



# **Annual General Meeting of Knorr-Bremse AG**

Speech by Executive Board Spokesman and CFO  
Frank Markus Weber

Munich, May 24, 2022

Advance copy of speech published on May 20, 2022

*The words spoken on the day of the Annual General Meeting are the authoritative version of this speech.*

To our shareholders,  
to the Thiele family,  
to everyone following along today,

On behalf of the entire Executive Board, I too wish to welcome you here today.

Before I launch into my speech for today's Annual General Meeting, I would like to take one moment to thank you, Professor Mangold, our Supervisory Board Chairman of many years, on behalf of the Executive Board and all my colleagues at Knorr-Bremse.

I particularly wish to emphasize:

- your highly professional and trustworthy cooperativeness
- your incomparable commitment to our Company, and
- your deep understanding of Knorr-Bremse and the people who work here

You have been a member and the Chairman of the Supervisory Board since 2018, the year in which Knorr-Bremse AG successfully went public. During this time, you have done a great amount for our Company. Over the last year in particular, following the unexpected passing of Heinz Hermann Thiele, you again took significant responsibility for the Company in your role as Supervisory Board Chairman by serving Knorr-Bremse in this position for a further year – a year longer than you had originally planned. In making this decision, you put the welfare of the Company above your own personal plans for life.

My dear Professor Mangold, thanks to your many years of expertise in international top-level management and extraordinary life experience, you have always been an excellent source of advice for us and Knorr-Bremse. For me – and the whole Executive Board – it has been a pleasure and honor to work with you.

At this particular time I would also like to welcome your designated successor, Dr. Ploss. On behalf of my Executive Board colleagues and myself, I would like to extend to you a warm welcome to Knorr-Bremse. We look forward to the intensive dialog and collaboration with you.

This of course also applies to Dr. Nikutta, whom I also wish to give a warm welcome.

Ladies and gentlemen,

I will begin my speech today with a look back at our business development during 2021. After that, we will take a look at the current 2022 fiscal year together. I will also address the numerous areas of geopolitical and economic tension at the moment and explain to you how our Company is responding to these challenges.

In the second part of my speech, I will describe the success achieved by our climate and sustainability initiatives and talk in depth about our focus topic of “innovation,” which is the basis for our commercial success and growth opportunities.

Before we come to the results of the last fiscal year, I would like to turn our attention toward current events in eastern Europe this spring.

We, the Executive Board of Knorr-Bremse, are appalled by Russia’s war in Ukraine and condemn Russia’s invasion of that country in the strongest of terms. This war is not only an attack on a free country, but also an attack on our democracy and liberal values in Europe.

We at Knorr-Bremse decided quickly that we want to provide concrete aid to the people affected in Ukraine and to the refugees. For instance, we as a company have donated € 500,000 and also matched every donation made by our employees. Thanks to the high rate of engagement among our workforce and the generous individual donations, we have already raised more than € 1.3 million. With this money, we will support things such as the aid provided in Ukraine by the German Red Cross and UNICEF, the UN’s aid agency for children.

Additionally, we have joined the Job Aid for Ukrainian Refugees initiative and are helping refugees with their integration here in Germany and with finding a job, including within our own workforce. Furthermore, our employees have started numerous initiatives in Germany and countries neighboring Ukraine to help people in the war zone as well as refugees. We support this outstanding commitment and are very proud of it.

These are important aid campaigns that showcase what we believe. We have simultaneously taken tough actions for our Russia-based business. Just a few days after the outbreak of the war, we temporarily suspended all deliveries that had Russia as their final destination. We of course comply with and support all relevant sanctions. To the extent permitted under sanction regulations, we are fulfilling the deliveries of the existing business in order to avert potential claims for damages – and in those cases only products or components that are used for civil applications and are unambiguously not subject to sanctions. What’s more, we decided very early on to exit from Knorr-Bremse KAMA Systems for Commercial Vehicles, which was our German-Russian joint venture with Russian automaker Kamaz.

We have now completed this step and ended our partnership with that company.

All this has had a huge overall impact on our Russian business operations: We are mainly delivering mechanical products and components only – and a mere fraction of these compared with last year. No new business is being acquired

Ladies and gentlemen,

I would now like to continue with a look back at the 2021 fiscal year.

The previous year was full of challenges:

the continuing Covid-19 pandemic, noticeable supply constraints, customers postponing orders, and rising geopolitical tension were just a few of the factors. However, we successfully overcame all this thanks to the fantastic dedication and amazing performance of the entire Knorr-Bremse team.

