



# SUSTAINABILITY-LINKED BOND FRAMEWORK

*August 2023*



**KNORR-BREMSE**

**Content**

- About Knorr-Bremse..... 2**
- Sustainability at Knorr-Bremse ..... 3**
  - The Knorr-Bremse Sustainability Guidelines..... 4
  - Materiality Analysis ..... 5
  - Organizational Structure for Sustainability at Knorr-Bremse..... 5
  - Knorr-Bremse and the Sustainable Development Goals (SDGs)..... 6
  - Sustainability Ratings and Rankings ..... 7
- Sustainability-Linked Bond Framework ..... 9**
  - Rationale ..... 9
  - Structure ..... 9
- Sustainability-Linked Finance Instruments.....10**
  - Selection of a Key Performance Indicator (“KPI”) .....10
  - Calibration of Sustainability Performance Targets (“SPTs”).....12
  - Characteristics of Sustainability-Linked Finance Instruments .....15
  - Reporting.....16
  - Verification.....16

## About Knorr-Bremse

For over 115 years, Knorr-Bremse has been shaping the future of mobility as a major innovator of sustainable system solutions. We are the global market leader for braking systems and a leading provider of other systems for rail and commercial vehicles, and play a major role in improving safety, efficiency and reliability on road and rail. As a high-performance partner of vehicle manufacturers and operators, Knorr-Bremse also has leading market positions in door and air-conditioning systems for rail vehicles and driver assistance systems for commercial vehicles. We see ourselves as an innovator in our fields, driving forward mobility and transport technologies. The fundamental transformation of mobility is opening up new opportunities for Knorr-Bremse. Global megatrends such as urbanization, sustainability, digitalization, and mobility are defining these changes. We are ideally positioned to help shape a new world of transportation. More than 32,000 employees devote all their expertise and passion to our customers and partners – at over 100 locations in more than 30 countries around the globe. In 2022, the Group generated sales of EUR 7.1 billion with its two divisions. We continue to work every single day to maintain our position as one of the most successful industrial groups in Germany.

In our Rail Vehicle Systems division we equip mass transit vehicles such as commuter trains, metro cars and light rail vehicles, as well as freight trains, locomotives and high-speed trains, with highly advanced products. Along with braking systems these include intelligent entrance systems, HVAC systems, sanitary systems, coupling systems, a portfolio of digital solutions and smart services for optimizing rail transportation, power electrics and control technology, hardware and programming tools for train control and management systems (TCMS), electromechanical components and electrical traction equipment for light rail vehicles, signal systems, stationary and mobile testing equipment, wiper and wash systems and extensive aftermarket solutions (RailServices).

Our Commercial Vehicle Systems division supplies products and systems for trucks, buses, trailers and agricultural machinery. Knorr-Bremse is the world market leader in the global market for disk brakes as well as pneumatic braking systems for commercial vehicles. It is also a leading supplier of products for braking systems and vehicle dynamics (including steering systems), energy supply and distribution, and fuel efficiency. The product portfolio of the Commercial Vehicles Systems division includes, among other things, pneumatic braking systems (i.e., brake control systems, disk brakes, drum brakes, brake cylinders, valves and pedal units) and steering systems, vehicle dynamics solutions (i.e., antilock braking systems and electronic stability programs), driver assistance systems (e.g., emergency braking systems), automated driving and electronic leveling control, energy supply and distribution systems, including compressors and air treatment, products for boosting fuel efficiency such as engine components and transmission control systems (i.e., vibration dampers, engine air management, transmission control, and gear/clutch actuation) and trailer and aftermarket solutions.

More information on Knorr-Bremse can be found on our corporate website<sup>1</sup>.

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<sup>1</sup> [Start page | Knorr-Bremse Group](#)

## Sustainability at Knorr-Bremse

With its innovative systems solutions, Knorr-Bremse helps to make mobility and transportation more reliable, safer and more efficient. Accordingly, sustainability is a core element of our corporate identity and a foundation for our business success. With our sustainability management, we assume responsibility for our employees, customers and business partners, as well as for the environment and society.

### Sustainability Strategy and Management

Knorr-Bremse wants to live up to its environmental and social responsibilities. In line with this desire, we have committed to sustainable corporate governance and integrated sustainability into our organizational structures and business processes. We aim to strengthen this integration in the future because the company's sustainable direction contributes to its business success. The resulting sustainability strategy is impetus for adding value in a way that conserves resources and a key influence on our conduct as a fair business partner and employer.

