



Annual General Meeting of Knorr-Bremse AG

Speech by CEO Marc Llistosella and
CFO Frank Markus Weber

Munich, May 5, 2023

Speech text published in advance on May 5, 2023

Only the verbal version on the day of the Annual General Meeting is binding

Marc Llistosella, CEO of Knorr-Bremse AG

Thank you, Dr. Ploss.

Esteemed shareholders,

Dear Thiele family,

Ladies and gentlemen,

On behalf of all the Executive Board, I would also like to welcome you warmly.

I am delighted to be here as the Chief Executive Officer of Knorr-Bremse since the beginning of this year. It is a great honor to lead this company, with its long success story and heritage, into the future. In keeping with the principles of company founder Georg Knorr: “With continuity that truly provides an opportunity despite whatever turbulence in the future.”

Today’s Annual General Meeting is a first for me in my new role. For this reason, let me begin my speech with a short introduction of myself and my impressions of Knorr-Bremse so far. Then, I will give you an overview of the most important operating and financial results for 2022.

After that, my colleague, our Chief Financial Officer Frank Weber, will share a deeper insight into business development in the 2022 fiscal year as well as the current 2023 fiscal year. He will also report to you on the success of our climate and sustainability initiatives.

In the third part of our speeches, I will talk on behalf of our Executive Board to outline what our thoughts and constructive discussions revolve around. I would also like to give you a feeling of the short time frame in which we are intending to strategize for the most important topics at Knorr-Bremse and tackle them over the coming months and quarters. Rapidly, but not hastily.

In the future, we will tell you at an early stage what we are planning to do – and: We will then do what we said we would.

First, now, a bit about me personally.

My name is Marc Llistosella. I am 56 years old, married, and a proud father of 6 children. I was born in Cologne, however I have spent most of my career outside Germany. My surname is not German, either, but rather Spanish and Welsh.

I have 28 years' professional experience in the commercial vehicle business, 24 of which at Daimler. I started by selling light commercial vehicles in Cologne, then took up jobs in sales and strategy in Stuttgart. I then was given an outstanding opportunity in India to build something where there was basically nothing before. In the shortest space of time, we erected a complete truck factory in Chennai and, against all expectations, made the BharatBenz brand a success story on the Indian subcontinent.

I moved on from there to Japan, where I worked for Fuso, Daimler's Japanese truck subsidiary. Despite the many concerns and objections, my team and I rolled out the first electric truck in series production there and changed the company's fortunes. Frank Weber and I were already working together closely and trustingly back in those days, so we have known each other a long time and do well as a team.

I have had an active role as a venture capitalist since 2018. My engagement in this context focuses on the development of electric and self-driving trucks, a very futuristic concept that I find highly important.

That concludes my introduction for now.

On my very first day of work, I sent an e-mail to all employees worldwide and wrote to them: "Everything revolves around our company, Knorr-Bremse." I told the employees that they, our team all around the world, are the company's most important capital. The intensive dialog with numerous colleagues in my first few months as CEO showed me that the company rests on a substantial foundation. It is a repository of impressive expertise.

As a global market and technology leader, we at Knorr-Bremse know exactly what we do and what we are capable of. Moreover, the priority now is also to develop a long-term vision for the company overall. And we are doing that already in dialog.

Before I come to the strong results achieved in the previous year, I would like to say thank you. We owe this success to our roughly 31,600 employees around the world.

They are who enabled this result in the first place thanks to their extraordinary commitment. On behalf of the entire Executive Board, I wish to thank them deeply for their fantastic dedication. I would also like to take the opportunity to thank Frank Weber. He led Knorr-Bremse in dual roles as Executive Board Spokesman and Chief Financial Officer over the last year with great dedication and much success. He not only ensured continuity, but also set the course for this year and the near future in a significant way.

Ladies and gentlemen,

I would now like to start on the most important messages for the previous year.

The year 2022 was another extremely challenging one for our customers, our company and its employees. High inflation, the impacts of the Covid-19 pandemic, global supply shortages, the explosion of energy costs and the horrible human and economic consequences of Russia's invasion of Ukraine acted as a further stress test for our company and entire industry.

Despite these challenges, we successfully implemented our strategy and passed the stress test with flying colors. We owe this to the strength of the global Knorr-Bremse team and to the resilience of our business. This is because Knorr-Bremse achieved solid growth and profitability in 2022, despite the strong obstacles, and the results are plain to see.

Our incoming orders and order books reached new record levels. This is an excellent development that gives us momentum.

