

operating budget embedded in a longer-range strategic corporate plan established by the Board of Managing Directors.

The management remuneration system takes these financial performance indicators into account in determining variable short- and long-term remuneration.

In addition to the financial performance indicators, management monitors additional key non-financial indicators. Such indicators are calculated using standardized reports during the year and include: quality, headcount, reliability of supply, customer satisfaction (net promoter score, NPS), Global Management Share, employee satisfaction, and rating.

### Remuneration model

The Schaeffler Group aims to consistently align its corporate values, strategies, structure, management model, and brand image with each other and to focus the entire organization on common goals. A consistent performance-based remuneration system is key to achieving this aim.

When Schaeffler AG's common non-voting shares were listed in October 2015, the remuneration system was adjusted retroactively to January 01, 2015 and consistently oriented toward the Schaeffler Value Added/increasing shareholder value and free cash flow targets. In a subsequent step, the company adjusted the remuneration system for its top executives, applying the same considerations underlying the remuneration system for the Board of Managing Directors. The new remuneration system was introduced with retroactive effect from January 01, 2016.

The targets largely represent the strategic and key financial operating performance indicators, with the latter in turn representing the key performance indicators reflected in the annual outlook. As a result, operating targets are designed to be congruent with the measures comprising the outlook. Shareholders' interests are reflected in the remuneration system by taking into account Schaeffler Value Added (performance criterion for variable short-term remuneration) and the increase in the share price (key component of variable long-term remuneration).

The realignment is designed to create a modern, attractive and motivating remuneration system that is consistent with the values of a global family business and whose key performance measures reflect both the current year's performance and the long-term and sustainable value added.

## 1.4 Employees

Its employees represent one of the key pillars of the Schaeffler Group's success. Their technical knowledge, skills and commitment secure the continuous progress of the company and are essential to the Schaeffler Group's current and future success. The objective of the company's human resources activities is to identify, support, and retain the best employees for the long term in order to safeguard Schaeffler's competitive position.

### HR strategy

In 2016, the Schaeffler Group reassessed its strategic areas within Human Resources (HR) and prepared the HR Roadmap 2020 comprising strategically coordinated initiatives. An overarching HR vision and mission underlying the day-to-day operations were developed, creating a unified identity for the HR function. HR's innovative ability is strongly driven by digitalization, demographics, and diversity and these issues are embedded in the human resources strategy.

At the core of the HR strategy, there are five pillars HR employs to directly support operations:

- Strategic human resources planning process
- Employer branding & recruiting
- Talent management
- Leadership and corporate values
- Training & learning

### Strategic human resources planning process

The strategic human resources planning process integrates the Schaeffler Group's strategic human resources activities into its Strategy and Technology Dialog.

It forms a robust basis for determining quantitative and qualitative staffing requirements for the medium to long-term planning period. Being able to quickly and efficiently determine long-term global staffing requirements is essential for responding to significant changes, such as in the E-Mobility, digitalization, and increasing globalization growth areas.

A pilot project for the hybrid and clutch systems business units uses the results of the strategic human resources planning process as a basis for deciding what actions are required, for instance internal and external recruiting, qualification programs, or in- or outsourcing strategies. These actions enable the Schaeffler Group to identify and actively mitigate risks related to excess personnel or a shortage of staff.

## Employer branding & recruiting

HR's employer branding & recruiting activities promote Schaeffler's perception as an attractive employer and the position of the employer brand "Schaeffler" with the aim of recruiting the best talents for the company.

The human resources strategy is driven by the key commitment to making employment with the Schaeffler Group fit for the future – for new talents as much as for employees that have been with the company for many years. Effectively positioning the company as an attractive employer worldwide is fundamental to successfully competing for the brightest minds. The Schaeffler Group ranked highly in recognized employer rankings in 2016. The current survey of research institution "trendence" lists the company as one of the 30 most popular employers among engineering students in Germany in 2016. In addition, market research company Universum named the Schaeffler Group "High Climber" in recognition of its ranking as an employer by engineering students. The group was also successful internationally. In China, the Schaeffler Group was named "Top Employer China 2016" by the Top Employers Institute and received the "Best Employer of the Year" award from career platform Zhaopin.com for the fifth consecutive year.

