

**SCHAEFFLER**

Financial statements 2016

Schaeffler AG

Mobility for tomorrow

# Digitalization – A Key Opportunity for the Future



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# Combined management report

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Combined management report in accordance with section 315 (3) HGB (also referred to as “group management report” or “management report”). The company has chosen to integrate the management report of Schaeffler AG with the following group management report of the Schaeffler Group.

## References

Content of websites referenced in the combined management report merely provides further information and is not part of the combined management report. This does not apply to the corporate governance declaration in accordance with section 289a HGB, which includes the declaration of conformity in accordance with section 161 AktG.

## Disclaimer in respect of forward-looking statements

This management report contains forward-looking statements that are based on the Board of Managing Directors’ current estimation at the time of the creation of this report. Such statements refer to future periods or they are designated by terms such as “estimate”, “forecast”, “intend”, “predict”, “plan”, “assume”, or “expect”. Forward-looking statements bear risks and uncertainties. A variety of these risks and uncertainties are determined by factors not subject to the influence of the Schaeffler Group. Therefore, actual results can deviate substantially from those indicated.

## Impact of currency translation/constant currency

Revenue figures at constant currency, i.e. excluding the impact of currency translation, are calculated by translating revenue using the same exchange rate for both the current and the prior year or comparison reporting period.

# 1. Fundamental information about the group

## 1.1 Overview of the Schaeffler Group

The Schaeffler Group (also referred to as “Schaeffler” below) is a global automotive and industrial supplier. Top quality, outstanding technology, and exceptionally innovative spirit form the basis for the continued success of the company. The Schaeffler Group identifies key trends early on, invests in researching and developing new forward-looking products, and sets new standards in technology. Extensive systems know-how enables the Schaeffler Group to offer comprehensive solutions that are tailored to customer and market requirements. By delivering high-precision components and systems in engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications, the Schaeffler Group is shaping “Mobility for tomorrow” to a significant degree. The company already offers innovative products for hybrid and electric vehicles today.

With its approximately 86,000 employees, the Schaeffler Group is one of the leading global technology companies, and its network of manufacturing locations, research and development facilities, and distribution companies consists of approximately 170 locations in over 50 countries. The group’s 75 production facilities are the cornerstone of its operations. As a global development partner and supplier, Schaeffler maintains stable long-term relationships with its customers and suppliers. In addition to Schaeffler AG, a publicly listed stock corporation incorporated under German law with its registered office in Herzogenaurach that acts as the group’s lead company, the Schaeffler Group includes 152 domestic and foreign subsidiaries as at December 31, 2016.

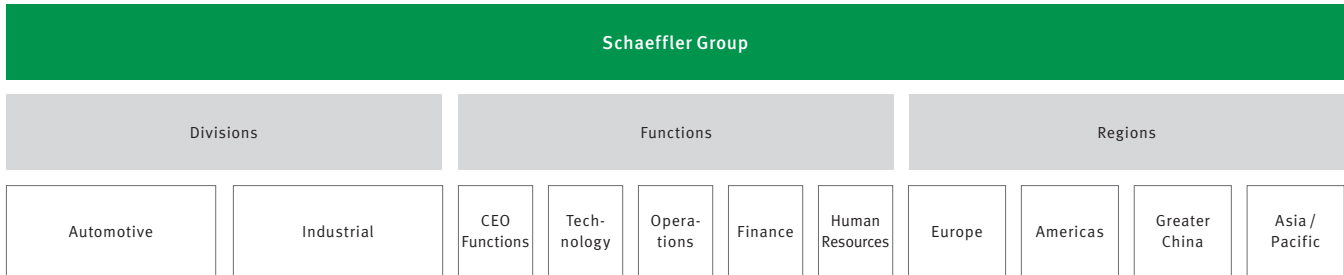
On November 09, 2016, Schaeffler AG presented its strategy “Mobility for tomorrow” to the public; the strategy was developed

over the course of 2016 and has been approved by the Board of Managing Directors and the Supervisory Board. Under its strategy “Mobility for tomorrow”, the Schaeffler Group concentrates on four Focus Areas: Eco-friendly drives, urban mobility, interurban mobility, and energy chain. These four Focus Areas are based on four megatrends that will influence the business of the Schaeffler Group in the future: Climate change, urbanization, globalization, and digitalization. Building on these megatrends and Focus Areas, the Schaeffler Group’s Board of Managing Directors developed 8 strategic pillars in cooperation with the Supervisory Board and senior management worldwide. These pillars define the company’s scope for strategic action for the next several years and constitute the basis for the continuous further development of the Schaeffler Group. The “Agenda 4 plus One” excellence program ensures that the strategy is executed; it comprises 16 Strategic Initiatives that have significance worldwide and have been selected from a variety of initiatives. The Schaeffler Group has set itself Financial Ambitions up to 2020 in order to consistently implement its strategy.

Schaeffler AG’s common non-voting shares are listed on the Frankfurt Stock Exchange. In April 2016, IHO Beteiligungs GmbH (until September 28, 2016: Schaeffler Verwaltungs GmbH) sold its remaining holding of common non-voting Schaeffler AG shares. As a result, all common non-voting shares are now widely held. IHO Holding, a group of holding companies owned indirectly by the Schaeffler family, continues to hold all of Schaeffler AG’s common shares. The above transactions have completed the realignment of the company’s corporate and capital structure and have increased the free float to approximately 24.9 % of Schaeffler AG’s total common and common non-voting share capital. Following a review of its mid-cap index, Deutsche Börse had decided in June 2016 to include Schaeffler’s shares in its MDAX index.

Schaeffler Group organizational structure

No. 001



Simplified presentation for illustration purposes.

Organizational structure

The Schaeffler Group’s organizational structure is characterized by a three-dimensional organizational and leadership structure which differentiates between divisional, functional and regional units. Thus, the Schaeffler Group’s business is primarily managed based on its Automotive and Industrial divisions, which consist of several business divisions or regions. The divisions include both the OEM business and the Aftermarket/trading business.

The Automotive division business is divided into the four business divisions Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket. Since the beginning of 2016, the Industrial division is primarily managed based on regions. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets.

In addition to the two divisions, the Schaeffler Group’s organizational model includes five functions: (1) CEO Functions, (2) Technology, (3) Operations, (4) Finance, and (5) Human Resources. Distribution is embedded directly in each of the Automotive and Industrial divisions. The third dimension are the group’s four regions Europe, Americas, Greater China, and Asia/Pacific.

Leadership structure

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. In addition to the Chairman of the Board of Managing Directors (Chief Executive Officer – CEO), the Board of Managing Directors comprises the CEOs of the Automotive (CEOs Automotive) and Industrial (CEO Industrial) divisions and the Managing Directors responsible for the Schaeffler Group’s functions (Chief Technology Officer, Chief Operating Officer, Chief Financial Officer, and Chief Human Resources Officer). The Board of Managing Directors is directly responsible for managing the company, setting objectives and strategic direction, and managing the implementation of the growth strategy taking into account the interests of shareholders, employees and other stakeholders of the company in order to add long-term value. The CEO coordinates the management of the company and the Schaeffler Group.

In addition to the divisions and the functions, the group’s matrix organization comprises the regions Europe, Americas, Greater China, and Asia/Pacific, each managed by a Regional CEO. The Regional CEOs report directly to the CEO. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group’s Executive Board. In this manner, the Schaeffler Group’s organizational structure is reflected in its leadership structure.

The Supervisory Board of Schaeffler AG appoints, advises, and oversees the Board of Managing Directors and is involved in fundamental decisions. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board.

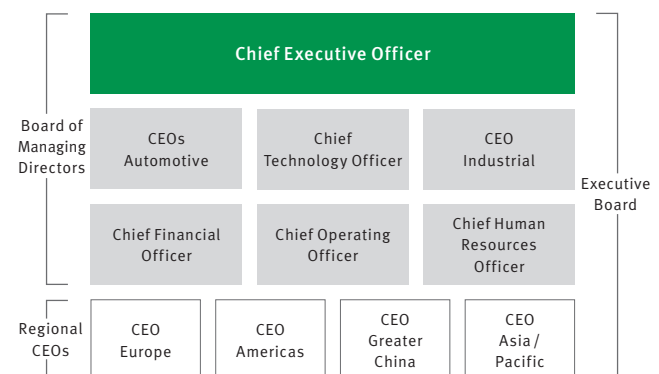
The Board of Managing Directors and the Supervisory Board comply with the recommendations of the German Corporate Governance Code in conducting their affairs and have issued the declaration of conformity required by section 161 German Stock Corporations Act (“Aktengesetz” – AktG) in December 2016. The corporate governance report including the corporate governance declaration in accordance with section 289a HGB, which includes the declaration of conformity required by section 161 AktG, is publicly available from the company’s website.

📖 See chapter entitled “Corporate governance” for further detail.

📄 Corporate governance report including the corporate governance declaration in accordance with section 289a HGB, which includes the declaration of conformity in accordance with section 161 AktG at: [www.schaeffler.com/ir](http://www.schaeffler.com/ir)

Schaeffler Group leadership structure

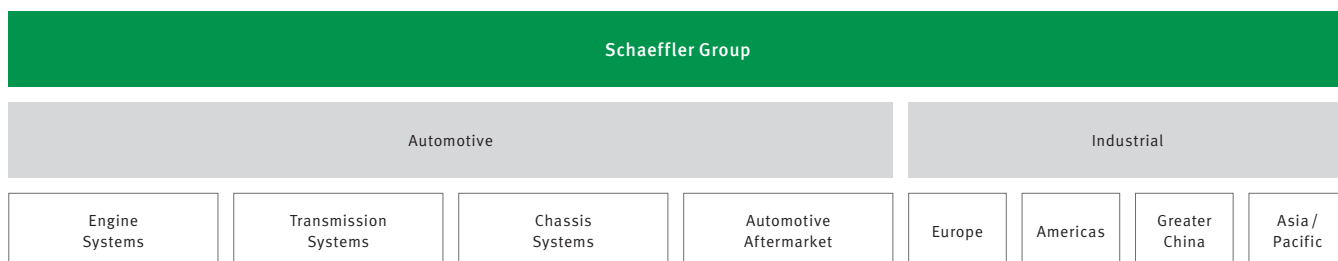
No. 002



**Schaeffler Group divisions and business divisions**

No. 003

since January 01, 2016



Simplified presentation for illustration purposes.

**Legal group structure**

In addition to Schaeffler AG, a publicly listed stock corporation incorporated under German law with its registered office in Herzogenaurach that acts as the group's lead company, the Schaeffler Group includes 152 (prior year: 153) domestic and foreign subsidiaries as at December 31, 2016; 51 (prior year: 51) entities are domiciled in Germany and 101 (prior year: 102) in other countries.

Schaeffler AG's share capital is divided into 500 million common bearer shares and 166 million common non-voting bearer shares as at December 31, 2016.

Each common share and each common non-voting share represents an interest in total share capital of EUR 1.00 each. The company's main shareholder is IHO Verwaltungs GmbH (until September 27, 2016: Schaeffler Verwaltung Zwei GmbH), which

holds approximately 75.1 % of the shares in Schaeffler AG (500 million common shares). 166 million common non-voting bearer shares in Schaeffler AG are widely held. The free float amounted to approximately 24.9 % as at December 31, 2016. IHO Beteiligungs GmbH and IHO Verwaltungs GmbH also hold approximately 46.0 % of the shares in Continental AG.

**1.2 Business activities****Divisions**

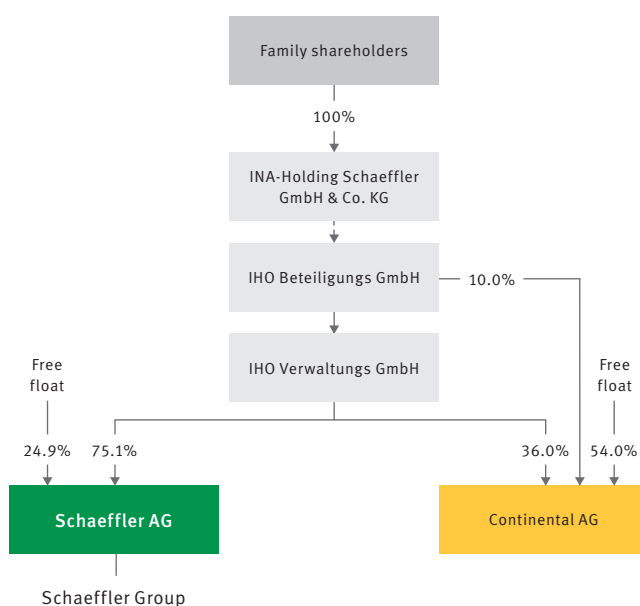
The Schaeffler Group has divided its business activities into the two divisions Automotive and Industrial. The Automotive division is subdivided into four business divisions, which in turn comprise several business units. Since January 01, 2016, the Industrial division is primarily managed based on regions. The regions are divided into eight sectors and the trading business. The realigned management model is part of the program "CORE" initiated by the Board of Managing Directors in 2015.

The Automotive division supplies all major automotive manufacturers worldwide as well as approximately 3,300 automotive suppliers (Tier 1) and Automotive Aftermarket customers. The Automotive division generates approximately 77 % (prior year: 76 %) of the Schaeffler Group's revenue. The Industrial division supplies precision products to approximately 8,500 customers in various industrial sectors. The Industrial division contributes approximately 23 % (prior year: 24 %) of the Schaeffler Group's total revenue.

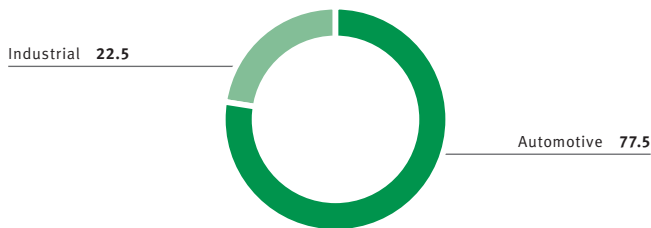
**Simplified ownership structure**

No. 004

as at December 31, 2016



**Schaeffler Group revenue by division** No. 005  
 in percent



### Automotive

As a partner to the automotive sector, the Schaeffler Group leads the field when it comes to developing and manufacturing groundbreaking components and systems for engines, transmissions, and chassis, for both vehicles with drive trains based on the internal combustion engine and hybrid and electric vehicles. The Automotive division business is organized into the business divisions (BD) Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket.

Market trends for the Automotive division are driven by the global production volumes of passenger cars and light commercial vehicles. The growth of the global vehicle fleet also plays a crucial role in the automotive Aftermarket business. The Automotive division has the objective of achieving lasting growth of approximately 4 % over and above the increase in worldwide automobile production by 2020.

The Automotive division’s main products include clutch systems, transmission components, torsion dampers, valve train systems, camshaft phasing units, electric drives, and bearing solutions in transmissions and chassis. The Schaeffler Group’s precision products and systems are key to helping make engines use less fuel and comply with increasingly strict emission requirements.

At the same time, they also extend engine and transmission life and increase driving comfort and dynamics. Its comprehensive technical expertise for the entire drive train is what sets apart Schaeffler Automotive, one of the leading automotive suppliers worldwide. As future consumption and emissions targets can only be fully met by electrifying the drive train, the Schaeffler Group offers solutions for the entire range of electrification types – from hybrid through to fully electric drive systems.

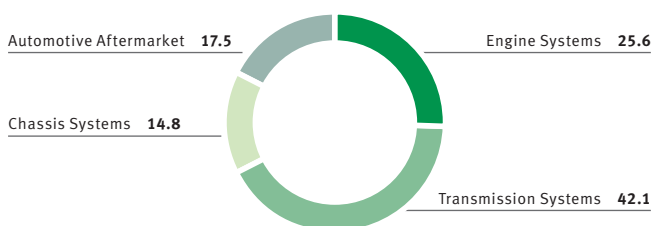
A comprehensive Aftermarket portfolio rounds out the business of the Automotive division. The product range covers applications in clutch and release systems, engine and transmission applications, and chassis applications. In addition, Schaeffler Automotive Aftermarket offers a comprehensive variety of services such as practice-oriented training courses, advice provided by the Schaeffler repair hotline or the group’s online garage portal, as well as the development of specialized tools.

### Industrial

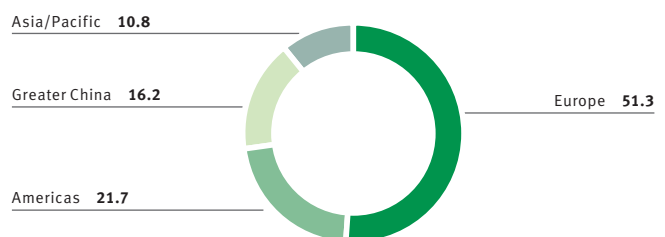
Since January 01, 2016, the Industrial division is primarily managed based on regions due to its wide customer and business structure. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets. Within the regions, the Industrial business is grouped into eight sectors: (1) wind, (2) raw materials, (3) aerospace, (4) rail, (5) offroad, (6) two wheelers, (7) power transmission, and (8) industrial automation. Sales to distributors (Industrial Distribution) round out the Industrial division’s regional business.

The Industrial division’s product spectrum includes rolling and plain bearings, linear technology, maintenance products, monitoring systems, and direct drive technology. The Industrial division offers a broad portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small diameters to large-size bearings over three meters in diameter. Components are increasingly being integrated in system solutions, some of which are designed as mechatronic systems with data-generating sensors.

**Automotive division revenue by business division** No. 006  
 in percent



**Automotive division revenue by region** No. 007  
 in percent by market view





With its rolling bearing, linear technology, and direct drive solutions, the Schaeffler Group offers comprehensive technological and application engineering expertise for complete systems from one source that are precisely matched to one another. The focus is increasingly on smart products and on connecting components. One example is the “Machine Tool 4.0”, whose sensor-equipped components measure and report vibrations, forces and temperatures at all relevant bearing positions.

The majority of rolling bearings is supplied by the “Bearing & Components Technologies” (BCT) unit as an internal supplier. The bearings and related products are used in applications in drive technology, production machinery, and wind turbines, as well as in heavy industries. In the aerospace sector, the Schaeffler Group is a leading manufacturer of high-precision bearings for jet and helicopter engines as well as for space travel applications.

The key indicator for trends in the Industrial division’s relevant market is the global market volume for rolling and plain bearings, for linear technology, and for service products in these areas.

**Program “CORE”**

**First wave:** In 2015, Schaeffler AG’s Board of Managing Directors decided to realign the company’s Industrial division based on the program “CORE”. The Schaeffler Group’s program “CORE” is aimed at strengthening the Industrial division’s core competencies to improve the efficiency and competitive position of the Industrial business for the long term. The program is designed to return the Industrial division to lasting growth and increased profitability.

Its key elements are increased sales growth, enhanced delivery performance and service quality, stronger customer orientation, as well as cost savings and efficiency improvements. The organizational realignment serves as the basis for streamlining workflows and processes and improving their efficiency. It includes streamlining the organizational and management structure of the corporate functions and of the corporate product

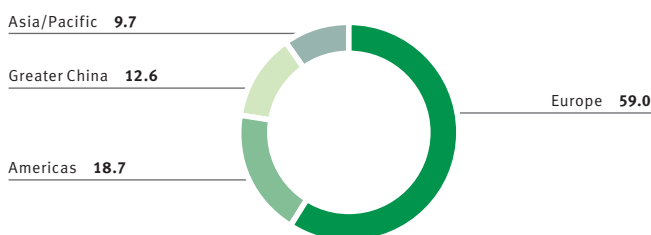
and application development units. The reorganization of the Industrial division also involved taking the necessary steps to implement the new delivery performance and management model “Business is local” and to support its introduction. In connection with this model, the Schaeffler Group has been managing the Industrial business primarily based on regions since January 01, 2016. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets. A further core component of the program “CORE”, in addition to increasing efficiency and strengthening the division’s competitive position, is stronger customer orientation. The reorganization of the Industrial division included laying down the foundation for a centralized, efficient key account management. As part of the program “CORE”, the company decided in 2015 to reduce the Industrial workforce by up to 500 jobs in a socially acceptable manner, particularly in Germany and Europe. These measures were largely completed by the end of 2016.

**Second wave:** In light of the continued weak economic market environment and the unsatisfactory current earnings situation of the Industrial division during the year, the Board of Managing Directors of Schaeffler AG decided in November 2016 to step up its measures to revitalize the Industrial division and increase its efficiency. It initiated a second wave of measures which also covers the regions outside of Germany as well as functional areas not directly part of the Industrial division. The measures are designed to improve the results of the entire Industrial division for the long-term by further streamlining its structure and reducing production and administrative costs. The second wave focuses on consolidating plant structures, mainly in the Europe region, and reducing the workforce in Industrial-related administrative departments.

**Industrial division revenue by region**

No. 008

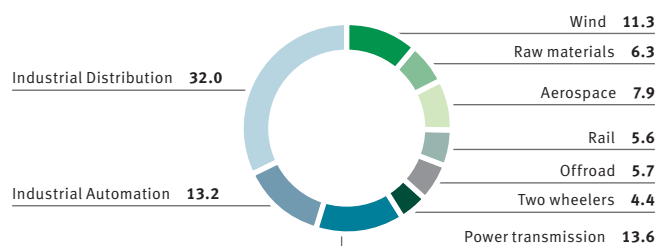
in percent by market view



**Industrial division revenue by sector**

No. 009

in percent



Schaeffler Group functions

No. 010

Schaeffler Group				
CEO Functions	Technology	Operations	Finance	Human Resources
<ul style="list-style-type: none"> <li>- Quality</li> <li>- MOVE</li> <li>- Communications &amp; Marketing</li> <li>- Investor Relations</li> <li>- Legal</li> <li>- Internal Audit</li> <li>- Corporate Development &amp; Strategy</li> <li>- Compliance &amp; Corporate Security</li> <li>- Corporate Real Estate</li> </ul>	<ul style="list-style-type: none"> <li>- Corporate R&amp;D Management</li> <li>- Corporate Innovation</li> <li>- R&amp;D Processes, Methods &amp; Tools</li> <li>- R&amp;D Competence &amp; Services</li> <li>- Intellectual Property Rights</li> <li>- Surface Technology</li> <li>- Information Technology</li> <li>- Coordination Office Digitalization</li> </ul>	<ul style="list-style-type: none"> <li>- Operations Strategy &amp; Processes</li> <li>- Production Technology</li> <li>- Special Machinery</li> <li>- Tool Management &amp; Prototyping</li> <li>- Industrial Engineering</li> <li>- Bearing &amp; Components Technologies</li> <li>- Logistics</li> <li>- Purchasing</li> <li>- MOVE Operations</li> </ul>	<ul style="list-style-type: none"> <li>- Finance Strategy, Processes &amp; Infrastructure</li> <li>- Corporate Accounting</li> <li>- Corporate Controlling</li> <li>- Corporate Treasury</li> <li>- Corporate Taxes</li> <li>- Divisional Controlling Automotive</li> <li>- Divisional Controlling Industrial</li> <li>- Corporate Insurance</li> </ul>	<ul style="list-style-type: none"> <li>- HR Strategy</li> <li>- HR Policies &amp; Standards</li> <li>- Leadership, Recruiting &amp; Talent Management</li> <li>- Schaeffler Academy</li> <li>- HR Systems, Processes &amp; Reporting</li> <li>- Environment, Health &amp; Safety</li> <li>- HR Functions</li> <li>- HR Automotive</li> <li>- HR Industrial</li> </ul>

Simplified presentation for illustration purposes.  
 Structure presented without divisions.

The second wave is expected to reduce the workforce by a total of approximately 500 jobs. These measures are designed to sustainably improve Industrial division earnings by approximately EUR 60 m over the next three years. At the same time, the company is stepping up program “CORE” measures designed to return the Industrial division to a growth path despite the current challenging market conditions.

Both the first wave of the program “CORE” set up in 2015 and the second wave of measures initiated in November 2016 are designed to return the Industrial division to lasting growth and increased profitability with a target EBIT margin of approximately 10 to 11 % in 2018.

### Functions

The multi-dimensional structure of the Schaeffler Group includes the functional management level with five functions: (1) CEO Functions, (2) Technology, (3) Operations, (4) Finance, and (5) Human Resources.

The functions are essential to securing the Schaeffler Group’s long-term competitiveness and innovative ability. In accordance with the company’s commitment to top quality, outstanding technology and exceptionally innovative spirit, the two functions Technology (particularly Research and Development) and Operations are discussed in more detail below.

### Quality

#### Quality management and quality performance

The Schaeffler Group’s benchmark is consistent top quality and product safety across all applications in order to provide mobility for tomorrow – in the cities just as in long-distance transportation, eco-friendly, and energy efficient. Outstanding quality is a significant feature differentiating the Schaeffler Group from its competition and represents the basis of the group’s future long-term growth.

In order to consistently meet its standard of quality, the Schaeffler Group maintains a comprehensive quality management system. It is based on a central management handbook containing regulations and prescribed processes applicable groupwide. Compliance with and monitoring of these requirements are guaranteed by audits and reviews, and they ensure a uniform global level of quality. In addition, each unit has managers specifically responsible for quality or other quality experts to ensure that the quality management system at all Schaeffler Group locations is effective and is continuously improved. Benchmark for this is the “zero defects principle” in place at all Schaeffler Group locations, which stands for process stabilization and continuous improvement. It facilitates the early detection and elimination of weaknesses. The thorough implementation of the “zero defect principle” guarantees top process reliability and product quality across all stages – from design and manufacturing through to service.