The financial figures for 2021, which we published on February 24, prove this, too:

- Our order book was at € 5.6 billion at the end of 2021, which is larger than it has ever been.

Our consolidated revenues came to € 6.7 billion, up 9%.

- Our operating EBIT margin rose to 13.5%, 30 basis points higher than it was in 2020.
- Net income grew to roughly € 650 million, an increase of almost 22%.
- We increased our total amount invested into research and development by almost 9% to € 431 million, which created a foundation for further innovation in our successful products and services.
- The main driver of revenue in 2021 was our Commercial Vehicle Systems division, or CVS, with a revenue jump of 20%. The EBIT margin improved in this division despite the difficult procurement conditions, rising by 240 basis points to 10.7%.
- Our Rail Vehicle Systems division, or RVS, attained stable revenue with a pleasingly high EBIT margin of approximately 18%. It achieved that even with a tough year for the rail industry, during which numerous customer projects were postponed due to reduced train utilization. It is important to note here that railroad operators have not canceled any orders so far.

In spite of all the challenges and adversity: We achieved our forecasts for the 2021 fiscal year. Knorr-Bremse also grew faster than the markets did over the past year. Moreover, it achieved higher profitability at the same time. We have delivered on our promises!

On behalf of the whole Executive Board, I wish to express my gratitude to our more than 30,000 employees globally for this success that we had in the 2021 fiscal year. They have done a fantastic job.

I would now like to give you, our shareholders, a brief overview of how the most important balance sheet ratios at Knorr-Bremse developed over the last fiscal year. They form the backbone of our strong financial profile:

- Given the uncertain economic environment, we believed that it was important to maintain a high degree of financial stability and flexibility while simultaneously reducing the Company's debt. By the end of 2021, gross debt was € 1.4 billion and reached a ratio of 1.15 in relation to EBITDA. Net debt to EBITDA came to – 0.09.
- In all our efforts, we attempted to maintain a “very healthy” level of equity. It came to € 2.43 billion at year end, which represents a strongly risen equity ratio of approximately 34%.
- We are reaping rewards from our strong focus on free cash flow. It amounted to € 600 million in the 2021 fiscal year and was accompanied by a cash conversion ratio of 93%, which is a very high figure compared to our peers.
- We will reinforce our efforts in the future too for further growth and will increase capital expenditure and expenses for research and development accordingly. However, we will keep a close eye on cash flow and strive for a cash conversion ratio of 80% to 90%.

A core component of our overall performance is our success with sustainability and ESG, that is, the environment, society, and corporate governance. At Knorr-Bremse, we listen to the people in our society. And they want to us to tell them what contribution Knorr-Bremse makes to tomorrow's sustainable world.

We at Knorr-Bremse want to shape the future of sustainable transportation and have made a commitment to supporting the reduction of carbon emissions – emissions made by our customers as well as us ourselves. We have reached a very important milestone in our own ambitious climate targets:

- The Knorr-Bremse sites around the world have been carbon-neutral – and therefore climate-neutral – since the end of 2021. Last year, 98% of the electricity supplied to Knorr-Bremse globally came from renewable energy sources and was obtained via green electricity contracts or green electricity certificates. We are very proud of this interim result and will not stop at it, either. Every gram of carbon dioxide counts for the protection of the climate.
- Furthermore, we are fully on track to reach our ambitious long-term target of halving our total carbon emissions by 2030. By 2021, we were already able to reduce more than 73% of our carbon emissions from 2018 levels.

- We are going to significantly expand our offering of information on the subjects of environment, society, and governance, or ESG. Our current sustainability report, which is published on our website, provides a qualitative presentation of our scope 3 figures for the first time. This means that the carbon emissions caused by our supply chains can now be seen.
- We launched the Heinz Hermann Thiele Employee Share Program last year, which lets our employees participate in the future success of Knorr-Bremse. The program is enjoying very high acceptance. Since its launch, roughly 25% of all Knorr-Bremse employees worldwide have taken part in it.
- We have rolled out a new global remuneration system for the Executive Board and management. Starting in 2022, it will make 20% of short-term variable remuneration tied to the achievement of sustainability targets for climate protection and occupational safety and health and to sustainability ratings.

We believe that our dividend should reflect the commercial success that we achieved in the 2021 fiscal year. The Executive and Supervisory Boards propose to the shareholders at this Annual General Meeting that a dividend of € 1.85 per share be paid for the last fiscal year. This would represent a roughly 22% rise on the year before it.