The digital shift proved particularly challenging in 2016, as the Schaeffler Group needs to position itself as an employer offering interesting assignments in the field of digitalization. To achieve this, it initiated a communications campaign that involves both creating media content and a media presence and developing excellence networks and events and is aimed at generating enthusiasm about the company among digital talents. In order to attract qualified students and graduates to the company, Schaeffler once again focused particularly on cooperative and sustainable partnerships with universities, student unions, student associations and organizations such as Formula Student Germany.

 See the chapters entitled "Schaeffler Group research and development" and "Corporate responsibility" for further detail on collaborations with universities.

## Talent management

Talent management supports management in identifying talents and promotes the development of all employees based on a uniform standardized approach worldwide.

One of the key responsibilities of talent management is the personal development of each and every employee within the company. To the Schaeffler Group, talent management is an integrated approach to providing employees with opportunities for development, identifying high-potential staff, and protecting key positions.

The worldwide standardization of the talent management process as part of the "Global talent management" HR initiative divided the process into two integrated phases: The Employee Development Dialog (EDD) and the Global Talent Review (GTR). Actions decided upon in EDDs and GTRs are realized throughout the year. The software developed specifically for this purpose and the related processes have been rolled out successfully in the U.S., Germany, Mexico, Canada, and the Greater China region, covering approximately 65 % of relevant employees worldwide. The coming two years will see the roll-out in Brazil and the Asia/Pacific and Europe regions. A uniform system with clear processes and standardized tools will then be in place starting in 2018, ensuring all employees worldwide are systematically supported. Among the areas the system has a particularly focus on is timely succession management.

## Leadership and corporate values

The "Leadership and corporate values" initiative that is part of the "Agenda 4 plus One" involves implementing a leadership model applicable around the world that is based on the corporate values and reflects the latest trends.

Defining clear leadership principles and authorities helps implement the strategy "Mobility for tomorrow" and adapts the Schaeffler management style to modern challenges such as digitalization or Industry 4.0. The new leadership model and its behavioral anchors are based on the corporate values "sustainable, innovative, excellent, and passionate".

Both senior management and employees play a key role in designing the leadership model and then integrating it into all relevant human resources processes. In addition to comprehensively integrating the leadership model into recruiting and personnel development processes, the "Leadership and corporate values" initiative also entails establishing and defining a "Leadership" career path.

## Training & Learning

All training and continuing education courses worldwide are consolidated under the umbrella of the Schaeffler Academy.

With its “Qualification for Tomorrow” initiative, part of the “Agenda 4 plus One”, the Schaeffler Academy confronts the challenges of the future, such as an increasingly complex workplace, shorter and shorter development cycles, and a steady rise in information. As global networks and a digital work environment are becoming more and more essential for meeting today’s needs, lifelong learning is a success factor for being able to compete worldwide. As a result, this initiative addresses the most important core issues and the company’s future strategy related to the issue of learning.

An improved IT infrastructure, modern systems, and tools are designed to create a worldwide platform for up to date learning.

A uniform training process tailored to the regions is defined for the Training of Tomorrow. This guarantees a consistent standard of training quality and ensures that the required infrastructure and equipment is made available.

HR uses custom-fit qualification programs to actively support the Schaeffler Group’s strategy, address trends, and retain talents for the Schaeffler Group long-term.

## Employee structure and development

The Schaeffler Group employed an average of 85,733 employees (prior year: 83,930) in 2016. The number of employees at December 31, 2016 was 86,662, 2.9 % above the prior year level.

The company recruited new personnel compared to December 31, 2015 primarily in production and production-related areas – mainly in the Greater China and Europe regions, especially in Eastern Europe.

Number of employees	No. 028		Change in %
	12/31/2016	12/31/2015	
December 31			
Europe <sup>1)</sup>	60,127	58,600	2.6
Americas	12,480	12,625	-1.1
Greater China	11,255	10,216	10.2
Asia/Pacific	2,800	2,757	1.6
<b>Schaeffler Group</b>	<b>86,662</b>	<b>84,198</b>	<b>2.9</b>

<sup>1)</sup> Including employees of the corporate center.

## Workforce structure

The following table summarizes data on the structure of the Schaeffler Group’s global workforce:

Workforce – structural data	No. 029		Change
	12/31/2016	12/31/2015	
Average age (years)	39.8	39.7	0.3 %
Average tenure (years)	11.2	11.1	0.9 %
Proportion of female employees (%)	21.4	21.0	0.4 %-pts.
Proportion of female managers (%) <sup>1)</sup>	11.8	11.4	0.4 %-pts.
Absenteeism due to illness (%) <sup>2)</sup>	3.8	3.6	0.2 %-pts.