Employees play a key role in meeting the Schaeffler Group's quality standards. The "Fit for Quality" program was initiated several years ago. "Fit for Quality" ensures a systematic approach to achieving top quality with the objective of "zero defects". The program defines policies and rules of conduct for the day-to-day work of all employees of the Schaeffler Group. It provides guidance and orientation to all employees on how to prevent errors to begin with or how to permanently eliminate them.

All of the Schaeffler Group's manufacturing locations are certified under globally recognized quality norms and standards such as ISO 9001:2015 or ISO TS 16949:2009. In August 2016, ISO (International Organization for Standardization) and IATF (International Automotive Task Force) announced that the standard for quality management systems of companies in the automotive sector recognized around the world, ISO TS 16949:2009, will be replaced by IATF 16949. Selected Schaeffler Group locations will be certified under the new IATF 16949 standard in 2017 and all remaining relevant locations in 2018.

The Schaeffler Group's high quality standards are demonstrated by, among other things, numerous awards received from customers. The Schaeffler Group has received a total of 45 quality awards in 2016, such as the "GM 2015 Supplier Quality Excellence Award" and the "Nissan Quality Supplier Award".

### Product safety


Being aware of its responsibility to customers, consumers, and employees, the Schaeffler Group has made product safety its top priority. Understanding the requirements in the markets and customers' needs with respect to safe products and reflecting these in the company's processes is key here. The Schaeffler Group has initiated a communication platform, the "Product Safety Network", that includes a large number of companies and is supported by the industry associations VDA, VDMA, and ZVEI. The "Product Safety Network" receives strong support from the Federal Ministry for Economic Affairs and Energy (BMWi). Its members are companies with a broad spectrum of technical and electromechanical products. The goal of the network is to continuously improve their collective activities with respect to product safety issues in the interest of consumers. The focus is primarily on the fields of passenger transport and mechanical engineering and plant construction. A periodic product safety conference is designed to facilitate sharing of information within the network.

Schaeffler hosted the first product safety conference in January 2015. The second product safety day held by the Schaeffler Group in Shanghai, China, in August 2016 demonstrates the long-term nature of this initiative. The issue of product safety is also being reflected in the Schaeffler Group's

organization. Key individuals were systematically identified throughout the organization, trained as product safety officers and authorized, either by the head of Corporate Quality Product Safety or, where needed, by the Board of Managing Directors, to be responsible for decisions related to product safety. As part of this process, the Board of Managing Directors has appointed a CE officer for the CEO Functions who is responsible for the conformity assessment of the Schaeffler Group's products for access to the European market. New information regarding product safety obtained by autonomous observation of the market is shared in a global internal network of product safety officers, evaluated with respect to whether action is required, and developed into product improvements as needed.

### Technology

The Technology function has made it its goal to safeguard the Schaeffler Group's technological leadership and to thoroughly delight its customers with innovative application- and customer-oriented system solutions from a single source and with its comprehensive development expertise. Four megatrends will influence the business of the Schaeffler Group in the future: Climate change, urbanization, globalization, and digitalization. Based on these four megatrends, research and development activities are aligned with the strategy "Mobility for tomorrow" and its four Focus Areas "eco-friendly drives", "urban mobility", "interurban mobility", and "energy chain".

 See chapter entitled "Group strategy and management" for further detail.

In addition to Corporate R&D Management, Corporate Innovation, R&D Processes, Methodologies & Resources, R&D Expertise & Services, Protection of Industrial Property and Surface and Information Technology, the Technology function also includes the Digitalization Coordination Office. This office is described in more detail following the group's and the divisions' research and development activities.

### Schaeffler Group research and development

The Schaeffler Group is actively helping to shape technological progress for "Mobility for tomorrow" with an average of 7,121 R&D staff (prior year: 6,650) at 17 R&D centers (prior year: 17) and additional R&D locations in a total of 24 countries. Its 2,334 patent registrations filed with the German Patent and Trademark Office made the Schaeffler Group the second most innovative company for the second consecutive year in 2015. Over 2,950 inventions reported internally in 2016 (prior year: 2,643) also demonstrate the company's innovative ability. On this basis, the Schaeffler Group expects to once again rank among the most innovative companies in Germany in 2016.

The Schaeffler Group's research and development activities benefit from the company's many years of experience and expertise with product and systems development. Today, mechanics and electronics are increasingly merged into a complete mechatronic system requiring extensive software to manage. The Schaeffler Group is a supplier who understands complex modules and complete system solutions and can deliver them. The company will continue to expand this expertise, but without neglecting the component business. Schaeffler values its component business and its systems business equally.

Another success factor is the cooperation across divisions within the Schaeffler Group. The consistent transfer of knowledge between the Automotive and Industrial divisions generates significant synergies and, consequently, competitive advantages. For instance, coordinating research and development activities, e.g. in Corporate Innovation, and the global research network facilitates the promotion of product and systems innovations across divisions. One example of this is the Sensotect coating system developed by the company. Sensotect can be used to produce multi-functional surfaces that can directly record forces or torques inside components. It has the potential for applications in places where existing sensors cannot be used. For instance, torque measurements in e-bikes and wheel force measurements in passenger car wheel bearings are now possible. This means that operating conditions in the vehicle can be monitored during operation and the results provided to electronic safety systems in real time.

Apart from the cooperation across divisions, the systematic innovation process also forms the basis of the Schaeffler Group's global technological leadership. Internal and external R&D networks are essential for innovation. For many years, the Schaeffler Group, and Corporate Innovation in particular, have been actively participating in research collaborations such as the "Schaeffler Hub for Advanced Research" at the Karlsruhe Institute for Technology, also known as "SHARE at KIT". Schaeffler and the KIT have had a research collaboration designed with a long-term perspective in place since mid-2012. Under the "Company on Campus" model, Schaeffler and the KIT are studying future-oriented issues in the field of "Mobility for tomorrow" and develop relevant solutions together. This program sets new standards of cooperation in developing electric drive systems and their components as well as in the fields of automated mobility and energy storage. A total of approximately 70 individuals are currently doing research and working in publicly funded projects at SHARE at KIT – as research engineers, Ph.D. students, or in connection with student projects and theses.

The company is transferring the successful format of SHARE at KIT to other issues, both nationally and at an international level. For instance, the Schaeffler Group entered a collaboration project

with Friedrich-Alexander University of Erlangen-Nuremberg (FAU) in 2016. Mimicking SHARE at KIT, this collaboration is named SHARE at FAU, and it will also follow the "Company on campus" concept. The focus of the research is on digitalization and on processes in production, in the product, and in services. These areas of focus are summarized under the issues "Digitalization of value streams", "Digital assistance systems", and "Additive manufacturing". In addition to technological innovations, participants will also study issues like the continuing education of employees and legal issues related to digitalization.

In addition, the company is currently preparing for the "Schaeffler Hub for Advanced Research" with Nanyang Technological University in Singapore. This collaboration will concentrate on the requirements of future urban mobility, specifically in Asian metropolises. The focus is on multimodal transport concepts, i.e. on completing a journey using more than one mode of transportation. Topics range from mobility studies of commuter flows and their needs regarding first and last mile to connectivity and use of data by vehicles below the conventional automobile through to the development of new urban mobility concepts.

**Research and development in the Automotive division**  
The megatrends increasing globalization and urbanization require new forms of mobility. A growing scarcity of resources and climate change make reducing energy consumption essential. These challenging developments offer significant opportunities for the Schaeffler Group.

Schaeffler System 48 V concept car

No. 011



As a result, the field of E-mobility represents a key opportunity for the Schaeffler Group's future, and, therefore, a focus of the strategy "Mobility for tomorrow". The Schaeffler Group is a world leader in developing components and systems for the drive train and already offers innovative components and systems for hybrid and electric vehicles today. To facilitate a comprehensive approach, the company established the eMobility Systems

Division several years ago; it consolidates its wide range of activities relating to alternative types of drives across business divisions and national borders. In addition, engineers are working at research institutions such as the SHARE at KIT to share technology between the university and the company and are extensively researching solutions in the field of energy storage, electric drives, and automated mobility.

One example of the outcome of these research and development activities is the “Schaeffler System 48 V” concept car, which was presented in 2016. Starting with an Audi TT, the company developed a drive architecture containing an “electric axle” comprising a 48 V electric motor on the rear axle. In this hybrid concept featuring what is referred to as a P<sub>4</sub> arrangement, the electric axle complements the front-wheel drive internal combustion engine. An additional belt-driven starter generator also operating at 48 V is connected to the engine.

The 48 V on-board electric subsystem uses a lithium-ion battery as its energy store. It is connected via a voltage transformer to the 12 V on-board electric system which powers all the various electrical components in the vehicle, from headlights through to seat adjusters. This electric axle also features torque vectoring, i.e. selectively distributing the drive forces to specific wheels. This improves the agility and safety of the vehicle and the electric axle provides the vehicle with all-wheel drive functionality when combined with the front-wheel drive. The energy generated during braking is fed back into the energy system via the recuperation function in most braking operations which significantly reduces consumption. Furthermore, the Schaeffler electric axle combines the electric motor and the power electronics into one unit, generating important savings in terms of space and weight.

Another component the Schaeffler Group has developed for new vehicle concepts and automotive platforms in the field of E-mobility is the electric wheel hub drive known as the “E-Wheel Drive”. In this highly integrated wheel hub drive, all components required for drive, deceleration, and driving safety – such as the electric motor, power electronics, controller, brake, and cooling system – are contained within the wheel rim. In addition to optimum use of space, highly integrated wheel hub drives also offer significant benefits in terms of maneuverability, driving dynamics, and active safety. Opportunities which make the electric wheel hub drive a valuable addition to Schaeffler’s portfolio of electric drive systems. As part of the test program, a development vehicle based on a Ford Fiesta was created in a collaborative project with Ford.

Based on its expertise regarding drive trains based on the internal combustion engine, the Schaeffler Group demonstrated potential reductions in CO<sub>2</sub> by 25 % using the Gasoline Technology Car II, which was built in co-operation with Continental and Ford,

with “electronic clutch management (ECM)”, including an automated clutch, as an example. Another result of the Schaeffler Group’s research and development activities, the mechatronic active roll control, won the German Innovation Award. It has gone into serial production at several automobile manufacturers.

#### Research and development in the Industrial division

The digitalization megatrend has resulted in a fourth industrial revolution, “Industry 4.0”, and is having a considerable impact, particularly on production companies. Industry 4.0 stands for intelligent networks connecting product development, production, logistics, customers, and suppliers. Its technological basis are intelligent, digitally linked systems that maximize the possibilities for autonomous production and optimum plant operation: People, machines, systems, logistics, and products communicate and collaborate directly with each other.

The Schaeffler Group is continually expanding its research and development activities in this field and presented the “Predictive Maintenance 4.0” technology in 2016. Predictive Maintenance 4.0 expands conventional maintenance systems and provides the customer with new options for increasing efficiency and reducing the total cost of ownership. The focus is on two digital services: Calculating the remaining service life of rolling bearings and automatically diagnosing rolling bearings.

#### Predictive Maintenance 4.0 – a wind turbine

No. 012



The calculation of the remaining life of rolling bearings involves calculating the nominal remaining useful life for each bearing in the machine or system at time intervals that can be freely defined. The resulting remaining useful life data for every bearing in a machine can be viewed on an internet-capable end device. Comparing the remaining life of the rolling bearings in the machines of a production facility with the next scheduled maintenance makes it possible to manage the level of production in such a way that the bearings will not fail before the scheduled maintenance interval is reached.

Automated rolling bearing diagnosis uses vibration monitoring systems to monitor rolling bearings and to detect emerging damage to bearings and other machine components. The Schaeffler Group has started developing technology that is able to evaluate very high volumes of data from vibration analysis systems intelligently, reliably, and automatically. The vibration data will be automatically digitally processed in the Schaeffler Cloud, which provides adequately high processing power and a large number of possible analyses by linking with additional data from machines and sensors.

Far from being restricted to production plants, this technology is suitable for all applications involving high and fluctuating loads. For instance, data evaluation in passenger trains can facilitate higher average speeds, greater operating performance as well as longer maintenance intervals while also improving operating reliability. Sensor units to be developed specifically for rail applications can be used to measure structure-borne sound, temperatures, and speeds on axlebox bearings. The Schaeffler Group has entered a collaboration project to research this issue with Southwest Jiaotong University (SWJTU). In wind turbines, as well, modular sensor systems in the drive train, designed specifically for low frequencies, will use vibration measurement technology to obtain condition information during operation and process it in real time in the future.

The Industrial division's research and development activities also included, for instance, developing rolling bearings for the new third channel of the Panama Canal. Components from the Schaeffler Group play a key role in the operation of the lock gates. The slow movement poses special challenges for these bearing solutions, as it causes a quasi-static load with very high forces inside the bearings. An important feature of the new Panama Canal is its three reservoirs that are located next to each barrage. The steel guide pulleys for their gates are equipped with Schaeffler bearings that are chromium-plated, making them particularly resistant to corrosion. Different variants of the Schaeffler Group's Durotect coating are used for this application.

## Digitalization and IT

As it increasingly merges the real world and the digital world, the digitalization megatrend poses new challenges, but also offers great opportunities. Digitalization is thus transforming industries and their traditional processes. Digital technologies are becoming a core component of value added in purchasing, manufacturing, logistics, distribution as well as in the human resources and finance functions. Being a progressive, integrated automotive and industrial supplier, the Schaeffler Group considers digitalization one of the key issues of the future. Therefore, it has developed the "Digital Agenda" initiative as part of its "Agenda 4 plus One" excellence program, a component of the group's strategy "Mobility for tomorrow".

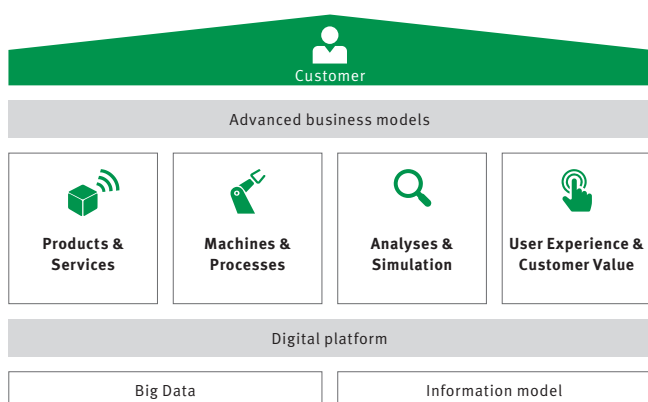
The key objective is connecting the physical and the digital world in order to increase the amount of value added. Internally, people, machines, buildings, production locations, logistics etc. are being connected with each other. To generate added value for the company and its customers, existing business models are expanded and new, digital business models are developed and implemented.

To this end, the Schaeffler Group will add sensors, actuators, and controllers including software to its components in order to be able to obtain and process valuable data on machine condition and behavior in the future. The customer does not benefit from gathering data per se, but rather from information generated by combining big data analyses with Schaeffler's thorough sector and application know-how and the resulting synergies. The Schaeffler Group agreed on a strategic partnership in this area with IBM in 2016. IBM will act as the technology provider, consultant, and research and development partner supporting Schaeffler in establishing a digital ecosystem and integrating its mechatronic components, systems and machines into the rapidly expanding world of the "Internet of Things".

The Schaeffler Group has established a centralized project management in 2016 in order to provide groupwide and cross-functional coordination and support for its digitalization projects. This "Program Office Digitalization" manages the coordination, establishment and expansion of the Schaeffler Group's digital activities. The "Digital Agenda", which was refined and put into more concrete terms in 2016, is among the significant initiatives dealing with this issue.

## Digital Agenda of the Schaeffler Group

No. 013



The Digital Agenda centers around the customer. New digital business models are oriented toward the customer's benefit. Four components reflect the key digital business scenarios the Schaeffler Group is focusing on:

**(1) Products & Services:** Data generated by sensor systems help expand product functions. Connecting products generates added benefits. Linking products to the Cloud facilitates adding further value and produces new business models.

**(2) Machines & Processes:** Connected machines and digital assistance for humans are continually advancing production. The Schaeffler Group will utilize this to expand its leadership role in the production and supply chain management environment and to make this know-how available to the market, as well. In addition, business processes are characterized by integration and real-time access to any data generated; as a result, once generated, any data can be used anywhere within the company without changing media. Therefore, the Schaeffler Group has decided to facilitate continuous use of data and to create new, service-oriented processes for this purpose.

**(3) Analyses & Simulation:** The Schaeffler Group strives to link data from products and processes with each other. Analyses based on the interaction of primary data and the sector- and application-related expertise of Schaeffler's specialists provide information that adds value. The Schaeffler Group is expanding its own know-how in the field of analytics and is integrating it into existing methodologies and domain knowledge.

**(4) User Experience & Customer Value:** The interaction between humans and machines is a significant factor for productivity and fun in the digital world. Therefore, the objective is quick recognition and learning as well as goal-oriented interactions.

The four components are being implemented on a digital platform on which all data-based services run. The platform was set up as the first milestone of the collaboration between the Schaeffler Group and IBM. Schaeffler is working closely with IBM to develop solutions for Schaeffler's internal needs as well as for its customers on a timely basis, using design thinking and agile development methodologies.

The issues of data standards, property rights, and security are defined as the basis of the Digital Agenda. As data will be a core component of value added in the future, the Schaeffler Group is implementing standards, architectures, and methodologies and has joined the Industrial Data Space Association to promote their distribution. Another important item in that regard is safeguarding digital patents for data-based services.

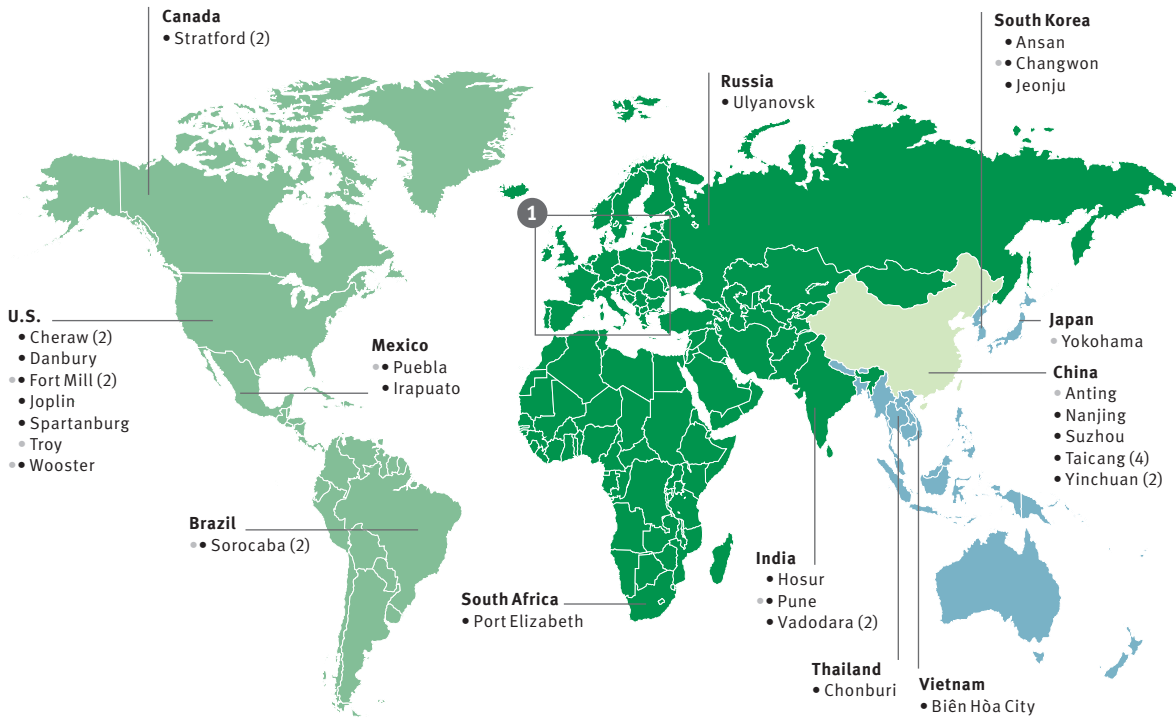
The Schaeffler Group's employees are fundamental to the implementation of the digital business models. In addition to the existing thorough know-how of its employees, the Schaeffler Group was able to win numerous "digital talents" in 2016 and is aiming to establish a significant talent pool.

To put Schaeffler's IT in a position to successfully meet the challenges of the future, the company has developed the "IT 2020" initiative as part of its "Agenda 4 plus One" excellence program. Development of the IT strategy under the "IT 2020" initiative was largely completed in 2016, and implementation of the strategy has started. It focusses on rapidly putting in place the organizational and information technology prerequisites for digitalization, renewing and further developing the application and infrastructure landscape, and changing the role of IT within the company from that of an internal service provider to that of a strategic business partner and key component of the digital business models.

Schaeffler Group plants and R&D centers

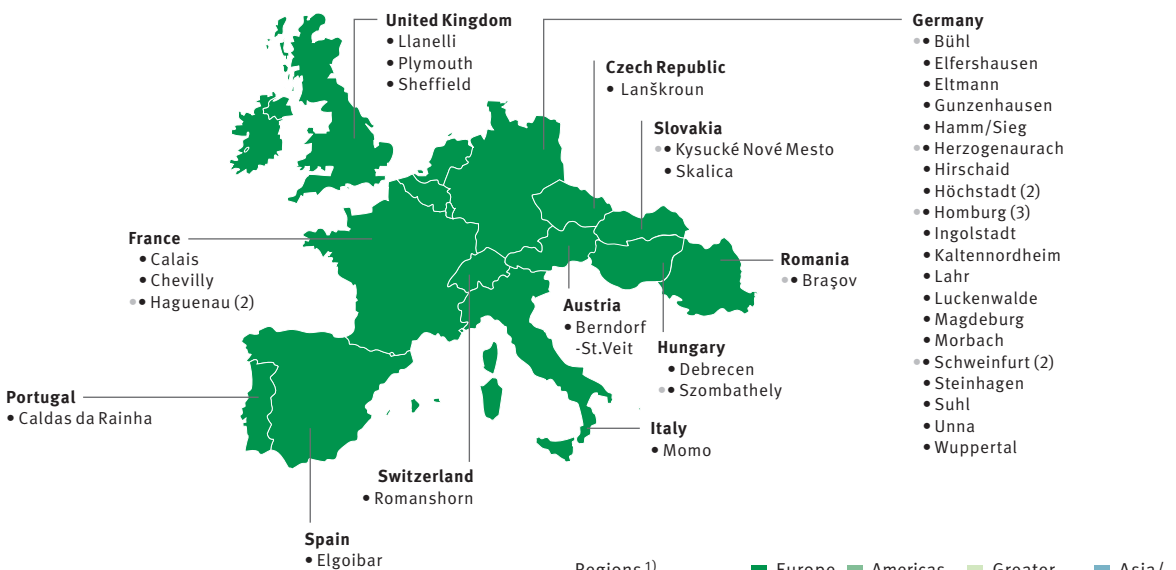
No. 014

# World



## 1 Europe

(partial view)



Regions <sup>1)</sup>	Europe	Americas	Greater China	Asia/Pacific
R&D centers	9	5	1	2
Plants	48	14	8	5

<sup>1)</sup> Regions reflect the regional structure of the Schaeffler Group.



## Operations

### Production

As an integrated global automotive and industrial supplier, the Schaeffler Group has a global manufacturing network consisting of 75 production facilities in 23 countries with approximately 60,000 employees worldwide. The plants represent the Schaeffler Group's "backbone". They are managed based on uniform principles. The global network of plants, the manufacturing technologies they utilize, and the high degree of vertical integration represent key factors underlying the Schaeffler Group's worldwide success.

Schaeffler plant in Taicang, China

No. 015



The Schaeffler Group's global manufacturing network makes it possible to maintain consistent high levels of quality and efficiency at all Schaeffler plants. The plants also form the core of the Schaeffler production system, which is part of the group strategy and, as such, represents the basis for achieving outstanding results in the key measures of quality, cost efficiency, and reliability of supply. Among other things, it facilitates very rapid transfer of innovative methods and processes within the entire network of plants. Its standardization accelerates production start-ups and provides flexibility in reacting to regional market fluctuations. As a result, nearly any product can be manufactured at several locations across the globe. Based on close integration with purchasing and distribution, continuous value streams are created between the Schaeffler Group's customers, plants, and suppliers.

The Schaeffler Group increased its production volume by 2.6 % in 2016. The Schaeffler Group strives to always deliver the

highest-possible quality to its customers while maintaining cost efficiency and reliability of supply. It continually improves its production system, with all locations consistently applying the "zero defects principle". Modern quality management techniques and integrated planning across the entire supply chain ensure that all of these requirements are being met. The company has once again realized improvements in quality and efficiency in 2016, resulting in, among other things, a reduction in the number of customer complaints. In addition, the "Integrated Planning" program enabled the company to further improve the reliability of supply to the customer in 2016.

The internal supplier "Bearing & Components Technologies" (BCT) is part of the Operations function, as well. BCT brackets all of the Schaeffler Group's rolling bearings. In 2016, it produced approximately EUR 3.4 bn in output for the Automotive and Industrial divisions.