Our sustainability management is designed based on international standards and internal rules. They lay out our requirements for sustainable corporate governance and are a guide for our employees' and business partners' conduct. These internal guidelines include, for example, our Sustainability Guidelines and our Group-wide Code of Conduct. Furthermore, we are guided by international guidelines and conventions such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the conventions of the International Labour Organization (ILO) and the UN Sustainable Development Goals (SDGs). Our sustainability ambitions are accomplished using the specific, established management systems and action programs.

Through our sustainability strategy, we have set the objective of constantly enhancing our sustainability performance in all areas of the value-adding process. We derive our strategic focus topics from our materiality analysis, international guidelines and external ratings and customer assessments. We also gain important input through dialogue with our stakeholders, such as customers, employees and investors. We have increasingly used the ESG approach to structure our overarching sustainability program, and the measures derived from it, since 2022. This means we are also following capital market requirements and future legislation more clearly.

Further, Knorr-Bremse is supporting responsible practices outside its immediate corporate scope through donations.

Knorr-Bremse Global Care e.V. ("**Knorr-Bremse Global Care**") is a globally active non-profit organization that offers new prospects to people who, through no fault of their own, are in need of support. It promotes projects of partner organizations primarily in the two areas of education and water, sanitation and hygiene (WASH).

## The Knorr-Bremse Sustainability Guidelines

### **Sustainability Guidelines**

Our sustainability guidelines set out the principles and strategic objectives for responsible corporate governance at Knorr-Bremse.

[Sustainability Guidelines](#)

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### **Code of Conduct**

Our Code of Conduct defines our understanding of responsible behavior for all Knorr-Bremse employees globally.

[Code of Conduct](#)

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### **Procurement Guidelines**

Our Supplier Code of Conduct demonstrates our obligation to fair and sustainable business practices within our supply chain. The quality guidelines for our procurement spell out the requirements that we have of our suppliers with regard to sustainability. The Conflict Minerals Policy governs the handling of conflict minerals and guides the Purchasing department at Knorr-Bremse as well as Knorr-Bremse's suppliers. Internal guidelines specify the extent to which sustainability aspects are to be taken into account in purchasing decisions for various categories (e.g., energy, business travel or energy-efficient products).

[Supplier Code of Conduct](#)

[Conflict Minerals Policy](#)

### **Compliance Guidelines**

There are six Group-wide compliance guidelines that specify principles for conduct. They cover dealing with gifts and invitations, donations and sponsoring, corruption prevention, conflicts of interest, screening of business partners and fair competition.

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### **Human Rights Policy**

The Human Rights Policy brings together all aspects relating to human rights that are currently spread across different Knorr-Bremse guidelines.

[Human Rights Policy](#)

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### **HSE Policy**

With our Health, Safety and Environment (HSE) Policy, we commit to high performance standards.

[HSE Policy](#)

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### **Product and System Safety Guidelines**

The Quality Policy defines our high quality requirements for the RVS division, while our Quality First Policy lays out our high quality requirements for CVS. The Product Safety and Product Conformity Organizational Policy, issued in 2022, provides an organizational framework for fulfilling our product safety requirements.

### Materiality Analysis

Our materiality analysis, which was updated in 2022, shows us the focus topics we need to prioritize in order to take responsibility for environmental and social challenges. The topics that are identified as material also determine the content of this report. During the analysis, we first evaluated the positive and negative impacts of our business activity on the environment and society from an inside-out perspective. Secondly, we analyzed the topics’ business relevance and impact on Knorr-Bremse’s future viability (outside-in perspective). This confirmed the following 13 focus topics from the previous materiality analysis:



### Organizational Structure for Sustainability at Knorr-Bremse

With a clear organizational structure, we ensure the analysis, structuring and implementation of the identified sustainability measures in the Group’s highest decision-making bodies. The organizational structure, which was expanded in 2022, is intended to drive the growing work in sustainability management both strategically and in terms of implementation.

