

Report of the Supervisory Board

Ladies and gentlemen,

The following changes occurred on the Supervisory Board of Knorr-Bremse AG during the last fiscal year: My predecessor as Chairman, Hans-Georg Härter, stepped down from the board on August 31, 2018, for health reasons. On behalf of the whole Supervisory Board, I would like to take this opportunity to thank him for his outstanding work and his immense dedication as Chairman. Mr. Härter had been a member of the Supervisory Board since November 2012 and its Chairman since July 2017. His tenure encompassed further changes to the composition of the Executive Board and, most recently, the adaptation of our corporate governance structures and Executive Board remuneration system ahead of Knorr-Bremse AG's initial public offering (IPO) on October 12, 2018. By resolution of the General Meeting on May 29, 2018, I was appointed to the Supervisory Board as a member and successor to Mr. Härter, with effect from September 1, 2018. Also on May 29, 2018, the General Meeting elected Kathrin Dahnke to the Supervisory Board. Ms. Dahnke is now Deputy Chairwoman of the Supervisory Board, Chair of the Audit Committee and a member of the Executive Committee. As Chairman of the Supervisory Board, I am pleased to present for the first time the Report of the Supervisory Board for the completed fiscal year.

Knorr-Bremse can look back on an eventful and financially successful 2018, marked in particular by Knorr-Bremse AG's flotation on the Frankfurt stock exchange. Since Knorr-Bremse AG was first publicly listed on October 12, 2018, around 30% of its stock has been free floating. The Supervisory Board would like to thank Heinz Hermann Thiele for his constructive help and advice in support of the work of the Supervisory Board, which made a valuable contribution to its success. To implement the corporate governance modifications necessitated by the Company's listing on the German stock exchange, the Supervisory Board revised the terms of reference for the Executive Board and the Supervisory Board on the basis of the Company's new Articles of Association passed by the General Meeting on May 29, 2018, thereby adopting the respective rules governing the day-to-day work of the two boards and the matters that the Executive Board must report to the Supervisory Board. As the commission responsible for the German Corporate Governance Code (GCGC) has announced its intention to carry out a major review, it is likely that further changes to our corporate governance structures will be necessary and will therefore feature prominently in the future work of the Supervisory Board.

In the course of meetings, the Supervisory Board regularly considered, in consultation with the Executive Board, the current business performance and ongoing strategic development of the Knorr-Bremse Group. As part of implementing the resulting resolutions, and following intensive scrutiny and discussions, the Supervisory Board approved important acquisition and divestment projects. Of particular note is the acquisition of the commercial vehicle steering systems business of Hitachi Automotive Systems, Ltd. Following this acquisition,



PROF. DR. KLAUS MANGOLD,
CHAIRMAN OF THE SUPERVISORY BOARD

Knorr-Bremse became the leading supplier of commercial vehicle steering systems in Japan, taking it a step further toward becoming a global supplier of steering systems for commercial vehicles. On the divestment side, as it was operating at a deficit and no longer constituted part of Knorr-Bremse's core business, we exited from the vehicle maintenance business.

Cooperation Between the Supervisory Board and the Executive Board

The Supervisory Board of Knorr-Bremse AG performed its duties with diligence and due care as required by law, the Company's Articles of Association and the board's terms of reference. As well as advising the Executive Board on governance, planned acquisitions, divestments and other strategic projects, it also continually monitored its management of the Company. It was greatly assisted in the fulfillment of its statutory duties by regular reports from the Executive Board, both at and between scheduled meetings, providing the Supervisory Board with regular updates on business performance, planning and the risk situation.

The Supervisory Board was at all times guided by the principles of good and responsible corporate governance. In terms of supervision and advice, it focused primarily on ensuring that the management of business operations and the Group as a whole was lawful, proper, effective and commercially robust. The individual advisory and oversight duties of the Supervisory Board are set out in the terms of reference of the Supervisory Board and the Executive Board, which the Supervisory Board revised in July 2018 ahead of the IPO. Accordingly, the Supervisory Board is, for instance, closely involved in the business planning and review of strategic projects and issues. There is also a list of specific Executive Board decisions

requiring the consent of the Supervisory Board, some of which call for detailed scrutiny in advance and require consideration of complex facts and circumstances from a supervisory and advisory perspective (according to members' own business judgment). Several matters requiring its approval were brought before the Supervisory Board in the 2018 fiscal year.