BCT combines the Schaeffler Group's specialized expertise regarding development and production of rolling bearings. By defining the global standards for rolling bearings within the Schaeffler Group's production system and rolling them out around the world, BCT drives operating excellence in quality, cost, and delivery performance. This streamlines organizational structures, increases transparency and standardization, and generates synergies. As a result, BCT was able to flexibly adjust production capacity in the Industrial division despite a challenging market environment. Among BCT's priorities for 2016 was expanding the production of large-size bearings in its plant in Braşov, Romania, in 2016; the plant became the Schaeffler Group's center of excellence for large-size bearings when these activities were shifted there from Wuppertal in 2016. Further priorities were the "Generation-C deep groove ball bearings" initiative and expanding the global production and development network. The company is continually working to increase the efficiency of machinery and equipment and to harmonize the common production line platform for rolling bearings.

The opportunities offered by digitalization enable the Schaeffler Group to realize significant efficiency gains from, among other things, increasingly interconnected plant and machinery. The expanded use of sensor and actuator technology and connecting them using the internet helps make machines more independent. This facilitates preventative maintenance, helping to minimize the number of unplanned breakdowns. Combined with elements of "Lean Management", this contributes to a significant improvement in the Schaeffler Group's competitive position.

In addition, the Schaeffler Group aims to make the plants attractive for employees while increasing the level of integration of all relevant areas in the value chain. Concepts such as energy efficiency, modularization, and Industry 4.0 play a significant role in this context. The new Schaeffler concept "Factory for

tomorrow” demonstrates solutions in response to this and represents another step toward operating excellence. One core component of the “Factory for tomorrow” concept is the modular design of factories as well as creating ways to make adjustments over the life cycle of a factory at little cost. In total, this will improve profitability, resource efficiency, adaptability, communication across functions and excellence in all direct and indirect production areas of the Schaeffler Group.

A total of 48 plants represent the Schaeffler Group in its Europe region. In addition to manufacturing locations in Germany, France, Italy, and Spain, the group also maintains significant production plants in Central and Eastern Europe. The Schaeffler Group employs approximately 500 production staff at its production plant in Berndorf, Austria. The plant contributed approximately 1.9 % of the Europe region’s production volume and is among the lead plants for the worldwide production of tapered roller bearings. In 2016, the plant took top honors in a MOVE review, an internal model for measuring the degree of maturity in terms of becoming a lean business. The award was primarily won based on the application and implementation of the “lean” principles and the consistent elimination of waste in all areas of the plant. Top quality, reliability of supply, and exceptionally innovative spirit make this plant one of the Schaeffler Group’s leading plants.

Production capacity at the Central and Eastern European production plants is continually being expanded due to increasing demand for Schaeffler products. For instance, the company plans to expand the plant in Debrecen, Hungary. The new production building will be equipped with machines employing state-of-the-art grinding technology for manufacturing rolling bearings. The planned expansion will increase the plant’s production volume by approximately 50 %. The Hungarian plant currently contributes 1.4 % of the Europe region’s production volume. The first parts produced by the new plant are scheduled for delivery in the second half of 2017. The construction of the new plant in the Czech city of Svitavy started in the prior year was completed on schedule in 2016. The two Slovak plants in Skalica and Kysucke are among the most significant plants in Central Europe. These two plants generated 6.2 % and 7.8 % of the Europe region’s production volume. In Kysucke, approximately 4,100 production staff manufacture mostly rolling bearings. The Skalica plant with approximately 4,800 production employees manufactures rolling bearings as well as linear technology products and engine components and systems. The plant in Skalica, which celebrated its 25th anniversary in 2016, also received an award from Toyota Motors Europe for its quality performance in 2016.

The Schaeffler Group operates a total of 14 plants in the Americas region, including eight plants in the U.S. (South Carolina (5), Ohio, Connecticut, and Missouri) and two each in Canada, Mexico, and Brazil. In Sorocaba, Brazil, the Schaeffler Group operates a production location with two plants which employ a total of approximately 4,800 production staff. The location received numerous quality awards in 2016, such as the “Quality Excellence Performance Award” from Toyota do Brasil and the “2015 Supplier Award” from Honda Automóveis do Brasil. In addition, the location placed fourth in the “AutoData Quality and Partnership Ranking 2015”, putting it among the most important suppliers to the automotive sector in Brazil.

In its Greater China region, the group operates 8 plants. The persistently high level of demand for Schaeffler products in China requires a continual expansion of local production capacity. A new manufacturing building was opened at the production location in Nanjing, China, in 2016. Approximately 1,000 production employees manufacture camshaft phasing units, hydraulic tappets, chains, tensioners, and other engine components there. As expansion in Taicang and Nanjing has reached its limits, the Schaeffler Group is planning a new production location in Xiangtan, China. The company intends to gradually expand the new location. Initially, it is constructing a plant for automotive parts and precision bearings approximately 200,000 square meters in size. The plant is scheduled to commence operations in late 2018.

The Schaeffler Group has 5 plants in its Asia/Pacific region. By opening the plant in Chonburi, Thailand, the group has considerably expanded its manufacturing presence in the Asia/Pacific region. The new plant was constructed on a 55,000 square meter property in the immediate vicinity of several large automobile plants. It increases the local production volume and expands the portfolio of Automotive applications, providing the Schaeffler Group’s customers with better access to high-quality products and modern manufacturing technology. At the initial stage, approximately 150 production staff are manufacturing various automotive parts. The production plant was built using a modular system, offering the possibility to add additional lines for Schaeffler products and solutions covering the entire Automotive value chain in subsequent stages.

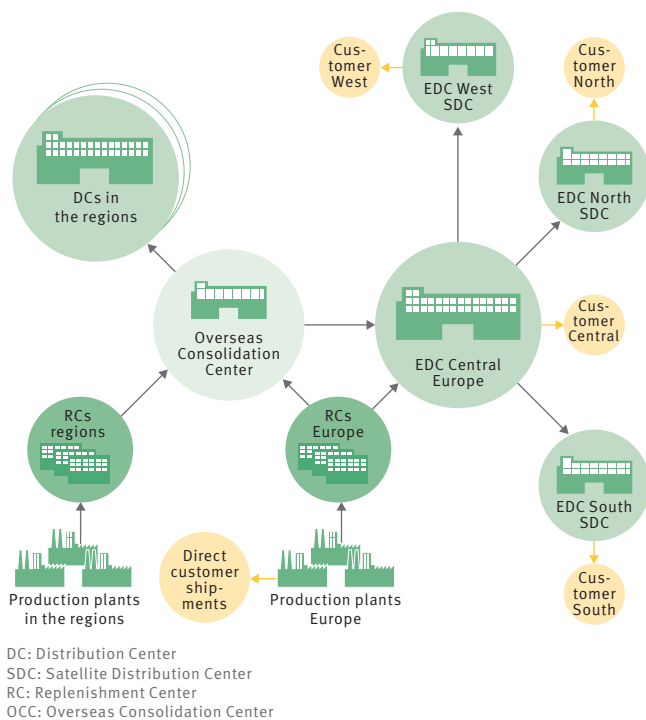
### Logistics

The logistics function is responsible for designing, operating, and continually improving the entire supply chain of the Schaeffler Group. The primary goal of this function is to maximize customer satisfaction at minimum cost by way of timely, accurate, and efficient supply to all Schaeffler customers and plants worldwide.

Within the Schaeffler Group, the Corporate and Regional Logistics functions were responsible for managing approximately 250 warehousing locations with more than 350,000 square meters in storage space, and for moving approximately 270,000 tonnes in freight between the most significant destinations in 2016. More than 100 shipping points ensure deliveries to customers. Total logistics activities have increased approximately 1.4 % compared to the prior year. Approximately 62 % of Schaeffler’s logistics activities were concentrated in the Europe region. Approximately 19 %, 13 %, and 6 % of all logistics activities related to the Americas, Greater China, and Asia/Pacific regions, respectively.

European Distribution Centers (EDC)

No. 016



A significant element of the strategic direction of Schaeffler Group logistics is the “European Distribution Center (EDC)” project. This project will create a high-performance logistics network for the Industrial division aimed improving market supply and delivery performance, thus making an important contribution to strengthening the Schaeffler Group’s competitive position. The two warehousing locations “EDC North” (Arlandastad, Sweden) and “EDC South” (Carisio, Italy) have already met their performance requirements with an excellent delivery performance. In addition, the groundbreaking ceremony for the European central distribution center “EDC Central Europe”

(Kitzingen, Germany) represents the achievement of another milestone toward completing the new distribution network for the Industrial Europe business unit.

In 2016, the company also focused on integrating suppliers into the manufacturing process. In cooperation with SupplyOn, it implemented the first stage of a transport order management system (TOMS) for global suppliers at a number of locations. The system represents the basis of a supply chain collaboration platform that will be used to map, manage, and improve processes in supply chain management, supplier risk and performance management, and in transportation management. This collaboration platform is an example of digitalization in Schaeffler’s logistics function and of the increased collaborative planning, management, and monitoring of logistics-related activities designed to add value throughout the entire Schaeffler Group.

Schaeffler UK Ltd. was presented with the 2016 eLogistics award by the AKJ Automotive working group for its project Seamless Supply Information Integration in 2016. To carry out this project, Schaeffler used the transport order management system (TOMS) developed and offered by SupplyOn. With this system, transport orders can be generated, combined and assigned to shipping companies in the supply chain. The pick-up sheet method is used to ensure deliveries are made on time and in the correct quantities. In addition to a considerable reduction in inventory levels of purchased parts, the company was able to significantly improve supplier performance.

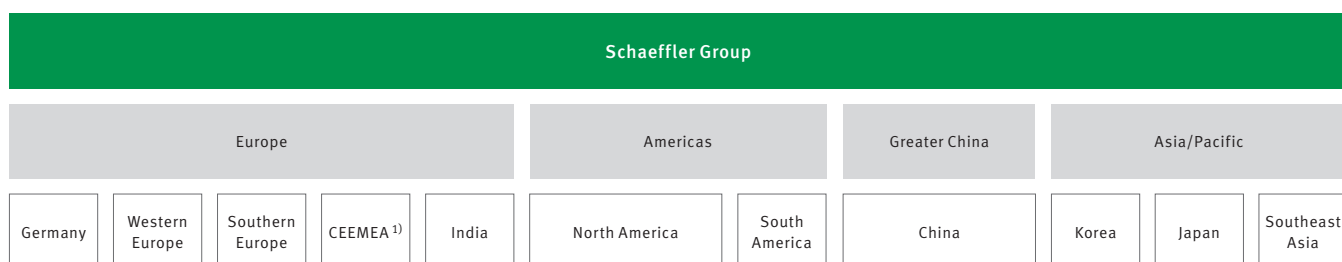
Purchasing

The Schaeffler Group’s purchasing function ensures optimal supply of goods and services to the plants taking into account quality, cost, and reliability of supply. By means including involving suppliers in the process of establishing production, it guarantees external supply even before production starts. By consolidating purchasing volumes, the purchasing function contributes to the continual improvement of the Schaeffler Group’s supplier network. The key objectives of purchasing remain (1) improving the quality provided by suppliers by cooperating extensively with suppliers, (2) securing competitive procurement costs, and (3) optimizing the supply chain to increase the security of supply by utilizing better logistical connections.

Purchasing consists of the corporate purchasing function for production and non-production materials, and project-related purchasing for the Automotive and Industrial divisions. In addition, purchasing is divided into the Europe, Americas, Greater China, and Asia/Pacific regions, which incorporate the purchasing function for the respective plants.

## Schaeffler Group regions and subregions

No. 017



<sup>1)</sup> CEEMEA – Central and Eastern Europe & Middle East and Africa.

In 2016, the Schaeffler Group reported a slight operational increase in the total volume of purchases compared to the prior year. The volume of production material (raw materials and components) included here rose less than production output. The purchasing volume in general purchasing (primarily intangible assets, property, plant and equipment, tools, supplies, and services) was higher than in the prior year. The Schaeffler Group was able to ensure supply to its plants around the world at all times in 2016.

The Schaeffler Group obtained goods and services from approximately 34,000 suppliers in approximately 80 countries in 2016. The volume of these purchases related primarily to the Europe (63.4 %) and Americas (17.7 %) regions. 11.5 % and 7.4 % related to the Greater China and Asia/Pacific regions, respectively.

The Schaeffler Group uses various raw materials such as steel (flat steel or steel bar), iron and aluminum casting, as well as non-ferrous metals in manufacturing its products. The production materials Schaeffler uses primarily depend, directly or indirectly, on the trend in the price of scrap steel, coking coal, and iron ore, as well as non-ferrous metals. Price changes are normally either passed on indirectly with a time-lag via changes in costs charged by suppliers or via new prices during contract negotiations. The Schaeffler Group has benefitted considerably from falling raw materials prices in 2016.

Continental AG and the Schaeffler Group have been cooperating on purchasing for seven years. Both companies benefit from improvements in cost structures from combining purchasing volumes. By utilizing synergies resulting from numerous cross-regional projects and programs, the Schaeffler Group was able to further improve its cost of materials slightly in 2016.

## Regions

The Schaeffler Group's three-dimensional matrix organization divides the company's business not only into divisions and functions, but also groups the company's activities into the four regions Europe, Americas, Greater China, and Asia/Pacific. Each of the Schaeffler Group's four regions is managed by a Regional CEO, who is a member of the Schaeffler Group's Executive Board. This organizational arrangement allows for a better and more flexible management in the regions and facilitates cooperation with regional customers.

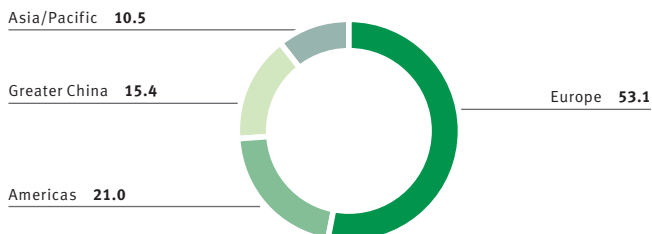
The basis for the Schaeffler Group's economic success lies in its proximity to the customer. With approximately 170 locations worldwide, 75 production facilities, 17 research and development centers, and a tight-knit sales and service network, the Schaeffler Group ensures that its customers always find it close at hand – true to its guiding principle: “We are a global player with a local presence”. Cooperation across divisions and countries thus leads to a high degree of flexibility in solving new customer requirements and the opportunity of anticipating emerging trends early on.

In light of this, proactively localizing activities in the markets of the future constitutes one of the key challenges in implementing the strategy “Mobility for tomorrow”. It also demands thinking even more deeply in terms of global connections and delegating responsibility away from central headquarters in the future. In addition to better acceptance due to cooperation with local customers and suppliers, the Schaeffler Group's increasing localization results in efficiencies in purchasing and logistics as well as various benefits regarding aspects of sustainability and the environment. The resulting growing regional presence is also reflected in a high degree of localization. The degree of localization describes the relation of a region's total sales to sales volume manufactured in that region.

### Schaeffler Group revenue by region

No. 018

in percent by market view



The **Europe region** combines the subregions Germany, Western Europe, Southern Europe, Eastern Europe & Middle East and Africa (CEEMEA), as well as India. The Germany subregion represents the Schaeffler Group's most important sales market. The Europe region contributed 53.1 % (prior year: 53.3 %) of consolidated revenue in 2016. The degree of localization amounted to approximately 96 % (prior year: 96 %) in 2016. The Europe region employed a total of 60,127 employees in 2016, representing 69.4 % of the company's entire workforce. This figure includes the employees of the group's global head office in Herzogenaurach, Germany. The region has 48 plants and 9 R&D centers. Its regional head office is located in Schweinfurt, Germany. In 2016, the company started expanding the plant in Debrecen, Hungary. The expansion will raise the plant's production volume by approximately 50 %. The construction of the new plant in the Czech city of Svitavy started in the prior year was completed in 2016 as scheduled. These steps as well as the expansion of the plants in the Slovak locations of Kysucke and Skalica and in Brasov, Romania, which were finalized in the prior years, demonstrate the key significance of the Europe region to the Schaeffler Group.

The two subregions North America and South America make up the **Americas region**. This region contributed approximately 21.0 % (prior year: 22.0 %) of revenue in 2016. The degree of localization amounted to approximately 71 % (prior year: 71 %) in the Americas region. A total of 12,480 staff were employed at 14 plants and 5 R&D centers as well as at distribution locations in North and South America. The Americas region has its regional head office in Fort Mill, South Carolina, U.S.A. The Schaeffler Group has been manufacturing in this region since 1953.

As China is a strategically important sales market for the Schaeffler Group, China, Taiwan, and Hong Kong are managed as a separate **region Greater China**. The regional head office is located in Anting in metropolitan Shanghai, China. Schaeffler's first subsidiary in this region was founded in Taicang, China, in 1995. The region generated 15.4 % (prior year: 14.4 %) of group revenue in 2016. The degree of localization amounted to approximately 74 % (prior year: 68 %). A total of 11,255 staff were employed in Greater China. 8 plants and 1 R&D center are located in this region. As expansion at the existing locations has reached its limits, the Schaeffler Group is planning a new production location in Xiangtan, China. The plant for automotive parts and precision bearings is scheduled to commence operations in late 2018.

The **Asia/Pacific region** comprises Korea, Japan, and the countries in Southeast Asia. The Schaeffler Group has been represented in this region since 1953. 10.5 % (prior year: 10.3 %) of group revenue was generated by this region in 2016. The degree of localization amounted to approximately 38 % (prior year: 41 %) in 2016. The Asia/Pacific region had 2,800 employees. The regional head office is located in Singapore. The Schaeffler Group operates a total of 5 plants and 2 R&D centers in this region. By opening the plant in Chonburi, Thailand, in 2016, the group has considerably expanded its manufacturing presence in the Asia/Pacific region.

## 1.3 Group strategy and management

### Strategy “Mobility for tomorrow”

The Schaeffler Group is a global automotive and industrial supplier. Top quality, outstanding technology, and exceptionally innovative spirit form the basis for the continued success of the company. By delivering high-precision components and systems in engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications, the Schaeffler Group is already shaping “Mobility for tomorrow” to a significant degree.

On November 09, 2016, Schaeffler AG presented its strategy “Mobility for tomorrow” to the public; the strategy was developed over the course of 2016 and was approved by the Board of Managing Directors and the Supervisory Board.

#### Vision and Mission

In its mission, the Schaeffler Group describes the task it is committed to. Underlying the mission are three key concepts: Working in partnership with all customers and business partners, top-level expertise in manufacturing technology, and advanced systems know-how. The Schaeffler Group’s vision and mission mutually complement and amplify each other, with the vision describing the aspirations that will guide the group’s activities in the future.

#### Schaeffler Group mission and vision

No. 019

##### Mission

“Guided by the values of a global family business, we work closely together with our customers as true partners to deliver a compelling value proposition through our best-in-class expertise in manufacturing technology and systems know-how. In doing so, we contribute to the success of our customers, the advancement of our employees, and the prosperity of our society.”

##### 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.”



#### 4 Focus areas

In developing the strategy, the company identified four megatrends that will influence the business of the Schaeffler Group in the future: Climate change, urbanization, globalization,

and digitalization. The Schaeffler Group is an automotive and industrial supplier of global stature with the expertise and technology to reduce friction and thereby save energy. As such, it feels compelled to meet the challenge of helping the world tackle climate change.

This equally applies to increasing urbanization, which demands new forms of mobility. These are the reasons Schaeffler sees climate change and urbanization as two future trends that are especially important to the company and its business.

Globalization is particularly relevant for the Schaeffler Group in an economic context, as is digitalization in the realm of technology. As explained within the context of the Strategic Pillars, the company sees growing digitalization as an important opportunity for further optimizing its business model in the future.

Driven by the four megatrends, Schaeffler defined four areas for action as early as 2014; being an automotive and industrial supplier with global stature, it intends to focus on these four areas for action in the future. Given the variety of the group’s products and services, and the number of industries that it supplies, this is more than a logical step – it is essential if Schaeffler wants to help shape the “Mobility of tomorrow” as a supplier. The four Focus Areas are: “Eco-friendly drives”, “urban mobility”, “interurban mobility”, and “energy chain”. They form the basis for the Schaeffler Group’s strategic direction. They also demonstrate that the company is ready and willing to use and share its knowledge and expertise across divisions.

##### (1) Eco-friendly drives

One of the primary goals of the Schaeffler Group is to develop energy-efficient drive systems with low or zero emissions. In the automotive field, this means on the one hand further optimizing conventional combustion engines, and on the other hand developing drive solutions in the area of E-Mobility, whether for vehicles with hybrid drive trains or for battery electric vehicles. Key components such as variable valve-control systems, the thermal management module, wet and dry double-clutches, and electronic control modules help reduce CO<sub>2</sub> emissions of conventional drives based on internal combustion engines. In addition, for the Schaeffler Group’s automotive customers, innovative products for the field of electric mobility, such as hybrid modules, the electric axle drive, or the wheel hub drive “E-Wheel Drive”, play an increasing role in achieving lower CO<sub>2</sub> emission targets. The same logic can be applied to modern industrial drive systems, where the Schaeffler Group’s wealth of knowledge in the automotive field is essential.

## Mobility for tomorrow

No. 020

**(2) Urban mobility**

The shift in mobility is nowhere as noticeable as it is in megacities across the globe. At the same time, it is nowhere as necessary. Cities like Moscow, Tokyo, or Shanghai experience a daily traffic volume in which fast and flexible movement is almost impossible. At the same time, more and more cities are banning cars from their downtown areas. This trend calls for new mobility solutions, whether in micro-mobility or by designing more efficient public transit. Responding to this trend, the Schaeffler Group is further expanding its product portfolio for hybrid and electric mobility. Its torque sensor bottom brackets, for instance, have positioned the Schaeffler Group as an innovative supplier in the growing e-bike market, and the “Bio-Hybrid” micro mobile and the “Torque Stick Board” nano mobile demonstrate its strong innovative ability in this area.

**(3) Interurban mobility**

The term interurban mobility means interconnecting global centers. As globalization progresses, traffic will increase significantly worldwide over the years to come, particularly rail and air traffic, and require a large degree of flexibility. Providing modern and efficient mobility solutions presents a key challenge to both industries. The same is true for the off-highway sector, including agricultural technology, outside the cities. In this area, the Schaeffler Group and its innovative rolling bearing solutions and exceptional systems know-how are set to lead the market.

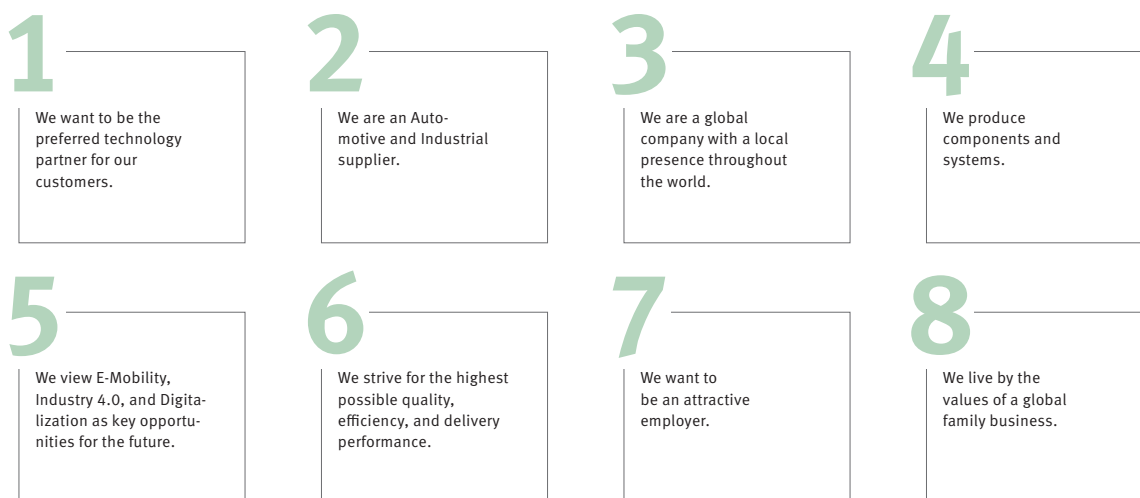
**(4) Energy chain**

Common to all of the Focus Areas mentioned above is the continuing need for the cleanest energy possible. In light of dwindling resources and significant climate challenges, worldwide demand for clean energy is growing. Schaeffler partners with the energy sector, assisting in the development of renewable energy production and focusing on wind power, hydropower, and solar power. In conventional energy generation as well, the Schaeffler Group sees opportunities for expanding its range of products and services. After all, ultimately all segments of the energy chain – from its production to its transport and conversion to energy consumption, must be optimized further. Hence, in addition to conventional energy generation, Schaeffler also offers a comprehensive portfolio of products in the field of renewable energy – from bearing solutions for wind turbines through to solutions for solar and water power.

To transform these considerations into a concrete frame of reference for its customers and business partners, employees and executives as well as family and external shareholders, the Schaeffler Group has defined further elements of its strategy “Mobility for tomorrow” based on the 4 significant megatrends and the resulting 4 Focus Areas. These elements consist of 8 Strategic Pillars defining the company’s scope for strategic action over the years to come, an excellence program comprising 16 Strategic Initiatives that will help execute the strategy, and the Financial Ambitions 2020.

## 8 Strategic pillars

No. 021



## 8 Strategic pillars

The strategy “Mobility for tomorrow” defines the company’s scope for future action and constitutes the basis for the continuous further development of the Schaeffler Group. In order to describe this scope for action in a manner that is specific and easily understood, the company has devised 8 Strategic Pillars that describe what Schaeffler wishes to achieve or further improve in the future.

**(1) We want to be the preferred technology partner for our customers.**

For many years now Schaeffler’s comprehensive systems know-how, cutting-edge technological expertise, and unwavering commitment to customer service have made the company a highly sought-after development partner for its customers in the automotive and industrial sectors. On this basis, the Schaeffler Group will continue to shape the mobility of the future together with its customers.