If you accept our proposal, the Group will distribute about € 298 million in total to you, our shareholders, after this Annual General Meeting. This would be equivalent to 46% of consolidated net income and is within the long-term payout ratio of 40% to 50% that we have communicated.

Ladies and gentlemen,

After going through the facts and figures for the 2021 fiscal year, I now wish to present our figures for the first quarter of 2022 and our guidance for 2022 as a whole.

We were able to achieve robust results in the first three months of the year despite the extraordinarily difficult situation in global markets currently:

- Our order intake benefited from high customer demand and rose significantly to approximately € 2.1 billion, which is more than 17%. Our order book grew by 18% to a new record level of € 6 billion.
- Our revenue remained nearly stable at about € 1.67 billion despite volatile market developments around the globe.

- Our profitability at the start of the year was shaped by global economic development. We achieved an EBIT margin of just under 11% in the first three months even with dramatic cost increases and Covid-19 developments in China.
- Moreover, we decided to embark on an internal Profit and Cash Protection Program for the entire Knorr-Bremse Group at an early stage, with an aim of compensating for current financial burdens – such as those from the dramatically increased prices for raw materials and energy. I will mention more about that shortly.

You can see that we are on the right path with our footing and two strong divisions – however, realistically we must also acknowledge that 2022 will be a very difficult year. Many economic indicators are pointing downward and there is uncertainty in the global markets.

This makes it all the more important to stay the course:

- We will strengthen our successful strategy further and continue implementing it. I will tell you a good example from our investment management in a second.
- We also need to continue developing our company digitally so that we can react with more speed and agility. An example of this is the successful internal rollout of IFRS at Knorr-Bremse. I will explain more about that shortly, too.
- In the places where it is needed, we will counteract the difficult environment with action on pricing and costs. I will talk to you about how determinedly we are doing this with our new Profit and Cash Protection Program in just a few minutes.

On behalf of the entire Executive Board, I can assure you that we are doing everything necessary to keep Knorr-Bremse on its successful path.

I would like to share with you an example of successful optimization in our internal structures:

While Knorr-Bremse has reported using the International Financial Reporting Standards, or IFRS, for a long time now, our internal planning was still done based on Germany's local GAAP, or HGB, until recently. Manually moving these HGB figures to IFRS involved significant extra effort on our part since our IPO.

This makes it all the more pleasing that IFRS has now been running on all SAP systems globally since the Easter weekend. I wish to express my thanks to all of the roughly 500 colleagues of ours who were involved in the successful completion of this extremely complex several-year project. This was outstanding teamwork!

Ladies and gentlemen,

Let's now turn toward our guidance for 2022 as a whole. Please allow me to preface this by saying:

The prospects for the current year are conditional on there being largely stable exchange rates, no significant Covid-19-related setbacks, and no significant deterioration in the geopolitical and economic environment compared to how it is currently. It is not yet possible to deliver a conclusive and full evaluation of the negative impacts that the war in Ukraine might have on business development. Accordingly, the current guidance does not include any direct negative effects.

There are two key figures in our Russian business that illustrate the dimensions that we are talking about here: Our Russian business produces revenue of about € 200 million annually and contributes 50 to 80 basis points to our EBIT margin, which is an important part of our Company's profitability. However, as I just mentioned, it is still too early to deliver conclusive evaluations on this subject.

Against this backdrop, we are confirming our operating forecast for 2022 and, based on today's perspective, we are expecting revenue between € 6.8 and € 7.2 billion, an operating EBIT margin of 12.5% to 14.0%, and free cash flow between € 500 and € 600 million for this fiscal year.

Overall, we believe there will still be major opportunities and growth possibilities for our rail division as well as our truck division in 2022, especially in Europe, North America, South America, and parts of Asia. There are two reasons for this:

Firstly, due to the stricter requirements that governments are setting for climate-protection targets. In this context, Knorr-Bremse can profit from efforts to decarbonize freight transportation, particularly in Europe.

Secondly, we can profit from innovative technology in the rail and truck segments. This is where Knorr-Bremse has traditionally been a pioneer. I will explain more about this exciting topic in a moment.

Nonetheless, we must still accommodate for additional risks to our business during the 2022 fiscal year:

The major challenges such as the ongoing global goods shortages and fallout from the Covid-19 pandemic, especially in China, are now being joined by the economic impacts of the war and the sanctions imposed on Russia – which include heavy inflation due to the dramatic increases in energy and resource prices, and these may rise even further because of wage increases and rising interest rates.

