

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."

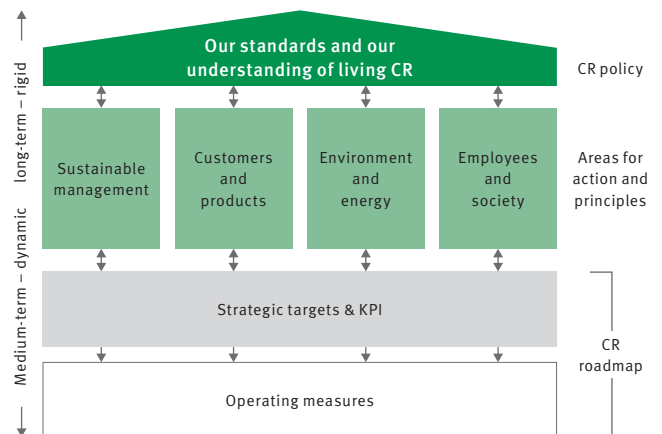
To the Schaeffler Group, sustainability means enabling a future worth living by fostering the growth of the Schaeffler Group with a long-term view and continuity for the benefit of all stakeholders. The Schaeffler Group accepts its corporate responsibility (CR) to minimize any adverse ecological and 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

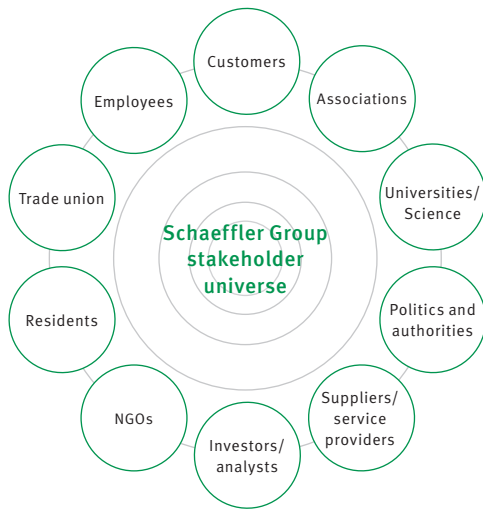
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The CR policy sets out the Schaeffler Group's overarching standard for all of its employees, decision makers, and business partners. In the CR policy, the Schaeffler Group expresses core principles for acting sustainably in the following four areas: (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.

Key stakeholders of the Schaeffler Group

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As understanding the internal and external interests and expectations vis-à-vis the company and taking them into account in order to add long-term value is essential to the company's long-term success, the Schaeffler Group regularly and openly exchanges information with its key stakeholders. These are actively involved by way of a regular significance analysis to determine the most important issues for Schaeffler's CR activities, providing them with the opportunity to help shape the company's corporate responsibility strategy.

In an anonymous online survey in 2016, all employees worldwide as well as selected customers and suppliers were invited to assess the relevance of specific CR issues to Schaeffler as a company acting responsibly. Prior to the survey, an extensive analysis of various documents involving all of the Schaeffler Group's stakeholder groups was performed to determine and validate the issues to be included. A total of 1,250 employees and 431 customers and suppliers participated in the survey. The results were presented in a significance matrix indicating which issues the company and its stakeholders consider to be particularly relevant to the long-term success of Schaeffler's business. Behind each of the 24 issues listed, there are specific targets and actions summarized in the Schaeffler Group's CR roadmap.

The Schaeffler Group's corporate responsibility is managed and exercised by an integrated CR organization. The CR committee, the Schaeffler Group's panel of experts representing the technical departments, develops strategic CR targets and designs non-financial reports. It receives support from the CR office, which is responsible for operational CR activities. In addition, a CR center of expertise generates ideas and acts as an international issues radar for the technical departments, divisions, functions, regions and as a communicator and dialog partner for stakeholders. The CR organization reports directly to Schaeffler AG's Chief Executive Officer.

The Schaeffler Group's actions are guided by the core values of a global family business, even after the listing: Schaeffler's actions are sustainable, innovative, excellent, and passionate. This applies to its own operations as well as to its global supply chain.