**(2) We are an Automotive and Industrial supplier.**

The Schaeffler Group is an automotive and an industrial supplier. The two divisions are united by the Schaeffler Group’s worldwide manufacturing excellence and global platform of production facilities combined with economies of scale in purchasing materials and commodities. In addition, Schaeffler’s global research network facilitates cross-divisional technological innovations. Diversification across divisions will continue to generate synergies and promote the transfer of know-how in the future.

**(3) We are a global company with a local presence throughout the world.**

With its more than 170 locations worldwide, 75 production facilities, 17 research and development centers and a tight-knit sales and service network, Schaeffler ensures that the customer always finds it close at hand. For only those who recognize and

understand the challenges confronting their customers can develop tailored solutions. And only those who maintain a local presence are able to respond quickly.

**(4) We produce components and systems.**

Schaeffler supplies components for products that facilitate and promote mobility. At the same time, the company understands and is able to deliver complex modules and complete system solutions. Schaeffler values both business segments equally. And for good reason: Those without expertise in components will not be able to handle the system.

**(5) We view E-Mobility, Industry 4.0, and Digitalization as key opportunities for the future.**

As a leading technology partner, the Schaeffler Group began engaging in the topics of E-Mobility, Industry 4.0, and digitalization years ago and has made these areas a clear priority. As a supplier, Schaeffler wants to take an active role in shaping this development for its customers and considers this a key future opportunity.

**(6) We strive for the highest possible quality, efficiency, and delivery performance.**

Quality is of paramount importance for Schaeffler. It has always had the goal to consistently ensure high quality and product safety in all applications. Another Schaeffler goal is to serve its customers with the highest-possible efficiency and delivery performance.

**(7) We want to be an attractive employer.**

The Schaeffler Group’s employees are vital for guaranteeing its success. Identifying, promoting, and retaining the best team for the Schaeffler Group in the long term is crucial for the successful realization of the company’s strategy. The Schaeffler Group is not only concerned about new employees here. Rather, it wants to be an attractive employer for all of its employees.



**(8) We live by the values of a global family business.**

The Schaeffler Group is a listed family business. A company with a strong foundation of values, established by its founders. Schaeffler particularly identifies with the corporate values “Sustainable”, “Innovative”, “Excellent”, and “Passionate”. These values form the basis for the continued success of the Schaeffler Group for the benefit and in the interest of its customers and business partners, employees and managers as well as its shareholders and family shareholders.

**Four corporate values**

No. 022

**Sustainable**  
A long-term view and continuity will foster the growth of the Schaeffler Group, thereby enabling a future worth living.

**Innovative**  
For (nearly) every problem there is a solution. If not, we will create one!

**SCHAEFFLER**

**Excellent**  
We develop solutions that are of the highest quality based on our extensive expertise.

**Passionate**  
Our biggest driver is our passion for innovative technologies and joint success with our customers.

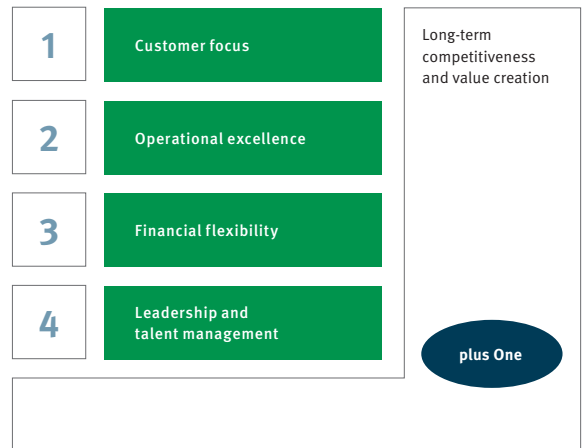
**16 Strategic initiatives**

Any strategy is only as good as its implementation. In preparing its strategy, Schaeffler has therefore put a great deal of thought into how it can implement its strategy as efficiently and consistently as possible. Building on the positive experience the Schaeffler Group had with its first transformation program “One Schaeffler” drawn up after the change of management in October 2013 and successfully rolled out by the end of 2015, it has developed a tailor-made program of excellence which summarizes its key strategic initiatives in 5 categories. The Schaeffler Group therefore calls its excellence program “Agenda 4 plus One”.

The “Agenda 4 plus One” includes the following 5 categories: Customer focus, Operational excellence, Financial flexibility, Leadership and talent management, and – as “plus One” – Securing long-term competitiveness and value creation. The “Agenda 4 plus One” comprises 16 Strategic Initiatives that have significance worldwide and have been selected from a variety of initiatives.

**“Agenda 4 plus One” categories**

No. 023



Each initiative is the responsibility of a Member of the Executive Board as a sponsor and managed by a project manager. The stated aim is to successfully implement all initiatives by the end of 2020.

“Agenda 4 plus One” will be implemented according to the successfully established project management approach of the program “One Schaeffler”. This approach makes certain that the design, implementation and management of initiatives carried out follow standard rules and criteria, and are supported and accompanied by an independent program organization under the jurisdiction of the Chief Executive Officer.

**16 Strategic initiatives**

No. 024



## Financial Ambitions 2020

The Schaeffler Group has set itself challenging targets for 2020. The company intends to grow its revenue – excluding the impact of currency translation and external growth – by an average of 4 to 6 % p.a. and to achieve an EBIT margin before special items of 12 to 13 %. On this basis, the Schaeffler Group wants to achieve free cash flow of around EUR 900 m by 2020, excluding external growth. Furthermore, the group intends to increase its earnings per share excluding external growth to around EUR 2.00 in 2020. In addition to these operational indicators, it is critically important for the success of the Schaeffler Group to further improve its financial flexibility and the quality of its balance sheet. For this purpose the company has set itself the task of managing the net-debt-to-equity ratio – known as the gearing ratio, the quotient of the two variables – to be less than 75 % by 2020. Moreover, the group is planning to pay out dividends amounting to 30–40 % of the annual net income to its shareholders. Summarizing the Financial Ambitions 2020, the Schaeffler Group wants to maintain and secure in the long term the investment grade rating gained in 2016 as the basis for further growth strategies.

### Financial Ambitions 2020

No. 025

Revenue growth <sup>1)</sup>	Ø 4 – 6 % p. a. at constant currency
EBIT margin	12 – 13 % p. a. before special items
Free cash flow <sup>1)</sup>	~ EUR 900 m in 2020
Earnings per share <sup>1)</sup>	~ EUR 2.00 per share in 2020
Gearing ratio <sup>2)</sup>	< 75 % in 2020
Dividend <sup>3)</sup>	30 – 40 % of net income

<sup>1)</sup> Excluding external growth.

<sup>2)</sup> Net-debt-to-equity ratio (excluding pensions).

<sup>3)</sup> Payout ratio based on net income.

Market assumptions:

Automotive sector: Global growth in passenger vehicle production of 2 %

Industrial sector: Low single-digit growth in global industrial production

All these ambitions can ultimately be merged into one key objective: The Schaeffler Group wants to continue to grow profitably and create sustainable value.

## M&A strategy

Following the successful realignment of its capital structure and its renewed financial flexibility resulting from the reduced level of debt, the Schaeffler Group will no longer rely only on purely organic growth. The company will generally focus on acquisitions related to the future-oriented fields of E-Mobility, Industry 4.0, and digitalization. Smaller acquisitions will serve to expand and strengthen our expertise.

In order to appropriately manage the risks of such an acquisition strategy and to enable long-term active portfolio management, the Schaeffler Group will optimize its group structure and establish a professional M&A process.

In this vein, Schaeffler acquired electric motor manufacturer Compact Dynamics GmbH from SEMIKRON International GmbH at the end of 2016 with a view to strengthening the company's expertise in order to expand its E-mobility activities. At the same time, Schaeffler and SEMIKRON have entered into a cooperation agreement in the field of power electronics. On the other hand, Schaeffler has actively streamlined its production portfolio by disposing of its fine blanking activities in Switzerland and selling Schaeffler Motorelemente AG & Co. KG in Magdeburg.

## Strategy communication

Starting from the results of the Strategy Dialog in mid-July 2016, Schaeffler gathered suggestions and recommendations on strategy considerations from approximately 300 international senior managers in eight "Global Challenge and Feedback Meetings". The strategy "Mobility for tomorrow" and the "Agenda 4 plus One" excellence program were approved by the Supervisory Board at its meeting in October 2016.

Following that, the strategy "Mobility for tomorrow" was presented to the public for the first time on November 09, 2016. The Board of Managing Directors also explained the strategy in person to management and employees at international townhall meetings. This was supported by extensive further communication, especially in the form of a strategy brochure and various focal points in the company's online and print communication. On this basis, the company's strategy and future direction is currently being communicated to individual customers and business partners.

To further convey the strategy to all employees, a comprehensive roll-out plan was prepared for 2017 in order to embed the core elements of the strategy – 4 Focus Areas, 8 Strategic Pillars, 16 Strategic Initiatives and the Corporate Values and Leadership Principles – within the company in a uniform manner for the long term.

## Strategy and planning process

Since 2015, the Schaeffler Group goes through a newly developed annual strategy and planning process comprising three key components, (1) the Technology Dialog, (2) the Strategy Dialog, and (3) the Planning Dialog, which sequentially build on each other. As part of this process, the strategy “Mobility for tomorrow” was refined and developed in an extensive dialog with the group’s senior management and the Schaeffler AG Supervisory Board in 2016.

The Technology Dialog takes place in February of each year and primarily deals with the megatrends and the resulting impact on technology and innovation. The time frame considered is 5 to 10 years into the future. Based on the information developed, an “Innovation Radar” is approved containing and prioritizing the initiatives aimed at securing the Schaeffler Group’s profitable growth over a period of five to ten years. However, this requires investing in intangible assets and property, plant and equipment and starting research and development activities early on. The initiatives approved in the Technology Dialog are further refined during preparation for the Strategy Dialog.

The Strategy Dialog takes place mid-year. It focuses on the Schaeffler Group’s business strategy (incl. indicative business plan) for the coming 5 years, the substrategies for the divisions with their strategic business units, the regions, and the functions. A detailed market analysis and an analysis of the initial internal position represent the starting point. Building on these, strategic initiatives are developed from which an indicative business plan can be derived. As part of the process,

the various substrategies are coordinated with each other, prioritized, and added to where necessary.

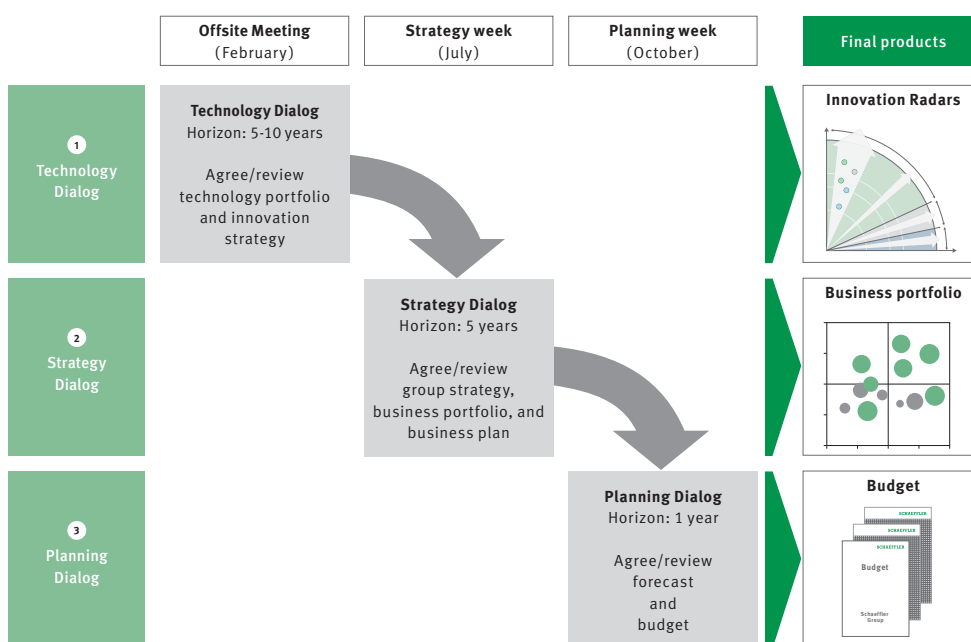
In the 2016 Strategy Dialog, approximately 400 different initiatives of the divisions, regions, and functions were identified and then evaluated and categorized. Initiatives of paramount importance for the Schaeffler Group were combined in the “Agenda 4 plus One” excellence program. The remaining initiatives are implemented and followed-up at the level of the divisions, regions, and functions. This is generally done using the “Agenda 4 plus One” format, and as a result the groupwide program is mirrored, in whole or in part, and populated with various individual initiatives at the level of the various organizational units.

The results of the Strategy Dialog form the starting point for deriving the top-down objectives for the coming budget year. In the subsequent bottom-up process, the objectives are broken down in detail, validated on a bottom-up basis and the overall plan adjusted if necessary. During the Planning Dialog in October, the Executive Board approves the detailed budget for the first planning year.

The results of the strategy and planning process are presented and approved at the following meeting of Schaeffler AG’s Supervisory Board. The results of the planning process represent the starting point for the key financial performance indicators discussed in the report on expected developments and become part of the agreed objectives of the Managing Directors and management.

### Strategy and planning process

No. 026



## Group management

Schaeffler AG's Board of Managing Directors is directly responsible for managing the Schaeffler Group, setting objectives and the strategic direction, and managing the implementation of the growth strategy. The Supervisory Board of Schaeffler AG appoints, supervises, and advises the Board of Managing Directors.

In 2016, the Schaeffler Group's management utilized a three-dimensional matrix organization consisting of two divisions, five functions and four regions to manage the group's business activities. In the context of this matrix organization, the Schaeffler Group's business is primarily managed based on the Automotive and Industrial divisions. The Automotive division business is divided into the four business divisions Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket, which operate as profit centers. Management of the Industrial division is primarily based on regions. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets.

The Schaeffler Group's internal management system consists of the annual budget developed based on the strategic framework specified by the Board of Managing Directors, ongoing monitoring and management of financial performance indicators, regular meetings of the Board of Managing Directors and of management, as well as reports provided to the Supervisory Board of Schaeffler AG. Ongoing monitoring and management is based on a comprehensive system of standardized reports on net assets, financial position, and earnings. Discussions at the meetings of the Board of Managing Directors and of management address the results of operations, including the achievement of targets and objectives, as well as the outlook for the year as a whole and any action that may be required.

## Value-based management

The Schaeffler Group manages its business portfolio based on value. The most significant measures used are the strategic performance indicators ROCE (return on capital employed)<sup>1</sup> and Schaeffler Value Added (SVA)<sup>2</sup>. ROCE represents the relationship of EBIT to average capital employed (capital employed) and measures earnings generated in relation to capital employed. As the ROCE performance indicator measures long-term performance, it is not used to manage the Schaeffler Group's operations. Schaeffler Value Added, which is closely linked to ROCE is calculated as EBIT less the cost of capital. It represents a key performance criterion within the framework governing the variable short-term remuneration of the Board of Managing Directors and the remuneration at the next-lower levels of management.

 See chapter entitled "Value management" for further detail.

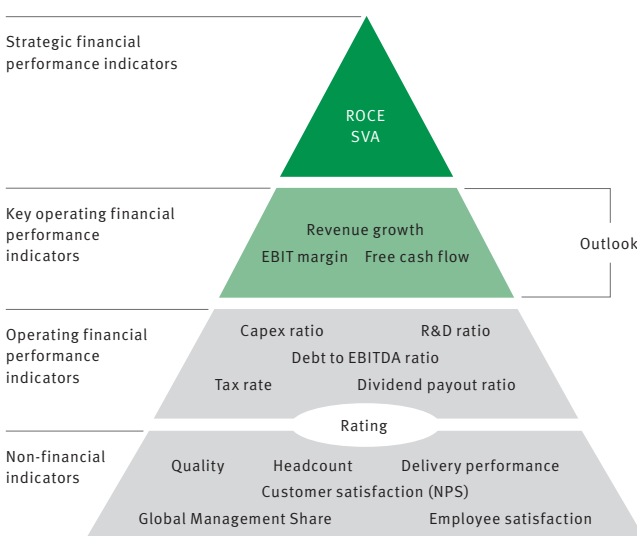
## Schaeffler Group performance indicators

The performance of the Schaeffler Group's business is based on a long-term growth strategy. Group management ensures that the Schaeffler Group is growing profitably while utilizing capital efficiently. Therefore, significant emphasis is placed on the performance indicators revenue growth and EBIT margin. Traditionally, the Schaeffler Group's growth has been financed from internal sources. The primary performance indicator of the group's ability to generate internal financing is free cash flow.

The Schaeffler Group focuses on continually monitoring and optimizing the following three key financial operating performance indicators to measure the economic performance of its business:

- Revenue growth
- EBIT margin
- Free cash flow

### Key performance indicators No. 027



Operating decisions are based on these three key financial operating performance indicators, as is the outlook. The Board of Managing Directors also continually monitors additional financial operating performance indicators including the capex ratio, R&D ratio, debt to EBITDA ratio, tax rate and dividend payout ratio.

All financial indicators are calculated on a monthly basis using standardized reports on earnings, financial position, and net assets. These reports contain a comparison of budget vs. actual as well as a prior year comparison. The comparison of budget vs. actual is based on the annual budget flowing from the integrated

<sup>1</sup> Ratio of EBIT to average capital employed (property, plant and equipment + intangible assets + working capital).  
<sup>2</sup> EBIT less cost of capital (average capital employed x pre-tax weighted average cost of capital).

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, delivery performance, 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 workforce planning
- Employer branding & recruiting
- Talent management
- Leadership and corporate values
- Training & learning

### Strategic workforce planning

The strategic workforce planning 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

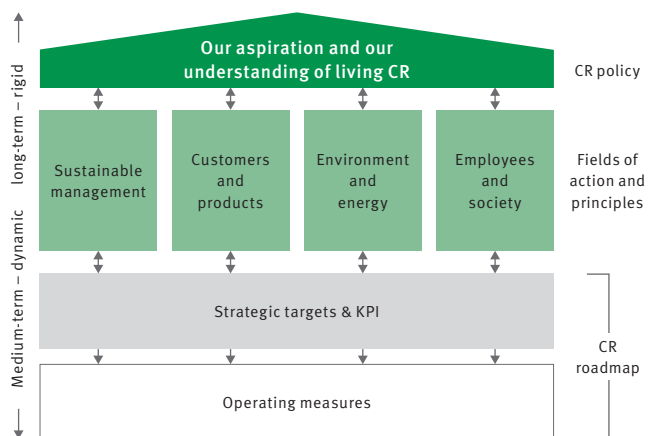
The Schaeffler Group's strategy is based on the group's commitment to drawing on its strength as an automotive and industrial supplier and partnering with its customers to shape the mobility of the future. To put this commitment into concrete terms, it has developed the following vision: "As a leader 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.

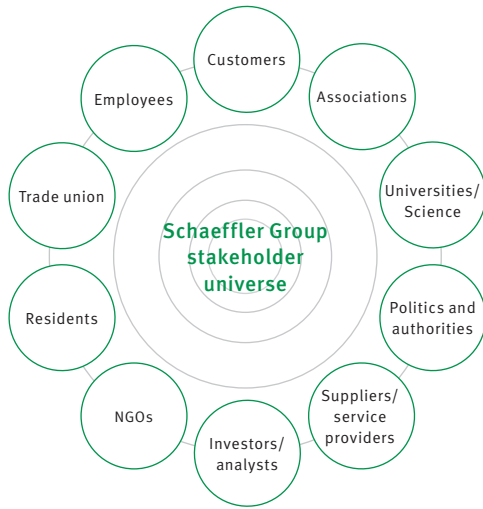
Corporate responsibility strategy No. 031



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.

## Key stakeholders of the Schaeffler Group

No. 032



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 CO<sub>2</sub> 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 Step<sup>2</sup> 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 Step<sup>2</sup> 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](http://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 CO<sub>2</sub> 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**

No. 033

<p><b>Europe</b></p> <p>SHARE at FAU Digitalization</p> <p>SHARE at KIT E- &amp; urban mobility</p> <p>Digital Start-up Center ZOLLHOF</p> <p>Fraunhofer Several locations</p>	<p><b>Greater China</b></p> <p>Southwest Jiaotong University High-speed trains</p> <p>Tongji University Automotive E-Mobility</p>
<p><b>Americas</b></p> <p>Silicon Valley Start-ups</p> <p>Clemson University Urban mobility</p>	<p><b>Asia/Pacific</b></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.

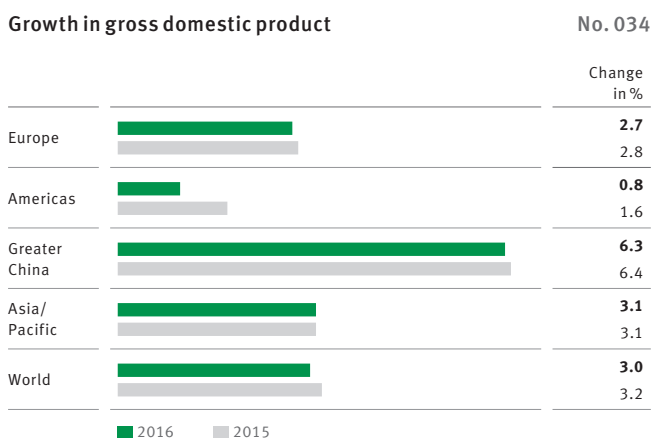
The Schaeffler Group once again supported talented young engineers from around the world, including by acting as the main sponsor of the design competition “Formula Student Germany 2016”. The award goes to the best overall package of a race car with an electric drive under the aspects of innovation, 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.

## 2. Report on the economic position

### 2.1 Economic environment

#### Macroeconomic environment

The global economy experienced only moderate overall growth in 2016, despite gathering speed in the latter half of 2016. Global gross domestic product for 2016 was 3.0 % higher than in the prior year (Oxford Economics, January 2017). The Euro region economy continued to recover. Its economic trend remained largely unaffected by the outcome of the referendum in the United Kingdom in favor of leaving the European Union. In the United Kingdom itself, the economy proved more robust than expected following the referendum. Economic activity in the United States improved noticeably during the latter half of 2016, following restrained growth in the first two quarters of the year.



Source: Oxford Economics (January 2017).  
Real gross domestic product calculated based on purchasing power parities.  
Regions reflect the regional structure of the Schaeffler Group.

In light of further positive employment data and rising inflation, the Fed raised its benchmark interest rate in December 2016. Buoyed by continued government intervention, growth in China stabilized in line with the government's annual target. In Japan, the fundamental economic momentum remained weak.

Economic growth in the Schaeffler Group's Europe region amounted to 2.7 % in 2016. The Euro region continued its economic expansion at a moderate but stabilizing pace. In the United Kingdom, growth once again exceeded that of the Euro region, despite the unexpected outcome of the referendum. Germany reported solid and steady economic growth, primarily driven by private consumption. Although the Russian economy contracted once more, there are indications that the economic situation is improving, helped especially by stabilizing raw materials prices. As in previous years, India, also part of the Europe region, continued to expand rapidly.

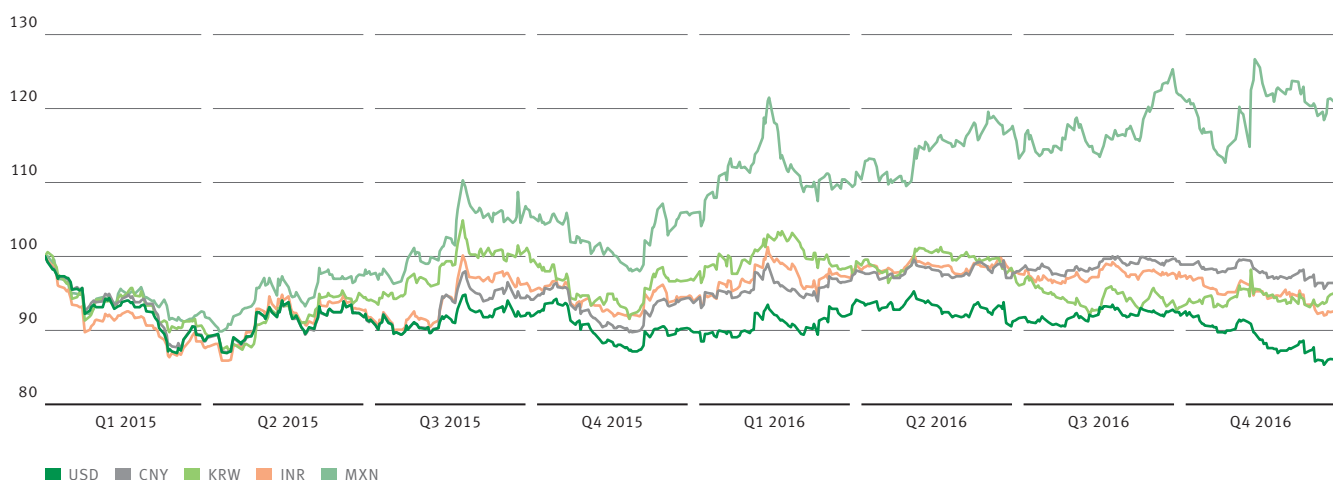
Economic growth in the Schaeffler Group's Americas region amounted to 0.8 %. Following temporarily weaker momentum in the first half of 2016, growth in gross domestic product in the U.S. dropped below the 2 % threshold for the year as a whole. The Latin American economy continued to contract; however, the recovering raw materials prices, among other things, are indications that the recession is coming to an end.