All of this is a burden on our business and we will have to work on many of these issues for a long time. The adverse circumstances are also being compounded by

the reduced growth of the global economy, for which it is important that we follow developments in North America and China in particular. There might even be a recession, which would further heighten the pressure on all companies.

In a situation like this, one of the important things we need to do is regularly review our portfolio structure. In times of doubt, we need to divest from investments that no longer fit our corporate or growth strategies or that do not meet our expectations for profitability. This being the case, the Executive Board has decided to initiate exploratory talks for selling our Kiepe Electric subsidiary in order to further increase the profitability of the Knorr-Bremse Group. We expect that this sale alone would produce a permanent 60 to 90 basis point improvement of the EBIT margin in our Rail Vehicle Systems division. Kiepe Electric provides solutions and sustainable concepts for public transit, such as buses and light rail. Kiepe Electric's role in this is to integrate various electrical subsystems for corresponding vehicle projects. Projects can and must only be carried out as part of consortia with vehicle manufacturers. Overall, this is a challenging business model which varies significantly from the present Knorr-Bremse portfolio and our growth strategy. We expect that the exploratory talks will last just a few months. Preserving the jobs at Kiepe Electric will play an important role in negotiations with potential buyers.

Ladies and gentlemen,

You are by now no doubt aware that Knorr-Bremse enjoys an excellent position. However, the dramatic situation in the overall global economy means that we too are being confronted with circumstances that have not been this extreme for a very long time.

We need to act. And that is exactly what we are doing!

We made the decision to implement our Profit and Cash Protection Program, or PCPP, back in March. Using this action plan, we will take fast and determined countermeasures to steer our Company through these tough times securely and with further success. What counts at the moment for Knorr-Bremse AG and its over 30,000 employees globally is this:

- We are all compelled to be extremely disciplined with our financial outlays.
- We are a leader for innovation and in the markets. Our customers greatly appreciate their business relationship with us and are therefore normally willing to contribute toward our increased costs. Some of our negotiations with customers on this matter have already been successfully concluded and will have a positive effect in the coming quarters.
- We are all determined to contribute to our Company's triumph over these turbulent times with our ideas, suggestions, and actions.

At this point in my speech, I would like to show you that there are good reasons for my optimism about the future. Our truck and rail divisions are extremely strong and innovative. They are both international market leaders and will successfully hold their ground even in a difficult market situation, just as they did last year. I will explain this based on a few examples:

Our Rail Vehicle Systems division initially saw passenger numbers drop worldwide and our customers postponing their projects. Moreover, rail business has been and is increasingly being affected by shortages and price increases for components and raw materials. Yet the market's characteristics remain the same as before: The long-term demand for train capacity is still high and the number of orders we have from our customers has reached record highs. We therefore expect that demand will progressively recover during the current year. In particular, RVS' largest market, Europe, will remain a driver of growth.

At our Commercial Vehicle Systems division, the shortage of chips and other crucial components is resulting in production cuts and temporary factory closures, especially for truck manufacturers. As a result, the global demand for commercial vehicles will remain higher than supply. Generally, we expect positive developments in Europe and North America.

Our Company's two divisions have been able to record notable success, a few examples of which I will mention now.

Let's begin with our Rail Vehicle Systems division:

- Swiss locomotive manufacturer Stadler has contracted us to install braking, door, and air-conditioning systems for 606 new metro cars for Berliner Verkehrsbetriebe, Berlin's municipal transit company. In addition, we will be supplying spare parts and providing digital maintenance for them for 32 years.
- Alstom, a customer of ours for many years, has extended its framework agreement with Knorr-Bremse by five more years. We will supply things such as braking and door systems for 69 Citadis light-rail vehicles.
- Our Merak subsidiary is modernizing the air-conditioning systems of 585 metro cars that belong to Transports Metropolitans, Barcelona's municipal transit company.
- By acquiring Evac, the leading supplier of train toilet and plumbing products, we at Knorr-Bremse have expanded our expertise in our role as a global provider of systems for rolling stock.

- In the fast-growing digitalization market, we are partnering with Deutsche Bahn and also Siemens for remote condition monitoring. This involves us, for example, analyzing maintenance data from railroad operations and monitoring the air-conditioning systems of regional trains in the UK through remote diagnosis.