The entire Executive Board is responsible for the business strategy’s focus on sustainability. The Sustainability department coordinates the sustainability strategy and reports directly to the Chief Financial Officer. To address the topic of sustainability in an organizationally appropriate way and support the implementation of the defined measures, the company relies on the Knorr-Bremse ESG-Board as the central coordination body. The ESG-Board, which meets at least four times a year, comprises two members of the Executive Board as well as a representative of senior management from each of the two divisions, the regions, the Chair of Knorr-Bremse Global Care e.V. and the Head of the Sustainability department.

The ESG Alignment Circle is a body that was installed in 2022 and precedes the ESG Board. It has the task of coordinating the implementation of the individual sustainability activities across departments and divisions and ensuring systematic process integration.



**Knorr-Bremse and the Sustainable Development Goals (SDGs)**

The United Nations’ 17 Sustainable Development Goals, which came into effect in 2015, provide guidance for companies to align their business activities with sustainable development across the entire value chain. Based on these Sustainable Development Goals (SDGs), the industry can use its economic power and strong innovation in a more targeted way to face the economic, social and environmental challenges. In this context, Knorr-Bremse wants to address the challenges through its business model and activities, and contribute to the achievement of the SDGs. Our sustainability strategy focuses on the five SDGs that we can have the greatest influence over through our business. Furthermore, Knorr-Bremse contributes to SDG 4 (Quality Education) and SDG 6 (Clean Water and Sanitation) through the activities of Knorr-Bremse Global Care e. V. (Social Commitment).

**We focus on the following SDGs**



### Sustainability Ratings and Rankings

Knorr-Bremse’s commitment to sustainability is evaluated regularly and recognized as part of external ratings and rankings. They are important to us as they confirm our direction and alert us to potential improvements. Using sustainability ratings and rankings, we analyze and evaluate the external perception of our sustainability performance. The comparison with our peers and early detection of trends gives us findings that we use to develop our sustainability management further.



#### DAX® 50 ESG

Knorr-Bremse has been listed in this index since it started. It presents the top 50 companies in Germany based on their ESG performance, market capitalization and revenue.

[DAX® 50 ESG](#)



#### S&P Global Corporate Sustainability Assessment

Knorr-Bremse scored 50 out of 100 points (2021: 52, 2020: 50), putting it in the top 24% of the comparison group. The S&P Global Corporate Sustainability Assessment takes into account economic criteria as well as environmental and social criteria based on the best-in-class principle. The most sustainable companies in an industry are added to the index.

[S&P Global Corporate Sustainability Assessment](#)



#### MSCI

Knorr-Bremse received an improved rating of “AA” in 2022 (2021: A, 2020: A), the second-best of seven categories. MSCI ESG ratings score companies on a scale from “AAA” to “CCC” with regard to their industry-specific ESG risks and their risk management.

[MSCI](#)

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#### ISS ESG

ISS once again gave Knorr-Bremse the prime status of “C+” (2021: C+, 2020: C+), thus putting Knorr-Bremse among the best 10% in the industry comparison. ISS ESG assesses a company’s sustainability performance on a scale from “A+” to “D-”.

[ISS ESG](#)



#### Morningstar Sustainalytics

In April 2022 Knorr-Bremse scored 19.5 out of a total of 100 risk points and was therefore classified as low risk. Sustainalytics categorizes ESG risks across five risk levels (negligible, low, medium, high and severe).

[Sustainalytics](#)

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**CDP**



CDP rates Knorr-Bremse “C” for transparency and performance on climate protection (2021: B, 2020: A-). This puts Knorr-Bremse in the top 53% of the comparison group. The measures that we adopted in 2022, such as the Scope 3 reduction target, will contribute to the rising requirements for corporate climate protection initiatives only at a future point in time. For this reason, we are confident that we will be able to reverse our year-over-year fall in this rating. CDP rates companies on climate protection according to a scale from “A” to “D-,” with “A” being the highest.

[CDP](#)

**EcoVadis**



Knorr-Bremse received Silver status for 2022 (2021: Gold status, 2020: Silver status). This puts us in the top 9% of companies in the comparison group. EcoVadis rates suppliers from 150 countries in the categories of Environment, Labor & Human Rights, Ethics and Sustainable Procurement, awarding a status of Platinum, Gold, Silver or Bronze.

