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**Corporate Governance report  
for the fiscal year 2018**

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## Corporate Governance

The German Corporate Governance Code (GCGC) contains rules and recommendations for the responsible management and oversight of listed companies. Apart from the exceptions stated below, Knorr-Bremse AG has complied with the GCGC's recommendations since October 12, 2018, the date on which its stock was first publicly listed. The departures from GCGC's recommendations set out in sections 1 and 2 of the Declaration of Compliance no longer exist at the time of attestation.

### Excerpt from Declaration of Compliance dated December 10, 2018

1. According to section 4.2.3 paragraph 2, sentences 3 and 4 of the GCGC, variable remuneration components should generally have a multiple-year assessment basis relating essentially to forward-looking characteristics. Both positive and negative developments are to be taken into account when determining variable remuneration components. According to section 4.2.3 paragraph 2, sentence 6, the amount of remuneration is to be capped, with maximum levels both as regards variable components and in the aggregate. According to section 4.2.3 paragraph 2, sentences 7 and 8, variable remuneration components are to be based on strict and relevant comparison parameters. Subsequent amendments to the performance targets or comparison parameters should not be permitted. According to the first sentence of section 4.2.3 paragraph 4, when contracts are entered into with Executive Board members, it is important to ensure that payments, including fringe benefits, made to an Executive Board member due to early termination of their employment contract do not exceed twice the annual remuneration (severance cap) and do not constitute remuneration for more than the remaining term of the contract. The Company departed from these recommendations during the 2018 fiscal year because the contract of employment of one Executive Board member will only be changed in line with Knorr-Bremse AG's new remuneration system with effect from January 1, 2019.
2. According to section 5.4.1 paragraph 5 of the GCGC, the curricula vitae of all Supervisory Board members should be published on the Company's website. Biographies of Supervisory Board members were published on the website of Knorr-Bremse AG on December 10, 2018.
3. It is anticipated that Knorr-Bremse AG will not be able to make the consolidated financial statements and Group management report for the 2018 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 GCGC. This is due to the changeover to International Financial Reporting Standards (IFRS) shortly before the stock market flotation of Knorr-Bremse AG. From the 2019 fiscal year onward, i.e. from January 1, 2020, 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 of the GCGC.

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

Furthermore, Knorr-Bremse AG chooses not to comply with the GCGC's non-mandatory suggestions, with the exception of the following: Departing from the last sentence of section 4.2.3 paragraph 2 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 its 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 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 a 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 General Meeting (shareholders' representatives), or at the next election date (employees' representatives).

In the view of the Supervisory Board, the majority of its members – 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 remit 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 verification of its efficiency, and supervises implementation of the resolutions passed by the Supervisory Board or its committees.
- The Audit Committee oversees matters relating to accounting, risk management, internal auditing and the internal control system. It also supervises the Knorr-Bremse Group's risk management system, 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 a 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 Article 31 (2) and (5) of the German Codetermination Act (MitbestG).

### **SKILLS PROFILE FOR THE SUPERVISORY BOARD**

At a meeting held on July 12, 2018, the Supervisory Board 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 collectively, Supervisory Board members 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, in particular in technologies and associated 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 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 Article 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 Article 96 (2) AktG and Article 25 (2) of the Introductory Act to the German Stock Corporation Act (EGAktG). To date, this quota has been met solely on the shareholder representation side. The employee side includes a female member. The efficiency of the activities of the Supervisory Board will be externally audited for the first time in 2019.

### GENERAL MEETING

The first public General Meeting since flotation on the stock exchange will be held on June 18, 2019. During the general discussion, shareholders have the opportunity to speak to matters on the agenda and to 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 Group management report, and the proposed appropriation of distributable income agreed with the Supervisory Board.

### 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 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:

- Klaus Deller has been Chairman of the Executive Board since January 1, 2015. He is responsible for coordinating the allocation of responsibilities to individual board members and for ensuring cooperation between members. Mr. Deller is also in charge of various central corporate functions.
- Ralph Heuwing joined the Executive Board as Chief Financial Officer on November 1, 2017, succeeding Dr. Lorenz Zwingmann, who stepped down from Knorr-Bremse AG's Executive Board on December 31, 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 CVS division.
- Dr. Jürgen Wilder joined the Executive Board on September 1, 2018 and is responsible for the RVS division.