In written and oral reports, the Executive Board provided us with regular, timely and comprehensive information at and between meetings. The reports encompassed all material facts relating to the strategic development, planning, business performance and position of the Group during the year, the risk situation and risk management, compliance, Knorr-Bremse AG's direct competitors (peers), feedback from analysts and investors, and current events. We discussed with the Executive Board all significant business transactions and the further development of the Company. Any divergences between business performance and the approved plans were explained to us in detail. The Supervisory Board was involved in a timely manner in all decisions of fundamental importance to the Company. We fully discussed and adopted all resolutions required by law, the Articles of Association or our own terms of reference. We regularly prepared for these decisions on the basis of documents provided in advance to the Supervisory Board and its committees by the Executive Board. We were also swiftly informed of any urgent matters arising between scheduled meetings. As Chairman of the Supervisory Board, I was also regularly updated by the Executive Board on the current business situation and key developments in the Company between meetings of the Supervisory Board.

1.01 SUPERVISORY BOARD MEMBERS' ATTENDANCE AT MEETINGS IN FY 2018

Name	Supervisory	Executive	Audit
	Board (plenary) (Mar. 14, Jul. 12, Dec. 3, Dec. 10)	Committee (Jul. 12, Dec. 10)	Committee (Mar. 2, Sep. 4, Nov. 27)
Prof. Dr. Klaus Mangold (from Sept. 1) (Chairman)	2 (2)	1 (1)	2 (2)
Hans-Georg Härter (until Aug. 31) (Chairman)	2 (2)	1 (1)	1 (1)
Kathrin Dahnke (from May 29) (Deputy Chairwoman)	2 (3)	1 (2)	2 (2)
Dr. Wolfram Mörsdorf	4 (4)		
Julia Thiele-Schürhoff	4 (4)		
Wolfgang Tölsner	4 (4)		
Georg Weiberg	4 (4)		
Franz-Josef Birkeneder (Deputy Chairman)	4 (4)	2 (2)	3 (3)
Michael Jell	3 (4)	1 (2)	
Werner Ratzisberger	4 (4)		2 (2)
Sebastian Roloff	4 (4)		
Erich Starkl	4 (4)		
Günter Wiese	2 (4)		
Meeting attendance as %	91.7 %	80 %	100 %

(In brackets: Number of meetings during the term of office of the respective Supervisory Board member or committee member)

Deliberations in the Supervisory Board and its Committees

Prior to Supervisory Board meetings, shareholder representatives and employee representatives regularly met in separate preparatory meetings, which were usually also attended by the Chairman of the Executive Board and other Executive Board members.

A total of four committees has been established to prepare for meetings of the full board: the Executive Committee, the Audit Committee, the Mediation Committee, and the Nominations Committee. The committee chairs regularly report to the full board on the work of the Executive Committee and the Audit Committee. The Mediation Committee and the Nominations Committee were not convened during the reporting period.

In fiscal 2018, we recorded a consistently high participation rate at our meetings. The average attendance at full board meetings was 91.7%. During the fiscal year, all members of the Supervisory Board attended at least half the meetings, and participated on committees as appropriate. Any members unable to attend a meeting usually participated in the voting through proxies. The timely advance distribution of preparatory documents by the Executive Board greatly facilitated preparation for meetings by Supervisory Board members, and largely dispensed with the need for handouts on the day.