[EcoVadis](#)

**SAQ – Sustainability Self-Assessment Questionnaire by Drive Sustainability**



Eighteen Knorr-Bremse sites are rated within a range from 81% to 93% (2021: 17 sites within a range from 80% to 93%, 2020: 13 sites within a range from 80% to 89%). The Self-Assessment Questionnaire (SAQ) is a survey for suppliers in the automotive industry. It rates the sustainability management of a company’s individual sites on a scale from 0% to 100%.

[Drive Sustainability](#)

## Sustainability-Linked Bond Framework

### Rationale

The Sustainability-Linked Bond Framework (the “Framework”) serves as basis for the issuance of Sustainability-Linked Finance Instruments by Knorr-Bremse. At Knorr-Bremse, we are strongly committed to drive sustainability within our own operations as well as beyond. We think that sustainable finance can serve as a significant tool in contributing to the sustainable transformation of the economy. For this purpose, we consider the alignment of our financing strategy with sustainability objectives and related measurements as a powerful step to further drive our ambitions and communicate our goals in a transparent and credible way to the capital market, as well as within the organization and to other stakeholders.

As a first step in this regard, we signed a new syndicated loan whose interest is being linked to our sustainability rating by ISS Corporate Solutions at the end of 2021. Further, we issued the first bonds linked to sustainability targets under the predecessor of this framework in 2022, outlining our ambition to further increase data quality in Scope 3 and to define company-wide science-based climate targets, for Scope 1+2 as well as for most relevant Scope 3 emissions. Moreover, we have also implemented a Sustainability-Linked Supply Chain Finance Program, linked to the ESG rating of suppliers.

In June 2023, our corporate climate targets were assessed against the Call to Action’s eligibility criteria by the Science Based Targets initiative (SBTi) and finally approved. The SBTi has classified our scope 1 and 2 target ambition and determined that it is in line with a 1.5°C trajectory. The corresponding scope 3 comprises the most relevant scope 3 emission categories “3.1 purchased goods and services”, “3.4 upstream transport and distribution” and “3.11 use of sold products” and were also subject of approval by SBTi.

Following our ambition to further drive the integration of sustainability goals and strengthen the commitment to sustainability, this framework sets out new and additional sustainability targets, thus following up on our previous announced ambitions and emphasizing the pathway we are following as well as allow a transparent measurement of our performance and evaluation of actions.

### Structure

The Framework serves as the uniform platform for the issuance of Sustainability-Linked Finance instruments by Knorr-Bremse. It is aligned with the Sustainability-Linked Bond Principles<sup>2</sup> (SLBP 2023) by the International Capital Market Association (ICMA) and the Sustainability-Linked Loan Principles<sup>3</sup>

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<sup>2</sup> [Sustainability-Linked-Bond-Principles-June-2023-220623.pdf \(icmagroup.org\)](#)

<sup>3</sup> [Documents \(lma.eu.com\)](#)

(SLLP 2023) by the Loan Market Association (LMA), representing voluntary best practices for sustainability-linked finance instruments.

Sustainability-linked finance instruments as defined in this Framework may include but are not limited to covered/secured or unsecured bonds, convertible bonds, loans, and Schuldscheine. The instruments can be of any seniority, including subordinated/hybrid instruments, but are in all cases ranking pari-passu with other conventional instruments of similar status and subordination.

As outlined by the ICMA SLBP 2023 and the LMA SLLP 2023, the Framework is structured around the following five chapters:

- Selection of Key Performance Indicator
- Calibration of Sustainability Performance Targets
- Characteristics of Sustainability-Linked Finance Instruments
- Reporting
- Verification

## Sustainability-Linked Finance Instruments

### Selection of a Key Performance Indicator (“KPI”)

Knorr-Bremse selected two Key Performance Indicators (“KPI”) based on the relevance, core and materiality to its overall business and considering a high strategic significance to its sustainability strategy. Further, we considered the global political ambitions and actions plans, such as by the United Nations or the European Union, which Knorr-Bremse is fully committed to support.

The KPIs selected and outlined below form a central part of our sustainability and corporate strategy and are contributed to by the whole organization and also endorsed by the Executive Board.

