



Governance

Corporate governance as practiced by Knorr-Bremse aims, without exception, to adhere to responsible business practices and principles. We increasingly and continuously integrate aspects of sustainability into our organization and business processes. This principle applies to both company financing and the structure of the supply chain. Moreover, we believe it is particularly important to apply predictive risk and opportunity management as this approach can yield information that is vital to the company's future.

Responsible Corporate Governance

Knorr-Bremse responds to industry trends such as connectivity, e-mobility and sustainability with innovative, long-term, system-based solutions. In doing so, we act as a driving force to help our global customers in the rail and commercial vehicle industries to develop their sustainable mobility solutions and achieve digital transformation. Our systems for the reliable, safe and efficient transportation of goods and passengers are designed to add value for our customers and make a positive contribution to society.

We take the responsibility associated with our entrepreneurial activities very seriously. We apply responsible corporate governance that observes laws, strengthens our image and creates trust in Knorr-Bremse among our shareholders, the capital market, customers, business partners, employees and the general public. Each goal set and activity undertaken by Knorr-Bremse must always reflect our company values: entrepreneurship, technological excellence, reliability, passion and responsibility. We believe that these company values are the foundation of long-term success.

Our governance structures support our commitment to responsible corporate governance and ensure transparency as well as clear leadership and responsibilities. They apply to the entire leadership and monitoring systems at the company and include Knorr-Bremse's organizational structures, business policy principles, guidelines and internal and external management and monitoring mechanisms. We adhere largely to the recommendations of the German Corporate Governance Code. More information about Knorr-Bremse's implementation of these recommendations can be found on our website ([→ Corporate Governance](#)) and in our [→ Corporate Governance Statement 2022](#).

Our commitment to sustainability is an integral part of our business activity. The sustainable direction for corporate governance has been firmly integrated into the company's organizational structures as well as its allocation of responsibilities and business processes through sustainability management ([→ Sustainability Management](#)). The Executive Board has defined a set of key performance indicators that are designed to help plan and steer the sustainable direction of Knorr-Bremse. A selection of KPIs are linked to the new remuneration system for management levels 0 to 2 (Executive Board, senior management, regional managing directors and heads of department) as ESG criteria. Implemented for the first time in fiscal year 2022, 20% of the short-term variable remuneration (short-term incentive) is now linked to the achievement of sustainability targets on climate protection and occupational safety as well as to external sustainability ratings ([→ Compensation Report](#)). The inclusion of ESG criteria in short-term variable compensation is planned to be expanded to other management levels analogously to management levels 0 to 2. This link between remuneration and ESG criteria will embed the spirit of sustainability throughout the company's management team even more strongly and thus in the day-to-day conduct of the company's managers and workforce, as well.

Integrity and Compliance

Compliance management is guided by our aspiration of always complying with laws, internal regulations and voluntary commitments. This is because only as reliable business partner will we gain the trust of employees, customers and business partners needed for sustainable company growth and thus shareholder value. We therefore place great emphasis on dealing with our stakeholders with integrity and responsibility. Combating corruption and bribery is an important part of corporate responsibility and one of the key topics in compliance management at Knorr-Bremse. We do not tolerate any form of corruption or other unfair business practices and expect the same of our business partners. Conflicts of interest, including and especially in dealing with our business partners, must be avoided. We have also established the respective compliance policies.

Our compliance requirements across the entire supply chain are set out in a Group-wide Code of Conduct. On the basis of Knorr-Bremse's corporate values and the principles of the UN Global Compact, the code defines the principles for Group-wide responsible business conduct, including a prohibition of corruption in any form. These principles of action and rules are binding for all the Group's employees and are a component of the written employment contracts for new employees around the world. We have given concrete expression to these principles through six Group-wide compliance policies:

- Dealing with Gifts and Invitations
- Donations and Sponsoring
- Corruption Prevention
- Conflicts of Interest
- Screening of Business Partners
- Fair Competition

Moreover, we have developed compliance guidelines for our suppliers. Our mandatory Group-wide Code of Conduct for Suppliers defines our expectations regarding responsible working relationships with these suppliers. The code is a way to combat corruption and addresses a wide range of issues, including human rights and environmental protection (→ [Sustainability in the Supply Chain](#)).

Relevant compliance risks are compiled and assessed in the Compliance Management System (CMS). The CMS's main goal is to effectively anchor compliance in business processes. For example, we want to ensure that employees comply with the law and internal regulations, prevent systematic misconduct and detect and remedy breaches.