National legislators' requirements regarding responsible procurement are high. The British Modern Slavery Act introduced in 2015 requires companies to disclose steps they have taken to prevent modern slave labor in their supply chain. The Schaeffler Group enters into quality assurance agreements with relevant suppliers to ensure their compliance with high environmental and social standards and reviews potential suppliers before adding them to its supplier portfolio. If an assessment of the potential of possible new business partners with respect to environment, health and safety (EHS) issues indicates that they do not meet the required minimum standards, they are eliminated from the selection process. If violations are serious, existing business relationships are terminated, as well. In addition, the company offers its suppliers development measures designed to help them live up to its environment, health and safety requirements. Employees in Schaeffler's purchasing department also receive training in this area. The company utilizes "reasonable country of origin inquiries" (RCOI) to trace the regional origin of ores and initiate specific corrective action where necessary. This approach is designed to ensure that mining of commodities such as tin, tungsten, tantalum, or gold does not contribute to financing wars.


The company's comprehensive material compliance management system is designed to ensure that any components and raw materials used comply with the applicable legislation, regulations, and standards. The Schaeffler Group's general compliance management system helps the company and its employees comply with all applicable local, national, and international laws and regulations.

Customers and products

Looking at global trends such as urbanization, digitalization, shortage of resources, and climate change, the Schaeffler Group is committed to setting new standards in modern engineering and to help customers meet the resulting challenges, such as reducing CO₂ emissions and the growing automation of vehicles with innovative products and system solutions. The relevance of this is also reflected by the results of the significance analysis performed in 2016, which identified “products and technologies” that help shape the mobility of tomorrow as the most significant issue.

For instance, at the eCarTec trade show held in Munich from October 18 to 20, 2016, the Schaeffler Group presented its Step² concept car, which is equipped with Schaeffler components. In this large series compact class vehicle, Schaeffler installed a digitally-controlled transmission and an electronic clutch, the E-Clutch, which has received the “GreenTec Award”, to demonstrate how efficient these components are in combination. A semi-automated two-speed powershift transmission sets the Step² apart from conventional systems. Compared to electric drives with only one speed, it reduces energy consumption by approximately 6 % and combines high traction force for quick acceleration with high efficiency at higher driving speeds. It avoids the loss of energy by eliminating the interruption of the traction force during clutch operation.

As a result of increasingly complex products and supply chains, ensuring product safety is proving challenging for many manufacturing companies. In the interest of product safety, the Schaeffler Group’s customers also place high demands on brand protection. To be able to prove the origin of the product, product labels are equipped with a data matrix code. It makes each product uniquely identifiable and can be traced back using an internet address. By scanning the code, the customer can find out whether it is in fact an authentic Schaeffler code.

 See the chapter entitled “Quality” for further detail on product safety.

 For further detail on the data matrix code at: www.tecidentify.com

Another issue identified in the significance analysis is customer satisfaction. In order to measure customer satisfaction and maintain it at a consistently high level, the Schaeffler Group systematically surveys its Automotive customers regarding customer satisfaction on a regular basis; Schaeffler Automotive Aftermarket customers were surveyed in 2016. The resulting customer satisfaction index showed a slight improvement.

Environment and energy

The Schaeffler Group’s corporate responsibility strategy documents the company’s high standard when it comes to environmental protection and reducing greenhouse gas emissions. To help the company effectively protect the environment, Schaeffler has implemented environmental management systems in accordance with the European EMAS (“Eco-Management and Audit Scheme”) Directive and the ISO 14001 standard at all of its relevant locations. The Schaeffler Group’s locations utilize an energy management system based on the ISO 50001 standard to make their operating processes more energy-efficient. The number of manufacturing locations certified under ISO 50001 worldwide increased from 48 to 55 in 2016. Nearly all manufacturing locations worldwide have been validated under EMAS and certified under ISO 14001 by independent assessors. The Schaeffler Group plans to demonstrate its first-rate environmental management by having all of its manufacturing locations worldwide entered into the EMAS site register by the end of 2017.

The Schaeffler Group’s energy policy commits both the Board of Managing Directors and the company’s employees to energy efficiency and to saving resources, acting sustainably, and continuously improving energy management. The Schaeffler Group measures and monitors its progress with respect to energy management using its energy data management system (EDMS).

The company also contributes to energy efficiency by converting its energy supply to generating its own energy using a highly efficient combined heat and power (CPH) unit. The new central heating stations include the CPH units, absorption chillers, as well as buffer storage for heat and cooling energy generated, and supply 41 % of the power, 77 % of the heat and 60 % of the refrigeration required by the plant. The company plans to supply the Herzogenaurach location with heat exclusively using CPH units by the end of 2018.