#### Key Performance Indicators:

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#### KPI 1: Scope 1+2 GHG emissions (market-based) in absolute thousand metric tons

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#### KPI 2: Key Scope 3<sup>4</sup> GHG emissions in absolute thousand metric tons

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<sup>4</sup> Defined categories of Scope 3 as provided under “Methodology for the calculation of the KPIs”

**Methodology for the calculation of the KPIs**

**Scope 1+2**

The carbon accounting is based on the recognized requirements of the Corporate Accounting and Reporting Standard (Scopes 1 and 2) of the Greenhouse Gas Protocol. It factors in direct CO<sub>2</sub>e emissions from the company’s own emission sources (Scope 1) and indirect emissions from the generation of purchased energy (Scope 2), based on the market-based approach. As with the underlying energy consumption, we report on emissions in accordance with our HSE reporting guideline. As such, we account for locations with more than 50 employees or locations with an environmental management system, which primarily concerns production and service sites. This results in a coverage rate of around 97 % of Knorr-Bremse employees.

**Scope 3**

Knorr-Bremse records its Scope 3 emissions in accordance with the Corporate Value Chain (Scope 3) Standard. The accounting and disclosure with limited assurance is recognized as CO<sub>2</sub> equivalents and are currently limited to the most relevant categories: 3.1 – Purchased Goods and Services; 3.4 – Upstream Transportation and Distribution; 3.11 – Use of Sold Products.

More information on the precise calculation approach can be found in Knorr-Bremse’s annual reporting that includes the KPIs.

**Historical Performance of the KPIs<sup>5</sup>**

	<b>2018</b>	<b>2021</b>	<b>2022</b>
<b>KPI 1 (in ktCO<sub>2</sub>e)</b>	167	76	58
<b>KPI 2 (in ktCO<sub>2</sub>e)</b>	-	29,782	28,287

**Materiality of the KPIs**

Given the threat of climate change, substantial emission reductions of carbon emissions for a company’s own operations as well as the whole value chain are required to align with international ambitions. As such, it is of paramount importance to Knorr-Bremse to contribute to international efforts on the company level and reduce the carbon emissions related to its production processes but also its suppliers and other upstream activities, as well as its clients considering the use phase of its products (downstream). The importance of these matters is also confirmed by Knorr-Bremse’s materiality analysis of climate protection on the company level, showcasing on the one hand a high business relevance, but also a relevant impact on the environment and society by Knorr-Bremse.

<sup>5</sup> Figures below mirror latest definition of system boundary (inclusion of M&A and emissions from loss of cooling agents) as set in the SBTi submission form (2023). Thus, they are slightly differing from Scope 1+2 values disclosed in the Sustainability Report 2022.

To emphasize the efforts Knorr-Bremse is undertaking on this pressing matter, it has selected its **Scope 1+2 GHG emissions (KPI 1) and its Key Scope 3 GHG emissions (KPI 2) as the KPIs for this framework.**

By driving efforts to decarbonize its own operations and value chain, Knorr-Bremse’s ambitions in this regard can be associated with generating a positive sustainable impact by contributing to the UN SDG 13 - Climate Action and the European Union environmental objective “Climate Change Mitigation”, as defined in the EU Taxonomy.

**Calibration of Sustainability Performance Targets (“SPTs”)**

<b>SPT 1: Reduction of Scope 1+2 GHG emissions (KPI 1) by 75% by 2030 vs. 2018 baseline</b>	
Target	Reduction of Scope 1+2 GHG emissions (KPI 1) by 75% to 41,872 tCO <sub>2</sub> e by 2030 vs. 2018 baseline
Target Date	31 December 2030
Baseline	167,490 tCO <sub>2</sub> e as of 31 December 2018

**Rationale and Strategy**

Knorr-Bremse has set itself the objective of making mobility more sustainable. Climate protection and reductions of carbon emissions are two key goals in this effort. With our Climate Strategy 2030, we want to make our contribution to the goals of the 2015 UN Paris Agreement to limit global warming to a maximum of 1.5 degrees. In a first step, we are focusing on reducing emissions that arise as a result of energy use by Knorr-Bremse’s production sites and vehicle fleet (Scope 1 and market-based indirect Scope 2 emissions).

In 2019, the company set a goal of reducing production-related carbon emissions by at least 50.4% by 2030. This target has been strengthened in 2023 to a -75% reduction as outlined above. While setting this target, Knorr-Bremse has conducted a relevant peer analysis and benchmarking exercise.

This target has also been validated by the Science Based Targets initiative (SBTi) in June 2023 to be compliant with a 1.5°C pathway.

