



Annual General Meeting of Knorr-Bremse AG

Speech by the Chief Executive Officer

Bernd Eulitz

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Welcome address:

Thank you, Professor Mangold.

Dear shareholders,

shareholder representatives,

Mr. Thiele and everyone else,

Welcome to the Annual General Meeting of Knorr-Bremse AG after its first full fiscal year on the stock exchange. My colleagues on the Management Board, Dr. Laier, Dr. Wilder, and I are delighted you could join us today.

Remarks on the Covid-19 pandemic:

We would have preferred to be able to greet you in person, as we did last year, but extraordinary times call for extraordinary measures. We are all doing our bit to stop the spread of the pandemic and want to protect your health and our own. This is why we are reporting today from our headquarters here in Moosacher Strasse in Munich via a live video link.

The Covid-19 pandemic affects us all and poses major challenges for our society and the global economy. Even our company is not immune to the virus and all of its repercussions.

I would like to start by paying tribute to our 29,000 employees worldwide: Thank you for your support, flexibility, and commitment – recent weeks have been characterized by uncertainty and an unusual working environment. I would like to take this opportunity to especially emphasize the achievements of those whose lack of child care or other double burdens makes working a particular challenge. We did the best we could to be flexible in response to the situations that arose, but even so the last few months have tested our patience and endurance.

The safety and well-being of our staff has always been our top priority, especially in these unprecedented times.

This is the reason we took steps early on to help our colleagues in China by immediately supplying them with face masks and other hygienic products after the outbreak of the pandemic. In late January, our team in China formed a crisis unit to establish appropriate measures for dealing with Covid-19. We fell back on these first in Europe and then at all other sites of the Knorr-Bremse Group as well so as to promptly adjust our operations to the situation. Within the space of a few days, we had

- implemented sweeping hygiene and safety measures group wide,
- canceled almost all business trips,

- organized the departments into two independent teams, where it was absolutely necessary for people to work at the plants,
- arranged for almost all our administrative employees to work from home, and
- set up a hardship fund for providing emergency aid to employees.

All of these measures have been and are still observed in an exemplary manner and continue to work seamlessly.

This is ultimately because we agreed on all measures – at least in Germany – at an early stage and in close cooperation with the employee representatives, which I would like to warmly thank for the constructive and pragmatic collaboration. It allowed us to jointly implement short-time working arrangements that became necessary at individual sites quickly and expeditiously – along with comparative programs outside Germany.

In March, the spread of the coronavirus pandemic and its effects on our business processes gained considerable momentum, leading to very mixed responses in the markets. While the rail vehicle business was impacted to a lesser extent because its long-running projects make it less vulnerable to short-term impacts, the cyclical commercial vehicle business slumped. Both of these segments were severely impacted by the temporary shuttering of customer and supplier manufacturing plants.

Due to early and very effective supply chain management, we succeeded in largely minimizing any gaps in supply or avoiding them altogether through intercompany deliveries. As a result, the supply chain did not fall apart, even for our customers – also thanks to a localization strategy that demonstrated our reliability to customers in recent months.

Despite the diverse challenges we faced and notwithstanding all distancing rules and travel bans, it is fair to say that all of us at Knorr-Bremse have grown closer to one another in these times. In the final analysis, the pandemic affected us on all continents, and we have not yet returned to normality anywhere in the world. However, I firmly believe that together we can overcome these challenges effectively.

On that note, I would like to thank my colleagues on the Management Board for the close and fruitful cooperation. I myself had only been at Knorr-Bremse for three months when Covid-19 started spreading. In this short but intensive period, we coalesced into a strong team.

Welcoming of the new CFO:

In this context, I would like to join Professor Mangold in giving a warm welcome to Mr. Weber – I am looking forward to working with you and I am confident that Knorr-Bremse will benefit enormously from your experience and expertise. I would like to thank Mr. Heuwing, your predecessor as CFO of Knorr-Bremse, for the huge contribution he has made to the company's development – particularly in relation to the IPO – and also for assisting me during my induction.

Financial year 2019 and company anniversary of Heinz Hermann Thiele:

Ladies and Gentlemen,

2019 was Knorr-Bremse's first full year on the capital market – and it was an excellent year despite initial signs of a slowdown in the commercial vehicle segment in the second half. Thanks to its exceedingly strong business performance in 2019 and due to its robust financial situation, Knorr-Bremse is well positioned to overcome the current challenges in a fitting manner.

Last year we completely met our guidance for the capital market and cemented our position as market leader. This once again demonstrates the extreme resilience of our business model.

Besides its good operating results, our company had another reason to celebrate last year: the 50th anniversary of the company's foundation by Heinz Hermann Thiele. His strategic foresight not only made the company a global market leader and a leading international industrial company, but also ideally prepared it well for the capital markets. By taking the company public in October 2018, Mr. Thiele further strengthened Knorr-Bremse's long-term future.