Reconditioning and then reusing used bearings can save up to 95 % in energy and CO₂ emissions. Schaeffler aerospace has been offering this service to its international customers in Schweinfurt for over 20 years and has had a location in the Asia/Pacific region since November 2015. At its Unna location, the Schaeffler Group has been reconditioning primarily used LuK product brand passenger car clutches since 1976. Power steering pumps and overrunning alternator pulleys for the generic and brand specific vehicle service and repair markets complement the product portfolio.

Various improvement projects aimed at enhancing the Schaeffler Group's international transportation networks also help the group use energy and resources more efficiently. They focus on better utilizing space in cargo holds by combining shipments, establishing ideal routes and transportation cycles, and utilizing consolidation hubs within the network. The Seamless Supply Information Integration project, for instance, aims to design the transport chain to be more efficient by facilitating securely combining and billing transport orders in a global supply network. The project received the "elogistics award 2016".

The Schaeffler Group also strives to support its employees in making their mobility more sustainable. It has adopted a comprehensive conceptual mobility plan comprising setting up an infrastructure for charging electric vehicles at the company's German locations. The company established a separate standard for this, covering issues such as fire safety, designation, choosing locations, and power supply. Such charging stations are currently available at a total of five locations, with particularly powerful quick charging stations being installed in Bühl and Hirschaid. In addition, the Schaeffler Group has opened up its company car policy in Germany to plug-in hybrids, allowing employees to order and use these vehicles as company vehicles.

Employees and society

The responsibility for its employees and good corporate citizenship are deeply embedded in the Schaeffler Group's core. It uses its global reach to help shape the social environment of its company locations internationally and to promote intercultural dialog around the globe.


For the first time, all employees worldwide were invited to participate in an online survey on Schaeffler's corporate responsibility as part of this year's significance process in October 2016. The results show that issues such as supporting and developing employees, work-life balance, and compensation and retirement benefits are of particular importance.

The company signed the "Charta der Vielfalt" (diversity charter) as early as in 2008 and committed to proactively promote diversity within the company. Due to the international nature of the Schaeffler Group, having a diverse range of employees is a significant success factor for the company. The diversity of its workforce is the key to identifying and meeting the expectations of the regional markets. It improves the working atmosphere, enhances many processes, e.g. in research and development, and has a positive impact on the company's earnings. To remain competitive and expand its economic success, Schaeffler is relying more strongly on an integrated diversity strategy as part of its strategic human resources plan. Internationality, promoting women in leadership positions, and the inclusion of people with disabilities are among the important issues to be dealt with here. Compared to the prior year, the proportion of women in leadership positions increased from 11.4 % to 11.8 % in 2016.

The company has continued to systemize its workplace health management program and has begun to implement it throughout the group in 2016. Among the bases underlying the program are the guidelines of the Luxembourg Declaration on Workplace Health Promotion in the European Union. All activities directly related to individuals have been subsumed under the "pit stop" ("Boxenstopp") heading. With this health program, the Schaeffler Group has introduced a prevention scheme aimed at counteracting the causes of absenteeism. The main cause of absenteeism is musculoskeletal disorders. Beginning with the "Feeling like exercising" ("Lust auf Bewegung") component increasing the motivation of sedentary employees in a low-threshold manner, appropriate measures have been implemented for all types of symptoms. With a "Job rehabilitation" ("JobReha") program based on "workplace-related medical exercise therapy" ("arbeitsplatzbezogene Medizinische Trainingstherapie" (aMTT)), the company is offering individual, professionally supervised exercise programs designed to reduce symptoms, strengthen the back and maintain the employability for the long term to employees with impaired abilities.

Schaeffler employees also have high expectations with respect to fair and transparent remuneration and attractive retirement benefit schemes that meet the employees' needs. In response, the company has converted the previous "Schaeffler function rating system" ("Schaeffler Funktionsbewertungssystem") to the uniform worldwide "Schaeffler Global Job Grading System" in 2016. The system increases transparency and makes it easier to effectively enhance the career paths and succession planning processes and coordinate them globally. To cover potential pension shortfalls, the company offers its employees attractive retirement benefit schemes financed by the employer and/or the employee. A dedicated retirement benefit portal provides employees with extensive information about various retirement benefit schemes and with the opportunity to obtain a calculation of the income they can expect to receive from the various retirement schemes.