<sup>1)</sup> Managers are defined as employees in a supervisory function.

<sup>2)</sup> Number of sick days as a percentage of scheduled working days.

The average period employees have been with the Schaeffler Group (tenure) amounted to 11.2 years in 2016 (prior year: 11.1). The average age of the Schaeffler Group’s workforce was 39.8 years (prior year: 39.7).

For the Schaeffler Group, diversity is closely related to the company’s success, since international teams heterogeneous in terms of age and gender are particularly successful. The proportion of female staff among the Schaeffler Group’s employees increased to 21.4 % (prior year: 21.0 %), and the proportion of female managers was 11.8 % (prior year: 11.4 %).

The company signed the “Charta der Vielfalt” (diversity charter) as early as in 2008, committing to implementing the Charta’s guidelines internally by putting in place measures to promote diversity within the company. Diversity will contribute significantly to the company’s success by further increasing the company’s innovative ability. In order to seize the latest trends and developments quickly and effectively, the Schaeffler Group regularly exchanges information with various external catalysts of innovation.

 See the chapter entitled “Corporate responsibility” for further detail on diversity.

A comprehensive demographics framework helps the company prepare for future demographic trends and the challenges they bring. For instance, several workshops were held examining the needs of “generation Y and Z” as well as investigating the requirements of a more senior workforce regarding a working environment that is conducive to their health. To this end, the “Demographics on the Shop Floor” project involved setting up a job register which facilitates presenting and planning jobs that are age-appropriate and appropriate for aging staff and helps assign employees with impaired abilities to appropriate jobs.


## Personnel development

As strategic human resource planning has to take into account new requirements and skills early on, supporting employees and helping them gain additional qualifications is key to the Schaeffler Group.

4,054 classroom training sessions (prior year: 3,931) attended by 37,345 participants (prior year: 36,485) were held in Germany in 2016.

In addition, 90 different e-learning courses were offered to staff and were taken by 25,074 employees (prior year: 63 e-learning courses offered; 18,068 participants). With the expansion of its online training program, the Schaeffler Group follows the trend toward making continuing education courses available to employees anytime anywhere.

Of particular note are the Germany- and Europe-wide management programs as well as the international management programs (IMP) which received the Global Human Resource Development Award 2015. The programs provide training in specific intercultural management skills as well as company-specific information on strategy development, making them pivotal in achieving medium- and long-term business objectives. Its outstanding culture of learning with excellent training offerings and learning methods earned the Schaeffler Group the “Golden Peacock National Training Award” in India.

 See the chapter entitled “Corporate responsibility” for further detail on the IMP.

Employee qualification and continuing education			No. 030
Number in Germany	12/31/2016	12/31/2015	Change in %
Classroom training sessions	4,054	3,931	3.1
• Participations in – classroom training sessions	37,345	36,485	2.4
E-learning courses	90	63	42.9
• Participations in – e-learning courses	25,074	18,068	38.8

1) Figures as at December 31.

### Specialist and project career path

As a company with operations worldwide, the Schaeffler Group not only requires line managers, but it also needs especially highly motivated and qualified specialists as well as full-time project managers who combine extensive technical expertise and key know-how with outstanding project management skills.

In 2016, a global project team refined and adjusted the established specialist and project career path in order to meet the needs of the business, especially the regions. The new global framework now combines additional entry-level career stages, greater regional flexibility – particularly at the lower-level career stages – with clearly defined requirements and global standards for higher-level career stages in management.

This creates more regional flexibility overall to develop employees toward this career path early on while increasing transparency and comparability of specialists and project managers worldwide.

### Supporting new talents

Attracting and training new talents in all areas is essential to ensuring the company’s long-term success. 2,966 trainees (or 3.4 % of the Schaeffler Group’s workforce) were pursuing an apprenticeship at the Schaeffler Group (prior year: 2,897 or 3.4 % of the workforce) as at the end of 2016. The number of trainees has thus grown by approximately 2.4 % compared to the prior year. These future specialists are trained in a total of 22 specific jobs requiring formal training at various Schaeffler Group locations. In addition to technical qualifications and Schaeffler-specific know-how, the Schaeffler Group’s training particularly values methodological, social, and personal skills. Training at Schaeffler is aimed at teaching young employees to think and act independently, promoting their creativity, and strengthening their environmental awareness and sense of responsibility.