Growth in the Schaeffler Group's Greater China region came in at 6.3 %, once more falling behind the growth rate of the prior year. The reason for the decline was the continuing gradual slowdown in momentum in China, where gross domestic product leveled off at the 6.7 % growth rate targeted by the government.

**Currency market trends**

No. 035

EUR against selected currencies in percent (12/31/2014 = 100)



Source: Bloomberg.

The economy in the Schaeffler Group’s Asia/Pacific region grew by 3.1 %. In Japan, growth in gross domestic product was weak, while South Korea achieved a slightly higher growth rate than in the prior year. The Indonesian economy proved very dynamic.

In the currency markets, the Euro experienced a mix of trends against foreign currencies significant to the Schaeffler Group. The average rate for the year of the common European currency held its own against the U.S. Dollar. However, the Euro rose slightly against the Chinese Renminbi, the South Korean Won, the Indian Rupee, and the Mexican Peso in terms of the annual average exchange rate.

See Notes to the consolidated financial statements, chapter entitled “Summary of significant accounting policies” – “Foreign currency translation” for further detail.

**Sector-specific environment**

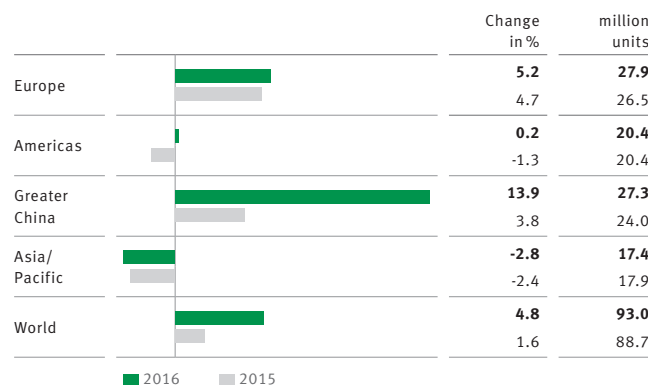
**Automobile production**

The global business with manufacturers of passenger cars and commercial vehicles represents the group’s most important market segment. Global automobile production, measured as the number of vehicles produced, increased considerably, growing 4.8 % to approximately 93.0 million passenger cars and light commercial vehicles in 2016 (IHS, February 2017).

The Europe region grew significantly by 5.2 %. While India, Spain, France and the United Kingdom saw above-average growth, Germany expanded only slightly. The Americas region experienced a flat trend, growing by 0.2 %. While the U.S. did achieve a slight growth rate of 1.2 %, Latin America once again reported a significant decline. Automobile production in the Greater China region grew very rapidly at 13.9 %, due, among other things, to tax incentives provided by the Chinese government. The Asia/Pacific region contracted once more, with automobile production falling 2.8 % short of the prior year. The largest decline was reported by South Korea.

**Automobile production**

No. 036

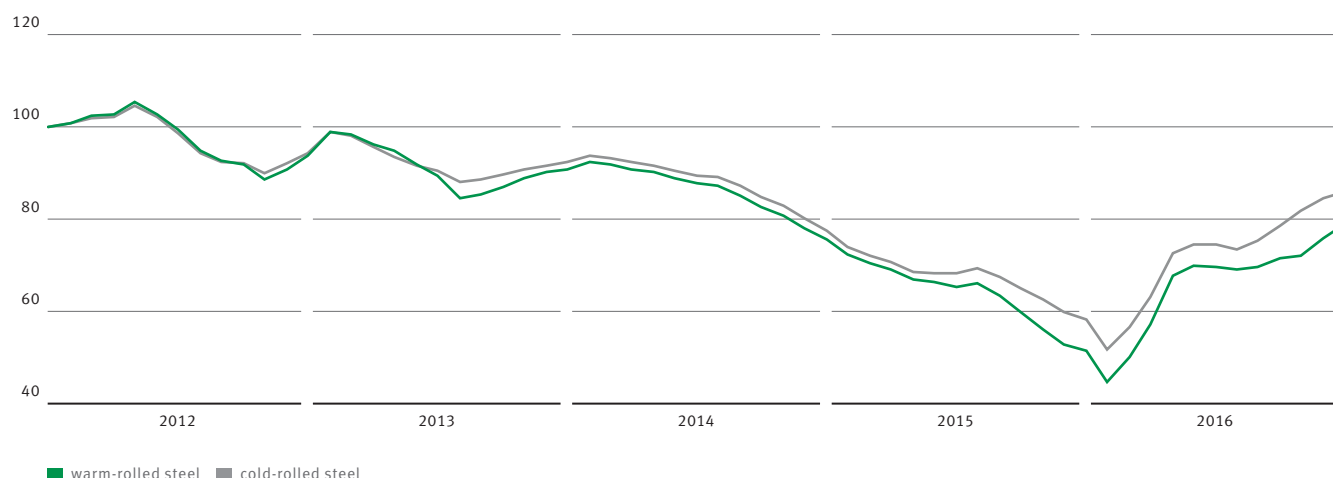


Source: IHS (February 2017). Regions reflect the regional structure of the Schaeffler Group.

### Prices of selected steels

No. 037

in percent (12/31/2011 = 100)



Source: Warm- and cold-rolled coil Europe from IHS (\$/metric ton).

### Industrial production

Preliminary figures indicate that global industrial production, measured as gross value added based on constant prices and exchange rates, grew only slightly by 1.8 % in 2016 (Oxford Economics, December 2016).

Europe region industrial production increased by 1.9 %. While Germany experienced only a slight growth rate, India reported considerable growth in industrial production. The Americas region (-1.5 %) experienced a contraction as industrial production declined below the prior year level, in the NAFTA countries as

well as in Latin America. The Greater China region saw considerable growth of 5.4 %; however, this rate was once again lower than in the prior year. Industrial production in the Asia/Pacific region gained 1.4 % on the prior year, with a decline in Japan being offset by increases in South Korea, Indonesia, and Australia, among others.

### Procurement markets

The Schaeffler Group uses various materials, especially various types of steel, aluminum, zinc, as well as plastics and lubricants. Commodity market price trends generally affect the company's cost via changes in the cost to manufacturers and suppliers, which, depending on the terms of the relevant contracts, can be passed along to the Schaeffler Group to varying degrees and in some instances with some delay.

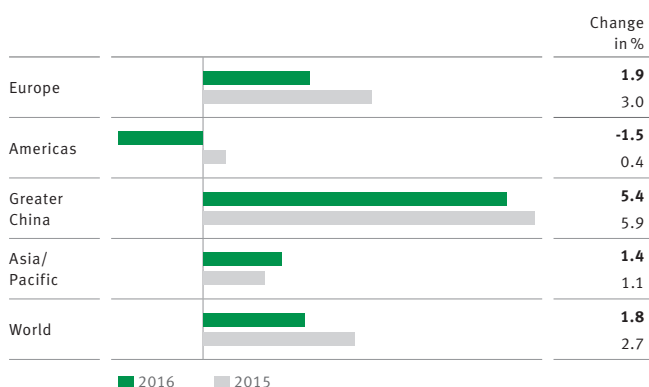
Prices in the procurement markets for all significant input materials increased during the year. However, comparing annual averages to prior year provides a mixed view.

Depending on the source region, average prices for cold- and hot-rolled steel increased by between approximately 5 to just under 20 % compared to prior year. The price of metallurgical coal, an important input material for steel and especially carbon-based castings, rose by approximately 50 %.

Aluminum is primarily used for pressure die castings and stamped and bent parts, while applications for zinc include

### Industrial production

No. 038



Source: Oxford Economics (December 2016).  
Real gross value added in divisions 05 to 39 of the NACE Rev. 2 system.  
Regions reflect the regional structure of the Schaeffler Group.



coating mechanical components. Copper is mainly required for use in electric motors and mechatronic components. The average price of aluminum for the year declined by a good 3 %, the average copper price by just under 12 %. The price of zinc, on the other hand, was a good 6 % higher than the prior year average.

Apart from steel and non-ferrous metals, the Schaeffler Group also uses plastics and lubricants to manufacture rolling bearings and automotive components. For instance, plastics are used to produce cages for rolling bearings and lubricants are used to reduce friction in components and as preservatives. Plastics and lubricants are often made based on crude oil. Although the crude oil price increased significantly toward the end of the year due to the OPEC agreeing to limit production volumes, its annual average was still more than 10 % below the prior year average. Based on the ICIS Global Petrochemical Index (IPEX), average prices of processed petrochemical products, including the plastics used by the Schaeffler Group, dropped by approximately 4 % compared to the prior year average.

## 2.2 Course of business

### Overview of results of operations 2016

The Schaeffler Group continued moving along its successful course in 2016. Despite the uncertain market environment, the Schaeffler Group continued to grow profitably, maintained its consistently high earnings quality, and significantly increased its free cash flow. The main driver of this performance was the strong Automotive business, which grew faster than the market, i.e. global automobile production of passenger cars and light commercial vehicles. The measures to improve efficiency and reduce costs in the Industrial division were executed as planned.

The Schaeffler Group's **revenue** increased by 1.2 % to EUR 13,338 m (prior year: EUR 13,179 m). Numerous currencies weakening against the Euro had an unfavorable effect on the company's revenue trend in 2016. Excluding the impact of currency translation, revenue rose by 3.4 %. From a regional perspective, strong demand in Greater China was the main contributor to this growth.

Automotive division revenue increased by 3.6 % to EUR 10,333 m (prior year: EUR 9,977 m) in 2016. Excluding the impact of currency translation, revenue grew by 6.0 %. Global production volumes of passenger cars and light commercial vehicles increased by 4.8 % from the prior year comparison period. Thus, the Automotive division's business outpaced the rise in global automobile production, primarily due to the increasing value of Schaeffler products installed per vehicle. The Automotive division benefitted from its strong business with customers, which was buoyed especially by the favorable trend in the Greater China region. The Aftermarket was also very successful.

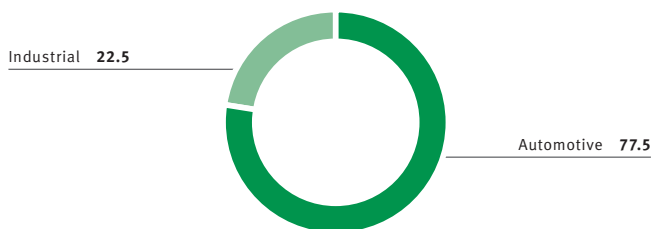
The Industrial division, on the other hand, continued to decline in a weak environment overall. Revenue decreased by 6.2 % to EUR 3,005 m (prior year: EUR 3,202 m) during the reporting period. Excluding the impact of currency translation, revenue fell by 4.8 %. The decrease affected all of the regions. The Greater China region experienced a double-digit decline in revenue, primarily due to weak investing activity in several important sectors.

The Schaeffler Group's **EBIT** grew by EUR 154 m or 11.0 % to EUR 1,556 m (prior year: EUR 1,402 m) during the reporting period, resulting in an EBIT margin of 11.7 % (prior year: 10.6 %). Before special items<sup>3</sup> of EUR 144 m, EBIT amounted to EUR 1,700 m (prior year: EUR 1,676 m). The company's EBIT margin before special items was 12.7 % (prior year: 12.7 %). The decline in the Industrial division's margin to 7.0 % (prior year: 9.5 %) was offset by the operating strength of the Automotive division. This division improved its EBIT margin before special items to 14.4 % (prior year: 13.8 %).

#### Schaeffler Group revenue by division

No. 039

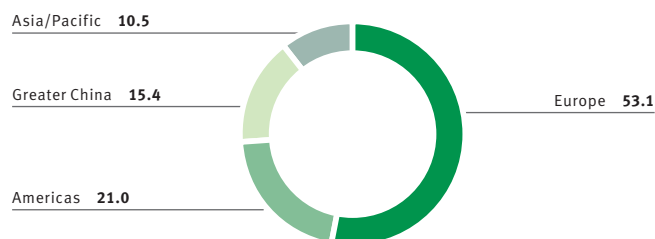
in percent



#### Schaeffler Group revenue by region

No. 040

in percent by market view



<sup>3</sup> Please refer to page 48 for the definition of special items.

Net income increased by 44.1 % from EUR 605 m to EUR 872 m. Excluding net income attributable to non-controlling interests of EUR 13 m (prior year: EUR 14 m), net income attributable to shareholders of the parent company amounted to EUR 859 m, 45.3 % more than in the prior year (prior year: EUR 591 m). Earnings per common share amounted to EUR 1.29 (prior year: EUR 0.88). Earnings per common non-voting share amounted to EUR 1.30 (prior year: EUR 1.28)<sup>4</sup>.

The Schaeffler Group generated **free cash flow** of EUR 735 m in 2016, EUR 365 m more than the prior year amount of EUR 370 m. The increase was driven by cash flows from operating activities, which rose from EUR 1,372 m to EUR 1,876 m mainly due to lower interest payments and changes in working capital. Capital expenditures (capex) rose from EUR 1,025 m to EUR 1,146 m (+11.8 %) or 8.6 % of revenue (prior year: 7.8 %) in 2016.

**ROCE** before special items was 21.7 %, slightly below the prior year (prior year: 22.5 %). An improvement in EBIT before special items for the last twelve months did not fully offset the increase in average capital employed, which was primarily driven by higher property, plant and equipment.

## Significant events 2016

### Schaeffler shares added to MDAX and STOXX Europe 600

On April 05, 2016, IHO Beteiligungs GmbH (until September 28, 2016: Schaeffler Verwaltungs GmbH) placed 94.4 million common non-voting Schaeffler AG shares in an accelerated bookbuild. Since this transaction was completed, 166 million common non-voting shares representing 100 % common non-voting share capital are widely held. The free float amounts to approximately 25 % of Schaeffler AG's total common and common non-voting share capital.

Due to the extensive volume of shares placed, the Schaeffler shares meet not only the high transparency requirements of the Prime Standard, but also the size criteria regarding market capitalization and liquidity that are relevant for inclusion in the MDAX index. Deutsche Börse included Schaeffler AG in its MDAX index effective June 20, 2016. In addition, STOXX Ltd., a subsidiary of Deutsche Börse AG, has included Schaeffler AG in its STOXX Europe 600 index. This change became effective as of the start of trading on September 19, 2016.

### Annual general meeting passes resolution to pay a special dividend


Schaeffler AG's first annual general meeting since the listing, which was held on April 22, 2016, passed a resolution to pay a dividend of EUR 0.34 per common share and EUR 0.35 per common non-voting share to Schaeffler AG's shareholders for 2015. This represents a dividend of 28.9 % of net income attributable to shareholders before special items. In addition, the company paid a special dividend of EUR 0.15 per common share and per common non-voting share for 2015.

### Capital structure improved

In connection with the successful refinancing transaction completed at the level of IHO Holding, a group of holding companies owned indirectly by the Schaeffler family, rating agency Moody's upgraded Schaeffler AG's company rating to Baa3 (investment grade) on September 07, 2016. Schaeffler AG received approximately EUR 1.7 bn when its loan receivable from IHO Holding was prepaid in connection with the refinancing transaction. As a result, Schaeffler AG has achieved its objective of reducing its debt to EBITDA ratio (net debt in relation to EBITDA before special items) to less than 1.5x by 2018 two years ahead of schedule and significantly increased its financial flexibility. The proceeds of the loan prepayment referred to above were used to redeem one USD-denominated bond series and two EUR-denominated bond series in October 2016.

### Program "CORE"

On November 07, 2016, the Board of Managing Directors of Schaeffler AG decided to step up its efficiency measures aimed at revitalizing the Industrial division. Following the first wave of cost reduction measures comprising the program "CORE", which focus on Germany and have largely been implemented, the second wave of measures initiated in November 2016 also covers regions outside of Germany as well as functional areas that are not directly part of the Industrial division. The measures are designed to improve the results of the entire Industrial division for the long-term by further streamlining its structure and reducing production and administrative costs.


 See chapter entitled "Business activities" – Divisions for further detail.


### Strategy "Mobility for tomorrow"

On November 09, 2016, Schaeffler AG presented its strategy "Mobility for tomorrow" to the public; the strategy was developed over the course of 2016 and was approved by the Board of Managing Directors and the Supervisory Board.

<sup>4</sup> Earnings per share were calculated in accordance with IAS 33. As the common non-voting shares newly issued in October 2015 (66 million shares) participated in profits for the entire year 2015, earnings per common non-voting share for 2015 were calculated using proportionate net income based on 166 million common non-voting shares.

Based on 4 significant megatrends and the resulting Focus Areas (1) eco-friendly drives, (2) urban mobility, (3) interurban mobility, and (4) energy chain, Schaeffler has defined the other elements of its strategy “Mobility for tomorrow”. These elements consist of 8 Strategic Pillars defining the company’s scope for strategic action over the years to come, the excellence program “Agenda 4 plus One” comprising 16 Strategic Initiatives that will help execute the strategy, and the Financial Ambitions 2020.

 For further detail on the strategy “Mobility for tomorrow” at: [www.schaeffler.com](http://www.schaeffler.com)

 See chapter entitled “Group strategy and management” for further detail.

## Business portfolio adjusted

Following the successful realignment of its capital structure and its renewed financial flexibility resulting from the reduced level of debt, the Schaeffler Group will no longer rely only on purely organic growth. The company will generally focus on acquisitions related to the future-oriented fields of E-Mobility, Industry 4.0, and digitalization.

In this vein, Schaeffler acquired electric motor manufacturer Compact Dynamics GmbH from SEMIKRON International GmbH at the end of 2016 with a view to strengthening the company’s expertise in order to expand its E-mobility activities. Compact Dynamics GmbH based in Starnberg, Germany, is a development specialist in the field of innovative electric drive concepts with a focus on high-performance drives and integrated lightweight construction in small volume production and motor sport applications. At the same time, Schaeffler and SEMIKRON agreed to cooperate on developing power electronics systems and integrating power electronics components. The acquisition and the collaboration expand Schaeffler’s expertise in the field of electric motors and power electronics for developing and manufacturing electric drives, opening up new opportunities for growth. On the other hand, Schaeffler has proactively streamlined its production portfolio by disposing of its fine blanking activities in Switzerland and selling Schaeffler Motorenelemente AG & Co. KG in Magdeburg.

## Changes in Board membership

At its meeting on March 11, 2016, Schaeffler AG’s Supervisory Board appointed Matthias Zink to the Board of Managing Directors of Schaeffler AG and the position of Co-CEO of the Automotive division effective January 01, 2017. Matthias Zink will succeed Norbert Indlekofer, whose contract was not extended at his own request. The Supervisory Board also decided to extend the contract of Prof. Dr. Peter Pleus, also Co-CEO of the Automotive division, by a further two years until December 31, 2018.

## Results of operations compared to outlook 2016

The Schaeffler Group has achieved its outlook for 2016.

### Comparison to outlook 2016

No. 041

	Actual 2015	Outlook 2016	Actual 2016
Revenue growth compared with prior year <sup>1)</sup>	3.5 %	3 to 5 %	3.4 %
EBIT margin before special items	12.7 %	12 to 13 %	12.7 %
Free cash flow	EUR 370 m	~ EUR 600 m	EUR 735 m

<sup>1)</sup> Excluding the impact of currency translation.

The Schaeffler Group had issued guidance regarding revenue growth of 3 to 5 % for 2016, excluding the impact of currency translation. This guidance was based on the expectation that its Automotive division would continue to grow faster than global automobile production of passenger cars and light commercial vehicles in 2016. The company also assumed that its Industrial division would experience flat or slightly declining revenue levels in 2016, as the economic environment in certain sectors was still strained. Excluding the impact of currency translation, the Schaeffler Group’s revenue grew by 3.4 % in 2016. Thus, Schaeffler has met its revenue target for 2016. Excluding the impact of currency translation, the Automotive division increased its revenue by 6.0 % from 2015, outpacing the global production of passenger cars and light commercial vehicles which grew by 4.8 % in 2016. The Industrial division, on the other hand, reported a decline in revenue of 4.8 % in 2016, excluding the impact of currency translation.

The Schaeffler Group generated an EBIT margin before special items of 12.7 % in 2016. Thus, the return for 2016 remained high, falling in the top third of the range of 12 to 13 % contained in the outlook.

Free cash flow for 2016 amounted to EUR 735 m, considerably higher than the outlook for 2016 of approximately EUR 600 m. The reason was improved cash flow from operations.

# Schaeffler Group

Revenue EUR **13,338 m**

**22.5 %**

Industrial



**77.5 %**

Automotive

EBIT margin before special items **12.7 %**

Group continued along successful course in 2016 // Revenue and operating results increased once more compared to prior year // Revenue growth 3.4 % at constant currency // EBIT before special items at EUR 1.7 bn // Strong year for Automotive division; Industrial division earnings declined // R&D activities for electric mobility expanded considerably

## Schaeffler Group earnings

No. 042

in € millions	2016	2015	Change in %
<b>Revenue</b>	<b>13,338</b>	<b>13,179</b>	<b>1.2</b>
• at constant currency			3.4
<b>Revenue by division</b>			
Automotive	10,333	9,977	3.6
• at constant currency			6.0
Industrial	3,005	3,202	-6.2
• at constant currency			-4.8
<b>Revenue by region <sup>1)</sup></b>			
Europe	7,077	7,027	0.7
• at constant currency			1.8
Americas	2,800	2,901	-3.5
• at constant currency			0.1
Greater China	2,053	1,898	8.2
• at constant currency			13.3
Asia/Pacific	1,408	1,353	4.1
• at constant currency			4.7
Cost of sales	-9,552	-9,448	1.1
<b>Gross profit</b>	<b>3,786</b>	<b>3,731</b>	<b>1.5</b>
• in % of revenue	28.4	28.3	-
Research and development expenses	-751	-673	11.6
Selling expenses	-915	-920	-0.5
Administrative expenses	-428	-407	5.2
<b>Earnings before financial result and income taxes (EBIT)</b>	<b>1,556</b>	<b>1,402</b>	<b>11.0</b>
• in % of revenue	11.7	10.6	-
Special items <sup>2)</sup>	144	274	-47.4
<b>EBIT before special items</b>	<b>1,700</b>	<b>1,676</b>	<b>1.4</b>
• in % of revenue	12.7	12.7	-
Financial result	-341	-547	-37.7
Income taxes	-343	-250	37.2
Net income <sup>3)</sup>	859	591	45.3
<b>Earnings per common non-voting share (basic/diluted, in €) <sup>4)</sup></b>	<b>1.30</b>	<b>1.28</b>	<b>1.6</b>

<sup>1)</sup> Based on market (customer location).

<sup>2)</sup> Please refer to page 48 for the definition of special items.

<sup>3)</sup> Attributable to shareholders of the parent company.

<sup>4)</sup> Earnings per share were calculated in accordance with IAS 33.

## 2.3 Earnings

### Schaeffler Group earnings

Revenue grew by 1.2 % to EUR 13,338 m in 2016 (prior year: EUR 13,179 m). Excluding the impact of currency translation, revenue grew by 3.4 %. The Automotive division contributed revenue growth of 6.0 % excluding the impact of currency translation, exceeding global growth in the production of passenger cars and light commercial vehicles of 4.8 %. The Industrial division, on the other hand, reported a decline in revenue of 4.8 % excluding the impact of currency translation.

Revenue in Schaeffler's Europe region was up by 0.7 % (+1.8 % at constant currency), with the added revenue in the Automotive division more than offsetting a slight decline in Industrial division revenue. The Americas region reported a drop in revenue of 3.5 %, (+0.1 % at constant currency). Considerably lower Industrial revenue in the U.S., primarily attributable to weak momentum in oil and gas production, held back this region's revenue. The revenue trend in the Greater China and Asia/Pacific regions remained positive. These regions' revenue increased by a total of 8.2 % (+13.3 % at constant currency) in Greater China and 4.1 % (+4.7 % at constant currency) in Asia/Pacific, despite the adverse impact of currency translation and a significant decline in the Industrial division.

Cost of sales increased by 1.1 % to EUR 9,552 m (prior year: EUR 9,448 m) in 2016. Gross profit improved by 1.5 % or EUR 55 m to EUR 3,786 m (prior year: EUR 3,731 m) and, consequently, gross margin of 28.4 % (prior year: 28.3 %) came in slightly above the prior year level. The Automotive division gross margin increased by 0.7 % to 28.5 % (prior year: 27.8 %), while the Industrial division's gross margin fell 2.2 percentage points to 27.8 % (prior year: 30.0 %).

Research and development expenses increased significantly by 11.6 % to EUR 751 m in 2016 (prior year: EUR 673 m) which represents an R&D ratio of 5.6 % (prior year: 5.1 %) of revenue. Apart from inflation-related cost increases, the increase is primarily attributable to a focused expansion of the headcount in connection with the strategic direction of the research and development activities of the Automotive division, as a result of, among other things, stepped-up activities in the field of E-mobility.

### Research and development expenses

No. 043

	2012	2013	2014	2015	2016
Research and development expenses (in € millions)	593	611	622	673	751
Research and development expenses (in % of revenue)	5.3 %	5.5 %	5.1 %	5.1 %	5.6 %
Number of research and development staff <sup>1)</sup>	6,098	6,039	6,387	6,650	7,121

<sup>1)</sup> Averages.

Selling and administrative expenses of EUR 1,343 m were slightly above prior year (prior year: EUR 1,327 m). Total functional costs rose by 4.7 % to EUR 2,094 m (prior year: EUR 2,000 m), growing to 15.7 % of revenue (prior year: 15.2 %).