Corruption prevention, ensuring fair competition and avoiding conflicts of interest are defined as the focus issues for Knorr-Bremse's CMS. The basis of this decision is a compliance risk analysis, which was carried out with the involvement of selected business areas and markets and was updated in 2022. As part of a worldwide compliance risk assessment, possible compliance risks were compiled and assessed on the basis of risk scenarios. The compliance processes were also reviewed and the manner of their implementation was recorded regionally. Around 50 Knorr-Bremse companies, which cover more than 80% of Knorr-Bremse AG's annual revenue, were assessed.

Establishing a Compliance Organization

The Chief Compliance Officer (CCO) is responsible for implementing the CMS, except in the area of anti-trust and competition law, where the Legal department is responsible for the CMS. The CCO reports to the member of the Executive Board responsible for Integrity, Legal Affairs and Resources. Compliance topics are also a regular agenda item in Executive Board meetings. The Supervisory Board and the Audit Committee are also informed regularly about the status of the CMS. Along with the global heads of Knorr-Bremse's Controlling, Human Resources, Accounting, Legal and Internal Audit departments, the CCO is a member of the Compliance Committee. The Compliance Committee advises on initiatives and strategies for developing the CMS, on current compliance topics and on focuses of compliance activities. In the Knorr-Bremse regions, regional compliance officers take on the role of advising and training employees, processing compliance cases and identifying local risks. The compliance organization's head count was even increased in 2022. Business activities in China, India, South America and the US are now supervised by full-time compliance officers. Local compliance officers are additionally assigned to almost all Knorr-Bremse companies and are involved in the local implementation of the Compliance Management System.

The internal Group audit department supports the Executive Board in its monitoring function through independent and objective audit procedures. These are geared to improving business processes and uncovering any breaches of laws or internal rules or guidelines. The Internal Control System (ICS), to which we added further compliance-specific controls in 2022, further serves to verify adherence to compliance guidelines. Knorr-Bremse sites must also conduct spot checks to prove that they are effectively implementing the guideline requirements. In 2022, preparations were begun for auditing the Compliance Management System for adequacy and effectiveness in 2023.

Well-Developed Complaint Management

Employees, business partners and external individuals can report information on any possible compliance breach to the compliance organization by email, directly through the compliance organization or online through an independent and anonymous whistleblower system. This globally accessible portal operated by an external service provider allows information on any compliance breaches to be reported in 31 different countries and in 20 languages (→ [Knorr-Bremse Compliance](#)). Information about the system is communicated internally and during training events and in the Group-wide intranet. In addition, the Incident Notification and Alarm Services (INAS) system is used for non-anonymous reporting of time- and safety-critical events from the areas of compliance, data protection, information security and Group security. Events classifiable as critical reach the responsible area of the Group directly via the system.

Starting in 2023, the whistleblower system will be extended by commissioning an external ombudsman service, which will serve as an additional point of contact for receiving information and complaints. The external ombudsman service will then pass the information and complaints on to us.

Complaint



Whistleblower gains knowledge of suspected reportable action



Report is received via various reporting channels – including anonymously if desired



Initial review



- Clarification of open points and consultation with the whistleblowers (where possible)
- Clarification of whether a direct remedy is possible
- Clarification of internal responsibilities



Internal forwarding

Complaint is forwarded to the relevant body within the Group

Assessment



Assessment by the relevant body

- Assessment of report's subject matter and of potential damage
- Consultation with the whistleblowers, where possible
- Consultation with other parties involved
- Proposal for next steps



Decision on the investigation

- Report is substantiated
- The matter can be clarified using the available means in a legally conforming way

Internal investigation



Examination

- Interviews, document review, site visits, etc.
- Final report with recommendations for action



The management decides on **sanctions and remediation**

Remediation and root cause analysis



Remediation, e.g.,

- Disciplinary measures
- Adjustment of processes
- Training & communication
- Compensation & reimbursement
- Adjustment of risk analysis



Implementation by the local management or relevant body

In 2022, the Executive Board approved new rules of procedure for dealing with whistleblower information and complaints. These govern the process, responsibilities and the rights of whistleblowers and the individuals concerned. Key principles include the protection of whistleblowers from disadvantages, the fairness and confidentiality of the process, the independence of investigations and the safeguarding of data privacy. We follow up on every suspicious activity report or forward it on to the competent departments for further investigation. Where the initial suspicion is substantiated, investigations are carried out. Any misconduct found is penalized.

In the year under review, 90 reports were recorded in our Group-wide whistleblower system (2021: 45; 2020: 21). The number of reports thus doubled compared to the previous year. 29 of the reports (2021: 10; 2020: 6) concerned information on discrimination or other labor law topics (→ [Due Diligence Process for Human Rights](#)). Nine reports (2021: 2; 2020: 6) concerned information on corruption. In three cases, the information was not confirmed. In the remaining six cases, the investigations are still ongoing. There were no lawsuits, judgments or fines due to corruption offenses in the reporting period. In one case reported internally before the reporting period, personnel measures were taken in 2022 and two employees were dismissed.