Knorr-Bremse’s strategy to achieve the desired emission reduction is based on the following three levers – which were already successfully applied in recent years:

 <b>Increasing CO<sub>2</sub> and Energy Efficiency</b>	 <b>Self-Generation of Renewable Energy</b>	 <b>Purchase of Renewable Energy</b>
Energy efficiency measures and the use of low-carbon fuels in heating systems and the company's vehicle fleet.	Investments in measures to increase the share of self-generated renewable energy at Knorr-Bremse sites.	Increased use of renewable energy purchased by the company through long-term power purchase agreements, green-power products and certificates. Most of Knorr-Bremse's environmental investments are planned for energy efficiency and self-generation of renewable energy.

Besides executing on the strategic measures, the achievement of this target might be influenced by external factors, such as the availability of renewable energy, the availability of the relevant technological equipment, the overall technological progress, changes in the relevant energy mix, force majeure such as events like the Covid-19 pandemic or more.

<b>SPT 2: Reduction of key Scope 3 GHG emissions (KPI 2) by 25% by 2030 vs. 2021 baseline<sup>6</sup></b>	
Target	Reduction of Scope 3 GHG emissions (KPI 2) by 25% to 22,336 ktCO <sub>2</sub> e by 2030 vs. 2021 baseline
Target Date	31 December 2030
Baseline	29,782 ktCO <sub>2</sub> e as of 31 December 2021

**Rationale and Strategy**

As Scope 3 emissions make up the largest share of emissions for Knorr-Bremse and its peers, it is of paramount importance for us to concentrate efforts not just on the own operations but drive sustainability considerations both up- and downwards the value chain to ensure the full alignment with a limitation of global warming to well below 2 degrees Celsius.

In this regard, Knorr-Bremse has defined the above-mentioned target focusing on its value-chain. We conducted a detailed analysis of the three included Scope 3 emission categories to identify the steps of the value chain that cause the largest amount of carbon emissions. As a result of this analysis, we were able to determine the biggest emission drivers during the reporting period and identify clear areas of action based on these findings. For the target definition, Knorr-Bremse also conducted a relevant benchmarking and peer-analysis exercise.

<sup>6</sup> Scope 3 comprises in this case the categories “3.1 – Purchased Goods and Services”; “3.4 – Upstream Transportation and Distribution” as well as “3.11 – Use of Sold Products”

The defined target has also been validated by the SBTi in June 2023 to be compliant with a Well-below 2°C pathway.

In order to achieve this target, Knorr-Bremse focuses on the following actions:

- Technological innovation: Knorr-Bremse drives forward safe, efficient, and sustainable mobility and transportation technologies through constant innovation. With consistently environmentally oriented product development, we contribute to climate and environmental protection and create a competitive advantage for ourselves in the medium and long term. With Knorr-Bremse EcoDesign - environmentally compatible product design - we develop products, processes and services with improved environmental compatibility and energy efficiency over the entire product life cycle.
- Resource efficiency: Knorr-Bremse continuously optimizes the use of raw materials, consumables and supplies and, as far as possible, aims on recycling them.
- Knorr-Bremse strives for eco-friendly logistics throughout its entire value chain. We continuously optimize our operational transport management and network, including with the support of external service providers. These contractors assume responsibility for the planning, consolidation and operational execution of deliveries from external suppliers to Knorr-Bremse, goods transportation between Knorr-Bremse sites and deliveries to our customers. We strive to minimize both costs and the environmental impact of product transportation. We also continuously optimize our coordinated usage of rail, road and shipping connections. We achieve this through the use of standardized processes and methods, which, at the same time, increase our service quality across all distribution channels with regard to delivery reliability, delivery quality and delivery deadlines.

Besides executing on the strategic measures, the achievement of this target is dependent on external factors, such as the progress achieved by Knorr-Bremse's suppliers, the availability of the desired technological solutions and offerings, the overall market developments in the sectors we are operating in as well as respective customer preferences towards energy- and CO<sub>2</sub>-efficient solutions, changes in the relevant energy mix, force majeure such as events like the Covid-19 pandemic or more.

## Characteristics of Sustainability-Linked Finance Instruments

Sustainability-Linked Finance Instruments issued under this Framework by Knorr-Bremse have their financial characteristic in some way linked to the performance of at least one of the KPIs defined in this framework. The precise characteristics of any instrument issued under this Framework (incl. all relevant definitions) will be specified in the respective instrument documentation.