EBIT increased by EUR 154 m or 11.0 % to EUR 1,556 m (prior year: EUR 1,402 m) during the reporting period. The Schaeffler Group's EBIT margin was 11.7 % (prior year: 10.6 %). In 2016, the Schaeffler Group's EBIT was adversely affected by EUR 144 m in special items (prior year: EUR 274 m), including EUR 86 m in special items for legal cases resulting from provisions for claims for damages in antitrust cases and for other compliance cases. In addition, the company recognized restructuring expenses of EUR 45 m for the stepped-up efficiency measures aimed at revitalizing the Industrial division – as part of the second wave of the program "CORE" – in 2016. Streamlining the production portfolio resulted in other special items of EUR 13 m. Prior year EBIT had been adversely affected by a EUR 238 m provision for legal cases recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. In addition, prior year earnings were adversely affected by EUR 36 m in restructuring expenses related to the realignment of the Industrial division. The company's EBIT before special items amounted to EUR 1,700 m (prior year: EUR 1,676 m) in 2016, and its EBIT margin to 12.7 % (prior year: 12.7 %). An improvement in Automotive division gross margin more than offset the market-driven decline in the Industrial division's return as well as higher research and development expenses.

The Schaeffler Group's financial result improved by EUR 206 m to EUR -341 m (prior year: EUR -547 m) in 2016, and included EUR 158 m (prior year: EUR 196 m) in one-time charges incurred in connection with refinancing transactions in 2016.

Schaeffler Group financial result		No. 044	
in € millions	2016	2015	
Interest expense on financial debt <sup>1)</sup>	-286	-513	
Interest income on shareholder loans	49	72	
Foreign exchange gains and losses	-12	-224	
Fair value changes and compensation payments on derivatives	-21	234	
Fair value changes on embedded derivatives	-30	-79	
Interest income and expense on pensions and partial retirement obligations	-45	-42	
Other	4	5	
<b>Total</b>	<b>-341</b>	<b>-547</b>	

<sup>1)</sup>Incl. amortization of transaction costs and prepayment penalties.

Interest expense on financial debt amounted to EUR 286 m in 2016 (prior year: EUR 513 m) and includes EUR 48 m in prepayment penalties and EUR 31 m in deferred transaction costs derecognized. Please refer to the chapter entitled "Financial debt" for further detail. The prior year amount included a prepayment penalty of EUR 173 m and EUR 23 m in deferred transaction costs derecognized in connection with the early redemption of bonds.

Interest income on loans to a shareholder, IHO Verwaltungs GmbH (until September 27, 2016: Schaeffler Verwaltung Zwei GmbH), was EUR 49 m (prior year: EUR 72 m).

Net foreign exchange losses on financial assets and liabilities amounted to EUR 12 m (prior year: EUR 224 m) and resulted

primarily from translating financing instruments denominated in U.S. Dollar to Euro. The company has hedged these instruments using cross-currency derivatives and has reported the resulting losses of EUR 21 m (prior year: gains of EUR 234 m) under fair value changes and compensation payments on derivatives. The losses largely related to the early termination of cross-currency derivatives.

Changes in the fair value of embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 30 m (prior year: EUR 79 m), including EUR 79 m in losses related to prepayment options written off in connection with the refinancing transactions in 2016, partially offset by EUR 49 m in gains resulting from changes in the fair value of the remaining prepayment options.

Income tax expense amounted to EUR 343 m in 2016 (prior year: EUR 250 m), resulting in an effective tax rate of 28.2 % (prior year: 29.2 %)

Net income attributable to shareholders of the parent company for 2016 was EUR 859 m (prior year: EUR 591 m). Net income before special items amounted to EUR 962 m (prior year: EUR 785 m). The Board of Managing Directors and the Supervisory Board will propose a dividend for 2016 of EUR 0.49 (prior year: EUR 0.34; special dividend EUR 0.15) per common share and EUR 0.50 (prior year: EUR 0.35; special dividend EUR 0.15) per common non-voting share to the annual general meeting. This represents a dividend of 34.1 % (prior year: 28.9 %) of net income attributable to shareholders before special items.

Basic and diluted earnings per common share increased to EUR 1.29 (prior year: EUR 0.88) in 2016. Basic and diluted earnings per common non-voting share amounted to EUR 1.30 (prior year: EUR 1.28). The number of shares used to calculate earnings per common share and earnings per common non-voting share was 500 million (prior year: 500 million) and 166 million (prior year: 116 million), respectively. <sup>5</sup>

<sup>5</sup> Earnings per share were calculated in accordance with IAS 33. As the common non-voting shares newly issued in October 2015 (66 million shares) participated in profits for the entire year 2015, earnings per common non-voting share for all of 2015 were calculated using proportionate net income based on 166 million common non-voting shares.

# Automotive division

Revenue EUR **10,333 m**



EBIT margin before special items **14.4 %**

Profitable growth continued – both revenue and operating results before special items increased further // Revenue increased by 6.0 % at constant currency // Growth outpaces increase in global production volumes of passenger cars and light commercial vehicles // Revenue growth in all business divisions – strong Aftermarket business // R&D activities for electric mobility expanded considerably

## Automotive division earnings

No. 045

in € millions	2016	2015	Change in %
<b>Revenue</b>	<b>10,333</b>	<b>9,977</b>	<b>3.6</b>
• at constant currency			6.0
<b>Revenue by business division</b>			
BD Engine Systems	2,643	2,596	1.8
• at constant currency			3.3
BD Transmission Systems	4,349	4,211	3.3
• at constant currency			5.6
BD Chassis Systems	1,531	1,465	4.5
• at constant currency			6.3
BD Automotive Aftermarket	1,810	1,705	6.2
• at constant currency			10.8
<b>Revenue by region <sup>1)</sup></b>			
Europe	5,304	5,211	1.8
• at constant currency			2.9
Americas	2,238	2,301	-2.7
• at constant currency			1.3
Greater China	1,675	1,420	18.0
• at constant currency			24.3
Asia/Pacific	1,116	1,045	6.8
• at constant currency			7.3
Cost of sales	-7,383	-7,206	2.5
<b>Gross profit</b>	<b>2,950</b>	<b>2,771</b>	<b>6.5</b>
• in % of revenue	28.5	27.8	-
Research and development expenses	-613	-536	14.4
Selling and administrative expenses	-828	-814	1.7
<b>EBIT</b>	<b>1,383</b>	<b>1,135</b>	<b>21.9</b>
• in % of revenue	13.4	11.4	-
Special items <sup>2)</sup>	108	238	-54.6
<b>EBIT before special items</b>	<b>1,491</b>	<b>1,373</b>	<b>8.6</b>
• in % of revenue	14.4	13.8	-

Prior year information presented based on 2016 segment structure.

<sup>1)</sup> Based on market (customer location).

<sup>2)</sup> Please refer to page 48 for the definition of special items.

## Automotive division earnings

Automotive division revenue increased by 3.6 % to EUR 10,333 m (prior year: EUR 9,977 m) in 2016. At constant currency, the growth rate was 6.0 %. Thus, the business once again expanded faster than global production volumes for passenger cars and light commercial vehicles, which grew by 4.8 % in 2016. The growth rate in excess of the rise in global automobile production was primarily due to an increase in the value of Schaeffler products installed per vehicle. From a regional perspective, the positive revenue trend was primarily attributable to double-digit growth in Greater China. The Aftermarket was also very successful.

Overall, revenue trends varied widely across market regions in 2016. The Europe region reported 1.8 % (+2.9 % at constant currency) in additional revenue, slightly less than average regional growth in production volumes (+5.2 %). The Americas region reported a decline in revenue of 2.7 % for the reporting period due to the adverse impact of currency translation. The region's revenue increased slightly by 1.3 % at constant currency while automobile production remained flat with prior year. The Automotive division once again significantly expanded its revenue in the Greater China region, mainly as a result of product ramp-ups and higher demand driven by tax incentives provided by the Chinese government. The Automotive division generated 18.0 % (+24.3 % at constant currency) in additional revenue in Greater China while regional vehicle production increased by 13.9 %. The reasons for the increase in Asia/Pacific region revenue by 6.8 % (+7.3 % at constant currency) included product ramp-ups, with vehicle production there declining by 2.8 %.

The Automotive division business is organized in the Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket business divisions (BD), all of which reported revenue growth in 2016.

The **Engine Systems BD** generated revenue growth of 1.8 % (+3.3 % at constant currency) during the year. This growth was primarily buoyed by the start of volume production of the electromechanical camshaft phasing system within the camshaft phasing units product group. The accessory drive product group and the innovative thermal management module, which helps reduce fuel consumption and CO<sub>2</sub> emissions, also generated considerable additional revenue. Fully variable valve train systems (predominantly Multiair), on the other hand, experienced a significant decline in revenue, primarily as a result of the main customer in North America requiring less volume of this product due to shifts in product mix.

**Transmission Systems BD** revenue rose by 3.3 % (+5.6 % at constant currency), driven by higher volumes in the dual-mass flywheel product group and for components for automated transmissions, such as torque converters and dual clutches. In addition, the Automotive division also significantly increased sales of clutches and gearing components used in manual transmissions. On the other hand, continuously variable transmissions (CVT) declined, mainly due to the end of a project.

The **Chassis Systems BD** generated revenue growth of 4.5 % (+6.3 % at constant currency) mainly based on the solid performance of the newest generation of wheel bearings, highly integrated units containing mounting brackets for the brake disk, rim, and wheel carrier that ensure top running accuracy. Volume production of the electromechanical active roll control also considerably increased revenue in the chassis actuators product group.

The **Automotive Aftermarket BD** increased revenue by 6.2 % (+10.8 % at constant currency) in 2016. The increase was primarily due to higher sales in the Americas and Europe regions. Reasons for the additional revenue in Americas included increased requirements of automobile manufacturers (OES customers). In Europe, business expanded particularly in Eastern Europe as well as in Southern and Western Europe. The higher revenue was primarily attributable to increased market coverage.

Cost of sales increased by 2.5 % to EUR 7,383 m (prior year: EUR 7,206 m) in 2016. In total, the Automotive division improved its gross profit by EUR 179 m or 6.5 % to EUR 2,950 m (prior year: EUR 2,771 m). The division's gross margin of 28.5 % was ahead of the prior year period (prior year: 27.8 %). The Automotive division has thus continued its profitable growth, more than offsetting cost increases, primarily due to collectively bargained wage and salary increases, and the adverse impact of foreign currency translation with the favorable impact of higher volumes and a better revenue mix as well as lower raw materials costs.

Functional costs increased 6.7 % to EUR 1,441 m (prior year: EUR 1,350 m), rising slightly to 13.9 % of revenue (prior year: 13.5 %). The main driver of this increase was the rise in research and development expenses by 14.4 % to EUR 613 m (prior year: EUR 536 m) or 5.9 % (prior year: 5.4 %) of revenue, reflecting increased activities in the field of electric mobility, which has already won several volume production orders. Selling and administrative expenses of EUR 828 m were slightly ahead of prior year (+1.7 %; prior year: EUR 814 m).



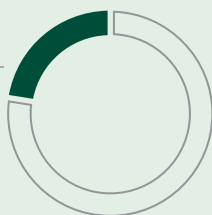
Automotive division EBIT grew by 21.9 % to EUR 1,383 m (prior year: EUR 1,135 m) during the reporting period, and its EBIT margin increased to 13.4 % (prior year: 11.4 %). In 2016, EBIT was adversely affected by EUR 108 m in special items (prior year: EUR 238 m), including EUR 82 m in special items for legal cases resulting from provisions for claims for damages in antitrust cases and other compliance cases. In addition, the division recognized EUR 13 m in restructuring expenses affecting the Automotive division as part of the second wave of the program "CORE" (consolidation of shared functions and plant structures). Streamlining the production portfolio resulted in other special items of EUR 13 m. Prior year EBIT had been adversely affected by a EUR 238 m provision for legal cases recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. EBIT before special items increased by EUR 118 m to EUR 1,491 m (prior year: EUR 1,373 m), improving the division's EBIT margin by 0.6 percentage points to 14.4 % (prior year: 13.8 %). The increase in EBIT margin before special items was due to the favorable impact of higher volumes and a better revenue mix, partially offset mainly by higher research and development expenses and the adverse impact of currency translation.

## Industrial division

Revenue EUR **3,005** m

**22.5 %**

of group revenue



EBIT margin before special items **7.0 %**

Market environment remains strained // Revenue declined by 4.8 % at constant currency // Considerably lower demand in the Greater China region // Low demand, especially in the raw materials and rail sectors // Operating results still adversely affected by low sales volume // EBIT before special items at EUR 209 m // Efficiency and cost saving measures executed as planned // Second wave of program “CORE” initiated

### Industrial division earnings

No. 046

in € millions	2016	2015	Change in %
<b>Revenue</b>	<b>3,005</b>	<b>3,202</b>	<b>-6.2</b>
• at constant currency			-4.8
<b>Revenue by region <sup>1)</sup></b>			
Europe	1,773	1,816	-2.4
• at constant currency			-1.3
Americas	562	600	-6.3
• at constant currency			-4.6
Greater China	378	478	-20.9
• at constant currency			-18.8
Asia/Pacific	292	308	-5.2
• at constant currency			-4.1
Cost of sales	-2,169	-2,242	-3.3
<b>Gross profit</b>	<b>836</b>	<b>960</b>	<b>-12.9</b>
• in % of revenue	27.8	30.0	-
Research and development expenses	-138	-137	0.7
Selling and administrative expenses	-515	-513	0.4
<b>EBIT</b>	<b>173</b>	<b>267</b>	<b>-35.2</b>
• in % of revenue	5.8	8.3	-
Special items <sup>2)</sup>	36	36	0.0
<b>EBIT before special items</b>	<b>209</b>	<b>303</b>	<b>-31.0</b>
• in % of revenue	7.0	9.5	-

Prior year information presented based on 2016 segment structure.

<sup>1)</sup> Based on market (customer location).

<sup>2)</sup> Please refer to page 48 for the definition of special items.

## Industrial division earnings

Industrial division revenue decreased by 6.2 % to EUR 3,005 m (prior year: EUR 3,202 m) in 2016. Excluding the impact of currency translation, the division reported a revenue decline of 4.8 %.

The Industrial business is primarily managed based on regions. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets. Within the regions, the Industrial business is grouped into eight sectors: wind, raw materials, aerospace, rail, offroad, two wheelers, power transmission, and industrial automation. Sales to distributors (Industrial Distribution) round out the Industrial division's regional business.

The market environment of the Industrial division remained strained in 2016. Commodity and oil prices remained relatively low, weakening demand on the customer side and, in turn, adversely affecting the performance of the raw materials and power transmission sectors to a significant degree. Sharp revenue declines in the rail sector also had an adverse effect on the division's revenue trend. Although Industrial Distribution revenue recovered slightly over the course of 2016, it still lagged considerably behind the prior year for the reporting period as a whole. The offroad and industrial automation sectors also reported slightly lower revenue. However, revenue in the division's wind, two wheelers, and aerospace sectors increased.

Revenue in Schaeffler's **Europe region** fell by 2.4 % (-1.3 % at constant currency). Revenue trends varied widely across individual sectors. The raw materials sector business reported considerably lower revenue due to weak market conditions. The rail and power transmission sectors as well as Industrial Distribution similarly reported considerably lower revenue than in the prior year. The offroad and industrial automation sectors were nearly in line with prior year. However, revenue in the wind, two wheelers, and aerospace sectors generated considerable revenue increases. The wind and aerospace sectors generated double-digit growth rates excluding the impact of currency translation.

In the **Americas region**, revenue declined by 6.3 % (-4.6 % at constant currency). This trend was primarily driven by double-digit declines in revenue in the raw materials, rail, and power transmission sectors. These declines are related to the challenging situation in the U.S. markets for these sectors, particularly in the oil and gas industry. Despite recovering somewhat during the year, revenue for the industrial automation sector as well as for Industrial Distribution still fell short of its prior year level. Aerospace sector revenue at constant currency, on the other hand, was almost in line with prior year, and offroad sector revenue rose slightly, excluding the impact of currency translation. The wind and two wheelers sectors generated double-digit growth rates excluding the impact of currency translation.

The **Greater China region** reported a considerable drop in revenue of 20.9 % (-18.8 % at constant currency). Except for the wind sector, which reported only a minor decline in revenue, all significant sectors as well as Industrial Distribution saw double-digit declines in revenue due to weak market requirements, reduced investing activity, and the resulting pressure on market prices.

The decrease in revenue for the **Asia/Pacific region** by 5.2 % (-4.1 % at constant currency) was primarily attributable to Industrial Distribution and the raw materials sector. The aerospace, two wheelers, and industrial automation sectors, on the other hand, reported slightly higher revenue.

Industrial division cost of sales decreased by 3.3 % to EUR 2,169 m (prior year: EUR 2,242 m). Gross profit declined by EUR 124 m or 12.9 % to EUR 836 m (prior year: EUR 960 m) and, consequently, gross margin fell by 2.2 percentage points to 27.8 % (prior year: 30.0 %). The decrease was attributable to lower volumes, the resulting lower utilization of production capacities, and a less profitable revenue mix. However, lower raw materials prices had a positive effect on gross margin.

Functional costs of EUR 653 m (prior year: EUR 650 m) in 2016 were in line with prior year. The cost reduction measures of the program "CORE" approximately offset inflation-related increases in costs, particularly in personnel expenses. Functional costs as a percentage of revenue rose to 21.7 % (prior year: 20.3 %). Research and development expenses amounted to EUR 138 m (prior year: EUR 137 m), and selling and administrative expenses were EUR 515 m (prior year: EUR 513 m).

Industrial division EBIT declined to EUR 173 m (prior year: EUR 267 m) in 2016. The division's EBIT margin deteriorated to 5.8 % (prior year: 8.3 %). In 2016, the division's EBIT was adversely affected by EUR 36 m in special items (prior year: EUR 36 m), including EUR 32 m in restructuring expenses for the stepped-up efficiency measures aimed at revitalizing the Industrial division as part of the second wave of the program "CORE". In addition, the division recognized EUR 4 m in expenses for legal cases in 2016. This compares to EUR 36 m in restructuring expenses recognized in the prior year for the realignment of the Industrial division. The division's EBIT before special items amounted to EUR 209 m (prior year: EUR 303 m) in 2016, and its EBIT margin was 7.0 % (prior year: 9.5 %). The decrease in EBIT was primarily due to the adverse impact of lower volumes and a less favorable revenue mix.

## Performance indicators and special items

EBIT, EBITDA, debt to EBITDA ratio, ROCE, and Schaeffler Value Added and the corresponding amounts before special items are indicators that are not defined in International Financial Reporting Standards (IFRS). Therefore, these indicators should be considered supplementary information.

The key indicators used in evaluating the company's operations are EBIT and the EBIT margin. In addition, the company calculates EBITDA, which represents EBIT before amortization of intangible assets, depreciation of property, plant and equipment, and impairment losses. EBITDA is primarily used to calculate the debt to EBITDA ratio. This ratio is used to evaluate the financing structure and is the ratio of net financial debt to EBITDA, where net financial debt is defined as the sum of current and non-current financial debt net of cash and cash equivalents. The Schaeffler Group's key value-based performance indicator is return on capital employed (ROCE) as well as Schaeffler Value Added, which is closely linked to ROCE. ROCE corresponds to EBIT in relation to average capital employed. Average capital employed is calculated as the sum of property, plant and equipment, intangible assets, and working capital, which in turn comprises trade receivables and inventories net of trade payables. The annual average is determined as the mathematical average of the balance at the end of each of the four quarters. Schaeffler Value Added is calculated as EBIT less the cost of capital. Cost of capital is calculated by applying the minimum return of 10 % p.a. (before tax) set by the Board of Managing Directors and the Supervisory Board to the average capital employed during the year.

In order to make the evaluation of the company's results of operations as transparent as possible, the Schaeffler Group reports the indicators described above before special items. Special items are items which the Board of Managing Directors considers to render the financial indicators less meaningful for evaluating the sustainability of the Schaeffler Group's profitability due to their nature, frequency, and/or size. Net income attributable to shareholders of the parent company before special items in EBIT is also presented in order to facilitate calculating the payout ratio. In addition to presenting special items, the company also aims to make the evaluation of the company's results of operations as transparent as possible by presenting its revenue figures excluding the impact of currency translation. Revenue figures at constant currency, i.e. excluding the impact of currency translation, are calculated by translating functional currency revenue using the same exchange rate for both the current and the prior year or comparison reporting period.

In 2016, special items relate primarily to issues in the categories legal cases, restructuring, and other.

Reconciliation		No. 047					
		Total		Automotive		Industrial	
in € millions		2016	2015	2016	2015	2016	2015
<b>EBIT</b>		<b>1,556</b>	<b>1,402</b>	<b>1,383</b>	<b>1,135</b>	<b>173</b>	<b>267</b>
• in % of revenue		11.7	10.6	13.4	11.4	5.8	8.3
<b>Special items</b>		<b>144</b>	<b>274</b>	<b>108</b>	<b>238</b>	<b>36</b>	<b>36</b>
• Legal cases		86	238	82	238	4	0
• Restructuring		45	36	13	0	32	36
• Other		13	0	13	0	0	0
<b>EBIT before special items</b>		<b>1,700</b>	<b>1,676</b>	<b>1,491</b>	<b>1,373</b>	<b>209</b>	<b>303</b>
• in % of revenue		12.7	12.7	14.4	13.8	7.0	9.5
<b>EBITDA</b>		<b>2,293</b>	<b>2,096</b>				
<b>Special items</b>		<b>144</b>	<b>274</b>				
• Legal cases		86	238				
• Restructuring		45	36				
• Other		13	0				
<b>EBITDA before special items</b>		<b>2,437</b>	<b>2,370</b>				
<b>Net income<sup>1)</sup></b>		<b>859</b>	<b>591</b>				
<b>Special items</b>		<b>144</b>	<b>274</b>				
• Legal cases		86	238				
• Restructuring		45	36				
• Other		13	0				
– Tax effect <sup>2)</sup>		-41	-80				
<b>Net income before special items<sup>1)</sup></b>		<b>962</b>	<b>785</b>				
Net financial debt		2,636	4,889				
/ EBITDA		2,293	2,096				
<b>Debt to EBITDA ratio</b>		<b>1.1</b>	<b>2.3</b>				
Net financial debt		2,636	4,889				
/ EBITDA before special items		2,437	2,370				
<b>Debt to EBITDA ratio before special items</b>		<b>1.1</b>	<b>2.1</b>				
EBIT		1,556	1,402				
/ Average capital employed		7,848	7,455				
<b>ROCE (in %)</b>		<b>19.8</b>	<b>18.8</b>				
EBIT before special items		1,700	1,676				
/ Average capital employed		7,848	7,455				
<b>ROCE before special items (in %)</b>		<b>21.7</b>	<b>22.5</b>				
EBIT		1,556	1,402				
– Cost of capital		785	745				
<b>Schaeffler Value Added</b>		<b>771</b>	<b>657</b>				
EBIT before special items		1,700	1,676				
– Cost of capital		785	745				
<b>Schaeffler Value Added before special items</b>		<b>915</b>	<b>931</b>				

<sup>1)</sup> Attributable to shareholders of the parent company.

<sup>2)</sup> Based on the groups effective tax rate for the relevant year.

## 2.4 Financial position and finance management

### Cash flow and liquidity

The Schaeffler Group generated free cash flow of EUR 735 m (prior year: EUR 370 m) in 2016.

Cash flow		No. 048	
in € millions	2016	2015	Change in %
Cash flows from operating activities	1,876	1,372	36.7
Cash used in investing activities	-1,141	-1,002	13.9
<b>Free cash flow</b>	<b>735</b>	<b>370</b>	<b>98.6</b>
Cash used in financing activities	-466	-212	> 100
<b>Net increase in cash and cash equivalents</b>	<b>269</b>	<b>158</b>	<b>70.3</b>
Effects of foreign exchange rate changes on cash and cash equivalents	3	5	-40.0
Cash and cash equivalents as at beginning of period	799	636	25.6
<b>Cash and cash equivalents</b>	<b>1,071</b>	<b>799</b>	<b>34.0</b>

The increase in cash flows from operating activities by EUR 504 m to EUR 1,876 m (prior year: EUR 1,372 m) was mainly the result of significantly lower interest payments as well as higher EBITDA. Net interest paid and received amounted to EUR -181 m (prior year: EUR -465 m). The company paid EUR 327 m (prior year: EUR 358 m) in income taxes. Cash outflows related to expanding working capital amounted to EUR 22 m and were lower than the prior year amount of EUR 116 m.

Capital expenditures on property, plant and equipment and intangible assets (capex) amounted to EUR 1,146 m (prior year: EUR 1,025 m) in 2016. The capex ratio was 8.6 % (prior year: 7.8 %) of consolidated revenue in 2016. Capital expenditures of EUR 657 m (prior year: EUR 556 m) related to the Europe Region, EUR 234 m (prior year: EUR 250 m) to Greater China, EUR 209 m (prior year: EUR 170 m) to Americas, and EUR 46 m (prior year: EUR 49 m) to Asia/Pacific. In order to strengthen its competitive position, the Schaeffler Group primarily invested in expanding capacity and in equipment and machinery for product start-ups.

Capital expenditures by region (Capex)		No. 049	
		in € millions	Change in %
Europe		657 556	18.2
Americas		209 170	22.9
Greater China		234 250	-6.4
Asia/Pacific		46 49	-6.1
Schaeffler Group		1,146 1,025	11.8

Regions reflect the regional structure of the Schaeffler Group.

