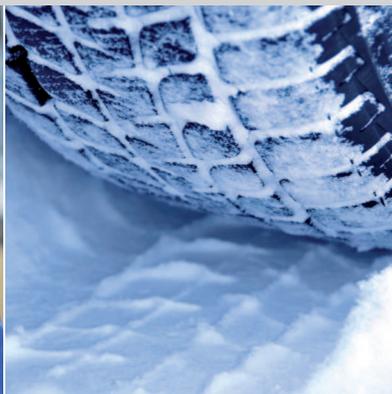


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UNITED NATIONS GLOBAL COMPACT
COMMUNICATION ON PROGRESS REPORT
KNORR-BREMSE GROUP 2013

KNORR-BREMSE



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1/ Statement of continued support



Ladies and gentlemen,

Knorr-Bremse is a family-owned business that is rich in traditions and has a history of developing solutions for rail and commercial vehicles that goes back more than 100 years. Our corporate culture is characterized by shared values and standards of conduct that have helped determine the company's long-term success and positive development in recent decades and which we intend to maintain in the future.

"We are the world's driving force for innovative and sustainable system solutions that make rail and commercial transport safer, more reliable and more efficient. We are driven by our ambition to create value for our customers and to have a positive impact on society". This is how our vision was reformulated during the course of the year under review. In its role as technology leader, Knorr-Bremse aims to continue setting standards in the global market. As a manufacturer of safety-critical technologies on which more than a billion people around the world depend every day, we regard thinking and acting responsibly as an integral part of our day-to-day core activities.

During the course of the past year we introduced a binding, Group-wide Code of Conduct in which we explicitly commit to compliance with statutory regulations and internal guidelines, diversity and equality of opportunity, fair working conditions, partnership and cooperation with customers and suppliers, climate and environmental protection and social responsibility. Over the year under review we were able to achieve further successes in the field of labor standards through projects to promote our corporate and leadership culture and to protect the environment in our production processes.

This third Global Compact Progress Report provides a transparent and detailed account of how we implement and document the ten principles of the UN Global Compact. We do not shrink from identifying areas where there is still room for improvement and further action.

Knorr-Bremse continues to be committed to supporting and driving forward the process of applying the ten principles over the coming year.

Dr. Michael Buscher
Chairman of the Executive Board of Knorr-Bremse AG

2/ Overview of the Knorr-Bremse Group

The Knorr-Bremse Group, with its headquarters in Munich, is the world's leading manufacturer of braking systems for rail and commercial vehicles. For more than 100 years now, the company has pioneered the development, production, marketing and servicing of state-of-the-art braking systems. In the rail vehicle systems sector, this company has a long tradition of supplying state-of-the-art products for local public transport vehicles such as metros and streetcars as well as freight trains, locomotives, passenger trains and high speed trains.

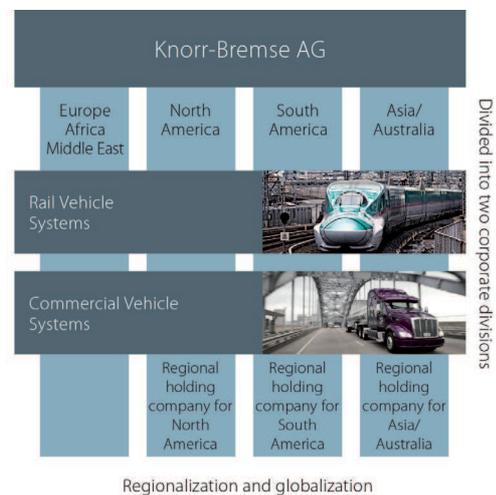
In addition to braking systems, the product portfolio includes intelligent access systems, air conditioning systems, control components and windscreen wiper systems, as well as platform screen doors, friction materials and driver advisory systems. Knorr-Bremse also offers driving simulators and e-learning systems for optimum train crew training. In the commercial vehicle sector, its innovative solutions range from complete braking systems including driver assistance systems (for example, ABS and ESP) to torsional vibration dampers, powertrain-related solutions and transmission control systems for enhanced energy efficiency and fuel economy.

With all its products Knorr-Bremse contributes significantly to safety on road and rail the world over. More than a billion people worldwide rely daily on Knorr-Bremse systems.

The Knorr-Bremse Group has both a divisional and a regional structure. Knorr-Bremse AG encompasses the global Rail Vehicle Systems and Commercial Vehicle Systems divisions as well as regional companies in Europe, North America, South America and Asia-Pacific. This structure allows Knorr-Bremse to respond to the specific requirements of the various regional markets while at the same time generating synergies across different locations and divisions.

Knorr-Bremse's Corporate Responsibility (CR) strategy approved in 2010 enables the company to adopt an integrated and systematic approach towards realizing its responsibilities for the environment, its workforce and society as a whole. As an essential element in the Knorr-Bremse Group corporate strategy, the CR strategy is based not only on the Group's corporate values but also on the internationally recognized principles of the UN Global Compact. The company has defined six areas for action and put these at the heart of its CR strategy, developing and coordinating appropriate measures. The six areas are: CR management, products, employees, environmental and climate protection, social commitment and CR communication.