Key Topics Discussed by the Supervisory Board

The Supervisory Board held four meetings during the fiscal year. In addition, two decisions were also taken using a document circulation procedure. The individual meetings focused on the following matters:

1. At the plenary meeting on March 14, 2018, the Supervisory Board reviewed business performance during the previous 2017 fiscal year and the current 2018 fiscal year, with reference to the audited annual and consolidated financial statements, the combined Group management report, and the distribution of net earnings to be proposed at the General Meeting. The Supervisory Board also reviewed the report of the Executive Board on relations with affiliated companies in accordance with Article 312 of the German Stock Corporation Act (AktG). The auditors present at the meeting reported on the principal findings of their audit. Following extensive discussions and our own detailed examination, the Supervisory Board then approved the annual and consolidated financial statements, the Report of the Supervisory Board, the proposed distribution of net earnings, and further resolutions to be put to the Annual General Meeting. In addition, the Supervisory Board discussed with the Executive Board and approved the issue of a corporate bond on the Luxembourg Euro MTF stock exchange with a total volume of EUR 700-800 million. This was effected in June 2018. Finally, during the meeting on March 14, 2018, the Supervisory Board considered the requirements of and timeline for a possible initial public offering (IPO) of Knorr-Bremse AG.
2. At the extraordinary meeting held on July 12, 2018, the Supervisory Board approved the principal changes to Knorr-Bremse AG's corporate governance documentation in preparation for the IPO. Based on the fully revised Articles of Association that took effect on July 10, 2018, the terms of reference for the Executive Board and for the Supervisory Board were updated to incorporate the new requirements. At the same time, the Supervisory Board finalized and passed resolutions on the schedule of executive responsibilities describing the functions and duties allocated to individual Executive Board members, a

list of legal transactions and measures that require approval, and the rules setting out what information the Executive Board must report to the Supervisory Board. The Chairman of the Executive Board was appointed as the board member responsible for labor relations in accordance with Article 33 of the German Codetermination Act (MitbestG). The Supervisory Board also agreed on a skills profile for and the desired composition of the Supervisory Board, in line with 5.4.1 paragraph 2 of the German Corporate Governance Code (GCGC). During the meeting on July 12, 2018, the Board also filled vacant positions and set up a new committee (the Nominations Committee). A highlight of the meeting was the election of Kathrin Dahnke to the positions of Deputy Chairwoman of the Supervisory Board and Chair of the Audit Committee. Details of individual committee members are provided below. In accordance with Article 111 (5) AktG, the Supervisory Board set a target for the proportion of women on the Executive Board of 20% by June 30, 2023. The Supervisory Board resolved to extend the tenure of Dr. Laier, which was due to come to an end on December 31, 2018, by another five years. His revised employment contract takes full account of the GCGC recommendations. Along with project cost planning, the progress of preparations for the IPO and the changeover of the Group's accounting system from German GAAP (HGB) to IFRS were discussed at length with the Executive Board. In this regard, the Supervisory Board also considered the measures taken to implement the capital market requirements of the EU's Market Abuse Regulation (MAR).

3. By resolution of the General Meeting held on August 29, 2018, Prof. Dr. Klaus Mangold was elected to the Supervisory Board, with effect from September 1, 2018. The Supervisory Board elected Professor Mangold to be Chairman on August 30, 2018. He took over the reins from Hans-Georg Härter, who stepped down from the Supervisory Board for health reasons.
4. Also on August 30, 2018, Dr. Jürgen Wilder was appointed to the Executive Board of Knorr-Bremse AG for a term of three years with effect from September 1, 2018. The Supervisory Board assigned Dr. Wilder responsibility for the Rail Vehicle Systems division, which Klaus Deller had previously headed since 2016, alongside his duties as CEO. The schedule of executive responsibilities was amended accordingly.
5. On September 27, 2018, Klaus Deller was appointed to the Executive Board of Knorr-Bremse AG for a term of three years with effect from October 1, 2018, and, in accordance with Article 33 MitbestG, was also appointed board member responsible for labor relations.
6. At an extraordinary meeting held on December 3, 2018, the Supervisory Board deliberated the acquisition of the commercial vehicle steering systems business of Hitachi Automotive Systems, Ltd. in Japan and Thailand. The takeover will make Knorr-Bremse the leading supplier of commercial vehicle steering systems in Japan, taking it a step further toward becoming a global supplier of steering systems for commercial vehicles. It will also improve the Company's access to the Japanese and Southeast Asian markets. The Supervisory Board approved this acquisition following intensive consultations and assessment of the steering business strategy, the findings of commercial and legal due diligence procedures, and the business case for the acquisition. The Supervisory Board will carefully monitor the integration of the newly acquired division and further expansion of the Company's steering business.