Cooperative education programs (“Duales Studium”) play another important role in attracting new talents in Germany. The Schaeffler Group offers various types of these programs of academic studies, such as a “Duales Studium” in cooperation with colleges offering this type of cooperative education program (“Duale Hochschulen”) or a “Two-in-One” program in cooperation with universities of applied sciences in Germany. A total of 164 students were enrolled in the “Duales Studium” and 178 in “Two-in-One” bachelor programs in 2016. The company also offers a graduate degree in the form of a master’s degree program with currently 31 students.

In addition, the Schaeffler Group offers special trainee programs to above-average university graduates, enabling them to gain a comprehensive overview of the group and its functional areas over a period of 12 to 24 months. The accompanying qualification measures aimed at personal development ideally prepare these trainees to take on positions carrying responsibility within the Schaeffler Group. In Germany, for instance, 40 young talents (prior year: 46) were enrolled in this trainee program as at December 31, 2016. Similar programs operate in many countries around the world, including in the U.S.

## Health management and occupational safety

As a result of demographic change, the company has to develop effective preventive health care programs for its aging workforce. The workplace health care management in place is an important component of the HR initiatives.

Occupational health and safety help maintain the health and performance of employees. As a result, they represent an important issue for which the company and its employees bear equal responsibility. In order to protect and promote employee health, working conditions and compliance with occupational safety requirements are continually reviewed and improved as part of the EnEHS management system (Energy Environmental Health and Safety).

As a preventive measure, the Schaeffler Group also promotes its employees' health-at-work-related skills and awareness and maintains long-term employability by continuously building its structured workplace health management program. During the reporting period, the company started a program of corrective exercises in production. The project provides training for small groups of employees at their workspace over a period of 12 weeks. Later, multipliers from this group are trained to perpetuate the program and ensure its long-term success.

In addition, the Schaeffler Group aims to offer employees with existing health issues targeted measures on a voluntary basis over and above those offered by the public health care system to restore and sustainably maintain their health. During the reporting period, components were added to this program to help employees with impaired abilities suffering from musculo-skeletal disorders regain their employability. This involves testing the employee specifically with respect to their specific job and remediating any identified deficiencies in dedicated training centers to the extent possible.

## 1.5 Corporate responsibility

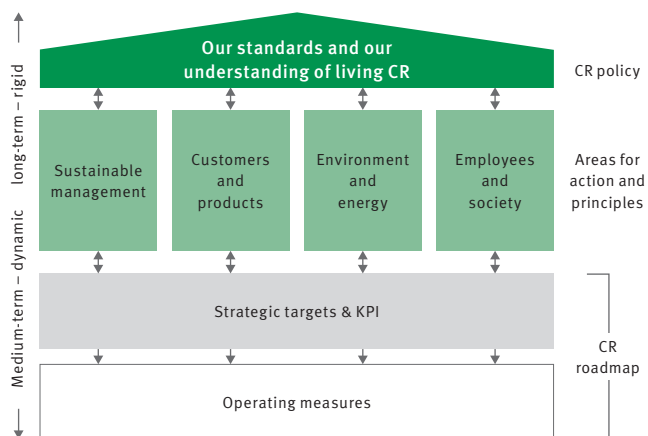
The Schaeffler Group's strategy is based on the group's commitment to drawing on its strength as an automotive and industrial supplier and partnering with its customers to shape the mobility of the future. To put this commitment into concrete terms, it has developed the following vision: "As a leader in technology, we combine a passion for innovation with the highest standards of quality to shape the future of mobility – for a world that will be cleaner, safer, and smarter."

To the Schaeffler Group, sustainability means enabling a future worth living by fostering the growth of the Schaeffler Group with a long-term view and continuity for the benefit of all stakeholders. The Schaeffler Group accepts its corporate responsibility (CR) to minimize any adverse ecological and social impact associated with its own operations worldwide – even above and beyond legal requirements.

### Sustainable management

The Schaeffler Group's corporate responsibility strategy defines a framework for the group's corporate responsibility.

Corporate responsibility strategy No. 031



The CR policy sets out the Schaeffler Group's overarching standard for all of its employees, decision makers, and business partners. In the CR policy, the Schaeffler Group expresses core principles for acting sustainably in the following four areas: (1) Sustainable management, (2) Customers and products, (3) Environment and energy, and (4) Employees and society. In addition, a CR roadmap sets out specific targets and actions. It is the medium-term, dynamic component of the corporate responsibility strategy that is based on the significant issues regularly defined during a company-wide significance analysis.