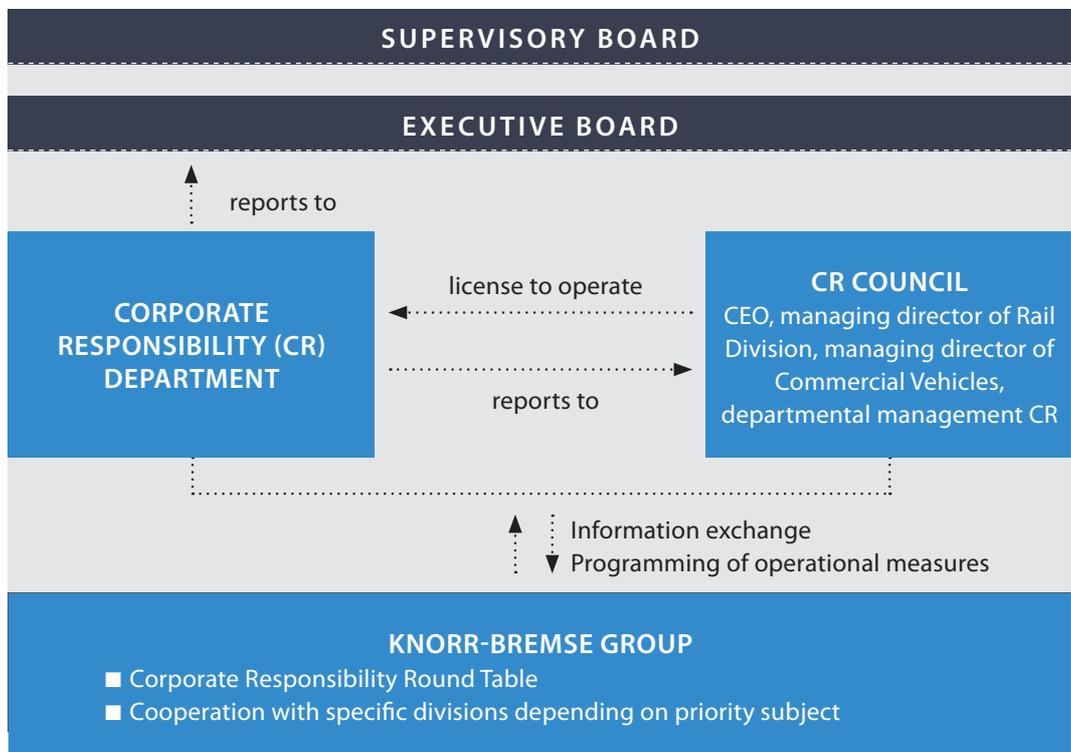
Our understanding of sustainability was set out in our CR policy in 2013. In addition to defining the term, it lays down the overarching aim of our commitment to CR and derives guidelines from these in the form of six areas for action.



The measures for these areas of action are planned on an annual basis using the CR Roadmap and coordinated and driven forward by the CR Department. Decisions on individual measures and projects are made by a steering committee – the CR Council – under the leadership of the Chairman of the Board and with the involvement of the chairs of the executive boards of the two divisions and the Vice-President of the CR Department.

To strengthen the global exchange between the regions, an international network called the CR Round Table has been created that encompasses the entire Group. The task of this network is to regularly exchange information with internal CR representatives across regions and divisions about strategic objectives, current CR projects and operational implementation measures.

You can find further information about our CR strategy and CR management system in the 2012 Annual Report or on our webpage: www.knorr-bremse.com/responsibility



3/ Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights and

Principle 2: make sure they are not complicit in human rights abuses.

Knorr-Bremse respects the protection of human rights and makes sure that it is not complicit in human rights abuses. We are committed to respecting the principles of the internationally recognized standards contained in the UN Global Compact, the International Labor Organization (ILO) Conventions and the UN Universal Declaration of Human Rights. These voluntary commitments underpin our activities in conjunction with the relevant national legislation. Respect for and compliance with human rights at the various sites is subject to random auditing by the "Internal Audit" staff function at Knorr-Bremse. No infringements were identified at any of the sites audited during the year under review.

Code of Conduct

As a global technology leader, it goes without saying that the Knorr-Bremse Group always conducts itself in a correct, responsible and exemplary manner. In this context we have developed a Group-wide Code of Conduct based on existing local guidelines. The Code of Conduct summarizes our principles and rules and is binding for every employee within the Knorr-Bremse Group. It means that we now have an internationally standardized concept of what constitutes responsible corporate behavior. The Code of Conduct is based on the ten principles of the UN Global Compact and explicitly reiterates our commitment to respect for human rights, fair working conditions, environmental protection and respect for the law.

At the end of 2012 the Knorr-Bremse Code of Conduct was publicized to Knorr-Bremse employees world-wide as part of a broad-based communication campaign involving personal letters to employees, a special brochure, articles in the in-house magazine "KB-aktuell" and on the Intranet.

In the coming year the focus will be on developing additional structures and instruments to support compliance with the Group-wide Code of Conduct. In addition to ongoing communication, the development of appropriate training measures will play an important role in this context.



Procurement guidelines

Knorr-Bremse is concerned to ensure that its commitment to responsible conduct is also applied throughout the supply chain. For this reason we have started to integrate sustainability aspects into the Group's procurement structures. In both divisions – Rail Vehicle Systems and Commercial Vehicle Systems – we have revised the quality management guidelines for procurement and added requirements regarding implementation of the ten principles of the UN Global Compact. These quality management guidelines for procurement contain provisions aimed at continuously improving processes, quality, environmental compatibility and productivity in close collaboration with suppliers, and these requirements form part of contractual agreements with all suppliers of production materials.

Sustainability criteria have also been incorporated into the indirect procurement guidelines, and when selecting suppliers we also consider their activities regarding environmental compatibility and social responsibility.

Should a supplier fail to comply with these standards, Knorr-Bremse reserves the right to review the relationship with that supplier for future transactions and enquiries and, if necessary, to terminate it.

To support implementation of these guidelines we have added a series of questions relating to the ten Global Compact principles to the relevant supplier evaluation questionnaires. This systematic audit process enables us to verify the extent to which our suppliers are implementing the ten principles. If necessary recommendations are made and measures to support improvement and implementation are taken.

In the Rail Vehicle Systems division, 50 suppliers were reviewed on the basis of the Global Compact principles during the course of the year under review. No grounds were found for terminating the relationship with these companies.

Health & safety management

Workplace health and safety are important priorities for Knorr-Bremse, and are fully integrated into the company's business processes. The Health, Safety and Environment (HSE) department is responsible for all health & safety measures in compliance with central requirements.

Knorr-Bremse organizes a wide range of activities aimed at raising awareness of health issues amongst its employees all over the world. We hold regular "health days", carry out occupational health checks and analyses of workplace conditions and organize a range of other activities. Many sites even offer a comprehensive sports program including fitness courses, company sports equipment, team and group sporting activities and special health checks for managers. We also encourage participation in external sporting events.

Knorr-Bremse's Health, Safety and Environmental policy underpins our systematic approach to managing health & safety in the workplace. Standardized processes and regular internal audits ensure that minimum standards are in place across all our world-wide operations. The key areas addressed by our safety management system include comprehensive site, workplace and work process risk assessments, employee training

and information campaigns to promote awareness of safety issues, as well as thorough analyses of any accidents, followed by introduction of the relevant preventive measures.

Our health & safety indicators bear witness to the results of our efforts. For example the number of lost-time accidents per 200,000 working hours has remained at a low rate, and the number of working days lost has been reduced by some 30% compared with 2010.

2010		1.2
2011		1.0
2012		1.1

Number of workplace accidents per 200,000 employee working hours

Knorr-Bremse attaches great importance to external certification of its management systems in accordance with international standards. In the Rail Vehicle Systems division some 63%* of production and service sites worldwide are certified to the OHSAS 18001 (Occupational Health & Safety Assessment Series) standard – and all sites in Europe have certification. Our aim is to achieve step-by-step external assessment of more non-European sites.