7. At our meeting on December 10, 2018, we focused on business performance during the current fiscal year and medium-term planning for the years 2019 to 2021, in relation to both the Knorr-Bremse Group and the Rail Vehicle Systems and Commercial Vehicle Systems divisions. After intensive discussions, the Executive Board's plan for the 2019 fiscal year was approved. The Supervisory Board discussed the departures from the GCGC set out in the Declaration of Compliance as required by Article 161 AktG, and approved the declaration. The Supervisory Board also considered ongoing M&A transactions (including divestments), the joint venture with Continental AG in the field of driver assistance systems, and the status of ongoing major legal disputes.

Executive Committee

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 and its committees. It is further charged with drafting resolutions on business dealings with Executive Board members pursuant to Article 112 AktG, with approving contracts with Supervisory Board members in compliance with Article 114 AktG, and with long-term succession planning for the Executive Board, as well as preparations for the appointment of Executive Board members (including the terms of their employment contracts). The Executive Committee met twice during the reporting period.

The following are members of the Executive Committee:

- Hans Georg Härter (Chair until August 31, 2018)
- Prof. Dr. Klaus Mangold (Chair from September 1, 2018)
- Franz-Josef Birkeneder
- Kathrin Dahnke (from July 12, 2018)
- Michael Jell (from July 12, 2018)

1. At the meeting on July 12, 2018, the Executive Committee considered the approval of various contracts with consultants and contracts between Supervisory Board members and companies belonging to the Knorr-Bremse Group. Details of remuneration under these contracts during the reporting period are listed for individual board members in the Compensation Report. After detailed examination, the Executive Committee approved the contracts.
2. The Executive Committee meeting on December 10, 2018, was primarily devoted to preparing the matters to be discussed at the full Supervisory Board meeting later that day. There was also some preliminary discussion about the procedure for deciding on IPO bonuses and the state of preparations for the first public General Meeting. The Executive Committee decided to present a resolution on the remuneration system for executive directors to the General Meeting in 2020. This is based on the consideration that the new provisions of the Shareholder Rights Directive and the revised GCGC will need to be implemented in executive directors' contracts by then. The Executive Committee also decided, pursuant to section 5.6 GCGC, to conduct an efficiency review with external assistance in the summer of 2019.

Audit Committee

The Audit Committee makes a recommendation to the Supervisory Board on the appointment of an auditor. It prepares Supervisory Board resolutions for approving the financial statements, the proposed distribution of net earnings, and the Declaration of Compliance. It also appoints the auditor on behalf of the Supervisory Board. The Audit Committee is furthermore responsible for monitoring the auditor, approving any additional non-audit services provided by the auditor, scrutinizing interim and quarterly financial reports, monitoring the accounting process, and monitoring risk management issues. The latter includes monitoring the effectiveness of the internal control system (ICS), the risk management system, the internal audit system, and compliance.

Members of the Audit Committee include:

- Hans Georg Härter (Chair until July 12, 2018, member until August 31, 2018)
- Kathrin Dahnke (Chair from July 12, 2018)
- Franz-Josef Birkeneder
- Prof. Dr. Klaus Mangold (from September 1, 2018)
- Werner Ratzisberger (from July 12, 2018)

The Audit Committee held three meetings during the year under review. The document circulation procedure was used to take two decisions relating to additional non-audit services provided by the auditor, and to previously approved non-audit services.