Development of the share:

Shares of Knorr-Bremse AG have performed outstandingly well since the company's IPO in October 2018. Listed on the MDAX since March 2019, Knorr-Bremse was ranked 22nd there at the end of the year in terms of market capitalization.

Knorr-Bremse shares finished 2019 trading at EUR 90.75. This translates into gains of 15.4 percent compared with the closing price of EUR 78.62 at the end of 2018.

In this connection it is important to note that in the 2019 reporting period we confirmed the Gold status of our sustainability performance to customers in the EcoVadis rating. MSCI ESG Research, the world's largest provider of sustainability analyses, gave Knorr-Bremse an A-rating in 2019 for the first time, the third-best category. In addition, we were included in the new DAX 50 ESG index.

The positive trend also continued in the opening months of 2020. The market volatility during the peak of the Covid-19 pandemic led to a brief drop in mid-March,

which even Knorr-Bremse was unable to escape. Our shares sustained only minor losses and have since performed quite positively. The closing price on Wednesday, June 24, 2020 was EUR 90.21. Knorr-Bremse's share price has remained virtually unchanged since the beginning of the year, and has clearly outperformed the MDAX, which has lost around 10%.

Proposed dividend:

It is important to us that you, as shareholders of Knorr-Bremse AG, benefit appropriately from the success of the past fiscal year and also increase your trust in us.

This is the reason why the Management and Supervisory Boards are standing by their dividend policy despite the unstable market conditions and are proposing to the General Meeting that a dividend of EUR 1.80 be paid for the last fiscal year.

EUR 1.75 had been paid out for the previous year. A dividend of EUR 1.80 gives a payout ratio of 46 percent of consolidated profit in accordance with IFRSs. This puts the ratio within the range of 40 to 50 percent that we defined in our dividend policy.

Incidentally, we will also pay our employees a commensurate share of profits for the 2019 fiscal year. As arranged in 2018 with the employee representatives in a three-year agreement for the German sites, employees will receive both the agreed 1.5 percent pay rise and a bonus of 12 percent of one month's salary in July.

Key financial figures 2019:

Ladies and Gentlemen,

Let's now take a look back at the past fiscal year together.

Order intake rose by 0.9 percent and reached a new record of EUR 7.1 billion, underscoring Knorr-Bremse's resilient business model. Our order book reached EUR 4.7 billion at the end of 2019.

We lifted our revenues by 4.8 percent to EUR 6.9 billion, continuing our dynamic revenue growth.

Both of our divisions, Rail Vehicle Systems and Commercial Vehicle Systems, contributed to this dynamic growth and grew faster than their respective markets. They continued to expand their market share slightly and set themselves even further apart from their competitors. The two divisions benefited in particular from the robust aftermarket business and the strong business performance in the Asia-Pacific region.

Revenues in our Rail Vehicle Systems Division saw higher-than-average growth of 5.6 percent to EUR 3.7 billion, while the rail vehicle market grew by 2.6 percent.

Our Commercial Vehicle Systems Division boosted its revenues by 3.8 percent year-on-year to EUR 3.3 billion, outperforming global commercial vehicle production, which tanked 4.5 percent.

Our consolidated earnings demonstrated similar momentum. Earnings before interest, taxes, depreciation, and amortization increased by 12.8 percent to EUR 1.3 billion. This gave us an EBITDA margin which at 19.2 percent was a substantial 140 basis points higher than the prior-year figure. The Rail Vehicle Systems Division generated an EBITDA margin of 22.3 percent, while the Commercial Vehicle Systems Division achieved a margin of 15.4 percent. Net profit rose by 0.4 percent to EUR 632 million and laid the foundations for today's dividend proposal.

At nearly EUR 1.9 billion, cash and cash equivalents at the end of 2019 was up 7.1 percent on the prior-year figure. This brought its share of total assets to 27.5 percent.

Last year was once again marked by the effective implementation of our strategy at operating level: We

- grew our aftermarket business to 34 percent of total revenues,
- systematically divested ourselves of unprofitable units, and
- stepped up our M&A activities in terms of growth and innovation.

My colleagues Dr. Laier and Dr. Wilder will tell you more about these shortly.

Responsibility and sustainability:

Ladies and Gentlemen,

This year's annual report was all about driving responsibility.

Companies' ratings in terms of sustainability or ESG criteria – ESG stands for Environmental, Social, and Governance – are becoming more and more important for all investors. Knorr-Bremse has been providing information about its own progress in sustainability management in a separate report since 2011. As I said at the annual press conference in March, sustainability is primordial for Knorr-Bremse.