During the year under review, the companies Knorr-Bremse CARS LD Vehicle Brake Disc Manufacturing and Knorr-Bremse / Nankou Air Supply Unit in China, together with Knorr-Bremse Rail Services (Burton) Ltd. in the UK also achieved OHSAS 18001 certification for the first time. Further sites will be included step-by-step in the certification process over the coming years.

Sustainable support world-wide with Knorr-Bremse Global Care

A regular income, a roof over your head, access to medical treatment and education – these are all things that cannot be taken for granted in many countries of the world. Since 2005 the charitable organization Knorr-Bremse Global Care e. V. has been supporting people who, through no fault of their own, find themselves in need as a result of environmental disasters, accidents, armed conflict, poverty or illness. The central aim of the organization is to improve their lives and help them to achieve greater independence by enabling them to support themselves and determine their own lives. The principle of helping people to help themselves applies throughout.

At the same time we want to raise awareness of social responsibility amongst employees of the Knorr-Bremse Group and encourage them to become actively involved themselves. This way they can operate as multipliers and spread the idea of making a personal contribution to the outside world. We see ourselves as partners who contribute our time, skills and experience to projects as well as financial resources.

Further information and examples of projects can be found on the Internet at www.global-care.knorr-bremse.com

* The figure differs from the one contained in the 2012 report (71%): integration of new sites into our management system resulted in the reference figure changing. Multiple counting of sites with spin-off divisions continued in 2012.

4/ Labor standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining and furthermore uphold

Principle 4: the elimination of all forms of forced and compulsory labor

Principle 5: the effective abolition of child labor and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Knorr-Bremse respects and protects the rights of its employees and has made its own clear commitments in this regard: Compliance with high standards for a safe and healthy working environment, fair working conditions, the right to freedom of association and active promotion of equal opportunities and equal treatment for our employees throughout the world all form a key part of our corporate responsibilities. We are categorically opposed to all forms of forced and child labor.

Monitoring the ten UN Global Compact principles

Mindful of our commitment and in a bid to assess implementation of the principles of the Global Compact, we have introduced an internal monitoring system. In 2011 we launched a global survey of compliance with the ten principles. A total of 33 major production sites covering all countries in which Knorr-Bremse operates were asked about the extent to which the principles had been fulfilled. In addition, internal audits on implementation of the Global Compact principles were carried out at selected sites in China, India and Russia. The aim of the survey was to establish which systems and local approaches to meeting labor, environment and social standards as well as human rights had been implemented and in which areas there was scope for improvement. We have summarized some of the survey results in the table that follows.

Results of Global Compact survey 2011/2012:

Global Compact Principle	Local implementation	Room for improvement identified by sites	Status 2013 and next steps
Principle 1: Supporting human rights	<ul style="list-style-type: none"> ■ Compliance with national legislation ■ Application of local Code of Conduct 	<ul style="list-style-type: none"> ■ Group-wide Code of Conduct ■ Expansion of internal training 	<ul style="list-style-type: none"> ■ Group-wide Code of Conduct developed ✓ ■ Roll-out and communication throughout the Group during the year under review ✓ ■ Training of all employees (esp. in the case of new appointments) →
Principle 2: Avoiding human rights abuses	<ul style="list-style-type: none"> ■ Integration of sustainability aspects into supplier audits, contracts and programs at individual sites ■ Application of Group-wide procurement guidelines 	<ul style="list-style-type: none"> ■ Global approach to sustainable procurement management ■ Ongoing implementation of supplier audits with regard to application of the ten principles 	<ul style="list-style-type: none"> ■ Integration of Global Compact Principles into quality management guidelines for procurement in both divisions and in assessment management for new suppliers: ✓ ■ Rail Division: supplier self-declaration ✓ ■ Truck Division: supplier risk assessment ✓ ■ Audit results now have to be analyzed more closely and appropriate measures drawn up →
Principle 3: Upholding freedom of association	<ul style="list-style-type: none"> ■ Active trade unions and associations at various sites ■ Collective negotiations ■ Constructive dialogue with works councils 	<ul style="list-style-type: none"> ■ Continuation of current efforts 	<ul style="list-style-type: none"> ■ Continuation of current efforts →
Principle 4: Eliminating all forms of forced labor	<ul style="list-style-type: none"> ■ All employees have written employment contracts and job profiles. This is also formally regulated in internal HR processes and documentable through our HR systems. 	<ul style="list-style-type: none"> ■ Incorporation of principles of UN Global Compact into supply chain management 	<ul style="list-style-type: none"> ■ Continuation of current efforts (see above) →

Global Compact Principle	Local implementation	Room for improvement identified by sites	Status 2013 and next steps
Principle 5: Abolishing child labor	<ul style="list-style-type: none"> ■ Child labor is neither tolerated nor practiced at Knorr-Bremse and its suppliers at any sites world-wide. ■ Confirmation also through external customer audits ■ Support for education and training programs for children and young people 	<ul style="list-style-type: none"> ■ Incorporation of principles of UN Global Compact into supply chain management 	<ul style="list-style-type: none"> ■ Continuation of current efforts (see above) → ■ Further action to be based on evaluation of supplier audits →
Principle 6: Eliminating discrimination	<ul style="list-style-type: none"> ■ Compliance with national legislation and internal guidelines ■ Employment of local staff ■ Ensuring remuneration commensurate with performance ■ Appointment irrespective of gender or national origin ■ Complaints procedure established ■ Analysis of gender-relevant indicators 	<ul style="list-style-type: none"> ■ Analysis of equality of opportunity at all levels 	<ul style="list-style-type: none"> ■ Equality of opportunity to be given greater weight in our Corporate Responsibility Strategy and appropriate options for measures to be identified → ■ Confirmation of equal pay in Germany through Logib-D certification → ■ Further measures to increase attractiveness as an employer to be systematically examined and implemented →
Principle 7: Precautionary approach to environmental challenges	<ul style="list-style-type: none"> ■ Environmental management system based on ISO 14001 ■ Environmental risk analysis as part of environmental management and general risk management ■ Health & safety and environmental protection policy communicated to all employees ■ Recording of monthly environmental statistics ■ Identification of scope for energy savings by external consultants 	<ul style="list-style-type: none"> ■ Continuation of current efforts ■ Expansion of environmentally-oriented product risk analyses 	<ul style="list-style-type: none"> ■ Ecodesign project to be launched in Commercial Vehicle Systems division as well → ■ Analysis of value chains for selected products in terms of potential risks and opportunities e.g. for reuse or recycling →

