secondly, making the steering and brakes – the two important actuators for the control of vehicle dynamics and thus also the important actuators for driver assistance and automated driving systems – available from a single source. We've come a huge step closer to both objectives in the last 15 months.

- For example, we acquired Hitachi CVS Steering Systems in Japan in 2019. This acquisition not only expanded our steering system portfolio, but also expands Knorr-Bremse's potential as a global provider of system solutions in the areas of driver assistance and automated driving. In addition, the acquisition gives us better access to the Japanese and Southeast Asian commercial vehicle markets.
- We were also able to further expand our collaboration with our partner Dongfeng in China. The joint venture with Dongfeng was originally founded with a focus on the production of brake valves and brake control systems such as ABS and EBS. Over the past few years, we've continuously expanded the joint venture and have successfully developed a wide variety of products and

solutions together that are geared to the individual needs of the Chinese market. In another step, we expanded our collaboration to include steering systems in November 2019 and thus took an important step to position ourselves as a steering supplier in the Chinese commercial vehicle market.

- We're currently particularly delighted that we were able to complete the acquisition of R.H. Sheppard at the start of June. Sheppard is one of the leading manufacturers of steering systems for commercial vehicles in the North American market. The acquisition puts us in the top 3 global suppliers of steering systems for commercial vehicles. This is also an important step to enable us, in the future, to offer extended driver assistance systems to our customers in North America, where we're the market leader for driver assistance systems and brake control.

*Innovations in line with industry trends:*

Dear shareholders and shareholder representatives,

our solution and system expertise and global presence mean Knorr-Bremse plays a key role in advanced commercial vehicle technologies and products gaining traction in all regions of the world – from electronic braking systems through disc brakes, vibration dampers, transmission controls, and compressors to automatic emergency braking systems and turning assistants.

Our innovations make a decisive contribution to the social megatrends of urbanization, sustainability, digitalization and automated driving. In addition to the development of our current customer orders, in the truck division we've concentrated our R&D activities in the past few years largely on industry trends derived from the megatrends that are relevant for the commercial vehicle sector, so road safety, emission reduction, e-mobility, connectivity, and automated driving. Let me briefly talk about our most important innovations.

- The area of road safety is deeply anchored in Knorr-Bremse's history and DNA. With regard to road safety, we're currently seeing that additional legal requirements are increasingly making our products necessary in commercial vehicles in many regions of the world. Knorr-Bremse is ideally positioned to provide concrete solutions for increased requirements with its innovative safety technologies such as ESP, the emergency braking system or our best-in-class disc brakes. Based on the pedestrian AEBS safety function, where an emergency brake function is also required for pedestrians in some commercial vehicle classes in China in the future, you can see that the Chinese market is oriented toward high-tech. Legislators in China are increasingly requiring their own assistance functions, which we develop for our Chinese customers. This

represents an outstanding opportunity for Knorr-Bremse to continue to grow with additional content per vehicle in the Chinese market.

- Our new generation of brake control for ABS and EBS – GSBC or Global Scalable Brake Control – is becoming the electronic integration platform in the commercial vehicle for vehicle dynamics. Here, we developed a scalable steering architecture for the varying requirements of different global markets, which enables coordinated longitudinal and lateral control and the corresponding stabilization of vehicles. Together with the relevant radar sensors and cameras, GSBC also forms the basis for system solutions in driver assistance and automated driving.
- With regard to the sensors that are important for driver assistance and automated driving and also with respect to hardware and software for the decision-making level of automated driving, the partnership we entered into with Continental AG in 2018 is developing successfully. We're convinced that, as the system manager of this partnership, we can further expand our leading position as a supplier of driver assistance systems for commercial vehicles.
- The trend toward driver assistance functions has continued to strengthen in the last 12 months, and the focus is moving more and more to extended assistance functions that use both the brakes and the steering as actuators. Examples of such functions include the extended lane departure warning system or the assistant for driving into a loading bay. In addition, we're already represented in the European market with retrofittable turning assistants, or in the North American market with retrofittable driver assistance functions, e.g., for the emergency braking function or the ACC function, which are all very positively received in the market.
- Automated driving is certainly currently being reevaluated with regard to the market launch date in some markets, particularly in Europe, due to the Covid-19 pandemic. In other markets, such as in China in particular, but also in North America, the trend toward automated driving particularly for special usage such as hub-to-hub transport on special routes or in logistic centers, continues unabated. We're therefore developing the relevant technologies and products for this with our partners and customers, including the necessary redundancy architecture.
- We see an uninterrupted trend in e-mobility for commercial vehicles, and we want to participate in it. In order to further advance innovative solutions in this area, Knorr-Bremse decided to establish its own development unit, the eCUBATOR, that is separate from the normal development business and has around 50 engineers. The aim of the eCUBATOR is to adapt our existing product portfolio to e-mobility requirements while identifying and developing growth opportunities for Knorr-Bremse in the field of e-mobility.

Our content per vehicle will continue to rise as a result of our activities in industry trends.

Concluding words:

Ladies and gentlemen,

I'd like to take this opportunity, to say a big thank to our employees for their dedication in the last year and, in particular, in the last few months during the Covid-19 pandemic. We very much appreciate your commitment worldwide. Your well-being and health are our top priority. I'm convinced that together we'll emerge stronger from these difficult times.

Dear shareholders and shareholder representatives,

thank you for your trust even and, indeed, particularly during these times.

All of us – around 29,000 employees around the world – will continue to work day after day to ensure that Knorr-Bremse is at the forefront of shaping the future of mobility in both rail and commercial vehicles.

Entrepreneurship, passion, reliability, responsibility, and technical excellence. Those are our corporate values, the values on which our company is founded. And particularly in times like these, they are in greater demand than ever. We're intent on continuing our profitable growth strategy and we've proved yet again in the Covid-19 crisis that we have a resilient business model and react quickly to market changes. This is why we're outperforming the market in terms of revenue and have above average profitability.

We'll continue our profitable growth course and look forward to your continued support.

That brings me to the end of my speech, thank you for listening. Now I'm going to hand you back to Professor Mangold for answers to shareholder questions.