In general, if Knorr-Bremse does not achieve the respective SPT(s) or fails to report the respective KPI(s) as set out in the instrument documentation of the respective instrument a Trigger Event will occur, which will result in a change in the financial characteristics of the instrument.

The implications on the financial characteristics of the Sustainability-Linked Finance Instrument in case of a Trigger Event can vary and will be defined in the documentation of the respective Instrument. Depending on the respective structure, variations could also become effective upon an avoidance of a Trigger Event. Generally, such variations include but are not limited to coupon step-up(s), coupon step-down(s) and/ or a higher or a lower redemption price payable.

Suitable structures and variations of the financial characteristics will be selected by Knorr-Bremse as of the time of issuance, considering internal requirements, market standards and best practices. In line with common market standards, Knorr-Bremse will provide annual targets in case required (such as for loan instruments).

### Recalculation Option

Knorr-Bremse reserves itself the right to conduct amendments to the baseline and consequently the SPTs, in case of structural changes, such as M&A activities or changes in the calculation methodology for a KPI which lead to a significant change of Knorr-Bremse's respective GHG emissions inventories. The threshold value defining a significant change is defined at 5%. The adjustment mechanism allows Knorr-Bremse a revision of the relevant SPTs proportionate to the change in its baseline GHG emissions inventory, resulting from the relevant structural changes (acquisition, merger, divestment) and/or from changes in the calculation methodology<sup>7</sup>.

In case of any other changes to the Framework, the KPIs and SPTs set out in this Framework will remain applicable throughout the tenor of any Sustainability-Linked Finance Instrument issued under this Framework, as prevailing at the time of issuance of the respective instrument, regardless of any subsequent changes or updates of the Framework and/or Knorr-Bremse's sustainability or corporate strategy.

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<sup>7</sup> GHG Protocol Corporate Accounting and Reporting Standard ([Corporate Standard | Greenhouse Gas Protocol \(ghgprotocol.org\)](https://www.ghgprotocol.org)) and/or the GHG Corporate Value Chain Accounting Reporting Standard [Corporate-Value-Chain-Accounting-Reporting-Standard\\_041613\\_2.pdf \(ghgprotocol.org\)](https://www.ghgprotocol.org) or any similar that in the future might replace one of these standards

## Reporting

Knorr-Bremse will report on the KPI annually, and in any case for any period relevant for assessing the occurrence of a Trigger Event, within the non-financial section of its Annual Report (or similar). The reporting will provide the performance of the KPI in the respective financial year, as well as any information Knorr-Bremse deems relevant for the assessment of the KPI performance (such as information on the baseline, application of the recalculation mechanisms, measures taken to progress towards the defined SPTs, achievement of the SPT in the target year).

The reporting will also provide information on material potential changes to the corporate and sustainability strategy, changes in any calculation methodology, changes in the relevant governance, illustrate how the progression of the KPIs towards the SPTs achieved a sustainable positive impact and provide context on selected drivers that affected the KPI performance. Further, the annual reporting will provide information on the sustainability-linked related impact and timing of such impact on the instrument's economic characteristics in the target year.

The reporting will be provided on Knorr-Bremse's website, thus being publicly available and easily accessible to all stakeholders.

## Verification

The non-financial section of Knorr-Bremse's annual report is subject to an independent and external verification assurance statement (limited assurance) that is covering the performance of the stated KPIs and information on the achievement of the SPTs in the relevant reporting subsequent to the target year. The annual report contains the assurance statement of the auditor or any other qualified provider appointed by Knorr-Bremse and is thus publicly available to all stakeholders. The assurance report will describe the level and type of verification, a description of the procedures conducted, a description of the subject matter of verification and the criteria used and a confirmation of the auditor's independence and conformance with quality management systems. It will be provided annually, and in any case for any period relevant for assessing the occurrence of a Trigger Event.

## Second Party Opinion

Knorr-Bremse has appointed S&P Global Ratings Europe Limited ("S&P Global") to provide an independent pre-issuance Second Party Opinion ("SPO") report to evaluate this Framework and confirm its alignment with the ICMA SLBP 2023 and the LMA SLLP 2023. The SPO report will be accessible at Knorr-Bremse's corporate website and is also available on the website of S&P Global.

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