Global Compact Principle	Local implementation	Room for improvement identified by sites	Status 2013 and next steps
Principle 8: Initiatives to promote greater environmental responsibility	<ul style="list-style-type: none"> ■ Implementation of ECCO₂ Initiative (see page 21) ■ Promotion of environmental awareness ■ Regular communication and training ■ Environmental targets at site and Group level 	<ul style="list-style-type: none"> ■ Systematic analysis of environmentally friendly technologies in production and assembly ■ Promotion of best practice exchanges between sites 	<ul style="list-style-type: none"> ■ Continuation of ECCO₂ initiative → ■ Participation in energy efficiency network to exchange experiences with other companies → ■ Support of exchange of best practices through “round table” meetings and transparent communication of activities and contacts → ■ Implementation of a Group-wide energy management system based on ISO 50001. →
Principle 9: Diffusion of environmentally friendly technologies	<ul style="list-style-type: none"> ■ Environmentally friendly product portfolio ■ Guidelines to promote recyclability and reuse ■ Measures aimed at more environmentally friendly production (technologies, machines, equipment, processes) 	<ul style="list-style-type: none"> ■ Ongoing expansion of environmentally friendly technologies in production and manufacturing ■ Further expansion of environmentally friendly product portfolio ■ Analysis of value chains 	<ul style="list-style-type: none"> ■ Construction standard for factory and administrative buildings has been drawn up and will be communicated and implemented during the coming reporting year → ■ Integration of energy and resource consumption into value stream analysis ⚠ ■ Implementation of Eco-design project ⚠ ■ Communication of environmentally friendly technologies from Knorr-Bremse via PR flyer “Environmental Portfolio” ✓
Principle 10: Anti-corruption	<ul style="list-style-type: none"> ■ Application of local Codes of Conduct ■ Group-wide guidelines on acceptance of gifts from business partners ■ Internal audits and management training ■ Application of the “four eyes” principle 	<ul style="list-style-type: none"> ■ Implementation of a Group-wide anti-corruption guideline 	<ul style="list-style-type: none"> ■ Group-wide Code of Conduct was communicated during the year under review ✓

General working conditions

In keeping with our stance on fair working conditions, certain minimum standards are stipulated in our employment contracts. The basis of each contract is voluntary agreement with the employees, who may exercise their right to terminate the contract unilaterally after the relevant period of time has elapsed. When we recruit new employees we always verify their age to ensure that they are above the statutory minimum employment age.

Various sites operate systems of employee representation. Company co-determination is established on a statutory basis. The Works Council is an important body that enables company management to maintain an ongoing, constructive and trusting dialogue.

Attractive employer

Knorr-Bremse is keen to position itself worldwide as an attractive employer that recruits and retains top quality staff. Amongst other things this involves recognizing good performance and helping employees achieve a balance between their personal and professional goals.

Knorr-Bremse offers performance-related remuneration and various additional forms of payment – for example childcare subsidies, preventive health care or use of public transport. We also support our employees in achieving a better work/life balance by offering the possibility of flexi-time, teleworking, part-time working and temporary leave, or support when it comes to caring for children or relatives. A wide range of personal and specialized training provisions enables employees to improve their qualifications – even beyond what is required for their particular profession.

At many sites we organize special family days for our employees and their families in a bid to encourage motivation and loyalty to the company.

In a survey of 22,000 students in Germany carried out by the *Wirtschaftswoche* newspaper on career prospects and employer attractiveness, Knorr-Bremse improved its ranking amongst engineers by 21 places from 102nd in 2012 to 81st in 2013.

In order to assess levels of satisfaction amongst the workforce and identify possible areas for improvement, we regularly carry out employee surveys. In 2011, 77% of the workforce used the opportunity to provide management with feedback and thereby to influence their working environment in the future. Global levels of satisfaction and commitment are high. An extremely positive rating was given to standards of workplace equipment, social commitment, health & safety and environmental protection.

Room for improvement was identified in the areas of corporate culture, management development and workload. Comprehensive measures were drawn up and are being implemented by the Corporate Human Resources department.

As part of an internationally oriented project we have closely examined our own corporate and management culture with a view to developing them to meet future challenges. Important elements in this project included drawing up the new corporate values in collaboration with management at Knorr-Bremse and deriving a new corporate vision from them, together with the corresponding leadership principles.

During the year under review, the main focus was on establishing the new corporate values throughout the Group as a framework for the day-to-day activities and decision-making processes of the entire workforce world-wide. The previous year had seen the values drawn up and communicated, and this year saw "Reliability" singled out and discussed during "Global Knorr-Bremse-Day", with a special focus on the topic "Quality". At all sites world-wide, team or departmental workshops were held to discuss the operational significance of "Quality" and "Reliability" and consider the individual contribution that employees could make. Guided tours and presentations about the newly drafted Knorr-Bremse vision and our revised leadership guidelines enlarged upon the topic, and the accompanying program offered plenty of scope for employees from the various departments to exchange ideas with one another.

Another focus this year was on the topic of leadership culture. The particular management style adopted in a company has a direct influence on employee motivation and performance and therefore makes a crucial contribution to its success. An annual leadership feedback survey asks employees to assess their managers' leadership qualities, the idea being to strengthen dialogue between management and employees and establish a culture of open feedback. At the end of 2012 our leadership guidelines were further developed on the basis of our corporate values. We continued to revise existing processes and tools related to staff dialogue and potential management, and harmonized these internationally. A new, comprehensive management curriculum for all levels of management was drawn up with a view to ensuring that the leadership principles and related tools and methods are implemented across the board.

During the year under review, "Management in Dialogue" – a regular meeting of managers at sites in Germany and the USA – was set up with a view to encouraging a deeper exchange of ideas between management and Human Resources on current issues.

The third field of action derived from the employee survey – that of reducing the workload – is under consideration at local or regional level, taking into account local requirements such as statutory regulations on working time. Corporate Human Resources is responsible for coordinating these measures and is also encouraging an exchange of best practices between sites in terms of organization, leadership and training.

Further results and individual reports from the employee survey are being processed by local management at the various sites and the measures taken are being monitored globally with the aim of ensuring that some 700 measures derived from the survey and the 100-odd follow-up workshops world-wide are implemented.