1. At its meeting on March 2, 2018, the Audit Committee discussed the annual report and the annual and consolidated financial statements for 2017. The committee further deliberated the effectiveness of the risk management system and the development of the compliance management system. Major ongoing legal disputes and the Knorr-Bremse AG bond issue in June 2018 were also considered.
2. The first-time publication of consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) to the end of December 2017 (with 2015 and 2016 as comparison years) and the interim financial report to the end of June 2018, along with the key content of these publications, were discussed in detail with the CFO and the auditor at an extraordinary meeting of the Audit Committee on September 4, 2018. This meeting also reviewed the state of preparations for Knorr-Bremse AG's IPO.
3. At the meeting on November 27, 2018, the annual and consolidated financial statements were prepared in consultation with the auditor. The Audit Committee approved the scope of the audit and the proposed fee. Progress on the transition to IFRS-based accounting was also discussed. As part of regular corporate governance reporting, the committee also deliberated at length on risk management and internal auditing. Furthermore, the measures taken by the Company to ensure capital market compliance were presented and discussed. Finally, the Audit Committee discussed the principal ongoing legal disputes.

Nominations Committee

Established on July 12, 2018, the task of the Nominations Committee is to propose to the Supervisory Board, whenever required, suitable candidates to nominate for election as new Supervisory Board members at a General Meeting. The Nominations Committee was not convened during the reporting period.

The members of the Nominations Committee include:

- Hans Georg Härter (Chair until August 31, 2018)
- Prof. Dr. Klaus Mangold (Chair from September 1, 2018)
- Kathrin Dahnke (from July 12, 2018)
- Julia Thiele-Schürhoff (from July 12, 2018)

Corporate governance

The Supervisory Board attaches great importance to good corporate governance. This includes regularly and comprehensively considering the corporate governance requirements for German public listed companies, in particular the requirements of the Stock Corporation Act (AktG), the German Codetermination Act (MitbestG), and the German Corporate Governance Code (GCGC). Jointly with the Executive Board, the Supervisory Board issued the Declaration of Compliance for the reporting period as required by Article 161 AktG. The declaration was published on the Company's website (see also page 51 of the Annual Report). Knorr-Bremse currently complies with all GCGC recommendations, with the exception of the recommendation to make the consolidated financial statements and Group management report publicly accessible within 90 days, and to make the mandatory interim financial information accessible within 45 days from the end of the reporting period (section 7.1.2 GCGC). This departure is due to the changeover to International Financial Reporting Standards (IFRS) shortly before the stock market flotation of Knorr-Bremse AG. Details of the Company's corporate governance may be found in the Corporate Governance Statement and the Corporate Governance Report (pages 36 – 41 of the Annual Report).

Conflicts of Interest

The Supervisory Board watched for conflicts of interest throughout the reporting period and found that no conflict of interest occurred in the 2018 fiscal year.

Annual and Consolidated Financial Statements

The Supervisory Board took the necessary steps to ensure that the annual and consolidated financial statements and other financial reporting for the 2018 fiscal year are in line with the statutory requirements. KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (KPMG) audited the annual financial statements of Knorr-Bremse AG prepared in accordance with German GAAP (the German Commercial Code – HGB), the combined management report of Knorr-Bremse AG and the Knorr-Bremse Group, and the consolidated financial statements for the 2018 fiscal year prepared according to International Financial Reporting Standards (IFRS), and issued an unqualified audit opinion in each case. KPMG had been appointed auditor for the 2018 fiscal year at the General Meeting held on March 14, 2018. KPMG has acted as auditor for the Knorr-Bremse Group for over ten years. The independent auditors responsible for the audit, within the meaning of section 319a (1) 4 HGB, were Prof. Dr. Kai Andrejewski (starting

with the 2016 financial statements) and Johannes Hanshen (starting with the 2018 financial statements).

The auditor also reviewed the report of the Executive Board on relations with affiliated companies (Article 312 AktG), issuing the following statement on the report: "Based on our audit, duly carried out in accordance with professional standards, we confirm that: 1. the factual statements made in the report are correct; 2. the payments made by the Company in relation to the legal transactions listed in the report were not unreasonably high, or else the negative factors were offset; 3. the measures cited in the report do not indicate any matters that would give rise to an assessment that differs substantially from that of the Executive Board."