Prevention through Training and Communication

To prevent compliance breaches, Knorr-Bremse relies on transparent communication and employee training. In the year under review, the Executive Board confirmed its commitment towards integrity and communicated its expectations of managers and employees clear on the intranet and at various manager events and employee meetings.

A global e-learning module on our Code of Conduct is available in 13 languages and needs to be completed online every two years. In addition, another e-learning module on the topic of preventing corruption, aimed at employees in purchasing or sales, was rolled out in 2022. This training too must be repeated every two years. In December 2022, around 96% (2021: 97.5%, 2020: >95%) of the 17,270 employees with access to e-learning platforms (approximately 55% of the entire workforce) had a valid certificate for the training on the Code of Conduct. 3,770 employees were enrolled for the anti-corruption training, of which 95% had obtained a valid certificate by the end of December 2022.

In addition to e-learning, audience-specific face-to-face events for employees are held on specific compliance content and our guidelines. 64 compliance training courses were held globally (2021: 25) in 2022.

Management of Sustainability-Related Risks and Opportunities

As an international corporate Group with global structures, Knorr-Bremse encounters risks as well as opportunities in its business activities. The goal of risk management is to identify risks across the Group and minimize their potential impact on the Group's anticipated business position. Equally, such risk management should proactively leverage opportunities to increase the company's value.

Risk Management

The risk management system is rooted within a Group policy that comprehensively defines areas of responsibility and reporting structures. The processes used in risk management are based on the procedures within Knorr-Bremse's organizational structures.

For this reason, Knorr-Bremse encourages all employees to proactively report risks and requires them to deal with risks in a responsible manner. A global risk inventory that involves all of the Group's companies is conducted every quarter. In addition to regular reporting periods, an internal ad hoc reporting process enables risks of major significance to be identified at an early juncture. The Executive Board of the Knorr-Bremse Group receives a quarterly report that outlines the development of the opportunity and risk situation. The details are then discussed at the Executive Board meetings. The Supervisory Board conducts an in-depth review of the risk report at least once a year and also on an ad hoc basis if necessary.

The risk management system established in the Group is subject to continuous refinement, which includes adjustments of internal and external requirements. It also includes the risk category "sustainability." It encompasses risks in connection with environmental and climate protection and the protection of human rights.

The risks relating to environmental and climate protection concern, for example, rising energy and material costs as a result of increased environmental regulations and the increasing taxation of carbon emissions as part of the journey to a decarbonized economy. In the future, meeting ESG requirements will have an increasing influence on the financing of the Knorr-Bremse Group. In addition, climate change can disrupt supply chains and impact material properties that are relevant to product quality. The company deals with these risks at an early stage in order to be able to react to them adequately and with appropriate measures in all areas. We respond to the risks that could arise from the implementation of the German Supply Chain Due Diligence Act by integrating human rights due diligence into our operating processes even more strongly, with the goal of minimizing human rights risks and preventing negative impacts on our business activities. Therefore, we also use the results of the human rights risk analyses and associated information on potential human rights breaches (→ [Due Diligence Processes for Human Rights](#)).

In addition to risks in the "sustainability" category, we provide information regarding risk categories such as "compliance," "human resources" and "IT systems & IT security." Descriptions of these and other material risks as well as a detailed explanation of our risk management system can be found in our → [Report on Risks, Opportunities and Expected Developments](#).

TCFD Reporting

To provide transparent information about the climate risks and opportunities we face as a company, we have reported based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) since 2021. The appendix contains a reference table reflecting the status of our climate-related reporting based on the areas of governance, strategy and risk management as well as key performance indicators and targets (→ [TCFD Reference Table](#)).

Opportunity Management

The opportunity management system at Knorr-Bremse follows the processes used in the risk management system. In addition to regular management reviews, opportunities are reported in the quarterly report on risks and opportunities.

Alongside the megatrends of urbanization, digitalization and mobility, the megatrend of sustainability also unlocks important, strategic opportunities for Knorr-Bremse.

Knorr-Bremse is benefiting from opportunities to expand rail transportation as cities, states and countries make growing efforts to combat climate change. Electrification and other energy-efficient and eco-friendly solutions are the result of a growing public awareness of the importance of energy efficiency, combined with intensified government energy initiatives such as stricter emission regulations. End-to-end EcoDesign in our products is helping to reduce carbon footprints and make transportation more energy-efficient.

More information about our opportunity management system can be found in our
→ [Report on Risks, Opportunities and Expected Developments](#).