The success of these global and local improvement measures is monitored using the system described above and evaluated by the next employee survey, which is scheduled for fall 2014.

Work/life balance

Work/life balance influences employee motivation and performance – which is why we intend to maintain a focus on this issue in the future and develop new offers and initiatives. We are, however, aware that what can be offered depends very much on the individual position of the employee concerned, the area in which he or she works and the degree of responsibility involved. For this reason, the approach taken can vary from one site to another.

Provisions include:

- Flexible working hours and working time accounts for employees on regular salary scales – enabling overtime and short-time working to be balanced out over time.
- Part-time working
- Sabbaticals – enabling employees to take time out for several months and then return to their job.
- Teleworking – offering employees the possibility of spending some of the agreed working time away from the workplace.
- Care provisions for the family – for example childcare or care for relatives
- Family support programs, for example contributions towards preventive health care and sickness insurance, special financial subsidies or loans, vacation care, family days, days off in the case of illness of a child or relative requiring care, maternity leave and parental leave even in countries without such statutory provisions.
- Other provisions such as health programs and facilities

These provisions, which have been considerably extended and adapted to current requirements in recent years, were assessed and certified in Germany during the year under review by the Hertie Foundation's "berufundfamilie" (career and family) audit.

In order to retain and develop the current level of provision, certification included an agreement on targets, involving specific measures whose implementation will be monitored and used as the basis for re-certification in three years' time.



Supply chain

In order to ensure that our suppliers also act in accordance with our principles and obligations, we have incorporated the UN Global Compact principles into our Rail and Commercial Vehicle Systems divisions' Quality Management Program for Procurement as an integral part of our contracts with suppliers (see page 7). If suppliers fail to comply, Knorr-Bremse retains the right to terminate the supply agreement. A combination of voluntary disclosure and supplier audits enables us to assess the extent to which our suppliers meet the requirements of the guidelines and implement the principles of the Global Compact.

Diversity & equality of opportunity

Knorr-Bremse supports equal opportunities and equal treatment for all its employees, irrespective of the color of their skin, their national or social origins, any disability they may have, their sexual orientation, political or religious beliefs, gender or age.

As an employer in 27 different countries, cultural diversity is one of Knorr-Bremse's success factors. For this reason it is important for us to encourage an understanding of and respect for other cultures and life situations and drive forward the integration of employees from other countries. Specific examples include the use of local managers at international sites, intercultural training courses and the promotion of foreign postings. Knorr-Bremse currently has some 100 employees from all levels of the hierarchy posted abroad.

Knorr-Bremse believes in equality of opportunity for men and women, and it goes without saying that the company treats its employees equally, irrespective of their gender. New employees and managers are recruited exclusively on the basis of their qualifications. And we do not differentiate between the salaries of male and female employees.

During the year under review the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth examined the remuneration structures for Knorr-Bremse employees in Germany, confirmed that these meet the above criteria and awarded the company Logib-D certification for pay equality.

Employees with severe disabilities and health impairments are given particular protection and encouragement by Knorr-Bremse. When it comes to finding the right job, special representatives for the severely disabled play an important role. The aim is not just to find them appropriate jobs but also to adapt the workplace or the work environment to the needs of the employees concerned. For example, the use of sign language interpreters enables hearing-impaired employees to take part in works assemblies or training courses.

In 2012, a total of 180 severely disabled people were working for Knorr-Bremse in Germany (2011: 160*) – equivalent to 5.1% (2011: 4.7%) of the workforce. The value of orders going to workshops for people with disabilities was some 359,000 EUR in 2012 (2011: 378,000 EUR).

* This figure differs from the one contained in the 2012 report (2011:268 disabled employees): This was the result of an error in the previous evaluation, for which we apologize.

In addition, for example, our subsidiary in Hungary formed a highly successful partnership with a local workshop for the disabled in 2011. By transferring production of original spare part kits to Fepa-Elektro Nonprofit Kft. we were able to create jobs for disabled people and at the same time maintain our high standards regarding short throughput times, optimum costs and high quality even in the face of fluctuating levels of demand.

Knorr-Bremse Global Care

Good quality education in a secure learning environment is essential for people to be able to lead independent lives and determine their own future. In a bid to prevent child labor and promote the development of children, Knorr-Bremse – via its charitable organization Knorr-Bremse Global Care e. V. – actively supports education campaigns and projects in countries in which children and young people, for varying reasons, often have no opportunity to undergo training and obtain vocational qualifications. The organization actively supports measures to permanently improve living conditions for children.

One example of this is our project in Kenya, where a training center has been built near Nairobi in conjunction with our partner organization Promoting Africa e. V. This provides young people from the slums of Nairobi with the opportunity to train as seamstresses, cabinet-makers or electricians.

Further information and examples of projects can be found on the Internet at **www.global-care.knorr-bremse.com**

5/ Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges,
- Principle 8: undertake initiatives to promote greater environmental responsibility and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Knorr-Bremse is committed to integrated, precautionary environmental protection and consistently promotes the development and dissemination of environmentally friendly technologies. Our aim is to minimize the impact on the environment through responsible, sustainable use of natural resources, to continuously improve environmental protection and to develop a greater sense of responsibility amongst employees, customers and suppliers.

Group-wide guidelines

Our actions are guided by our Group-wide Health, Safety and Environment policy. This voluntary commitment reflects our responsibilities as a company and goes beyond mere compliance with national legislation. Amongst other things it includes aspects such as environmental management, product responsibility, efficient resource use and awareness raising. To ensure that this commitment is put into practice, Knorr-Bremse has created a mandatory environmental management system that incorporates both internal and external regulations and standards on environmental protection.

Environmental management in accordance with international standards

Knorr-Bremse complies with all the environmental regulations and standards that apply to its various sites and has introduced corresponding environmental management systems across the board. Environmental hazards and risks are routinely assessed in internal health & safety and environmental audits, and appropriate measures are introduced to reduce these risks.

Since 2001 we have been pursuing a process of Group-wide certification of all our sites in the rail and commercial vehicle divisions under the international environmental management standard ISO 14001. Certification has already been achieved for our production and service sites in Europe, North and South America and the majority of our sites in the Asia-Pacific region.



During the year under review, Knorr-Bremse CARS LD Vehicle Brake Disc Manufacturing and Knorr-Bremse / Nankou Air Supply Unit in China as well as Knorr-Bremse Rail Services (Burton) Ltd., UK, achieved ISO 14001 certification.

Over the next few years further sites will be included step-by-step in the environmental certification process.