For more than ten years, the concept of sustainability has been a fixed part of our corporate strategy, even preceding the current political and scientific debate on the effects of climate change. We have now expanded our climate strategy again to a considerable extent. We aim to be not only profitable but also sustainable in our actions, safeguarding the interests of our customers, employees, and shareholders alike.

As a manufacturing company with global value chains, Knorr-Bremse is able to actively foster mitigation of climate change. This is the reason we have set ourselves ambitious targets. These are based on the Paris Agreement, which aims to limit

global warming to no more than 1.5 degrees Celsius, and thus on the latest scientific findings. Our climate action plan has two goals:

1. First, we aim to halve our CO₂ emissions by 2030.
2. Second, Knorr-Bremse is committed to becoming climate-neutral already from 2021 – the Group will therefore be one of the first large industrial companies to achieve this important goal.

We intend to halve our CO₂ emissions in three ways:

- through efficient use of energy,
- by producing green energy ourselves, and
- by buying in renewable energy.

In 2019, Knorr-Bremse lowered its absolute CO₂ emissions by approximately 10 percent. Alongside the optimization of sites worldwide in terms of production processes and architecture, this was largely attributable to the purchase and generation of renewable power. One such example is a 600 kilowatt solar power installation that was put into operation at our plant in Pune, India, at the end of 2017. Thanks to the electricity generated, on sunny days the site can lower its electricity purchases and thus reduce its energy costs. Since 2017, the two Hungarian sites in Budapest and Kecskemét have also been supplied with electricity that comes exclusively from renewable energy sources.

In Germany we will also continue to play a pioneering role in relation to climate change mitigation.

Our Head of Corporate Responsibility, Stefan Bräuherr, will now give us specific insights into our Munich site, which implemented a whole range of energy optimization measures when its façade was being renovated last year:

[...]

Thanks very much to Mr. Bräuherr for this insightful overview.

What we are unable to avoid in terms of CO₂ emissions, we will compensate by buying higher-priced carbon offset certificates, though we are currently also looking into setting up our own climate projects.

And this is not all: We are currently considering extending our strategy for mitigating climate change to our value chains and plan to require our suppliers to comply with our sustainability criteria.

With our product portfolio we are also making an active contribution in both divisions and are helping our customers to reduce emissions. The Ecodesign working group gathers specialists from the company's two divisions as well as from the Corporate

Responsibility unit. They work together to reinforce sustainability and environmental protection in the product development process.

I am confident that our efforts will not only have positive effects for society and the environment, but that our company will also benefit from them financially in the long term.

“Responsibility” at Knorr-Bremse goes far beyond the environment. The “social” element of the ESG criteria is also a major concern for us. I have already addressed our particular responsibility for our own employees and their health in times of Covid-19. Together with our employees we also fulfill our social responsibility. It is very important to us to meet this responsibility even, and especially, in these turbulent times and to strengthen the communities at our locations and create prospects for people in need.

Knorr-Bremse’s social commitment is focused on global and local challenges – with the non-profit organization Knorr-Bremse Global Care and the Local Care initiative. Knorr-Bremse Global Care was founded 15 years ago now by Mrs. Thiele-Schürhoff. The globally active non-profit organization helps people who are experiencing hardship through no fault of their own and offers them new prospects for the future. We provided over EUR 2.2 million in funding to Knorr-Bremse Global Care in 2019. These activities are supplemented by our employees’ direct social activities in the Local Care initiative. Closely integrating the sites – of which there are more than 100 in over 30 countries – is of the utmost importance to us. This is because with every site Knorr-Bremse has the possibility to indirectly influence the economy of the region in question. Worldwide, some 700 Local Care projects were implemented on all continents in 2019. These focused mainly on education and social cohesion. Over 5,000 employees actively participated in Local Care projects, which was an outstanding achievement.

Q1 2020:

Ladies and Gentlemen,

I would now like to say a few words about recent events and developments.

In spite of the market turbulence, we started the year on a sound footing, which once again demonstrates the resilience of Knorr-Bremse, particularly in comparison with our competitors and other companies in the capital goods sector.

We responded rapidly to the challenges of the Covid-19 pandemic and launched a comprehensive action program to protect the health of our employees in the challenging environment, safeguard the company’s stability, and ensure our delivery capacity:

One of the steps we took was to increase our operating scope by drawing on an additional EUR 750 million credit facility on top of our existing cash and cash equivalents of over EUR 1.8 billion.

On the other hand, we implemented personnel measures at an early stage, building on the preparations made in 2019. These included introducing reduced working hours at individual sites in Germany and taking similar measures at other European sites, but also implementing cost-cutting programs with layoffs.