Sustainable Company Financing

As a player in the capital market, Knorr-Bremse sees orientation toward ESG criteria as increasingly important. Financial market players measure corporate performance in the area of sustainability by means of ESG criteria and use the findings as the basis for investment decisions. Numerous conversations with investors and rating agencies (→ [Stakeholder Management](#)) in 2022 showed that the capital market is increasingly interested in sustainability issues at Knorr-Bremse. Knorr-Bremse has already received many above-average ratings for its sustainability measures (→ [Sustainability Ratings and Rankings](#)).

70%

of the long-term capital market
financing instruments used by
Knorr-Bremse are linked
to sustainability criteria

The integration of sustainability goals into financial instruments around the world is being driven by Knorr-Bremse. From our perspective, it is a clear sign of the importance of effective sustainability measures for success. The share of Knorr-Bremse's financing that is linked to sustainability criteria amounts to slightly more than 40%. The total is about 70% for long-term financing instruments.

Since January 2022, we have had syndicated financing with a credit line of € 750 million in place, the interest rate of which is linked to our sustainability rating by ISS Corporate Solutions. In September 2022, Knorr-Bremse placed its first sustainability-linked bond in the European debt market. The bond has a volume of € 700 million, and a key component is the commitment to define a Scope 3 target in accordance with the international standards of the Science-Based Targets initiative (SBTi) (→ [Climate Protection](#)).

Knorr-Bremse also made its Supplier Early Payment Program more sustainable during the reporting period. The Sustainability-Linked Supply Chain Finance Program (SSCF), which was implemented in collaboration with Deutsche Bank, is now linked to the ESG rating of suppliers. The global SSCF serves as an important instrument that Knorr-Bremse uses to foster stronger commitment to ESG among its suppliers. The program exemplifies our fundamental beliefs: We will only be able to achieve the sustainability-driven transformation when we resolutely foster ESG throughout the entire value chain.

EU Taxonomy

With the EU Taxonomy, a new classification system for sustainable business practices was introduced. It is designed to steer capital streams toward sustainable companies and help reach the EU's climate and energy objectives by 2030. Only a few of the products and technologies of Knorr-Bremse are currently included in the EU Taxonomy. Maintenance and modernization of systems used in electrical rail vehicles and activities in the area of rail infrastructure are classified as taxonomy eligible. The production of parts and components for commercial and rail vehicles does not fall within the scope of the EU Taxonomy¹, a system that currently applies only to the activities of end manufacturers. Knorr-Bremse supports the expansion of the EU Taxonomy so that the contributions of the value chain can be considered in the future as well.

→ [EU Taxonomy Report](#)

¹ With the exception of Kiepe Electric, a company that produces vehicles (electric).

Suppliers Who Have an ESG Ranking Receive Better Financing Terms

The Sustainability-Linked Supply Chain Finance Program that was introduced in collaboration with Deutsche Bank makes an ESG rating for suppliers particularly appealing. Under this program, they receive their money earlier as the bank provides a line of credit for the time until Knorr-Bremse pays their invoices at attractive interest rates. The financing costs for suppliers are based on the creditworthiness of Knorr-Bremse, a feature that generally lowers suppliers' financing costs. The inclusion of sustainability components in the program creates additional financial benefits for suppliers: Companies that do business more sustainably can reap dividends from improved financing terms. The result is a win-win situation: for our suppliers and for Knorr-Bremse.

Data Protection and Information Security

Knorr-Bremse views digitalization as an opportunity for efficient internal processes and new business fields. At the same time, the company must handle the information in its possession responsibly. We use information protection measures to safeguard intellectual property and business secrets while shielding personal data through extensive data protection activities.

Data Protection

The processing of personal data is a key aspect of the increasing pace of digitalization. At Knorr-Bremse, the protection of such sensitive data is an important precondition for the development of new business fields and interaction with our internal and external stakeholders. Many different legal requirements, particularly the EU General Data Protection Regulation, provide the framework for our actions.

In response to such requirements, Knorr-Bremse set up an organizational structure for data protection in 2018. This structure is led by the Group Data Protection Officer, who, in turn, is supported by data protection managers in the divisions and at sites globally. Data protection coordinators in the central departments also serve as points of contact and information disseminators for data protection. The company created the Data Protection Board in 2022. This board makes decisions regarding the direction of the Knorr-Bremse data protection management system and monitors the system's continuous refinement. The Data Protection Board is composed of representatives from the Executive Board, division management teams, IT and HR.

Our corporate policy on data protection serves as the foundation of all data protection measures within the company and lays out binding specifications and processes for the implementation of legal requirements. Furthermore, protecting the personal rights and privacy of every individual is an important aspect of our internal Code of Conduct.