Promoting environmental awareness

We use internal communication and training to increase our employees' awareness of environmental issues. Individual sites carry out annual assessments of training needs and put together the relevant in-service training programs.

We also run a variety of awareness-raising campaigns and initiatives. Information brochures, calendars, lecture series, competitions, children's events and exhibitions offer tips and tricks for environmentally responsible behavior at work and in the home. The subjects of these campaigns are selected independently of the main sites' activities and can range from energy-saving, waste reduction and proper waste separation at production facilities to training in driver safety and efficiency.

For the third time in succession we presented internal Knorr-Bremse CR Awards for outstanding projects in the fields of "Environment" and "Social Commitment".

During the year under review, the award in the category "Environment" went to Knorr-Bremse subsidiary Knorr Brake Corporation in the USA, where a photovoltaic array now generates a third of the plant's electricity requirements and has reduced CO₂ emissions by some 900 tons a year – the equivalent of the total emissions produced by some 150 average-sized US automobiles. The sustainable construction and technology involved has been certified according to the LEED (Leadership in Energy & Environmental Design) standard of the US Green Building Council.

Second place went to a cooperative project between Knorr-Bremse Rail Vehicle Systems in Munich and New York Air Brake to produce a new oil-free compressor that represents a significant improvement over existing models in terms of size, efficiency and additional safety functions.

And third place also went to a subsidiary in the USA – Bendix Commercial Vehicle Systems – for its "remanufacturing business strategy", which opens up scope for significant energy and raw material savings and promises to reduce CO₂ emissions and cut waste volumes.

Implementation of this strategy over the coming years should make an important contribution towards environmental protection and make it easier to measure its progress.

Climate protection targets

Knorr-Bremse has launched a Group-wide energy-efficiency campaign that sets ambitious targets for the company. The aim of ECCO₂ (Efficient Cut in CO₂) is to achieve a 20% increase in energy efficiency compared with 2009 by the year 2020 and thus also a 20% reduction in CO₂ emissions. To do this, potential energy savings across all areas of our business are systematically identified and exploited, and appropriate measures are then standardized and incorporated into company processes. For this purpose we also bring in external consultants, and more than 40 of our sites worldwide have now received independent advice. Successful projects are then transferred to other sites. An exchange of best practice solutions takes place using internal means of communication and Group-wide guidelines, for example on lighting or on the creation of energy measurement concepts.

During the year under review, the main focus of ECCO₂ was once again on local improvement of buildings, plant and manufacturing processes and on analyzing internal processes related to requirements of ISO 50001, the internationally recognized standard for energy management. The measures implemented, which included optimizing waste heat recovery systems, making increased use of energy-saving lighting systems, adapting and improving assembly lines and raising employees' awareness of climate change issues, resulted in a further reduction in CO₂ emissions in 2012 compared with the base year of 2009. Energy efficiency has already improved by more than 20%, which means that the targets originally set have already been met.

Over the coming year, precise data on savings and related CO₂ emission reductions throughout the entire Group will once again be calculated, validated and further measures and targets drawn up.

Environmental protection in production

Ongoing improvement of our environmental performance is now an integral part of our sustainability strategy. This includes efficient use of energy and resources as well as minimization of emissions and waste and an increase in the use of environmentally friendly products and materials.

We regularly record quantitative data on our environmental performance so that we can set operational targets at site level. Sites also regularly exchange best practice examples in areas such as efficient energy use, raising awareness of environmental issues, waste water treatment and waste management.

During the year under review, for example, the packaging process for brake calipers was changed at our production site in Faridabad in order to enable the wooden crates used for supplier deliveries to be reused for transporting products to the customer – thereby avoiding the need for additional crates to be made. And in Budapest, introduction of a refillable cleaning spray can reduced annual waste and consumption of propellant gas from some 12,000 spray cans. At the same time, the consumption of cleaning liquid was reduced by 20%, as the new system now enables the containers to be completely emptied.

Energy management

Potential areas for saving energy are systematically identified in all parts of the company and appropriate action taken. We continue to work towards further reducing specific energy consumption by improving our manufacturing equipment and choice of processes and by upgrading plant technologies.

2010		71.9
2011		67.2
2012		64.6

Energy efficiency (kWh/1,000 EUR turnover)

Water utilization

As part of our environmental management system we have developed site-specific measures aimed at reducing water consumption as far as possible. Water is used in particular for surface treatment and cleaning of our products, for test applications and also as drinking water and for sanitary facilities. Our aim is to use it as efficiently as possible and – where feasible – to recycle it. Our water supply comes from local authority utilities and we dispose of it in compliance with statutory requirements via the public waste water system.

In order to reduce drinking water consumption, some of our sites use rainwater for cleaning, for sanitary facilities and for irrigation purposes. At company headquarters in Munich, for example, we have a closed circuit system that uses groundwater to cool the administration building and IT center.

State-of-the-art technologies for waste water treatment also help reduce water consumption. In recent years Knorr-Bremse has reduced its specific fresh water consumption year on year by around 4%.

2010		101
2011		97
2012		93

Water consumption (l/1,000 EUR turnover)

Knorr-Bremse's efforts to make sparing use of water go beyond the company itself: The charitable organization Knorr-Bremse Global Care made water a central focus of its activities in 2013 and gave specific support to projects involving water supplies for drinking, sanitary use and agricultural irrigation (see p. 24).

Material efficiency

One of the main ways Knorr-Bremse saves resources is by making sparing and efficient use of materials in its production processes. In particular this applies to steel and iron materials, light metals, polymers, fuels and lubricants and packaging materials. We also set great store by ensuring that our production processes are as efficient as possible and generate as little waste as possible. We try to use non-hazardous materials and also more environmentally friendly alternatives wherever possible.

Waste

Knorr-Bremse operates on the principle of sustainable material cycles: reducing waste comes before recycling, which comes before disposal. The primary goal is to reduce the total volume of waste – in particular hazardous waste – as far as possible. In cases where waste is unavoidable we are in favor of environmentally friendly recycling. Most of the waste we generate consists of electro-plating sludge from surface treatment processes and metallic waste from the processing of intermediate products. There is also packaging waste consisting of cardboard, plastic and wooden pallets. In recent years the measures we have taken to improve material cycles and reduce, separate and recycle waste have resulted in significant cuts in the volume of waste generated. Knorr-Bremse currently has a world-wide recycling quota of approximately 70% in the fields of production, service and administration.