Furthermore, our consistent localization and our dual sourcing strategy in purchasing have proven their worth in supply chain management – so far, our supply chain has not been significantly disrupted, which has enabled us to avoid triggering bottlenecks at our customers.

In this respect, our European and American operations have benefited greatly from the experience of our colleagues in China, where we were able to recover fast and reopen our plants.

In the Asia/Pacific region, where the pandemic began and first had an impact, we actually lifted revenues by 2 percent to 29 percent. In our other regions – Europe and North and South America – our business tapered off slightly in the first quarter. We can sum up by saying that the measures we implemented promptly and at an early stage helped us to generate solid first-quarter results in both divisions.

Order intake stood at EUR 1.6 billion, down 16 percent compared with the prior-year quarter. This was due to the initial effects of the coronavirus pandemic, especially in China, the anticipated effect of weaker demand momentum in the truck market, and the award of larger contracts in the rail vehicle segment, which varied from year to year.

Even so, our order book was largely level with the previous year at EUR 4.7 billion, underpinned by a higher order backlog in the rail vehicle segment.

At EUR 1.6 billion, revenues fell 7.3 percent short of the figure for the first quarter of the previous year, a drop of EUR 128 million.

The share of total revenues accounted for by the Group's aftermarket business climbed to 37.0%.

In view of the forecast downturn in revenues in the North American and European commercial vehicle market, the Truck division had already initiated strict cost control in 2019 along with a program to improve efficiency. This was considerably intensified in the first quarter of 2020, expanded to the entire Group and systematically implemented, mitigating the adverse effects of Covid-19 on the Group's EBITDA margin, which fell from 19.0 percent to 17.8 percent in the first quarter of this year.

Despite the savings measures, investments in the future were continued with a high R&D ratio of 6.2 percent.

Knorr-Bremse's financial situation is very sound. In mid-May, we had cash and cash equivalents of EUR 2.5 billion after drawing on additional credit facilities of EUR 750 million in March and April. This, along with net debt of close to zero, means the company is on a very solid financial footing.

Given the global pandemic and the difficulty of predicting its effects on our sales markets, it is still difficult to issue a forecast for business performance in 2020. For this reason we, like many other companies in these uncertain times, have retracted our guidance for the 2020 fiscal year. We expect to be able to issue a forecast for 2020 with our Q2 communication.

Corporate Strategy:

Ladies and Gentlemen,

Our corporate strategy has proved successful and will continue to provide the basis for profitable, sustainable growth in the future. It comprises five core elements:

1. We will take advantage of the opportunities arising from the global megatrends of relevance for us – urbanization, sustainability, digitalization and automated driving – and focus our offering accordingly. These megatrends are shaping our society and driving our business worldwide by increasing demand for new technological solutions. They are underpinned by regulatory requirements and government investment programs. Knorr-Bremse is ideally positioned to play a major role in shaping these megatrends.
2. We will continuously expand our technological lead. We invest around 6 percent of our revenues in Knorr-Bremse's innovation capacity and are continuously expanding our research and development activities worldwide – always in tandem with our customers to ensure solutions with clear added value. Knorr-Bremse's innovation capacity is further strengthened by our approximately 3,600 R&D employees and some 12,000 individual patents granted or pending. This enables us to develop solutions for the customers of both our divisions. In the past fiscal year, for example, we upped our R&D capital expenditure by 9.1 percent to EUR 397 million.
3. Another important element of our strategy is that we derive maximum benefit from our global presence with more than 100 sites in over 30 countries and hence our close proximity to customers to boost our market share and be firmly positioned in the growth markets at a local level. As a partner, we win over our customers worldwide with our local market expertise and

entrepreneurial presence, combining a local workforce with global product and system excellence.

4. We also aim to expand the profitable aftermarket. Due to the large installed base of vehicles fitted with our products and thanks to our global presence and proximity to our customers, we are well positioned in both divisions. We will tap into the attractive aftermarket potential, which is stable in terms of demand, and expand it further by means of new service offerings.
5. Above all, we aim to keep delivering continuous efficiency and excellence – something that is essential in a market that is increasingly driven by consolidation among our OEM customers and ongoing cost pressure. We will focus our efforts on achieving sustained and continuous productivity improvements, on shoring up process efficiency, and on leveraging our healthy balance sheet for future growth. Most importantly, this will give us the ability to react quickly to possible economic downturns resulting from the coronavirus pandemic.

Concluding words:

Ladies and Gentlemen,

2019 was a fantastic year for Knorr-Bremse. As the past year has shown, we have a very stable basis from which to master the curveballs 2020 has thrown us. I am confident that we will overcome the current challenging phase and emerge from it stronger than ever.

I would now like to hand over to Dr. Wilder, who will talk about the Rail Vehicle Systems division.