



Annual General Meeting of Knorr-Bremse AG

Speech by Executive Board member Dr. Jürgen Wilder
Rail Vehicle Systems Division

Munich, June 30, 2020

Written version of the speech published in advance on June 25, 2020

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

Welcome address:

Thank you very much, Mr. Eulitz.

Dear shareholders and shareholder representatives,

ladies and gentlemen,

may I also wish you a warm welcome from me.

At first, I want to look back with you today to reflect on the past year. But at the same time, I also want to give you an insight into what's going to shape the future of our division: our innovative technical solutions.

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

As Mr. Eulitz just told you, 2019 was another highly successful year for Knorr-Bremse. Our rail vehicle business once again made a decisive contribution to this. For example, thanks to strong regional-transport and freight business in Europe and strong Asian business in passenger, freight, and regional transport, our revenues increased by 5.6 percent. This means we grew twice as fast as the market. Our EBITDA margin rose to 22.3 percent compared to 20.8 percent in the previous year. The rail vehicle division thus contributed to Knorr-Bremse's announced margin increase.

I'd now like to give you an insight into this.

Customer projects:

Overall, the strong demand for our products and services made an important contribution to the rail division's business success. We are, more than ever, represented in the major rail projects around the world. Our customer projects and activities extend from the Thames in London through the New Silk Road in Kazakhstan to Egypt.

In September last year, we signed a contract to develop the new generation of high-speed trains built on the Avelia platform. Knorr-Bremse will contribute braking and air-conditioning systems in this forward-looking collaboration. This has significantly improved our market position in France. Despite the coronavirus, we will begin the delivery of our technologies this year, before the trains are due to start passenger service in 2023.

Another milestone was the conclusion of the 25-year service agreement with Alstom Kazakhstan. The agreement covers the maintenance of the braking systems of up to 300 locomotives. As part of the Trans-Siberian Railroad corridor, Kazakhstan is one of the region's transit countries and plays a key role along the New Silk Road. Long-term contracts such as this one are a guarantee of our business's stability.

In addition, Deutsche Bahn awarded us the contract to modernize 155 VT 642 regional multiple units in the aftermarket business. Modernizations can be an economically attractive option for operators to extend the life of existing stock. The vehicles' central systems will be brought up to the latest technical standards, which at the same time allows our customers to avoid going through the complex process of a new registration.

We recently signed a contract with TMH International in Egypt to supply braking systems for 1,300 passenger cars. The rail vehicles will modernize and expand the Egyptian National Railways fleet and are scheduled to enter regular passenger service in the third quarter of 2020. Our braking systems are thus playing a key role in delivering mobility to the third largest population in Africa. Overall, we were again able to significantly further expand our global market share in braking from a high level in 2019.

We're also delighted that existing partners continue to trust in our expertise. For example, Siemens Mobility recently awarded Knorr-Bremse the contract to supply the equipment for 13 new Sapsan high-speed trains for Russia. This is the third time that Siemens Mobility has chosen to cooperate with Knorr-Bremse on equipping the Russian high-speed train.

The latest project we won is a contribution to the modernization of the London Underground. Through it, we're helping to meet the people of London's increasing mobility needs. It's the largest contract yet in the history of our subsidiary IFE. Between 2021 and the end of 2026, IFE will supply new boarding systems for 94 of the trains on London's world-famous Piccadilly line.

As you can see, Knorr-Bremse is represented worldwide when it comes to expanding and creating faster, safer, and more reliable freight and passenger transport. We're the only manufacturer of brakes that meets all major standards globally.

Portfolio management:

Our success in customer projects is the result of technological excellence, reliability, and innovation. Therefore, we've also used the past year for active portfolio management. As Mr. Eulitz already mentioned, this involves disposing of segments when they're no longer a good fit for us and don't deliver any strategic added value. This is because we can only grow profitably if we concentrate on our core competences.

An example of this is the sale of the Powertech business. Over time, it became clear that fewer synergies could be achieved between the Powertech business and Knorr-Bremse's other activities than we had previously thought.