Green IT

With its Green IT project Knorr-Bremse has considerably improved the energy efficiency of its IT infrastructure. The main elements in the project are optimization of the Corporate Data Center and users' periphery at corporate headquarters in Munich. The data center has been equipped with modern energy technology, air conditioning and an interruption-free power supply and optimum use is now made of the servers through a high level of virtualization. Existing IT hardware and software have also been analyzed, more energy-efficient printers, monitors and PCs acquired, operating systems adjusted to save energy, and users instructed accordingly.

Transport

As part of our Supply Chain Excellence initiative (SCE) we continuously monitor supply flows and logistics between sites, suppliers and customers.

By optimizing our transport network and route planning – for example through ongoing improvement of milk runs (needs-based, optimum routing), increased capacity utilization of trucks and containers and development of hub structures – we have been able to further increase the efficiency of our logistics chain. One example is the "SDH" project – Supply and Distribution Hub – in the rail division, which involves deliveries from four sites – Munich, Berlin, Budapest and Mödling – being dispatched from a single hub from mid-2014 onwards. This should reduce the distances traveled per ton of freight by approximately 10 per cent. We en-

courage our logistics partners to use modern, fuel-efficient vehicles, and achieve this partly by basing our payment of emission or fuel consumption-related costs such as tolls on current vehicle standards.

Hitherto, transport-related CO₂ emissions have not been continuously monitored and calculations have been based on extrapolations. In future we intend to intensify our cooperation with logistics suppliers in order to reliably determine our CO₂ footprint and use it as a basis for introducing further improvements.

Incorporating environmental and social considerations into plans for new sites

In order to minimize the environmental impact and energy consumption of new sites from the very outset, Knorr-Bremse drew up a uniform construction standard for factory and office buildings during the year under review and this is now being tried out in current construction projects.

The aim is to use intelligent planning to reduce the environmental impact and resource consumption of new buildings while at the same time creating a pleasant and healthy working environment for our employees.

The Knorr-Bremse construction manual defines standards for this and contains a checklist that makes it possible to select the most appropriate building materials and technologies, taking into account local factors such as climate conditions. Implementation of our construction standards is backed up by reference to internationally recognized standards on environmentally friendly, resource-saving and sustainable construction. Thus, for example, our new sites in Brazil and the USA were planned and constructed to LEED (Leadership in Energy & Environmental Design) standards.

The construction manual is due for general release during the coming year, after which it will be distributed and established as a compulsory standard for all new construction projects within the Knorr-Bremse Group.

Sustainable product portfolio

In both the rail and commercial vehicle sectors, climate change and energy efficiency have become increasingly important in recent years. In response Knorr-Bremse has made the development of fuel-efficient technologies a priority, and is able to offer solutions that are tailored to market needs.

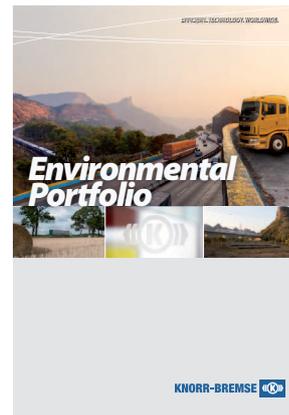
Knorr-Bremse was, for example, the first company in the rail vehicle sector to launch a compressor in the market that operates without the need for any oil lubrication. And the LEADER driver information system makes energy savings of up to 15% possible in rail vehicles.

For the commercial vehicle sector we offer the Pneumatic Booster System (PBS), which eliminates turbo-lag during start-off and directly saves 2% to 3% fuel by enhancing engine performance (even more if this ena-

bles the engine to be downsized) as well as considerably reducing weight and saving resources. And unlike traditional air supply systems, the latest version of the Electronic Air Control System (EAC2) switches the compressor on and off according to the driving situation, enabling CO₂ emissions per vehicle to be reduced by up to 2.5 tons per year.

To draw the attention of customers, colleagues and other interested parties to these and other environmentally friendly product features, we created the Knorr-Bremse Environmental Portfolio in early 2013. This provides an overview of the contributions we make towards reducing our environmental impact in areas such as energy consumption, atmospheric and sound emissions and materials selection.

The Environmental Portfolio can be downloaded from the following link:
[www.knorr-bremse.com/responsibility/products and partner](http://www.knorr-bremse.com/responsibility/products_and_partner)



Sustainable product design: Ecodesign Project

Environmental compatibility and resource efficiency play an important role for Knorr-Bremse when the company is developing innovative technologies. Early in 2011 the Rail Vehicle Systems division launched the Ecodesign Project with a view to boosting the company's commitment to product sustainability.

The aim of the project is to analyze the environmental impact of selected products across the entire life cycle and further improve their environmental compatibility.

Our product groups have been examined on the basis of criteria such as energy consumption during manufacture and operation, use of critical materials, weight and disposal – and areas for action have been identified. Analyses of the value chain have yielded valuable insights into material and resource requirements and environmental compatibility during use. For example we have looked at the contribution that weight-saving materials can make towards minimizing a vehicle's overall energy consumption.

Over the coming year we intend to supplement these results with detailed life cycle assessments and analysis of further products. We also intend to apply the same approach to Knorr-Bremse's Commercial Vehicle Systems division.

Social contribution of Knorr-Bremse Global Care e. V.

The charitable organization Knorr-Bremse Global Care e. V. funds projects that have a far-reaching impact in the fields of education and social infrastructure. The organization takes a holistic and – where possible – sustainable approach to its aid projects, amongst other things by raising awareness of environmental issues.

Thus, in 2013, Knorr-Bremse Global Care selected the issue of water as its main focus and specifically promoted projects in the fields of drinking water supply, sanitation and agricultural irrigation. Supporting water projects not only improves access to water for day-to-day use but also enables further progress to be made in achieving some of the other eight UN millennium development goals – for example reducing child mortality, improving maternal health, eradicating extreme poverty, promoting gender equality and empowering women.

An example of a project that points up various problems related to water – and has achieved significant improvements – is the one being implemented between now and the end of 2014 by Knorr-Bremse Global Care in a slum in New Delhi in conjunction with its partner organization Save the Children Germany e. V. A “WASH” water, sanitation and hygiene advocacy campaign aims to provide young mothers and their newborn babies with a cleaner, healthier living environment.

6/ Anti-corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Integrity and responsible behavior in our dealings with business partners and our own employees are fundamental values that underpin everything we do as a company. Knorr-Bremse complies with the relevant legislation and regulations as a matter of course, and is categorically opposed to all forms of corruption, including extortion, bribery and any illegal or immoral behavior.

