
**Corporate Governance Report
for the 2019 fiscal year**

Corporate Governance

The German Corporate Governance Code (GCGC) contains rules and recommendations for the responsible management and oversight of listed companies. During the period under review, Knorr-Bremse AG complied with the recommendations of the GCGC (version of February 7, 2017) published by the Federal Ministry of Justice in the official section of the *Federal Gazette* and will continue to comply with them from January 1, 2020, with the following exception:

Excerpt from Declaration of Compliance dated December 10, 2019

It is anticipated that Knorr-Bremse AG will not be able to make the consolidated financial statements and Group management report for the 2019 fiscal year publicly accessible within 90 days from the end of the fiscal year, nor make the mandatory interim financial information publicly accessible within 45 days from the end of the respective reporting period, as recommended in Section 7.1.2 sentence 3 of the German Corporate Governance Code (GCGC). This is due to the changeover to International Financial Reporting Standards (IFRS) shortly before the stock market flotation of Knorr-Bremse AG on October 12, 2018, the operational implementation of which will not be completed within the Knorr-Bremse Group until fiscal year 2020. From fiscal year 2021 onward, i.e. from January 1, 2021, Knorr-Bremse AG will prepare the consolidated financial statements, the Group management report, and the mandatory interim financial information in accordance with the recommendation in Section 7.1.2 sentence 3 of the GCGC.

The full text of the Declaration of Compliance is available on Knorr-Bremse AG's website under Investor Relations/Corporate Governance.

Furthermore, during the reporting period Knorr-Bremse AG chooses to comply with the GCGC's non-mandatory suggestions, with the following exception: Departing from the last sentence of Section 4.2.3 (2) of the GCGC, contracts of employment for Executive Board members include a provision for early disbursement of multi-year remuneration components in the event of permanent disability or death.

Further Information on Corporate Governance

EXECUTIVE BOARD AND SUPERVISORY BOARD

As well as managing the day-to-day business of the Company, the Executive Board defines and implements strategy in consultation with the Supervisory Board. It is obliged to act in the best interests of the Company and in accordance with the latter's business policies. The Executive Board reports regularly and comprehensively to the Supervisory Board on business performance, strategy and risks. Terms of reference drawn up by the Supervisory Board set out how roles and responsibilities for the various business units are allocated on the Executive Board, how decisions are reached, and other matters.

The Supervisory Board supervises and advises the Executive Board. In accordance with the German Codetermination Act (MitbestG), the twelve-member Board is composed of an equal number of shareholder representatives and employee representatives: the six members representing equity holders are elected by the Annual General Meeting, and the six members representing employees are elected by the workforce at Knorr-Bremse's German sites. In the event of a tie when the Supervisory Board passes resolutions, the chair has an additional casting vote. The Supervisory Board may also take decisions using a document circulation procedure.

The Supervisory Board is elected every five years; the last scheduled elections took place in 2016. If a member of the Supervisory Board steps down before the end of their term, a successor will be appointed by the District Court unless a substitute has already been elected. Such court-appointed

Supervisory Board members must then stand for election at the next Annual General Meeting (shareholders' representatives), or at the next election date (employee representatives).

In the view of the Supervisory Board, the majority of shareholder representatives – with the exception of Julia Thiele-Schürhoff – are independent within the meaning of the GCGC; the Supervisory Board also considers this appropriate when taking the shareholder structure into account. The Supervisory Board of Knorr-Bremse AG has established four committees from among its members. With the exception of the Nominations Committee, each of these committees comprises four members with equal representation of shareholders and employees. Following their meetings, the committee chairs report to the full board. The remits of the committees and the matters they discussed over the course of the past fiscal year are described in detail in the Report of the Supervisory Board.