The above-mentioned documents, the Executive Board's proposal for the distribution of net earnings, and the auditor's reports, were submitted in good time to all members of the Supervisory Board. At its meeting on April 29, 2019, the Audit Committee examined these documents in advance and reported on them to the Supervisory Board at the latter's scheduled meeting on April 30, 2018. The Executive Board then presented the annual statements and reports to the Supervisory Board where they were discussed in detail. The independent auditors, who were present at both meetings, reported on their findings. The key audit areas for the fiscal year under review had been determined beforehand by the Audit Committee: the process of preparing the financial statements, the value of holdings in affiliated companies and the associated receivables, the value of other provisions for legal risks, the valuation of derivative financial instruments (for the 2018 financial statements), along with the process of preparing the consolidated financial statements, the recognition of revenue from project business in the sense of IFRS 15, the capitalization of development costs in the sense of IAS 38, and the level of warranty provisions (for the 2018 consolidated financial statements).

The Audit Committee could not identify any weaknesses in the risk management system, the internal control system, the internal audit system or the compliance management system. On the basis of our own examination of the annual financial statements, the consolidated financial statements and the Group management report, we did not find any grounds for objections and therefore concur with the Executive Board's evaluation of the position of Knorr-Bremse AG and the Knorr-Bremse Group. At the Audit Committee's recommendation, we approve the financial statements for 2018; the annual financial statements of Knorr-Bremse AG are thereby adopted. We discussed in detail the proposal for distribution of net earnings with the Executive Board and agreed with the Executive Board's proposed dividend of EUR 1.75 per eligible share for the 2018 fiscal year.

Changes on the Supervisory Board and Executive Board

The composition of the Supervisory Board and the Executive Board on December 31, 2018, is detailed on page 18/19 and page 7 respectively.

Supervisory Board

By resolution of the General Meeting held on May 29, 2018, Kathrin Dahnke was elected to serve on the Supervisory Board until the end of the 2021 Annual General Meeting. On July 12,

2018, the Supervisory Board elected Ms. Dahnke as a second Deputy Chair, and as Chair of the Audit Committee. She also sits on the Executive Committee.

By resolution of the General Meeting held on August 29, 2018, Prof. Dr. Klaus Mangold was elected to serve on the Supervisory Board until the end of the 2021 Annual General Meeting. Professor Mangold took over from Hans-Georg Härter, who stepped down from the board on August 31, 2018, for health reasons. The Supervisory Board elected Professor Mangold to be Chairman on August 30, 2018. Professor Mangold also chairs the Executive Committee and sits on the Audit Committee.

Mr. Sebastian Roloff resigned as member of the Supervisory Board due to a career change as of 31 March 2019. He has been a member of the Supervisory Board since 2014. On behalf of the Supervisory Board, I thank Mr Roloff for his work for Knorr-Bremse. As successor, Ms. Annemarie Sedlmair was appointed member of the Supervisory Board by court order effective April 1, 2019.

Executive Board

With effect from September 1, 2018, the Supervisory Board appointed Dr. Jürgen Wilder to the Executive Board for a three-year term and assigned him the responsibility for the Rail Vehicle Systems division, which Klaus Deller had previously headed since 2016, alongside his post as CEO.

With effect from October 1, 2018 the appointment of Klaus Deller as member and Chairman of the Executive Board was extended. Mr Deller has left the company in mutual agreement as of April 30, 2019.

With effect from January 1, 2019, the Supervisory Board extended the appointment of Dr. Peter Laier as a member of the Executive Board for a period of five years with the responsibility for the Commercial Vehicle Systems division, which is headed by Dr. Laier since 2016.

Thanks

2018 was an unusual and significant year for Knorr-Bremse. The Supervisory Board would like to thank all members of the Executive Board and all employees of the Knorr-Bremse Group for their enormous commitment, and for contributing once again to a very successful fiscal year.

Munich, April 30, 2019

On behalf of the Supervisory Board



PROF. DR. KLAUS MANGOLD
CHAIRMAN OF THE SUPERVISORY BOARD