The following table provides an overview of the areas of responsibility of Knorr-Bremse AG's individual Executive Board members:

Klaus Deller	Ralph Heuwing	Dr. Peter Laier	Dr. Jürgen Wilder
Corporate Human Resources Internal Audit Corporate Business Development Corporate Responsibility Corporate Communications Digitalization M&A/Investments KB Media GmbH	Corporate Accounting/Taxes Corporate Controlling Corporate Treasury Corporate Legal, Compliance & Patents Investor Relations Corporate Information Technology/Business Services	Global Division Truck <ul style="list-style-type: none"> <li>• Research/Development</li> <li>• Procurement/Supply Chain Management</li> <li>• Production/Quality Assurance</li> </ul>	Global Division Rail <ul style="list-style-type: none"> <li>• Research/Development</li> <li>• Procurement/Supply Chain Management</li> <li>• Production/Quality Assurance</li> </ul>

KB Global Care e.V.	Corporate Risk Management Corporate Security Corporate Real Estate Management Knorr Excellence Indirect Purchasing	<ul style="list-style-type: none"> <li>• Sales/Marketing/Distribution</li> <li>• Finance/Controlling</li> <li>• HR</li> </ul>	<ul style="list-style-type: none"> <li>• Sales/Marketing/Distribution</li> <li>• Finance/Controlling</li> <li>• HR</li> </ul>
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The second tier of management 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 are in close contact with the Executive Board. The various specialist departments at Knorr-Bremse AG work together with the Executive Board.

The work of the Supervisory Board over the previous fiscal year and its modus operandi 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 under heading H 6 in the Notes to the consolidated financial statements.

#### **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 new terms of reference drawn up by the Supervisory Board for the Executive Board on July 12, 2018, include as annexes a list of matters that require approval, an executive organization chart showing allocated responsibilities, and the rules setting out what information 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 any 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; 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 auditors for the 2018 fiscal year by the General Meeting on March 14, 2018. The auditors 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 30, 2019. 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 shall also inform the Supervisory Board of any departures from the Declaration of Compliance in accordance with Article 161 of the German Stock Corporation Act (AktG). Before being awarded the auditing mandate, the auditor will assure the Supervisory Board of its independence.

**MANAGEMENT INDICATORS, CONTROL SYSTEM, INSIDER LIST**

The most important metrics for managing the company are revenues, EBITDA, EBITDA margin, EBIT, EBIT margin, EBT, EBT margin, employees, net working capital, and ROCE. Details of the 2018 figures along with their calculation methods can be found in the [Business Performance] section.

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 Article 18 of the Market Abuse Regulation (MAR). All individuals on the list are informed of the applicable statutory obligations and sanctions.

**SHARE OWNERSHIP AND DIRECTORS' DEALINGS**

In accordance with Article 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. The current situation is that all members of the Executive Board invested in Knorr-Bremse AG shares at the issue price during the initial public offering (IPO). A summary of these transactions can be found under Investor News in the Investor Relations section of our website.

As at December 31, 2018, Executive Board members held approximately 0.02% of Knorr-Bremse AG's shares in total. To our knowledge, no member of the Supervisory Board directly held shares in Knorr-Bremse AG on December 31, 2018.

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

To date, the requirements arising from the law on the equal participation of women and men in leadership positions have been fulfilled as follows:

- Since the election of Kathrin Dahnke in 2018, two women have been serving on the Supervisory Board of Knorr-Bremse AG, both representing shareholders. This equates to 33% female representation on the shareholder side and therefore – if the parties are counted separately – complies with the minimum legal quota of 30%. The percentage of women currently serving on the Executive Board of Knorr-Bremse AG is 0%. The Supervisory Board has set a 20% target for the proportion of women on the Executive Board by June 30, 2023.
- As at July 26, 2018, the proportion of female managers on the first management tier below Executive Board level at Knorr-Bremse AG was 7.7%, and 16.7% on the second management tier. 7.7% and 16.7% have been set as targets for the first and second management tiers respectively, both to be reached and maintained by June 30, 2023.

Diversity above and beyond the legal 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 above all technical expertise and social skills, along with years of experience in similar posts within our sector 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.