- The *Executive Committee* coordinates the work of the Supervisory Board, prepares its meetings and efficiency verification, and supervises implementation of the resolutions passed by the Supervisory Board or its committees. Among other things, the Executive Committee is also responsible for preparing Supervisory Board personnel decisions relating to the Executive Board.
- The *Audit Committee* oversees matters related to accounting, risk management, the internal control system and the compliance management system, as well as internal auditing and the effectiveness of the latter. It also supervises the Group's quarterly reports, reviews the annual and consolidated financial statements of Knorr-Bremse AG, and prepares relevant resolutions of the full board.
- The *Nominations Committee* proposes candidates who are suitably qualified in terms of both expertise and character for election as shareholders' representatives at an Annual General Meeting.
- The *Mediation Committee* is convened if a Supervisory Board resolution on the appointment or removal of an Executive Board member does not obtain a two-thirds majority of votes as required by Sections 31 (2) and (5) of the German Codetermination Act (MitbestG). No such necessity has arisen in the history of the Company to date.

SKILLS PROFILE FOR THE SUPERVISORY BOARD

The Supervisory Board has defined a skills profile and objectives for the composition of the Supervisory Board, including minimum quotas with respect to gender and international diversity. This ensures that Supervisory Board members collectively possess the requisite skills and expertise to properly perform the work of the board. These skills include, for example, specific technical knowledge of the rail, commercial vehicle and automotive industries, including the supply sector; the key markets in which Knorr-Bremse operates; research and development, especially in technologies and related areas of relevance to Knorr-Bremse; digitization and smart, digitally connected IT applications (Industry 4.0). Also required is experience in management, leadership, accounting, controlling and risk management, corporate governance, and corporate compliance. Members do not all have to be equally skilled in all these areas; rather, their skills should be complementary.

The skills profile stipulates that at least one member should be a financial expert who is knowledgeable about accounting or auditing. The chair of the Audit Committee should have a detailed knowledge of the application of accounting principles and internal control procedures. Members of the Supervisory Board should be willing and able to devote sufficient time and expertise to discharge their duties diligently. In particular, this includes being willing to take responsibility for their own continuing professional development.

A wide range of professional and international experience is expected in relation to diversity; according to Section 96 (2) of the German Stock Corporation Act (AktG), the proportion of women and men on the Supervisory Board must be at least 30% in each case. Further salient points are an appropriate number of independent members, the avoidance of conflicts of interest, an upper age limit of 70 at the time of election, and a maximum of three terms in office, i.e. 15 years.

In the view of the Supervisory Board, its current composition meets the requirements set out in the skills profile, with the exception of the gender quota of at least 30% which has come into effect since the Company's stock market flotation and will therefore apply to new elections under Section 96 (2) of

the AktG and Section 25 (2) of the Introductory Act to the German Stock Corporation Act (EAGtG). To date this quota has been met solely on the shareholder representation side. The employee side currently includes one female member.

GENERAL MEETING

The Annual General Meeting will be held on June 30, 2020. During the general discussion, shareholders have the opportunity to speak to matters on the agenda and put questions to the Executive Board. The shareholders also exercise their voting rights. The chair of the Supervisory Board chairs the General Meeting and reports on the work of the Supervisory Board and its committees during the previous fiscal year. The Executive Board presents the annual financial statements, the consolidated financial statements, the combined Group management report, the proposed appropriation of distributable income agreed with the Supervisory Board, and other resolutions to be voted on.

TRANSPARENCY

Our Corporate Communications department provides timely and comprehensive information. Along with our Annual Report, interim statements, financial reports, press and ad-hoc news releases contain detailed information on and explanations of our business performance. All publications are available on our website. We hold press conferences and conference calls for significant events.

OPERATION OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD AT KNORR-BREMSE

Knorr-Bremse AG's Executive Board consists of four members:

- Bernd Eulitz joined the Executive Board on November 1, 2019, succeeding Klaus Deller as Chairman; the latter stepped down from Knorr-Bremse AG's Executive Board on April 30, 2019. Mr. Eulitz is responsible for coordinating the allocation of responsibilities to individual board members and for ensuring cooperation between members. Mr. Eulitz is also in charge of various central corporate functions.
- Ralph Heuwing has been a member of the Executive Board since November 1, 2017. In this role, Mr. Heuwing is responsible for the majority of central corporate functions.
- Dr. Peter Laier has been a member of the Executive Board since January 1, 2016, and is responsible for the Commercial Vehicle Systems division.
- Dr. Jürgen Wilder joined the Executive Board on September 1, 2018, and is responsible for the Rail Vehicle Systems division.