However, we also invested in young and innovative companies when this seemed strategically sensible to us. For example, we acquired shares in the Israeli start-up Rail Vision, which operates in the field of sensor-based obstacle detection for rail vehicles. The technology can identify objects on the tracks from a distance of more than two kilometers, and this enables us to take the next steps towards autonomous driving. In addition, we've invested in Belgian technology company Railnova, which supplies digital solutions for the maintenance of rail vehicles. We're thus expanding our promising service business.

Impact of the Covid-19 pandemic and Q1 2020:

Ladies and gentlemen,

I don't just want to look back at 2019 with you. I also want to give you an insight into how the past few months of the global Covid-19 crisis have impacted the rail vehicle segment.

Unlike in the last global crisis – the 2008 to 2009 financial crisis – the rail industry has been affected by temporary closures of customer manufacturing facilities and depots following the outbreak of Covid-19. This also impacted our OE business and to some extent our service business.

For example, the pandemic led to temporary closures of our customers' manufacturing facilities, causing some project delays in our business. In our division, revenues in the first quarter fell by 2.1 percent to EUR 892.2 million. Organic growth was flat, and the EBITDA margin fell slightly compared to the first quarter of 2019 to 20.9 percent, mainly due to currency effects.

However, our division benefited from a strong aftermarket business. The service business increased in Europe in particular. In China, we were able to benefit from a stronger metro business. In North America, on the other hand, the freight and locomotive business declined in the first quarter for reasons relating to the market, but the aftermarket business grew well there.

As a consequence, we've particularly benefited from our global presence and our localization strategy in the past few months. Our locations around the globe have done their best in this difficult time and have been classified as systemically important in quite a number of countries. In a lot of cases, they successfully defied the global pandemic, proving the resilience of our business.

Let's therefore take a look at our manufacturing facility in Budapest in Hungary, where more than 1,900 employees work in the development and production of braking and other systems for rail vehicles. Our colleague Laszlo Veres can report on his experiences in dealing with the pandemic. Mr. Veres has worked at Knorr-Bremse for around a year and took up his role as managing director shortly before the outbreak of the crisis. But let's go directly to Budapest.

[...]

Covid-19's future effects on our business unit can't currently be precisely predicted. However, we're finding that temporary closures of customers' manufacturing facilities have led to project delays. Recently announced market stimulus measures won't take effect until later. In the short to medium term, operators will have to cope with lower passenger numbers because people are making adjustments to their everyday mobility due to social distancing.

Growth drivers:

During this time, we continue to keep in close communication with our customers. Even though some think that the impact of Covid-19 will continue to be felt for several months or even for a few years, no one doubts our sector's positive prospects for the future. We continue to expect the sector to grow in the medium to long term. There are three reasons for this:

1. Firstly, further decreasing carbon emissions will continue to be necessary in the post-coronavirus world. This trend continues unabated, even if it's currently taking up less space in public discussion. Public transport and, in particular, trains have clear advantages over cars and airplanes. This is confirmed by political initiatives, such as the European Green Deal, that attach great significance to rail transport. In the discussions about stimulus packages, we're currently already seeing the German government's considerations regarding supporting the rail industry, such as a rail investment package worth billions of euros.
2. Secondly, running more trains with fewer passengers on each could, in fact, be another option for ensuring social distancing on trains. We're working on future solutions here that will allow, for example, increased frequency of trains through innovative brake architectures.
3. Thirdly, we're currently seeing rail transport developing positively following the end of the strict lockdown in China. The number of trains in operation has normalized, and utilization rates are rapidly improving. For example, passenger numbers on the subway had increased to 80 percent year-on-year by mid-May, in comparison with 70 to 75 percent compared to the end of April. We think that this will be a model of success for further countries around the world with metro transport.

2020 won't be a normal year for the rail division. Nevertheless, our sector makes me optimistic for the future. Together, we're making a contribution to the future of mobility and thus working on solving urgent societal problems.

The four social megatrends of urbanization, sustainability, digitalization and automated driving that we are guided by will further increase in importance in the

future. Our strategic decisions on our direction of the past few years are still paying off today.