Our Data Protection Measures

- Our employees are instructed about data protection requirements through e-learning courses and in-person training sessions. They also are taught to handle personal data with care.
- Data protection is monitored and documented (a register of processing activities) by the organizational structure for data protection with the help of a globally available IT tool.
- A central reporting system used for data protection and security incidents ensures that data protection incidents can be reported quickly and directly to the organizational structure for data protection and be addressed.
- Data protection violations can be reported by employees or external stakeholders at any time via the company's compliance whistleblower system. Whistleblowers may provide their information anonymously or with their personal details. Once a report is submitted, an established process is initiated to investigate the matter (→ [Integrity and Compliance](#)).

Information Security

The Information Security department ensures that the three key information values – confidentiality, availability and integrity of all of our data – are adhered to without exception. The department is led by the Corporate Information Security Officer and is managed by a Corporate Security Board. The members of this board include the member of the Executive Board who oversees this area as well as the managing directors of both divisions and the Chief Information Officer.

The maturity of the management processes has improved significantly in recent years. This improvement resulted in part from a revision of the Group guideline on information security, which is based on the international ISO/IEC 27001 standard for information security and values. This guideline is complemented by internal specifications designed to meet the legal requirements that apply at each site. We have also introduced a new process for audits and risk management.

The main focus for operational projects is on the preventive protection of Knorr-Bremse's IT infrastructure through Group-wide IT security solutions.

Protection of Digitalized Products

Knorr-Bremse's products and services assist our customers in the digital age and promote sustainable mobility. Examples of new, digitalized business fields include condition-based maintenance in Rail Vehicle Systems and highly automated or autonomous driving in Commercial Vehicle Systems.

As part of this portfolio development, data protection and information security (something that is also termed "cybersecurity" in this context) are playing an increasingly important role. For this reason, Knorr-Bremse takes data protection requirements as early as the product development stage (for privacy by design) into account.

Dedicated organizational units and teams for information security in both divisions ensure that aspects of cybersecurity are firmly integrated into project development processes and customer projects.

Cybersecurity Center of Competence

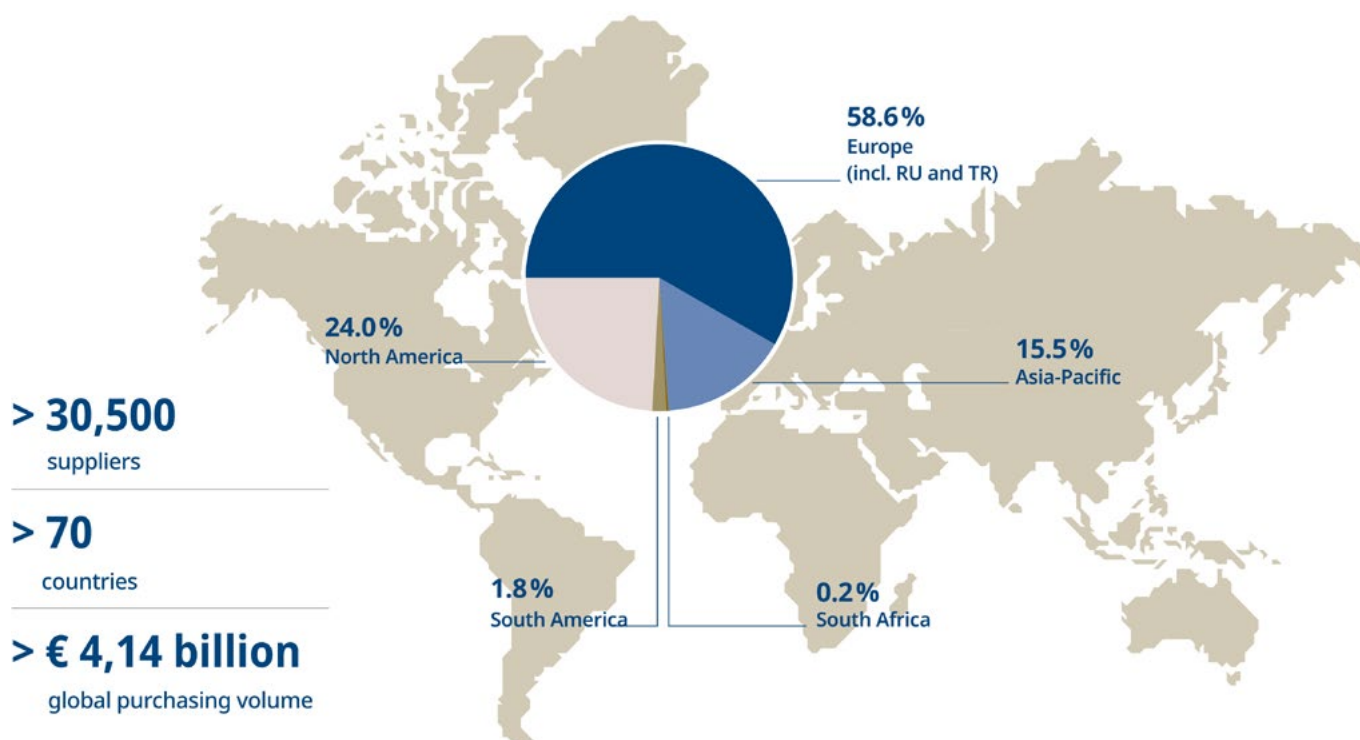
In addition to intelligent transport solutions, digitalization also enables predictive maintenance and assistant systems for automated train operation. Knorr-Bremse's Cybersecurity Center of Competence, in Rail Vehicle Systems, develops solutions that make the digitalized products and systems of today and tomorrow resistant to attacks and shield them accordingly. The Center of Competence is part of the Digital Products & Services department, a unit whose expertise is in digitalizing Knorr-Bremse's products. The security experts focus in particular on security by design, a process that employs a defense-in-depth concept for built-in safeguards. Simply protecting a network's outer boundaries is no longer enough. There is an additional option called endpoint protection that can be used in systems. Permanently installed computer chips encrypt important data and check software identity and integrity. Knorr-Bremse plans to use this forgery-proof digital identity in many of its devices in the near future. The necessary public key infrastructure (PKI) to manage these security certificates has been set up. The Center of Competence continues to drive the development of a modern and agile platform to identify and eliminate cybersecurity vulnerabilities.