The following table provides an overview of the areas of responsibility of Knorr-Bremse AG's individual Executive Board members as at December 31, 2019:

CEO (Eulitz)	CFO (Heuwing)	Head of CVS (Dr. Laier)	Head of RVS (Dr. Wilder)
<ul style="list-style-type: none"> • Corporate Human Resources • Corporate Business Development • Corporate Communications • Knorr Excellence • Digitization/ Artificial Intelligence • KB Media GmbH 	<ul style="list-style-type: none"> • Corporate Accounting/Taxes • Corporate Controlling • Corporate Treasury • Corporate Legal, Compliance & Patents • Investor Relations • Corporate Information Technology/ Business Services • Corporate Internal Audit • Corporate Risk Management • Corporate Security 	Global CVS Division <ul style="list-style-type: none"> • Research/ Development • Procurement/ Supply Chain Management • Production/ Quality Assurance • Sales/Marketing/ Distribution • Finance/ Controlling 	Global RVS Division <ul style="list-style-type: none"> • Research/ Development • Procurement/ Supply Chain Management • Production/ Quality Assurance • Sales/ Marketing/ Distribution • Finance/ Controlling

	<ul style="list-style-type: none"> • Corporate Responsibility • Corporate Real Estate Management • KB Global Care e.V. Affairs 		
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The second management tier within the Group comprises the senior managers at Knorr-Bremse AG, the managing directors of European subsidiaries Knorr-Bremse Systeme für Schienenfahrzeuge GmbH and Knorr-Bremse Systeme für Nutzfahrzeuge GmbH, and the managing directors of our subsidiaries in North America and the Asia-Pacific region. The managing directors are responsible for the performance of their respective companies and stay in close contact with the Executive Board. The central departments at Knorr-Bremse AG report to the Executive Board.

The work of the Supervisory Board over the past fiscal year and its modus operandi, including the attendance of individual board members at meetings of the Supervisory Board and its committees during fiscal 2019, are set out in detail in the Report of the Supervisory Board.

An overview of the members of the Supervisory Board and the Executive Board, together with the respective offices they hold, may be found in the Notes to the consolidated financial statements.

Details of the remuneration of Executive Board members, including variable remuneration components, and of the remuneration of Supervisory Board members, may be found in the Compensation Report.

RELEVANT CORPORATE GOVERNANCE PRACTICES AND COMPLIANCE

In addition to complying with the law and the GCGC, Knorr-Bremse AG is committed to the responsible conduct of business in and across all its divisions. Our internal guidelines may be viewed on our website under Investor Relations/Code of Conduct and Investor Relations/Compliance. Together with further details of our social and community engagement, more information about how we take corporate citizenship seriously and encourage sustainable growth can also be found on the website under Responsibility.

CONTROL

In accordance with Article 8 (1) of Knorr-Bremse AG’s Articles of Association, the Supervisory Board determines the size and composition of the Executive Board. The terms of reference drawn up by the Supervisory Board for the Executive Board include as annexes a list of matters that require approval, an organization chart detailing the roles and responsibilities of executives, and the rules setting out what the Executive Board must report to the Supervisory Board.

At meetings of the Supervisory Board, the Executive Board states its position on agenda items and answers questions. The proposed resolutions for items on the agenda and the documents required to prepare for the meeting will be communicated to Supervisory Board members no less than five days beforehand, unless urgent business justifies later communication. Separate preliminary meetings among the employee representatives and shareholder representatives respectively are usually held before Supervisory Board meetings; if necessary, the Executive Board is available to provide any necessary explanations. The chair of the Supervisory Board is also in regular contact with the Executive Board between meetings.