In order to be at the forefront of shaping global megatrends, our development activities focus on the major industry trends in the rail vehicle industry. Together, we want to supply convincing answers to urgent challenges of our time with greater environmental sustainability in rail transport, improved lifecycle management for vehicles and greater traffic volumes and availability of trains.

For example, we're continuously developing solutions to increase the transport capacity on the existing rail infrastructure. Our brake technologies, which will in the future enable train frequency to be optimized by means of reproducible braking distances, contribute to this. More people will travel more quickly and efficiently from A to B as a result of more trains being able to travel on any given rail network.

The topic of sustainability will remain a growth driver. Compared to road transport, rail transport is intrinsically sustainable and makes mobility even more environmentally friendly. This is not only increasingly demanded by society and politicians, but also by the capital market, as Mr. Eulitz mentioned.

Furthermore, we will benefit from our international positioning. Asia in particular remains an important growth market here. Important impulses come together in the region: high government investment in the field of infrastructure and the persistently strong urbanization trend. In addition, we also expect continuing strong growth in Europe, driven by new climate protection programs, a high need for replacement, and resulting investments in rail transport.

Let's move on to the aftermarket business – another major growth market. It is not only conducive to customer loyalty, but also more profitable than average.

To give you an idea: the aftermarket potential of a braking system for rail vehicles, calculated over the life cycle, reaches a figure two to three times as high as the original equipment. Aftermarket contracts often have a term of several decades and therefore prove to be long-term sources of revenue. In addition, supervisory authorities worldwide increasingly require regular inspections and fleet modernizations – which increasingly impacts the volume of business. Here too, Knorr-Bremse offers its customer solutions – from the supply of safety-relevant OEM components and repair through modernization of, for example, brake control systems, to digital service models.

Innovations in line with industry trends:

Ladies and gentlemen,

dear shareholders and shareholders' representatives,

innovation is a fundamental component of Knorr-Bremse's corporate strategy and consequently a cornerstone of our economic success. Thanks to its technological excellence, Knorr-Bremse has developed nine of the ten industry-defining innovations in the rail sector.

In the recent past, our development activities have focused substantially on solutions to increase the transportation capacity and sustainable operation of vehicles. The focus for customers here are, in particular, automated train operation, eco-design, and the development of digital products and service functions.

For example, Knorr-Bremse has geared its major new developments to the ability to transport more freight and passengers on existing infrastructure with the aid of the "reproducible braking distance". Our enhanced brake control system EPS 2002 3.0 ensures that braking distances can be complied with to within a few meters – even in challenging weather conditions. Another building block in the plan is our subsidiary IFE's innovative boarding systems, which enable passengers to get on and off trains more efficiently at stops as a result of even quicker door opening and closing times.

But digitalization also increasingly shapes our division. Our innovative iCOM solutions are an example of this. These enable low-wear driving or, as a driver assistance system, a reduction of energy consumption. This technology is already in use at Europe's largest rail freight transport company. In addition, our subsidiary New York Air Brake completed its first test run of an autonomous freight train last fall. The test impressively proved the potential for increasing efficiency and saving fuel through autonomous driving.

Furthermore, all our development activities systematically observe the principles of eco-design. For example, Knorr-Bremse's subsidiary Merak uses CO² as a refrigerant in its air conditioning systems, a much more environmentally friendly option than other refrigerants. After a short test period, we've already achieved a performance comparable with conventional refrigerants in the central European sales territory. Overall, our efficient air conditioning systems not only enable rail operators to reduce energy costs, but also make an important contribution to protecting the environment. In addition, our latest generation of whisper brakes helps to make freight transport significantly less noisy – and thus more socially acceptable.

Concluding words:

Ladies and gentlemen,

these examples show that the rail vehicles division is an extremely solid pillar of Knorr-Bremse that is well-positioned and participates in the sustainably growing market. We shape the future of mobility with our technologically advanced innovations.

However, Knorr-Bremse rests not just on one but on two strong pillars. And now I'm going to hand over to Dr. Laier, who's going to give us an insight into our commercial vehicles business.