In the future, we wish to focus even more attention on the aftermarket and on data-driven solutions, a key element of our current strategy. With three successful acquisitions and strategic partnerships in precisely these fields, we delivered on our promises over the last year. We will ensure lasting reinforcement for our digital and aftermarket businesses with our investments in Cojali, Nexxiot and the acquisition of DSB Component Workshops from Danske Statsbaner (DSB). Knorr-Bremse will therefore see further profitable growth in these fields, too.

Sustainability and ESG, short for environment, social and governance, are an integral element of our day-to-day work and actions. We further reinforced our efforts to do

business sustainably in 2022. Frank Weber will speak about this in more detail shortly.

Not least, we achieved our forecast revenue and profitability for 2022 as a whole. Our free cash flow, however, was lower than expected, which we will also address further shortly.

Overall, the demand among our customers in Rail Vehicle Systems as well as Commercial Vehicle Systems remains strong in all markets. This is a very good message.

Thanks to the relaxation of the Covid-19 situation, the rail vehicle market recovered slowly but surely. The Rail Vehicle Systems division was able to increase its revenue slightly. The commercial vehicle market is seeing persistently good demand. Due to the positive developments in truck production figures in Europe and North America, our Commercial Vehicle Systems division achieved a strong result with increased revenue. Nevertheless, inflation is and remains a significant challenge for our division as well.

Based on the sanctions and our moral obligation, we opted to phase out our business in Russia, an extremely profitable market for us. To ensure that expectations are appropriate, I wish to emphasize how much this means to our business. Our Russia-based business was highly profitable in the first quarter at the start of last year, before the Russian invasion. This business ceased in the second quarter of last year.

All in all, though, and against a backdrop of major challenges, the demand for rail vehicle systems and commercial vehicle systems is developing very well. Things are moving in the right direction.

Having said that, I also do not want to shy away from the facts: 2023 will be another challenging year.

Ladies and gentlemen,

Let me now explain some of the successes that our two divisions had in the last fiscal year. They reflect the immense trust that our customers have in the quality of our products and systems.

In 2022, our Rail Vehicle Systems division again signed key international contracts with major vehicle manufacturers. Notable ones include a contract with Alstom to fit 130 Coradia Stream regional trains with braking, entrance, HVAC and sanitary systems in Germany and a deal with Siemens to equip further Velaro trains in Egypt. The Hitachi contract for passenger train coupling is a significant milestone that we are proud of. A further highlight was the unveiling of our Digital Automatic Coupling, or DAC, for freight and passenger trains at InnoTrans in Berlin, a world-leading trade fair. DAC is our key innovation for increasing efficiency, flexibility and competitiveness in rail freight transportation in Europe. Currently, we are testing Digital Automatic Coupling in real conditions in a freight train in Sweden. Our goal for all of this is to achieve market maturity in our innovative system solution by no later than 2025.

Our Commercial Vehicle Systems division signed off on many important contracts in 2022. They include a TruckServices contract with the VHH municipal transport company in Hamburg and a long-term contract with a major truck maker. At Automechanika and IAA Transportation, the leading trade fairs for commercial vehicles, we demonstrated our product portfolio in the fields of automated driving, e-mobility and aftermarket in a spectacular way. We made an outstanding impression on our customers, particularly with our innovative products such as the Rotary Vane compressor, our Global Scalable Brake Control system and our electric power steering solution, or EPS for short.

Here you can see a few impressions of our, in my opinion, fantastic displays at the leading InnoTrans and IAA Transportation trade fairs, where we welcomed many visitors to our cities, had very intensive and stimulating conversations and received a great deal of validation for our products and developments.

[Prerecorded trade fair video]

Ladies and gentlemen,

After these impressive scenes from Berlin and Hanover, I would now like to hand over to our Chief Financial Officer Frank Weber. He will explain to you the key financial figures for the previous year and show you our strong commitment to the topics of sustainability and ESG. He will also demonstrate the countermeasures that we have taken to steer the company securely through a very difficult market

environment. After that, he is going to present our full-year financial guidance for 2023.

Frank Weber, CFO of Knorr-Bremse AG

Thank you, Marc.

Dear Dr. Ploss,

Esteemed shareholders,

Dear Thiele family,

Ladies and gentlemen,

I too would like to wish you a hearty welcome.

Before I present to you the great results we attained in 2022 despite the crises, I would like to say something to our colleagues: I too wish to give my deep thanks to the entire Knorr-Bremse team across the world and express to them my greatest appreciation for their extraordinary dedication. Without this team effort, these results would not have been possible.

In another difficult year, our positioning with two divisions, Rail Vehicle Systems and Commercial Vehicle Systems, once again proved itself to be crisis-proof. Bearing in mind the global upheaval, we achieved a strong result. Let me demonstrate this based on some key figures:

Our order intake and order book achieved new records, which clearly highlights the robustness of our markets.