Sustainability in the Supply Chain

Taking responsibility along the value chain is part of our self-image as a sustainable company. Strategic procurement, including the selection of suppliers and materials, lays the foundation for Knorr-Bremse's sustainable, reliable and safe products.

As a global Group, we work with a large number of mainly local suppliers. We currently purchase products and services from approximately 30,500 suppliers from over 70 countries. These include approximately 7,000 manufacturing and production partners for parts, components and materials for our products, who alone represent 74% of procurement spending. The products ordered include primarily metals, friction components, electronic components and plastics, with the proportion of raw materials purchased by us being low.

Regions of origin in purchasing volume



We are aware that Knorr-Bremse's selection of suppliers has a significant impact on the environment and society in production countries. That is why we require our suppliers to comply with our high sustainability standards in the supply chain. Breaches by suppliers could entail reputational and cost risks for Knorr-Bremse, its customers and its investors.

The Knorr-Bremse strategy for sustainable procurement is embedded in purchasing processes across the Group. The purchasing managers for direct and indirect materials are responsible for ensuring sustainable procurement. Compliance with and optimization of sustainability standards in the supply chain are supported by experts at the Group level. The Sustainable Purchasing Steering Committee discusses and decides on strategic and current sustainability topics several times a year. This committee consists of the managers of Knorr-Bremse's global purchasing units and representatives of the Sustainability department. We provide process descriptions and guidance to implement our sustainability standards in internal procurement processes. These give an overview of the sustainability criteria and management approaches to be incorporated into the global purchasing processes. Internal guidelines specify the extent to which sustainability aspects are to be taken into account in purchasing decisions for various categories, including renewable energy, business travel or energy-

efficient products, equipment and services. As part of our EcoDesign approach, we are working on implementing sustainability requirements in the material specifications of the products and components we acquire. We are guided by the EcoDesign Standard on Hazardous Substances in Products in the RVS division (→ [Environmental Product Design](#)).

Further information on climate protection and respect for human rights in the supply chain:

- → [Climate Protection](#)
- → [Due Diligence Processes for Human Rights](#)

Direct and indirect procurement

The procurement organization at Knorr-Bremse consists of direct procurement, which is globally controlled by the respective division, and cross-divisional indirect procurement with global responsibility. Direct procurement acquires production materials (direct materials). This includes all externally sourced raw materials, items and components that are directly or indirectly delivered to our customers as part of our products. Indirect procurement handles the sourcing of non-production materials (indirect materials) and services that are not an integral part of Knorr-Bremse products but that serve to support the internal organization indirectly.

Sustainability in Supplier Relationships

We rely on three pillars for the implementation and realization of sustainability standards in the supply chain: determination of our sustainability requirements, evaluation and assessment; and qualification of our suppliers and procurement specialists.