Compliance and Code of Conduct

During the year under review, the Code of Conduct setting out our principles of responsible behavior which had been drawn up last year, was publicized and rolled out throughout the Group (see page 6).

The Code forbids all forms of corruption, including bribery and blackmail and also lays down further ethical requirements. It serves as a guideline for our employees and aims to encourage integrity and responsible conduct.

If corruption is to be prevented from the outset, it is essential for the principles laid down in the Code of Conduct to be communicated transparently and effectively to the workforce and appropriate training provided. Every employee should be clear about what we understand to be responsible behavior and the rules that we impose on ourselves. Our employees will receive regular training in the Code.

During the coming year we intend to focus on developing additional structures and instruments to support compliance with the Group-wide Code of Conduct. In addition to ongoing communication of the Code, expansion of our training measures and investigation of infringements will play a prominent role.

Further guidelines

The basic principles contained in the Code of Conduct are further developed in the form of Group-wide and regional guidelines, including a quality management guideline for procurement and an internal guideline on acceptance of gifts.

Internal review system

Internal reviews support the Executive Board in its monitoring role through independent and objective inspections geared towards enhancing business processes and uncovering any cases of corruption.

Risk management

We routinely identify risks to our business and implement measures to reduce or prevent them and/or establish methods of managing them. The effectiveness of our risk management system is ensured by the use of common standards and processes. As part of the risk assessment process, business units are regularly investigated in order to identify any potential risk of corruption.

7/ Overview of implementation of the ten Global Compact principles

Human rights/labor standards (Principles 1–6)

Principles	Implementation at Knorr-Bremse	Status
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights and	<ul style="list-style-type: none"> ■ Knorr-Bremse Code of Conduct ■ Embedding the principles of the UN Global Compact in our procurement guidelines 	<ul style="list-style-type: none"> ■ Communication, further training and follow-up in the case of non-implementation → ■ Procurement guidelines and supplier assessment tool expanded, assessment of suppliers regarding compliance with the ten principles of the Global Compact launched →
Principle 2: Businesses should make sure they are not complicit in human rights abuses.	<ul style="list-style-type: none"> ■ Workplace health and safety management 	<ul style="list-style-type: none"> ■ Low level of work-related accidents for years, certification to OHSAS 18001 standard →
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining and furthermore uphold	<ul style="list-style-type: none"> ■ Involvement via the charitable organization Knorr-Bremse Global Care e.V. ■ Global survey on compliance with our voluntary undertakings and the principles of the Global Compact at 33 Knorr-Bremse production sites 	<ul style="list-style-type: none"> ■ Ongoing involvement based on the principle of “helping people to help themselves” → ■ Drafting and implementation of global approaches to the potential for improvement identified by the sites →
Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labor	<ul style="list-style-type: none"> ■ Standards on working conditions 	<ul style="list-style-type: none"> ■ Standards on working conditions incorporated into employment contracts. ✓
Principle 5: Businesses should uphold the effective abolition of child labor	<ul style="list-style-type: none"> ■ Positioning the company as an attractive employer world-wide through target and performance-related remuneration, many additional payments, appropriate working time models to ensure proper work/life balance, support for families etc. 	<ul style="list-style-type: none"> ■ Implementation of performance-related packages based on local and regional standards and constantly adjusted; confirmation through “berufundfamilie“ audit of sites in Germany ✓
Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.	<ul style="list-style-type: none"> ■ Equality of opportunity and equal treatment of employees irrespective of skin color, national or social origin, any disability they may have, sexual orientation, political or religious beliefs, gender or age. 	<ul style="list-style-type: none"> ■ Employees recruited solely on the basis of their qualifications; “Logib-D” certification for equal pay at German sites. ✓

Environmental protection (Principles 7-9)

Principles	Implementation at Knorr-Bremse	Status
<p>Principle 7: Businesses should support a precautionary approach to environmental challenges,</p>	<ul style="list-style-type: none"> ■ Group-wide environmental management system at production and service sites in both divisions 	<ul style="list-style-type: none"> ■ Environmental certification to ISO 14001 standard in Europe, North and South America and main sites in Asia-Pacific region; further sites will be included step-by-step in certification process. →
<p>Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility</p>	<ul style="list-style-type: none"> ■ ECCO₂ (Efficient Cut of CO₂) initiative aimed at supporting climate protection goals and improving internal energy efficiency is implemented world-wide at some 40 sites. ■ Careful use of natural resources, in particular water ■ Knorr-Bremse subscribes to the principle of a sustainable economy based on recycling. 	<ul style="list-style-type: none"> ■ The target of improving energy efficiency by 20% compared with 2009 was achieved during the year under review; the initiative will be continued in order to exploit further potential and establish systematic energy management. ✓ ■ Increased use of closed systems or use of rainwater for cleaning, sanitary purposes or irrigation. → ■ Measures to reduce waste, e.g. reusable packaging, recycling of packaging material, waste separation – for example where waste is generated, internal recycling centers for recycling/disposal in the most environmentally and economically appropriate manner. →
<p>Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.</p>	<ul style="list-style-type: none"> ■ Green IT project for optimizing energy efficiency ■ Knorr-Bremse construction manual: construction standards for factory and administrative buildings taking into account environmental and social aspects ■ Ecodesign project for analyzing environmental compatibility of selected products in the Rail Vehicle division across the product life cycle ■ Sustainable product portfolio: for years Knorr-Bremse has offered solutions tailored to market requirements, which achieve fuel savings and reductions in energy consumption, making the operation of rail and commercial vehicles more efficient and more environmentally friendly. 	<ul style="list-style-type: none"> ■ Optimization of Corporate Data Center and hardware/software. → ■ The construction manual was finalized during the year under review and will be distributed and implemented over the coming year. ✓ ■ Analyses of core products, detailed life cycle assessments still to be carried out; application to Commercial Vehicle division also still open. ⚠ ■ The Knorr-Bremse Environmental Portfolio has created an overview of the company's contributions towards environmental protection in the areas of energy consumption, atmospheric and sound emissions and materials selection that is available to customers and colleagues on the Internet. ✓

Anti-corruption (Principle 10)

Principles	Implementation at Knorr-Bremse	Status
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	■ Knorr-Bremse Code of Conduct	■ Communicated; further training and follow-up in case of non-compliance in implementation →
	■ Guidelines for acceptance of gifts	■ Guidelines implemented with adaptation to local conditions ✓
	■ Group audits for independent checking of internal and external requirements	

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