These developments resulted in free cash flow of EUR 735 m (prior year: EUR 370 m) for 2016.

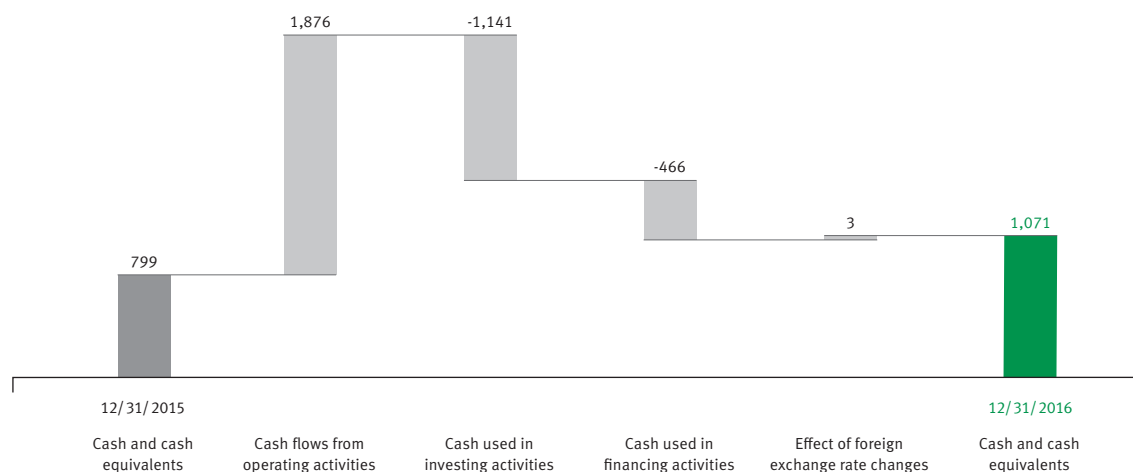
EUR 466 m in net cash was used in financing activities (prior year: EUR 212 m) during the year, including cash provided by the prepayment in full of a loan receivable by Schaeffler AG from its shareholder IHO Verwaltungs GmbH of EUR 1,773 m (prior year: EUR 197 m). These funds were used to redeem bonds with a principal of EUR 1,756 m in the fourth quarter. EUR 1.0 bn in cash was provided to the Schaeffler Group by a new Facilities Agreement signed in the third quarter of 2016; these funds were used to repay the two remaining institutional term loans totaling EUR 418 m, and to redeem the EUR 600 m EUR bond series. A total of EUR 136 m in cash was used for additional repayments and to terminate related cross-currency derivatives. The company paid EUR 329 m in dividends, including EUR 328 m paid to shareholders of Schaeffler AG.

Cash and cash equivalents increased by EUR 272 m to EUR 1,071 m as at December 31, 2016.

## Change in cash and cash equivalents

No. 050

in € millions



At December 31, 2016, cash and cash equivalents amounted to EUR 1,071 m (prior year: EUR 799 m) and consisted primarily of bank balances. EUR 325 m (prior year: EUR 198 m) of this amount related to countries with foreign exchange restrictions and other legal restrictions. In addition, the Schaeffler Group has a revolving line of credit of EUR 1.3 bn (prior year: EUR 1.0 bn), of which EUR 13 m (EUR 24 m) were utilized at December 31, 2016, primarily in the form of letters of credit.

## Financial debt

The group's net financial debt was reduced by EUR 2,253 m to EUR 2,636 m (prior year: EUR 4,889 m), primarily as a result of the prepayment in full of a loan receivable from the company's shareholder IHO Verwaltungs GmbH of EUR 1,674 m in September 2016. In May 2016, IHO Verwaltungs GmbH had already repaid approximately EUR 99 m of this loan. The Schaeffler Group used these funds as well as additional available liquidity to prepay financial debt. A significant improvement in free cash flow further reduced net financial debt.

## Net financial debt

No. 051

in € millions	12/31/2016	12/31/2015	Change in %
Bonds	2,719	5,048	-46.1
Facilities Agreement	982	632	55.4
Other financial debt	6	8	-25.0
<b>Total financial debt</b>	<b>3,707</b>	<b>5,688</b>	<b>-34.8</b>
Cash and cash equivalents	1,071	799	34.0
<b>Net financial debt</b>	<b>2,636</b>	<b>4,889</b>	<b>-46.1</b>

The debt to EBITDA ratio, defined as the ratio of net financial debt to earnings before financial result, income taxes, depreciation and amortization and impairment losses (EBITDA), amounted to 1.1 at December 31, 2016 (prior year: 2.3). The net debt to EBITDA ratio before special items, was 1.1 (prior year: 2.1).

The gearing ratio, the ratio of net debt to equity, was 132.0 % at December 31, 2016 (prior year: 311.8 %).

In May 2016, Schaeffler AG voluntarily prepaid approximately EUR 229 m of its institutional term loans using the proceeds of a partial prepayment of a loan receivable from the company's shareholder IHO Verwaltungs GmbH of approximately EUR 99 m and additional available liquidity.

Schaeffler AG signed a new Facilities Agreement on July 18, 2016. The funds were used to repay the two institutional term loans totaling approximately EUR 418 m still outstanding at that date and to fully redeem EUR bonds totaling EUR 600 m, bearing interest at 4.25 %, and originally due in 2018.

The new Facilities Agreement consists of a EUR 1.0 bn term loan and a EUR 1.3 bn revolving credit facility. Both facilities have a five year maturity plus certain renewal options and are provided by a consortium of 15 international banks. In addition to offering considerably better interest terms, the new Facilities Agreement especially enhanced the Schaeffler Group's operating and financial flexibility by providing for significantly more favorable credit terms and the release of nearly all assets pledged as in rem security, which were subsequently also released from such pledges under the secured bond agreements.

In September 2016, IHO Verwaltungs GmbH prepaid loans payable to Schaeffler AG of approximately EUR 1,674 m. The Schaeffler Group used these funds together with additional available liquidity to redeem three bond series. On October 07, 2016, the company fully redeemed a USD bond series with a principal of USD 850 m, a coupon of 4.75 %, and an original maturity of 2021. On October 13, 2016, the company fully repaid two EUR bond

series with a principal of EUR 500 m each, a coupon of 3.25 % and 2.75 %, respectively, and an original maturity of 2019.

In connection with the refinancing of IHO Verwaltungs GmbH, rating agency Moody's announced the separation of the previous Schaeffler Group company rating into two separate company ratings for Schaeffler AG and IHO Verwaltungs GmbH on September 07, 2016. As a result, the Schaeffler AG company rating has improved to Baa3 (investment grade) with a stable outlook. At the same time, Moody's also upgraded the issuance ratings of all bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, to Baa3.

Having upgraded Schaeffler AG's company rating to BB on April 28, 2016, rating agency Standard & Poor's once again raised the rating to BB+ (outlook: stable) on September 21, 2016 in connection with the refinancing of IHO Verwaltungs GmbH referred to above. The issuance ratings of the secured bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were also improved to BB+ at the same time.

At December 31, 2016, the Schaeffler Group's Facilities Agreement comprised the following tranches:

#### Facilities Agreement Schaeffler Group

No. 052

Tranche	Currency	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	Maturity
		Face value in millions		Carrying amount in € millions		Coupon		
Senior Term Loan B	EUR	0	250	0	251	n/a	Euribor <sup>1)</sup> + 3.50 %	05/15/2020
Senior Term Loan B	USD	0	440	0	392	n/a	Libor <sup>1)</sup> + 3.50 %	05/15/2020
Senior Term Loan	EUR	1,000	0	992	0	Euribor <sup>2)</sup> + 1.20 % <sup>3)</sup>	n/a	07/18/2021
Revolving Credit Facility <sup>4)</sup>	EUR	0	1,000	0	-11	n/a	Euribor + 2.6875 %	10/27/2019
Revolving Credit Facility <sup>4)</sup>	EUR	1,300	0	-10	0	Euribor <sup>2)</sup> + 0.80 % <sup>3)</sup>	n/a	07/18/2021
<b>Total</b>				<b>982</b>	<b>632</b>			

<sup>1)</sup> Euribor/Libor floor of 0.75 %.

<sup>2)</sup> Euribor floor of 0.00 %.

<sup>3)</sup> Since November 10, 2016.

<sup>4)</sup> EUR 13 m (December 31, 2015: EUR 24 m) were drawn down as at December 31, 2016, primarily in the form of letters of credit.

In addition, the Schaeffler Group had further lines of credit in the equivalent of approximately EUR 166 m, primarily for the U.S. and China.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at December 31, 2016:

### Schaeffler Group bonds

No. 053

ISIN	Currency	Face value in millions		Carrying amount in € millions		Coupon	Maturity
		12/31/2016	12/31/2015	12/31/2016	12/31/2015		
XS0923613060 <sup>1)</sup>	EUR	0	600	0	597	4.25 %	05/15/2018
XS1067864881 <sup>2) 3)</sup>	EUR	0	500	0	497	3.25 %	05/15/2019
XS1067862919 <sup>3)</sup>	EUR	0	500	0	497	2.75 %	05/15/2019
XS1212469966	EUR	400	400	397	396	2.50 %	05/15/2020
US806261AJ29	USD	700	700	658	637	4.25 %	05/15/2021
US806261AE32 <sup>4)</sup>	USD	0	850	0	777	4.75 %	05/15/2021
XS1067864022	EUR	500	500	498	499	3.50 %	05/15/2022
US806261AM57	USD	600	600	571	553	4.75 %	05/15/2023
XS1212470972	EUR	600	600	595	595	3.25 %	05/15/2025
<b>Total</b>				<b>2,719</b>	<b>5,048</b>		

<sup>1)</sup> Redeemed in full on August 18, 2016.

<sup>2)</sup> Bonds are unsecured.

<sup>3)</sup> Redeemed in full on October 13, 2016.

<sup>4)</sup> Redeemed in full on October 07, 2016.

The Schaeffler bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange.

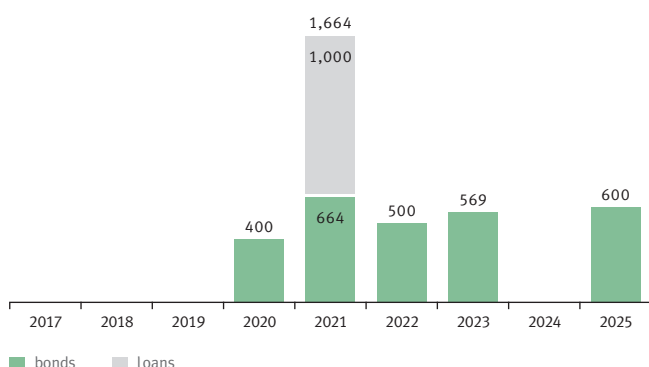
The company's maturity profile, which consists of the term loan and the bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, was as follows as at December 31, 2016:

financial covenants is monitored continually and reported to the lending banks on a regular basis. Until Schaeffler AG entered into its new Facilities Agreement on July 18, 2016, the financial covenants consisted of a leverage covenant and an interest cover covenant. The new Facilities Agreement only contains a leverage covenant. The company has complied with the financial covenants as stipulated in the Facilities Agreement throughout 2016.

### Maturity profile

No. 054

Principal outstanding as at December 31, 2016 in € millions



Schaeffler AG's Facilities Agreement requires the group to comply with certain financial covenants. Compliance with these

### Finance management

The objective of the Schaeffler Group's finance management is to ensure that sufficient liquidity is available to the group and to its foreign and domestic subsidiaries at all times. Finance management primarily comprises capital management and liquidity management.

Corporate capital management provides the financial resources required by Schaeffler Group entities, ensures the long-term availability of liquidity, and secures the Schaeffler Group's credit standing. Capital management also administers and continually improves the company's existing financial debt consisting of its external group financing arrangements. To this end, the Schaeffler Group has laid the foundations for efficiently obtaining debt and equity funding via the capital markets. The Schaeffler Group's management will continue to focus on the group's ability to place financial instruments with a broad range of investors and to further improve financing terms.



External group financing is primarily provided by capital market instruments as well as syndicated and bilateral lines of credit from international banks. One such line of credit is a contractually agreed revolving credit facility of EUR 1,300 m available to cover any short- to medium-term liquidity needs. Please refer to section 2.4 “Financial position and finance management” – “Financial debt” for further detail on the various instruments representing the group financing arrangements.

The Schaeffler Group has a policy of financing its domestic and foreign subsidiaries from internal sources. In accordance with this policy, subsidiaries’ financing needs are met using internal loans to the extent possible and economically justifiable. As a result, subsidiaries are primarily financed by loans provided by Schaeffler AG and one other subsidiary. As part of the company’s liquidity management measures, liquidity is balanced between group companies on a short- and medium-term basis using primarily cash pools or intercompany loans. In a few cases, Corporate Treasury obtains lines of credit for subsidiaries from local banks for legal, tax, or other reasons. Local financing is primarily used to cover fluctuations in working capital.

Centralized finance management performed by the Corporate Treasury department also ensures a uniform presence in the capital markets and when dealing with rating agencies, eliminates structural differences between the various groups of creditors, and strengthens the group’s bargaining position with respect to banks and other market participants. In addition, centralized finance management facilitates the centralized allocation of liquidity as well as groupwide management of financial risk (foreign exchange and interest) on a net basis.

## 2.5 Net assets and capital structure

The Schaeffler Group’s total assets decreased by EUR 916 m or 7.3 % to EUR 11,564 m (prior year: EUR 12,480 m) in 2016.

### Consolidated statement of financial position (abbreviated) No. 055

in € millions	12/31/2016	12/31/2015	Change in %
Total non-current assets	5,979	7,438	-19.6
Total current assets	5,585	5,042	10.8
<b>Total assets</b>	<b>11,564</b>	<b>12,480</b>	<b>-7.3</b>
Total shareholders equity	1,997	1,568	27.4
Total non-current liabilities	6,361	8,144	-21.9
Total current liabilities	3,206	2,768	15.8
<b>Total assets</b>	<b>11,564</b>	<b>12,480</b>	<b>-7.3</b>

**Non-current assets** declined by EUR 1,459 m to EUR 5,979 m as at December 31, 2016 (prior year: EUR 7,438 m), primarily due to the prepayment of a loan of EUR 1,773 m that was receivable from the company’s shareholder IHO Verwaltungs GmbH. The decrease was partially offset by a EUR 327 m increase in property, plant and equipment. Additions to intangible assets and property, plant and equipment amounted to EUR 1,115 m and were primarily invested in expanding capacity and in equipment and machinery for product start-ups in the Automotive division. The Automotive division accounted for approximately 81 % of total additions for the reporting period.

**Current assets** increased by EUR 543 m to EUR 5,585 m (prior year: EUR 5,042 m) in 2016. The increase was largely attributable to the increase in cash and cash equivalents (see “Cash flow”, pp. 49 et seq.). Higher inventories and trade receivables also contributed to the increase in current assets.

**Shareholders' equity** including non-controlling interests rose by EUR 429 m to EUR 1,997 m as at December 31, 2016 (prior year: EUR 1,568 m). Net income of EUR 872 m increased shareholders' equity. The increase was partially offset by EUR 328 m in dividends paid to Schaeffler AG's shareholders. Shareholders' equity was also reduced by an increase in provisions for pensions and similar obligations due to the reduction in the average discount rate to 2.1 % (December 31, 2015: 2.6 %). The equity ratio was 17.3 % at December 31, 2016 (December 31, 2015: 12.6 %).


**Non-current liabilities** declined by EUR 1,783 m to EUR 6,361 m as at December 31, 2016 (prior year: EUR 8,144 m), largely due to the redemption in full of a USD bond series with a principal of USD 850 m and two EUR bond series with a principal of EUR 500 m each completed in October 2016. The redemptions were largely funded using the proceeds of the prepayment in full of a loan receivable from the company's shareholder IHO Verwaltungs GmbH as discussed above. Voluntary partial prepayments of institutional loan tranches during the first half of 2016 also reduced non-current financial debt. These decreases were partially offset by an increase in provisions for pensions and similar obligations by EUR 240 m, mainly as a result of lower discount rates.

**Current liabilities** increased by EUR 438 m to EUR 3,206 m as at December 31, 2016 (prior year: EUR 2,768 m). The increase was largely attributable to higher trade payables and higher other financial liabilities.

The Schaeffler Group's significant off-balance sheet commitments include obligations under operating rental and lease agreements and contingent liabilities. The Schaeffler Group's obligations under non-cancellable operating rental and lease agreements totaled EUR 123 m at December 31, 2016 (prior year: EUR 126 m); obligations under finance leases were insignificant.

## 2.6 Value management

Ensuring that the Schaeffler Group continues to meet its core business objective of growing profitably in the long-term necessitates a value-based approach to managing its business portfolio. The Schaeffler Group's key value-based performance indicator is return on capital employed (ROCE) as well as Schaeffler Value Added, which is closely linked to ROCE. Neither indicator is directly used in managing the Schaeffler Group's operations, although Schaeffler Value Added represents a key performance criterion within the framework governing the variable short-term remuneration of the Board of Managing Directors and the remuneration at the next-lower levels of management.

 See section "Group strategy and management" – "Value-based management" for further detail.

Positive Schaeffler Value Added means that the Schaeffler Group's EBIT exceeds the cost of capital for the period and has added the corresponding amount in value. Cost of capital is calculated by applying the minimum return of 10 % p.a. (before tax) set by the Board of Managing Directors and the Supervisory Board to the average capital employed during the year.

Average capital employed is calculated by adding up the following operating balance sheet items: property, plant and equipment, intangible assets, and working capital, which in turn comprises trade receivables and inventories net of trade payables. The annual average is determined as the mathematical average of the balance at the end of each of the four quarters.

While Schaeffler Value Added is an absolute measure of the value added by the company, return on capital employed – the ratio of EBIT to capital employed – measures the Schaeffler Group's return on capital. Both indicators are determined before special items.

### ROCE and Schaeffler Value Added

No. 056

	12/31/2016	12/31/2015
EBIT (in EUR m)	1,556	1,402
EBIT before special items (in € millions)	1,700	1,676
Capital employed (in € millions)	7,848	7,455
Cost of capital (in %)	10.0	10.0
Cost of capital (in € millions)	785	745
ROCE (in %)	19.8	18.8
<b>ROCE before special items (in %)</b>	<b>21.7</b>	<b>22.5</b>
Schaeffler Value Added (in € millions)	771	657
<b>Schaeffler Value Added before special items (in € millions)</b>	<b>915</b>	<b>931</b>

## 2.7 Overall assessment of the 2016 business year

The Board of Managing Directors looks back on a successful year 2016. Schaeffler achieved its targets for the three key performance indicators growth, EBIT margin, and free cash flow. The group's revenue growth excluding the impact of currency translation of 3.4 % was within the target corridor of 3 to 5 %. The EBIT margin before special items amounted to 12.7 %, reaching the top third of the targeted range of 12 to 13 %. Free cash flow of EUR 735 m considerably exceeded the target of approximately EUR 600 m.

This encouraging development of the key performance indicators was primarily driven by the strong performance of the Automotive division. This division benefitted from favorable overall conditions in the automotive industry which exceeded expectations, especially in China. In addition, revenue growth in the Automotive division of 6.0 % (at constant currency) outpaced growth in global automobile production. The Automotive EBIT margin before special items increased once again, reaching a very encouraging level of more than 14 %.

The Industrial division, on the other hand, continued to face a challenging market environment marked by declining demand in important sectors, particularly in China. Industrial division revenue declined by 4.8 % excluding the impact of currency translation in 2016. Its EBIT margin before special items declined as well, falling short of the division's plan for 2016 at 7.0 %. Achieving the targeted return for 2018 of 10 to 11 % will be challenging. In light of this, the Board of Managing Directors of Schaeffler AG decided in 2016 to step up its measures for revitalizing the Industrial division – in a second wave of the program “CORE” – in order to put the Industrial division, an integral component of the Schaeffler Group, back on course for long-term success. The measures to improve efficiency and reduce costs initiated in the first wave of the program “CORE” were executed as planned.

In addition, the Board of Managing Directors, cooperating closely with the Schaeffler Group's senior management and the Schaeffler AG Supervisory Board, finalized its strategy discussions and approved the strategy “Mobility for tomorrow” and the “Agenda 4 plus One” excellence program in October 2016. The strategy “Mobility for tomorrow” was backed with ambitious medium-term financial targets for 2020. Since the Schaeffler Group's strategy has been approved, the Board of Managing Directors views key fundamentals for profitable long-term growth and adding value to be in place.

## 2.8 Net assets, financial position and earnings of Schaeffler AG

Schaeffler AG is a corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. It acts as a management holding company and is responsible for directing the Schaeffler Group and managing its business as well as its financing; it also employs the staff at the Schaeffler Group's corporate head office.

The Board of Managing Directors of Schaeffler AG is responsible for the key management functions of the Schaeffler Group. Schaeffler AG's situation is largely determined by the Schaeffler Group's operating performance.

The following discussion relates to the separate financial statements of Schaeffler AG prepared in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG).

### Schaeffler AG earnings

Schaeffler AG earnings			No. 057
in € millions	2016	2015	Change in %
Revenue	88	54	63.0
Cost of sales	-84	-51	64.7
<b>Gross profit</b>	<b>4</b>	<b>2</b>	<b>100</b>
General and administrative expenses	-71	-46	54.3
Net other operating income	118	30	> 100
Income from equity investments	600	1,119	-46.4
Interest result	-289	-408	-29.2
Income taxes	204	-122	-
<b>Earnings after income tax</b>	<b>566</b>	<b>575</b>	<b>-1.6</b>
<b>Net income for the year</b>	<b>566</b>	<b>575</b>	<b>-1.6</b>
Retained earnings brought forward	0	3,096	-100
<b>Retained earnings</b>	<b>566</b>	<b>3,671</b>	<b>-84.6</b>

As Schaeffler AG is the ultimate parent company of the Schaeffler Group, it generates revenue from managing the group, including from public relations activities, treasury, legal consulting, tax consulting, compliance, human resources, internal audit, quality management, and general management.

In performing its function as management holding company of the Schaeffler Group, Schaeffler AG incurred EUR 71 m in general and administrative expenses.

The increase in revenue, cost of sales, and administrative expenses over the prior year was due to the transfer of certain employees with group-related responsibilities from a subsidiary to Schaeffler AG.

As part of its financing function, Schaeffler AG performs most of the Schaeffler Group's hedging activities related to currency risk. Foreign exchange gains and losses related to the group's financing arrangements and hedges of currency risk arising from operations represent a significant proportion of net other operating income.

Income from equity investments consisted entirely of the dividend from Schaeffler Technologies AG & Co. KG.

Interest result consists of the following:

Schaeffler AG interest result		No. 058
in € millions	2016	2015
Interest expense on financial debt <sup>1)</sup>	-329	-543
Fair value changes and compensation payments on derivatives	-10	-14
Interest income and expense on pensions and partial retirement obligations	0	-5
Other	50	154
<b>Total</b>	<b>-289</b>	<b>-408</b>

<sup>1)</sup> Incl. transaction costs.

Interest expense on financial debt amounted to EUR 329 m in 2016 (prior year: EUR 543 m) and included interest paid and accrued on the company's institutional loans of EUR 25 m (prior year: EUR 79 m). The proceeds of the bond issuance, which Schaeffler Finance B.V. transferred to Schaeffler AG via inter-company loans, resulted in interest paid and accrued of EUR 169 m (prior year: EUR 216 m). The prepayment penalty of EUR 48 m (prior year: EUR 177 m) payable in connection with the early redemption of certain bonds was also transferred to Schaeffler AG. Interest expense further included EUR 18 m (prior year: EUR 15 m) in transaction costs and EUR 69 m (prior year: EUR 56 m) in other interest payments. Other included mainly interest income on a loan receivable from the company's shareholder IHO Verwaltungs GmbH.

Income taxes for 2016 amounted to EUR 204 m (prior year: expense of EUR 122 m). This income tax benefit consisted of current tax expense of EUR 109 m (prior year: EUR 58 m) and a deferred tax benefit of EUR 313 m (prior year: expense of EUR 64 m). The deferred tax expense benefit was largely the result of the reduction in deferred tax liabilities recognized on an investment in a partnership within the Schaeffler AG tax group.

Net income for the year amounts to EUR 566 m (prior year: EUR 575 m) in 2016, and equals retained earnings for 2016.

The Board of Managing Directors and the Supervisory Board will propose a dividend for 2016 of EUR 0.49 (prior year: EUR 0.34; special dividend EUR 0.15) per common share and EUR 0.50 (prior year: EUR 0.35; special dividend EUR 0.15) per common non-voting share to the annual general meeting.