Sustainability Requirements for Suppliers

We have set out Knorr-Bremse's commitment to sustainability in the supply chain in our Supplier Code of Conduct and our sustainability guidelines. We expect our suppliers to act in a manner that is in line with our values and takes account of international environmental and human rights guidelines and standards. These include the principles of the UN Global Compact, the International Labour Organization (ILO) conventions and the UN Universal Declaration of Human Rights. These requirements are specified in further detail in our guidelines:

Supplier Code of Conduct

Our Group-wide ↓ [Supplier Code of Conduct](#) is intended to promote and require the systematic inclusion of sustainability aspects in the production methods and conduct of our suppliers. Available in 14 languages, the code sets out the standards our suppliers are required to meet with respect to working conditions, human rights, environmental protection, safety, business ethics and compliance. We expect our suppliers to comply with the code and implement it in their upstream supply chain. The Code of Conduct for Suppliers is an integral component of all supplier contracts and binding for all our suppliers.

Human Rights Policy

In accordance with our ↓ [Human Rights Policy](#), we expect our suppliers and subcontractors to respect human rights. They are also instructed to convey this expectation to their suppliers and contractors. Our procurement and supplier management strives to support suppliers in improving their (→ [Due Diligence Processes for Human Rights](#)).

Conflict Minerals Policy

The ↓ [Conflict Minerals Policy](#) governs the handling of conflict materials and thus serves as a guideline for procurement at Knorr-Bremse as well as our suppliers.

Procurement Quality Standards

In accordance with our quality guidelines, we require our suppliers to, among other things, observe the Principles of the UN Global Compact as well as our Code of Conduct for Suppliers.

Review and Assessment of Suppliers

We use targeted instruments to review and assess compliance with our requirements and also include these results in our procurement decision-making.

Sustainability Assessments

Sustainability assessments at suppliers are continuously conducted by external service providers with industry experience. They survey and assess the implementation of suppliers' sustainability management systems. We currently have a valid sustainability assessment for around 2,500 suppliers. The coverage rate is therefore 69% of the global purchasing volume. This means we met the target of 65% we set for 2022, and we are aiming for a target rate of 75% in 2025 (see diagram on following page).

Integration in Sourcing Decisions

We take account of suppliers' sustainability assessments in our contract award process. In the CVS division, sustainability assessment is integrated into the so-called Sourcing Board, the review and decision-making body for supplier orders. In the RVS division, preference is given to suppliers who have been granted "Preferred" or "Potential Preferred" supplier status. To be able to reach the highest supplier status, Knorr-Bremse requires a valid supplier sustainability assessment or proof that such assessment is in progress. Moreover, the suppliers should be able to present a certified environmental management system that is in line with the international standard ISO 14001. Currently, a number of suppliers covering 62% of the direct production volume meets this requirement.

Risk Classification

We use the findings from the sustainability assessments of both divisions to conduct a risk assessment of the suppliers. Based on the individual assessment results, we classify our suppliers into the categories A, B and C, where C represents the level with the potentially highest sustainability risks. We want to reduce the proportion of suppliers in the C category. To this end, we draw up action plans for improving their sustainability performance with the suppliers in question. In the long term, Knorr-Bremse only sees two development paths for suppliers in category C: They measurably and demonstrably make progress on their sustainability performance or we gradually relocate the purchasing volume allocated there. In addition, a comprehensive human rights risk analysis was carried out in 2022. As a result, we were able to categorize potential high-risk suppliers in order to pursue risk mitigating measures for them (→ [Due Diligence Processes for Human Rights](#)).

Sustainability Audits

We also audit and assess suppliers' sustainability performance in supplier visits and external audits. Firstly, we have integrated sustainability aspects into standard supplier visits. Knorr-Bremse employees in the area of supplier development use the supplier on-site sustainability risk checklist so that they can identify and assess sustainability risks on-site at suppliers. The results of the completed checklists are used as a decision-making criterion regarding additional sustainability audits on-site or other in-depth investigations. Secondly, independent experts conduct sustainability audits of suppliers on their own and assess compliance with the applicable social and environmental standards. Furthermore, the management approaches of the suppliers and the implementation thereof are assessed in the following areas: compliance, environment, occupational health and safety, human and labor rights, and supplier management. Thirty on-site audits were conducted this way in 2022 (2021: 18; 2020: 0 audits due to COVID-19), of which 9 were follow-up audits (2021: 8; 2020: 0). If an audit or a sustainability assessment reveals breaches or improvement potential, Knorr-Bremse develops and implements action plans for improvement with the suppliers and conducts follow-up audits.

Sustainability assessment coverage rate for suppliers

in % of purchasing volume



Qualification and Professional Development

To meet our sustainability requirements over the long term, we offer training programs to support our suppliers in the further development of their sustainable business practices. At the same time, we provide our employees with qualification and training on the topics as well.