ACCOUNTING AND AUDITING OF ANNUAL FINANCIAL STATEMENTS

Our IFRS consolidated financial statements are audited by KPMG AG, who were appointed on the recommendation of the Supervisory Board as our auditor for the 2019 fiscal year by the Annual General Meeting on June 18, 2019. The auditor audited the consolidated financial statements and the separate financial statements of Knorr-Bremse AG prepared by the Executive Board, and the Supervisory Board then reviewed and approved the financial statements, which were published on April 23, 2020. In accordance with Section 7.2.3 of the GCGC, the auditor will notify the chair of the Supervisory Board without delay if anything material to the work of the Supervisory Board comes to its attention during an audit. The auditor will also inform the Supervisory Board of any departures from the Declaration of

Compliance in accordance with Section 161 of the German Stock Corporation Act (AktG). Before the auditing mandate is awarded, the auditor will assure the Supervisory Board of their independence.

MANAGEMENT INDICATORS, CONTROL SYSTEM, INSIDER LISTS

The most important metrics for managing the company are revenues, EBITDA, EBITDA margin, EBIT, EBIT margin, EBT, EBT margin, net working capital, and ROCE. Details of the 2019 figures along with the methods used to calculate them can be found in the Business Report, under the Business Performance and Corporate Management Indicators.

Our risk management system covers 14 specific areas of risk and documents the Group's exposure to risks. The internal control system (ICS) for the accounting process also forms part of this risk management system. Detailed information may be found in the Risk Report.

We maintain event-based insider lists in accordance with Section 18 of the Market Abuse Regulation (MAR). All individuals on the list are regularly informed of the applicable statutory obligations and sanctions.

SHARE OWNERSHIP AND DIRECTORS' DEALINGS

In accordance with Section 19 MAR relating to managers' own-account transactions, we publish notifiable securities transactions by members of Knorr-Bremse AG's Executive Board and Supervisory Board (referred to as directors' dealings) immediately following notification. All members of the Executive Board at the time of the stock market flotation acquired Knorr-Bremse AG shares at the issue price during the initial public offering. A summary of these transactions can be found under Investor News in the Investor Relations section of our website.

As at December 31, 2019, Executive Board members held approximately 0.013% of Knorr-Bremse AG's shares in total. With respect to Supervisory Board members, to our knowledge Kathrin Dahnke directly held shares in Knorr-Bremse AG on December 31, 2019.

PROMOTION OF DIVERSITY AND EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS

To date, our statutory obligations with respect to the equal participation of women and men in leadership positions have been fulfilled as follows:

- Three women are currently serving on the Supervisory Board of Knorr-Bremse AG; two represent shareholders and one represents employees. This equates to 33% female representation on the shareholder side which – if the parties are counted separately – complies with the minimum legal quota of 30%. In terms of the Supervisory Board as a whole, 25% of board members are female.
- The percentage of women currently serving on the Executive Board of Knorr-Bremse AG is 0%. The Supervisory Board has set a target of 20% women on the Executive Board by June 30, 2023.
- As at December 31, 2019, the proportion of female managers on the first management tier below Executive Board level at Knorr-Bremse AG was 15.4%, and 0% on the second management tier. A target of 7.7% has been set for women on the first management tier (which was the status quo when the targets were specified in 2018) and 16.7% for the second management tier, both to be reached and maintained by June 30, 2023.

Diversity above and beyond the statutory requirements is also an integral part of Knorr-Bremse's corporate culture. Any and every form of discrimination – whether on grounds of gender, age, religion, ill health, ethnic origin, skin color, sexual orientation or for any other reason – is unacceptable at Knorr-Bremse. When recruiting, we take account of diversity and equal opportunities, and seek to appoint more women as appropriate. Working-time models flexible enough to cater to individual circumstances help to ensure equality of opportunity. Given the international nature of our business, intercultural diversity and tolerance are important values at Knorr-Bremse. Knorr-Bremse's Code of Conduct defines various measures relating to occupational health and safety, human rights, and inclusivity. Our workforce receives specific training in these matters via an e-learning tool. Employees can engage with various viewpoints in talks and workshops on sociopolitical topics.

When appointing Executive Board members, the Supervisory Board considers technical expertise and social skills in particular, along with the number of years' experience in similar posts within our sectors and in an international context. Further suitability factors are the candidate's character and educational background (university degree or equivalent). Whether a candidate is male or female makes no difference. In order to achieve a balanced age structure, generally any appointees to the Executive Board should be no older than 65.