The Schaeffler Group's ideas management system enables its employees to be actively involved in the company. By contributing their creativity and knowledge, employees are taking on responsibility and are continually improving processes and products. The Schaeffler Group's employees submitted a total of 35,062 ideas via the ideas management software in 2016, generating cost savings of EUR 14.7 m. The group is currently using this system at 41 locations in twelve countries and is continually adding further locations. The ideas management system, an important management instrument, assists senior management with achieving objectives and helps secure the company's success for the long-term.

 See the chapter entitled "Employees" for further detail on the HR strategy.

Education and science, health and social affairs, and sports and cultural events represent the core areas of the Schaeffler Group’s corporate citizenship activities. It participates in a variety of initiatives and collaborations and provides support in the form of donations and scholarships. By making positive contributions to its environment, the Schaeffler Group helps overcome challenges facing society and aims to add value to the company in the long run. 2016 saw the Schaeffler Group once more supporting numerous social projects.

In the fields of education and science, the Schaeffler Group relies on collaboration agreements with universities, research institutions and other qualified project partners. A total of ten leading research institutions in Europe, the U.S., China, Japan, and Singapore participate in the “Schaeffler Innovation Network”.

Schaeffler Group innovation network

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<p>Europe</p> <p>SHARE at FAU Digitalization</p> <p>SHARE at KIT E- & urban mobility</p> <p>Digital Start-up Center ZOLLHOF</p> <p>Fraunhofer Several locations</p>	<p>Greater China</p> <p>Southwest Jiaotong University High-speed trains</p> <p>Tongji University Automotive E-Mobility</p>
<p>Americas</p> <p>Silicon Valley Start-ups</p> <p>Clemson University Urban mobility</p>	<p>Asia/Pacific</p> <p>SHARE at NTU Urban mobility</p> <p>Tokyo University of Science Additive Manufacturing Tribology</p>

See the chapter entitled “Schaeffler Group research and development” for further detail on collaborations with universities.

In the field of health and social affairs, the Schaeffler Group provides financial assistance in emergencies and disasters and promotes social and humanitarian projects. One focus here was on South Africa in 2016. For instance, as part of the “CSR Program South Africa”, the Schaeffler Group assisted the South African government with promoting equal opportunities for citizens previously socially or economically disadvantaged. For example, Schaeffler collaborated with the “SOS Children’s Village Association” to help provide abandoned or orphaned children with protection and a family environment. Sponsoring an orphanage, Schaeffler covered the costs incurred in 2016. The Schaeffler Group also collaborated with the “ACVV Khayaletu Youth Centre”, a facility helping boys living on the street successfully integrate into society and live up to their potential by, among other things, Schaeffler providing a safe environment and offering schooling.

The Schaeffler Group also provided assistance to welfare facilities, projects and organizations as part of its “International Management Program” (IMP). It enables managers in various functions, areas, and regions to initiate and finance social projects. In February 2016, for instance, IMP participants at the Hosur (India) location collected donations by selling calendars, giving swimming lessons, or hosting a barbecue at home. They used the funds to finance school clothes, shoes, and lunchboxes and personally delivered them to orphaned and handicapped children during a school day visit. Other social projects were carried out in Germany (Herzogenaurach), South Korea (Changwon), and the U.S. (Fort Mill).

FAG Bearings India Ltd., a Schaeffler Group subsidiary, won an award for its social commitment in India. In February 2016, it received the “True Impact Award 2016” for establishing a barrier-free hostel building in Mook Dhvani Trust. This is one of several projects of the “HOPE CSR Initiative” started by FAG at the Vadodara location. The facility provides a home for over 30 differently-abled and deaf-mute female students, and thus a good basis for attending secondary school. Projects receiving the company’s support at this location also include providing mobile health stations to improve health care for the rural population.

In the field of sports and cultural events, the Schaeffler Group supports associations, foundations, and museums. In addition, the company holds memberships in nonprofit associations for the promotion of arts and cultural events.

The Schaeffler Group once again supported talented young engineers from around the world, including by acting as the main sponsor of the design competition “Formula Student Germany 2016”. The award goes to the best overall package of a race car with an electric drive under the aspects of innovation, economy, efficiency, and driving ability. A total of 111 student teams from approximately 25 countries competed against each other. 22 of these teams were directly supported by Schaeffler in their development activities. Besides Germany, “Formula Student” competitions are also held in Spain, Italy, and Brazil as well as other countries, with Schaeffler supporting a total of 44 teams of young talents around the world.