Awareness and Training

We continuously work to raise awareness and develop the skills of our employees in the area of sustainability. In coordination with a few service providers responsible for the sustainability assessments, we also offer corresponding webinars and additional support on the subject. For example, we provide training materials on the subject of conflict minerals. In 2023, we will continue to advance our approach to training and developing suppliers in the area of sustainability.

Supplier Development Programs

If a sustainability assessment reveals breaches or improvement potential for a supplier, this is followed up with corresponding action plans for improvement or with follow-up audits. In addition, the audit results help us to identify potential risks fields, which we will pay particular attention to in the future as part of our supplier management.

Training for Procurement Specialists

Raising the awareness of and training Knorr-Bremse employees are key prerequisites for sustainable purchasing management. Around the world, they should develop the know-how to be able to assess, advise and audit suppliers. We therefore held webinars on the topic of "Sustainability in procurement" for purchasing specialists in 2022. We were also able to establish an e-learning program on our sustainable procurement processes and practices, which is part of the Knorr-Bremse onboarding training course and recommended for all employees in global purchasing. The participation rate was 53% and is to be further increased.

Involvement in Industry-Specific Sustainability Initiatives

As a leading and global player in the industry, Knorr-Bremse actively participates in industrial sustainability initiatives. We are an engaged founding member of the Railsponsible initiative in the rail industry and an active member of the German Association of the Automotive Industry (VDA) in the automotive industry. This means we can improve sustainability standards in the supply chain together with customers, competitors and other stakeholders.

Preparatory measures for complying with the German Supply Chain Due Diligence Act were a focus topic in 2022. We conducted a comprehensive risk assessment of our supply chain and a review of our processes (→ [Due Diligence Processes for Human Rights](#)). Based on these, we are defining measures to integrate sustainability criteria into purchasing decisions to an even greater degree, to increase transparency in the supply chain and to improve our suppliers' practices with regard to respect for human rights and environmental matters.

Handling of Conflict Minerals

As a manufacturer of brakes and other systems for rail and commercial vehicles, we are aware of our responsibility to procure our raw materials sustainably. This pertains above all to the procurement of minerals from conflict or high-risk areas, referred to as “conflict minerals.” These minerals are partly mined in regions of conflict and used to finance armed conflicts. They include tin, tantalum, tungsten and gold (“3TG”). In order to protect human rights in the area of conflict minerals, we have introduced a due diligence process. We create transparency in the conflict mineral procurement process by following the recommendation of the Responsible Mineral Initiative. Key instruments for managing and reporting conflict minerals include the Group-wide binding Conflict Minerals Policy and supplier surveys. In an annual survey, we ask direct suppliers with 3TG relevance for information on the origin of the minerals used for entry in the Conflict Minerals Reporting Template (CMRT). Our last survey identified 24 (2021: 6; 2020: 5) smelting plants classifiable as critical. As part of the Joint Smelter Outreach Initiative, Knorr-Bremse conveys to them the importance of independent audits so that their procurement process can be verified as conflict-free and responsible. This due diligence is conducted in partnership with other companies that have the same obligations as Knorr-Bremse. To ensure due diligence in the cobalt and mica supply chain, we have started to collect information with the aid of the Extended Minerals Reporting Template (EMRT). At the end of 2022, 2,301 suppliers were asked to answer the questionnaire by mid-2023.

Railsponsible – Sustainability Standards in the Supply Chain

The Railsponsible initiative was founded by its 15 members – a series of renowned European rail companies, including the RVS division of Knorr-Bremse – at the beginning of 2015 with the goal of establishing sustainable procurement practices in the rail industry. Railsponsible’s objective is to motivate customers and suppliers in the rail industry to demonstrate ethical and socially responsible actions as well as responsible business and environmental practices. Knorr-Bremse currently chairs the Responsible Procurement working group. Its work focuses on conveying well-founded knowledge to members and suppliers regarding sustainable procurement practices, transparent business processes and the further development of suppliers. The measures and instruments include corresponding procurement guidelines, the introduction of sustainability audits and supplier training.

Reporting of Conflict Minerals

		2022 ¹	2021 ²	2020
Suppliers invited to take the CMRT survey	Number	2,301	2,449	1,517
Response rate of the suppliers surveyed	%	51	62	62

¹ The figures relate to the percentage of suppliers who have provided a valid response within the data collection campaign. It represents the response rate of the reporting period July 2022-April 2023. At the time of the editorial deadline of this Sustainability Report, the conflict minerals campaign was still open. For this reason, the final result will be published in the next reporting cycle. The non-financial statement 2022 only covers the period June – December, resulting in varying figures.

² In the 2021 Sustainability Report the published figure was 45%, which was an interim result at the publication of the report.