This strength attests to the trust of our customers in the quality and safety of our products and systems. For these products, customers also accept the necessary price rises from passing on inflation-related increases.

The large order book in our Rail Vehicle Systems division already incorporates successfully negotiated price adjustments which will lead to rising profitability again in the future.

In Commercial Vehicle Systems, the current prices are always reflected in the order book, which is leading to higher profitability this year already.

In the 2022 fiscal year, Knorr-Bremse increased its revenue because of good customer demand, especially in Europe and North America, from € 6.7 billion to € 7.15 billion. This is a marked boost of 6.6%.

The main driver of this strong increase in revenue was the Commercial Vehicle Systems division with approximately € 3.75 billion, equivalent to a highly significant rise of roughly 11%.

Our Rail Vehicle Systems division attained a solid increase in revenue of 2.6%, bringing it to € 3.4 billion.

Despite the difficulties in the global market environment, we were able to achieve very solid profitability, with the operating EBIT margin reaching 11.1% compared to 13.5% in the previous year. Operating EBIT in the year just passed was approximately € 795 million, 12.5% lower than in 2021. The operating EBITDA margin in 2022 was 15.4% compared to 17.9% in 2021.

The Commercial Vehicle Systems division's profitability was down only slightly on 2021 with an operating EBIT margin of 9%.

The operating EBIT margin in Rail Vehicle Systems reached roughly 15% last year due to the sanctions on Russia and the situation in China, a significant decline of 300 basis points compared to 2021.

Overall, profitability suffered almost solely because of the market reductions in China and Russia that resulted from the horrible invasion of Ukraine and the imposed sanctions.

Free cash flow came to € 220 million. The reasons for this development were mainly the buildup of inventories to ensure our delivery capabilities as well as delays in payments from our customers.

The lower cash flow is also the result of our clear motto: "The focus is always on the customer." For us, it is natural that we have high delivery capacity and therefore reliability for our customers. Consequently, the buildup of warehouse inventories to safeguard our delivery capacity is also a strategic investment in good, lasting customer relationships. This formed, and continues to form the basis for our

successful price negotiations, among other things. Simultaneously, we have already initiated measures that will ensure a strengthening of cash flow.

In this context, I would also like to point out our average cash conversion rate over the last three years, which were influenced by Covid-19. This rate was a very high 88%, which even put it at the upper end of our target range of 80% to 90%.

I also wish to put a positive emphasis on our good equity ratio, which is stable at approximately 34%.

We strengthened our robust assets further over the last year by issuing a € 700 million bond that is linked to sustainability targets. In doing so, we have safeguarded our organic growth in the coming years. Even with that, our net debt is only € 727 million and thus makes for a good net debt to EBITDA ratio of approximately 0.7.

Given the significant global upheaval over the last year, these are very solid results overall.

The business performance of the past fiscal year is also intended to be reflected in our dividend. The Executive and Supervisory Boards are proposing at this Annual General Meeting to pay a dividend of € 1.45 per share for the past fiscal year. This would correspond to 46% of the consolidated net income for 2022. The amount is stably within our announced long-term distribution rate of 40% to 50% of consolidated net income.

If you agree to our proposal, the company will distribute a total of roughly € 234 million to you, our shareholders.

Esteemed shareholders,

sustainability has already been a core element of our corporate strategy for a long time now. We are committed to shape the future of sustainable and green transportation. Consequently, we pushed ahead our execution activities on numerous ESG aspects in the past year.

Firstly, in the 2022 fiscal year, we were able to reduce our production-related carbon emissions (Scope 1+2) by approximately 69% compared to the base year 2018. Due

to our success so far in reducing those emissions, we have decided to raise ambition our 2030 targets. Specifically, we are taking our previous target of reducing emissions by 50% from 2018 levels by 2030 and increase it to 75%.

Recently, Knorr-Bremse also extended the group`s climate targets to the upstream and downstream value chains, that is, Scope 3. This was also published in our Sustainability Report that was released today. Our 2030 target is to achieve a 25% reduction of the Scope 3 emissions associated with the business activities of Knorr-Bremse compared to the base year 2021.

And, we have made a commitment to define our climate targets in accordance with the requirements of the Science Based Targets initiative (SBTi). This year, we are seeking to be assessed by the SBTi; we submitted our application for this back in November.

Secondly, on the topic of diversity, we have set new targets for our gender mix. For instance, the share of women at management level at Knorr-Bremse is planned to increase to 20% by 2027 and the share of women in the global workforce to 25%.