Our Commercial Vehicle Systems division also has success reports which I am pleased to share with you:

- For instance, we have signed a new multiple-year supply contract with a world-leading truck manufacturer for braking and air-treatment systems worth roughly € 1 billion.
- In terms of fast-growing markets, we have successfully acquired our first major order of our Electric Power Steering solution.
- The Autobrains start-up also involves us being part of an extensive partnership. Furthermore, we have invested in this young company so that we can get an even stronger position in the “driver assistance” and “automated driving” fields of business.
- Recently, we also successfully ended a legal dispute with Bosch that had been ongoing for many years. In exchange for paying a purchase price of € 360 million, we will – subject to approval by antitrust authorities – take over Bosch’s 20% of shares and become the sole shareholder in Knorr-Bremse Systeme für Nutzfahrzeuge GmbH and Knorr-Bremse Commercial Vehicle Systems Japan Ltd.

Ladies and gentlemen,

We are boosting our Company’s growth opportunities by focusing on two core strategies that are tied very closely to each other: digitalization and innovation.

We do not see digitalization as a matter for the future. Rather, it has been a current-day topic for us for a long time now. Our systems and products are getting smarter and smarter, as are our digital services for remote diagnosis, predictive maintenance, and intelligent connectivity solutions. We support our customers so that they can operate their vehicles and train fleets without disruption.

Innovation is part of our DNA. The technology leadership and innovativeness that Knorr-Bremse stands for are the basis of our commercial future and therefore our leadership in international markets. These qualities have traditionally been the core of our success – and have been for decades. This success story is also the subject of our short innovation movie, which I would like to share with you.

>> INNOVATIONEN <<

Our innovation of today secures the profitable growth of tomorrow. Yet what do digitalization and leading innovation mean in detail for our two divisions? To answer this, I would like to present to you the key innovation and growth drivers in our two divisions.

First: the growth opportunities in our RVS division

- The digitalization of railroads is a major opportunity for the entire rail industry. In Europe, for example, we see potential profit in the digitalization of rail freight from the introduction of digital automatic coupling, which leads to significant time savings and therefore makes the “green” rail-freight market more competitive.
- In Europe alone, there are 450 to 500,000 freight cars that can be fitted with this kind of digital automatic coupling. The entire market volume runs up to € 7 to € 9 billion over multiple years.
- Our rail division will also profit from this trend: It is developing its own digital automatic coupling and has already produced its first prototypes.

Second: the growth opportunities in our CVS division

- Electric transportation and automated driving are the major themes that will change the truck market the most over the next few years. We at Knorr-Bremse are guiding our customers and will be trailblazers in this development.
- An important step on the journey there will be electric power steering (or EPS for short), which our truck division is currently working on.
- This purely electric technology not only forms the basis for ultramodern driver-assistance systems and automated driving, but also enables a significant reduction of fuel consumption and carbon emissions thanks to the power-on-demand principle behind it.
- Just recently, our truck division received a contract from a world-leading truck manufacturer for the installation of our EPS systems in all its new vehicles starting from 2025. This will mean a future order value of more than € 300 million.
- And this is just the start. We are one of the world’s top-three manufacturers of truck-steering systems and are on our way to setting the standards for them.

Ladies and gentlemen,

I would now like to conclude by addressing the most important priorities for 2022 that we on the Executive Board have set:

- Uncompromising quality and leading innovation have been and are the cornerstones of our success. They are also the basis for our leading market positions in both our divisions.
- We will continue to rely on the two pillars of our successful equity story: We will grow more strongly than our relevant markets and achieve high profitability, especially during critical market periods.
- Nonetheless, 2022 will remain challenging, with global political crises, rising inflation, complications in raw-material supplies, and tense supply chains. We can predict some of these global influencing factors, and others we cannot. That is why we are closely following all these developments and, if needed, are responding with further measures quickly and determinedly.
- Efficient capital allocation is important for us, with a clear priority on organic capital expenditure, which means focusing on expanding our own capacity and maintaining our leadership in technology. We invest our shareholders' money in a way that clearly adds value and maximizes the returns on the capital provided.
- We also listen to the people in our society. We do our part for sustainable economic development globally. In all of this, technology – including our technology – is the key to effective climate protection.

Ladies and gentlemen,

On behalf of the entire Executive Board, I would like to thank all employees for their excellent achievements. To our business partners, customers, and shareholders, I wish to express to you my gratitude for your ties to Knorr-Bremse. Our business activities center around all of you – and will continue to do so.

Thank you very much for your attention. Now I will hand over to you, Professor Mangold.