Thirdly, we are also taking new paths on the topic of “green financing.” Last year, for instance, we finalized a syndicated loan in January, issued our first-ever sustainability-linked bond in September and launched the Supply Chain Finance Program in December, the last of which rewards our suppliers for doing business sustainably. All three financing instruments are tied to ESG criteria.

As you can see, we do not just talk. We act.

Marc Llistosella has already explained how difficult the situation last year was and still is. Accordingly, we took countermeasures consistently and early on. What gives us our heavy resilience is this: Knorr-Bremse is a highly flexible company that acts rapidly when needed.

For example, our profit and cash protection program, or PCPP for short, just last year saw us implementing important portfolio measures to soften the impacts for the entire company, among other things. The measures included actions such as:

- Phasing out our Russia-based business
- Disposing of our subsidiary Kiepe, and

- Selling our foundry at Sheppard in the USA

Furthermore, we are optimizing our overhead costs and have implemented corresponding immediate measures for them. We are thus closing a factory in our Rail division in China and laying off staff in Commercial Vehicles. In North America, we have relocated parts of our Rail production from the USA to Mexico.

All these measures have been initiated or already implemented, and will increase our future profitability as soon as they are completed. Nonetheless, the economic environment remains difficult and may potentially require further measures this year.

Ladies and gentlemen,

Now we come to our guidance for the 2023 fiscal year. Allow me to make a brief remark beforehand:

The outlook for the current year is based on an assumption of stable exchange rates, mostly stable geopolitical and economic environments, no new Covid-19 lockdowns, inflation-related prices being offset and no additional supply chain issues caused by a possible energy shortage.

Against this background, we confirm our operating forecast for 2023 and expect revenue between € 7.3 and € 7.7 billion, an operating EBIT margin between 10.5% and 12.0% and free cash flow between € 350 and € 550 million.

As you can see, Knorr-Bremse remains on its growth course despite global crisis. We have a very large order book, which shows the high level of trust that our customers have in the quality and reliability of our products. All this makes us very confident that we will again achieve our demanding targets and the high expectations placed on us this year.

Thank you very much for your attention. Now back to our CEO.

Thank you, Frank.

Esteemed shareholders,

The challenges remain enormous, however we already have a robust basis for the future. If we see potential for improvement, we make the changes swiftly and consistently. We will continue to maintain a strict focus on our costs at all parts and levels of the company as 2023 is going to be another tough year. Yet with a clearly coordinated portfolio as well as products and processes that are consistently aligned with market needs, we will defend our position as a global market and technology leader.

I would now like to conclude by giving you a brief overview of what we are working on across Knorr-Bremse to further cement our global market leadership.

Our concrete objective is this: Through innovation, we want to guide Knorr-Bremse to profitable growth ... and beyond.

To make this happen, we are looking at the three most important factors for our success – our three Ps: “products, people and processes.” Put simply, do we have the right offering, solutions and products that our customers will want in the future? Do we understand the markets from a customer’s perspective as well as the future regulatory and geopolitical implications that we must plan around? How do we make our employees ready to meet these requirements? What processes and structures do we, Knorr-Bremse, need in order to be ideally equipped for this future? And, in particular, how can we use the potential of automation, digitalization and artificial intelligence more intensively to increase our overall efficiency further?

These three elements, products, people and processes, must be perfectly integrated in a target vision. We will create this target vision for the Knorr-Bremse of the future, a process which has already started. I would like to highlight that we are open to all results in this process. We will not silence any thoughts. I find that important.

What is also important, and I have been communicating this within our organization from the outset, is that we need to develop a culture of learning from mistakes. We need to trust ourselves to point out undesirable developments in projects at an early stage. At a time when larger negative consequences can still be averted, for our customers, for the company and therefore for you, too, my dear shareholders. This creates corporate responsibility, responsible conduct and positive passion among everyone involved.

We are planning for intensive and constructive exchange with the full Supervisory Board this summer. We would like to discuss the foundations arising from our outlined approach, make decisions on them and, if necessary, have them approved. In doing that, we would be in the convenient situation of launching our initial changes in fall, right after we come back from the summer vacation with recharged batteries.

Ladies and gentlemen,

On behalf of the entire Executive Board, I wish to deeply thank our customers, business partners and, naturally, you, our shareholders, for your attachment to Knorr-Bremse.

Knorr-Bremse has its sights set firmly on the future. Consistent action and trusting collaboration with our customers provide the basis for our resilience. With the knowledge and passion of all the people around the world who work for us, we will confidently tackle the challenges that still lie ahead of us this year.

Thank you for your attention. I now hand back over to you, Dr. Ploss.