## Schaeffler AG financial position and net assets

Schaeffler AG financial position and net assets			No. 059
in € millions	12/31/2016	12/31/2015	Change in %
<b>ASSETS</b>			
<b>Intangible assets</b>	<b>0</b>	<b>0</b>	<b>0,0</b>
<b>Property, plant and equipment</b>	<b>0</b>	<b>0</b>	<b>0,0</b>
Shares in affiliated companies	14,109	14,109	
Loans receivable from affiliated companies	120	1,798	-93.3
<b>Long-term financial assets</b>	<b>14,229</b>	<b>15,907</b>	<b>-10.5</b>
<b>Fixed assets</b>	<b>14,229</b>	<b>15,907</b>	<b>-10.5</b>
Receivables from affiliated companies	11,506	11,100	3.7
Receivables from entities to which the company is linked by equity ownership	0	0	0.0
Other assets	98	178	-44.9
<b>Receivables and other assets</b>	<b>11,604</b>	<b>11,278</b>	<b>2.9</b>
<b>Cash at banks</b>	<b>635</b>	<b>449</b>	<b>41.4</b>
<b>Current assets</b>	<b>12,239</b>	<b>11,727</b>	<b>4.4</b>
<b>Prepaid expenses and deferred charges</b>	<b>0</b>	<b>0</b>	<b>0.0</b>
<b>Excess of plan assets over post-employment benefit liability</b>	<b>8</b>	<b>6</b>	<b>33.3</b>
<b>Total assets</b>	<b>26,476</b>	<b>27,640</b>	<b>-4.2</b>
<b>SHAREHOLDERS EQUITY AND LIABILITIES</b>			
Share capital	666	666	0.0
Capital reserves	2,359	2,359	0.0
Revenue reserves	3,343	0	-
Retained earnings	566	3,671	-84.6
<b>Shareholders equity</b>	<b>6,934</b>	<b>6,696</b>	<b>3.6</b>
<b>Special reserve</b>	<b>8</b>	<b>10</b>	<b>-20.0</b>
Provisions for pensions and similar obligations	38	23	65.2
Tax provisions	102	79	29.1
Other provisions	128	142	-9.9
<b>Provisions</b>	<b>268</b>	<b>244</b>	<b>9.8</b>
Bank debt	1,000	654	52.9
Trade payables	3	1	>100
Amounts payable to affiliated companies	18,204	19,604	-7.1
Other liabilities	59	51	15.7
<b>Liabilities</b>	<b>19,266</b>	<b>20,310</b>	<b>-5.1</b>
<b>Deferred income</b>	<b>0</b>	<b>67</b>	<b>-100</b>
<b>Deferred tax liabilities</b>	<b>0</b>	<b>313</b>	<b>-100</b>
<b>Total shareholders equity and liabilities</b>	<b>26,476</b>	<b>27,640</b>	<b>-4.2</b>

Shares in affiliated companies consisted primarily of shares in Schaeffler Technologies AG & Co. KG.

Loans receivable from affiliated companies of EUR 120 m (prior year: EUR 1,798 m) declined significantly in 2016, as the

company's shareholder IHO Verwaltungs GmbH prepaid a loan receivable of EUR 1.7 bn in full.

Receivables and other assets consisted of the following:

#### Schaeffler AG receivables and other assets

No. 060

in € millions	12/31/2016			12/31/2015		
	Due in upto 1 year	Due in 1 to 5 years	Due in more than 5 years	Due in upto 1 year	Due in 1 to 5 years	Due in more than 5 years
Receivables from affiliated companies	11,506	0	0	11,100	0	0
• short-term loans	7,648	0	0	7,699	0	0
• other financial receivables	173	0	0	377	0	0
• trade receivables	82	0	0	24	0	0
• other receivables	3,603	0	0	3,000	0	0
Other assets	35	0	63	79	36	63

Short-term loans and other financial receivables relate to Schaeffler AG's cash pooling function and responsibility for the internal group financing of the Schaeffler Group. Other receivables largely consisted of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 3,600 m (prior year: EUR 3,000 m) that had not yet been paid out to Schaeffler AG as at December 31, 2016.

Schaeffler AG managed the Schaeffler Group's cash pool and held bank balances of EUR 635 m (prior year: EUR 449 m) at the end of the reporting period.

On April 22, 2016, Schaeffler AG's annual general meeting passed a resolution to pay a dividend of EUR 328 m to shareholders and

to add the remaining retained earnings of EUR 3,343 m to revenue reserves.

Provisions rose by EUR 24 m to EUR 268 m (prior year: EUR 244 m), primarily due to higher income tax provisions for expected income tax payments and higher provisions for pensions and similar obligations.

The signing of a new Facilities Agreement increased the company's bank debt by EUR 346 m to EUR 1,000 m (prior year: EUR 654 m) (see section "Financial debt" on page 50 et seq.).

#### Schaeffler AG liabilities

No. 061

in € millions	12/31/2016			12/31/2015		
	Due in upto 1 year	Due in 1 to 5 years	Due in more than 5 years	Due in upto 1 year	Due in 1 to 5 years	Due in more than 5 years
Bank debt	0	1,000	0	0	654	0
Trade payables	3	0	0	1	0	0
Amounts payable to affiliated companies	15,471	1,063	1,670	14,558	2,043	3,003
• loans	14,246	1,063	1,670	13,927	2,043	3,003
• other financial debt	1,164	0	0	574	0	0
• trade payables	2	0	0	1	0	0
• other liabilities	59	0	0	56	0	0
Other liabilities	59	0	0	51	0	0

Short-term loans payable to affiliated companies related to Schaeffler AG's cash pooling function and responsibility for the internal group financing of the Schaeffler Group. Amounts payable to affiliated companies included amounts payable to Schaeffler Finance B.V. of EUR 2,772 m (prior year: EUR 5,052 m) largely relating to the transfer of the proceeds from the bond issuances by Schaeffler Finance B.V. In October, Schaeffler Finance B.V. redeemed one USD-denominated bond series and two EUR-denominated bond series. The redemptions were largely funded using the proceeds of the prepayment in full of a loan receivable by Schaeffler AG from the company's shareholder IHO Verwaltungs GmbH. Schaeffler AG subsequently used the proceeds of the prepayment to reduce a loan payable to Schaeffler Finance B.V.

### Closing statement on the dependency report

Closing statement on the report on relations with affiliated companies prepared by the Board of Managing Directors in accordance with section 312 AktG.

Schaeffler AG has been a company dependent on IHO Verwaltungs GmbH, Herzogenaurach, in accordance with section 312 AktG since October 24, 2014. Therefore, the Board of Managing Directors of Schaeffler AG has prepared a report on relations with affiliated companies by the Board of Managing Directors in accordance with section 312 (1) AktG which contains the following closing statement:

“In the legal transactions and measures listed in the report on relations with affiliated companies, our company has in each legal transaction received appropriate compensation in the circumstances known to us at the time the legal transactions were executed or the measures were executed or not executed, and has not been disadvantaged by the fact that such measures were executed or not executed”.

## 2.9 Other components of the group management report

The following chapters are also part of the combined management report:

- “Corporate governance report including the corporate governance declaration in accordance with section 289a HGB” beginning on page 74,
- “Governance structure” beginning on page 80,
- “Remuneration report” beginning on page 84, and
- “Governing bodies of the company” beginning on page 96.



Corporate governance report including the corporate governance declaration in accordance with section 289a HGB, which includes the declaration of conformity in accordance with section 161 AktG at: [www.schaeffler.com/ir](http://www.schaeffler.com/ir)

## 3. Supplementary report

No material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2016.



## 4. Report on opportunities and risks

The Schaeffler Group's risk management system is an integral component of its governance structure and covers both risks and opportunities. The Schaeffler Group is exposed to a large number of potential risks that can adversely affect its business. To be able to appropriately respond to these risks, the company has a risk management system in place to ensure that risks, particularly those to the company's continued existence as a going concern and to its development, are identified on a timely basis.

Risks are defined as possible future developments or events that can lead to adverse deviations from budgeted results, while opportunities are future developments or events that can lead to favorable deviations from budgeted results. When assessing risks, the company considers the impact on its EBIT margin (earnings) and free cash flow (financial position), depending on the risk category.

### 4.1 Risk management system

The Schaeffler Group intentionally takes risks in order to meet its corporate objectives. The objective of the risk management system is to identify these risks on a timely basis and to manage them in accordance with the company's risk appetite. This applies particularly to risks to the company's continued existence as a going concern and to its development, which are responded to with appropriate action. Consciously addressing identified

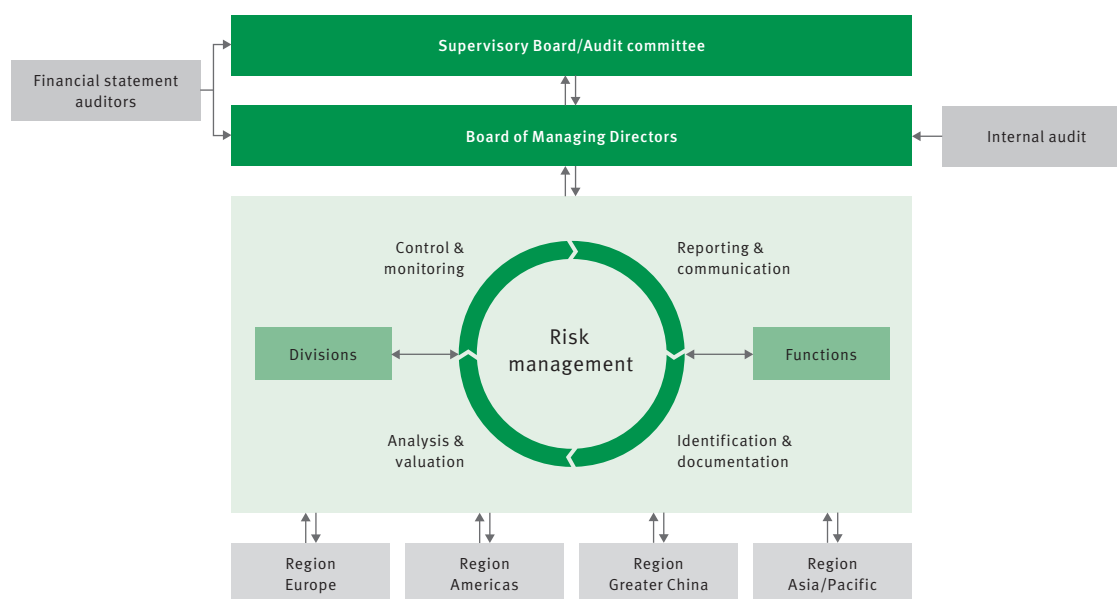
risks and regularly monitoring risk factors is designed to increase risk awareness and ensure a continuous improvement process.

The groupwide risk management system is based on the management-oriented enterprise risk management (ERM) approach, which in turn has its basis in the globally recognized framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As described in this framework, the processes of the risk management system are linked to financial reporting and the internal control system. The various components of the COSO Framework can be found in the Schaeffler Group's risk management process described below.

Responsibility for the risk management system rests with the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors regularly reports to the Schaeffler AG audit committee and ensures that necessary risk management measures are approved. Details of the risk management system are largely set out in a risk management guideline issued by the Board of Managing Directors and published within the Schaeffler Group, making it available to all employees. It contains a description of the process, the allocation of responsibilities, and the structure of the risk management system. The Board of Managing Directors has asked Corporate Risk Management to review and update the risk management system on an ongoing basis and to ensure that existing uniform groupwide standards are implemented and complied with. All instructions from Risk Management are binding on all individuals responsible for risk.

## Structure of risk management system

No. 062

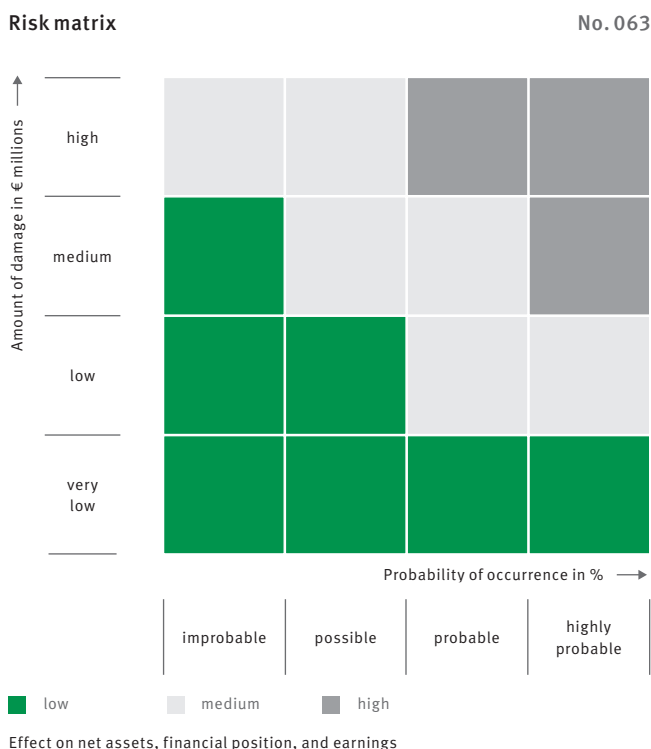


The risk management system consists of a multi-phase process spanning various levels and organizational units in order to appropriately reflect the matrix structure of the Schaeffler Group. In a bottom-up process, risks are identified and analyzed at the subsidiary level. Based on this analysis, the next step is a top-down analysis by the appropriate global management of the functions and divisions. They assess the risks identified within the subsidiaries, taking into account all interdependencies within the Schaeffler Group. This approach ensures that all dimensions of the Schaeffler Group's matrix structure are reflected in the risk management system. Risks are identified at all material Schaeffler AG subsidiaries on a semiannual basis. Operating management is responsible for identifying risks. The time period for identifying risks is three years, longer than the outlook horizon.

The guideline also defines a groupwide catalog of risk categories to ensure that all risks along the value chain are identified. Identified risks have to be assigned to pre-defined risk categories. This catalog must be completely reviewed by all those responsible for risk in order to ensure uniform and complete identification of risks. To make risk assessment comparable, suggested risk assessments have been provided for all risk categories.

Subsidiaries included are selected using a defined selection process based on revenue and earnings measures as well as risk factors specific to the business. The performance measures revenue and EBIT are applied depending on the business model of each subsidiary. This selection process ensures that all Schaeffler Group subsidiaries that are relevant from a materiality perspective are included in the risk management system. In 2016, 44 of 153 Schaeffler Group entities were included, representing 94 % of revenue and 94 % of the Schaeffler Group's EBIT.

The risk management system only deals with risks exceeding a threshold of EUR 5 m on a net basis. Risks are assessed based on their amount of damage and their probability of occurrence. The assessment classifies the amount of damage of each risk in one of four categories: very low, low, medium, and high. Classification is performed based on the amount of damage for one year. The probability of occurrence is assessed using percentages and is also classified in four categories: improbable, possible, probable, and highly probable. The combination of estimated amount of damage and probability of occurrence determines the risk class, which is classified as either low, medium, or high based on its impact on net assets, the financial position, and earnings. Risk classes are presented graphically using a risk matrix:



The assessment is made based on the following limits:

**Impact assessment** No. 064

Amount of damage in €		Probability of occurrence in %	
< 10 million	very low	< 25 %	improbable
>= 10 million - < 25 million	low	25 % - < 50 %	possible
>= 25 million - <= 50 million	medium	50 % - 75 %	probable
> 50 million	high	> 75 %	highly probable

In assessing risks, the Schaeffler Group differentiates between gross exposures and net exposures; measures already in place can reduce the gross exposure with respect to both amount of damage and probability of occurrence. The net exposure represents the amount of damage and the probability of occurrence after taking into account any risk mitigation measures in place at the reporting date.

Identified risks are actively managed to achieve the company’s intended level of risk mitigation. Management takes measures to avoid or reduce risks or to provide safeguards against them. Any risks that cannot be mitigated by taking appropriate action are classified as business risks. Risks with a low impact on the Schaeffler Group are managed by operating management. Risks with a medium or high impact, however, are also managed by the

Board of Managing Directors of Schaeffler AG. Within its area of responsibility, the Board of Managing Directors decides what measures are required and ensures that they are implemented and kept up to date. The current risk assessment is regularly reported to the Board of Managing Directors and the audit committee.

Corporate risk management reports to the Board of Managing Directors on the risk situation semiannually, which ensures that the Board of Managing Directors is continually updated on the current risk situation of the Schaeffler Group and its change over time. All net exposures with a medium or high impact are reported to the Board of Managing Directors. These reports also include an aggregated summary of identified opportunities. Between regular reporting dates, emerging risks are reported using a defined ad hoc process, ensuring timely communication of emerging risks to the Board of Managing Directors.

Internal audit regularly satisfies itself that the risk management system is effective.

In response to the growing complexity of the risk management system and to ensure data is protected, Schaeffler has captured risks in a risk management tool developed specifically for this purpose.

## 4.2 Internal control system

Paralleling the risk management system, the Schaeffler Group has a system of internal controls over financial reporting (ICS) ensuring the accuracy of the accounting system and the related financial reporting.

Like the risk management system, the Schaeffler Group’s ICS is conceptually based on the COSO Framework. The components defined in the Framework are applied to all levels of the group, especially including the compilation of the separate and consolidated financial statements of Schaeffler AG.

The financial statement information reported by Schaeffler AG and its subsidiaries via a uniform groupwide chart of accounts represents the base data for the compilation of the separate and consolidated financial statements. Many subsidiaries receive support from an internal shared service organization in this process. Schaeffler obtains assistance from external specialists in dealing with certain complex issues requiring extensive specialized knowledge (such as the valuation of pension obligations).

Conceptual and process-related requirements and deadlines as well as analyses and reasonability checks at the corporate level ensure that the separate and consolidated financial statements of Schaeffler AG are compiled, prepared, and issued in accordance with IFRS, to a high level of quality, and on time.

The following significant features of the system of internal controls over financial reporting have been implemented within the Schaeffler Group as part of this process:

- An accounting manual sets out uniform accounting policies, taking into account new IFRS financial reporting standards required to be applied for the first time.
- Closing instructions issued quarterly provide Schaeffler AG subsidiaries with information on all relevant issues regarding the content as well as the processes and deadlines for compiling the financial statements.
- Tasks and responsibilities regarding the compilation of the separate and consolidated financial statements are clearly defined and assigned.
- The operating units and the various staff members involved in the process stay in close contact on matters concerning accounting, financial statement compilation, and quality assurance with respect to financial statement compilation.

The process for compiling the separate and consolidated financial statements itself is secured by numerous control activities, taking into account materiality. In particular, these include extensive systems-based reasonability checks, controls using reviews (by a second member of staff) performed on a regular basis, and analyses and reasonability checks of the quarterly and annual consolidated financial statements at the corporate level.

As at each year-end, management assesses the appropriateness and effectiveness of the ICS in place. To this end, the Schaeffler Group uses a standardized methodology to identify the group companies and processes relevant to ICS, define the required controls and document them in accordance with uniform requirements. This is then followed up with a review of the effectiveness of the defined controls that is performed using a risk-based approach, either by the reporting unit itself, by internal audit, or as part of the audit of the consolidated financial statements.

These arrangements as well as their continuous improvement are designed to provide reasonable assurance that the ICS prevents significant misstatements of the financial statements and consolidated financial statements and to ensure quality standards are maintained in compilation, preparation, and issuance.

The Board of Managing Directors considers the system of internal controls over the compilation of the annual and consolidated financial statements of Schaeffler AG to be effective for 2016.

## 4.3 Risks

The risks set out below could take on a medium or high impact on the Schaeffler Group's earnings, financial position, and net assets within the planning horizon. Risks are divided into strategic, operating, legal, and financial risks and are described in decreasing order of the magnitude of their impact on Schaeffler's net assets, financial position, and earnings. Unless the extent to which one or both divisions are affected by these risks is explicitly described, the discussion of the risks relates to both of the Schaeffler Group's divisions.

### Strategic risks

The key operating risks of the Schaeffler Group are described below.

#### Electric mobility

Electrification is progressing, and as a result, the further development of conventional drive trains is coming under pressure. Firstly, improvements to conventional drive trains will become less relevant, and secondly, existing products/applications will be replaced. The Schaeffler Group has established its electric mobility business field with the intention of creating a portfolio of products for this field designed to offset any potential future losses in revenue from conventional drive trains. Should the initiatives undertaken not have the desired effect, this could have a medium impact on the Schaeffler Group's financial position and earnings.

#### Digitalization

Digitalization is progressing rapidly and has already completely transformed certain sectors. The Schaeffler Group recognized the issue of digitalization early on, has developed a digitalization strategy – its "Digital Agenda" – and is in the process of implementing it at a rapid pace. The pace of implementation and adaptation represents an important success factor in this regard and, therefore, also a risk. Digitalization is also affecting the work place and will lead to changes in the working environment. As part of the "Digital Agenda", employees with varying skills and qualifications are increasingly confronted with new products, processes, and structures requiring extensive training and also re-qualification. The Schaeffler Group has focused on this issue early on. However, should the Schaeffler Group nevertheless be unable to overcome these challenges as quickly as necessary, this could have a medium impact on the group's financial position and earnings.

## Strategic market risks

The markets for the products the Schaeffler Group offers are subject to significant technological change, continuously developing technological standards, changing customer preferences, and constantly emerging innovative products. Existing technologies and products may be entirely replaced by newly developed and marketed technologies and newly introduced products. For instance, the Schaeffler Group holds an excellent competitive position with respect to drive trains based on the internal combustion engine. This exceptional position may be jeopardized by the loss of the competitive advantage as well as by expiry of key patents.

The Schaeffler Groups high-margin component business is facing considerable pricing pressure driven by increasing demands for price reductions on the part of customers, purchasing cooperatives, and certain, more focused and leaner competitors, especially in the emerging markets. The company is currently not passing these demands for extensive price reductions on to its own suppliers and cannot fully absorb them with its existing structure.

The Schaeffler Group's competitiveness depends fundamentally on its ability to keep up with the technological developments discussed above, maintain its technology leadership, and continue to manufacture innovative products cost effectively. Not achieving this objective would represent a medium risk to the Schaeffler Group's financial position and earnings that would last beyond the planning horizon.

## Operating risks

The key operating risks of the Schaeffler Group are listed below.

### Market developments

As the Schaeffler Group is a global supplier in the automotive and industrial sector, demand for Schaeffler products is to a large extent driven by global economic conditions. The demand for products of the Automotive division depends considerably on the overall economic trend. This also applies to the engineering sector and industrial growth markets such as renewable energy. In addition, demand is subject to cyclical fluctuations.

In the Automotive division, demand is not only affected by global economic conditions, but also by other factors such as changes in consumption patterns, fuel prices, interest rate levels, and others. The large number of economic factors affecting global demand for automobiles leads to significant volatility in automobile

production, which makes forecasting sales exactly considerably more difficult. Demand for Industrial products is influenced by a wide range of factors due to the large variety of business fields in which the Schaeffler Group operates. Renewable energy depends heavily on government subsidies. Sales of production machinery, on the other hand, depend on new developments and the resulting need for capital expenditures. Aerospace benefits from various new technological developments. Individual drivers can be identified for each sector. Adverse trends in individual markets could have a medium impact on the Schaeffler Group's financial position and earnings.

### Loss of market share

The Schaeffler Group operates in a highly competitive and technologically fast-paced environment. As a result, the company is exposed to the risk of being displaced by existing or new competitors and of its products being replaced by product innovations or by new technological features. Especially the automotive supply sector is characterized by a high level of capital expenditures, a high rate of technological change, constant progress in production technology and high pressure on pricing from OEMs. The Schaeffler Group's key customers include well-known OEMs and suppliers who are themselves subject to significant competitive pressure with respect to innovation and costs and, therefore, strive to obtain price reductions both during the bidding process and throughout the term of supply agreements. To prevent constant price adjustments from impairing margins, the Schaeffler Group is forced to continually improve its production process and reduce expenditures. The Schaeffler Group mainly competes with other international suppliers, and to some degree also with regional suppliers, on price, quality, reliability of supply, and design, as well as on the ability to offer technological support and service worldwide. Should the company become no longer able to compete on one of these factors, customers may decide to obtain products and services from competitors. As a result of the intense competition in the automotive supply sector, Schaeffler considers the risk of losing market share in the Automotive division higher than in the Industrial division. Besides the price, another deciding factor in the Industrial division and in the Aftermarket business is the ability to deliver, which is constantly being enhanced by systematic improvements in production and delivery logistics.

Loss of market share could have a medium impact on the Schaeffler Group's earnings and financial position. Close cooperation with the Schaeffler Group's key customers on product development and strict product quality control measures reduce the likelihood of substitution and, at the same time, help maintain price levels.

## Dependence on customers

The Schaeffler Group's key customers represent a substantial proportion of the Schaeffler Group's revenue. Despite this, the company's dependence on individual OEMs or suppliers is limited, since Schaeffler provides a large variety of products to various regions and applications. Thus, individual Schaeffler products may be substituted, but the probability that the customer will completely terminate the relationship is low and such a termination would require a longer period of time. Nevertheless, substitution of individual products can also have a medium impact on the Schaeffler Group's financial position and earnings.

## Production risk

As the Schaeffler Group's production is very capital-intensive, a large proportion of its costs are fixed. At several locations, ensuring the best-possible utilization of capacity requires having only one of a given type of machine available. The failure of one of these bottleneck machines can lead to a bottleneck in supply to internal and external customers. The period between failure of the bottleneck machine and when alternative means of production are set up is key. Alternative means of production can either be set up by a Schaeffler Group plant with comparable production lines or provided by an alternative supplier. Establishing safety stock can also help reduce losses. To minimize the probability of occurrence, the risk is mitigated by extensive maintenance. However, failure of a bottleneck machine represents a medium risk to the Schaeffler Group's financial position and earnings.

## Warranty and liability risks

One significant factor in customers' decision to purchase the products offered by the Schaeffler Group is their high quality. To secure this level of quality for the long-term, the Schaeffler Group employs a certified quality management system, supported by additional quality improvement processes. However, there is a risk that poor quality products end up getting delivered, causing product liability risk. The use of defective products can lead to damage, unplanned repairs, or recalls on the part of the customer which can result in liability claims or reputational damage. Furthermore, deteriorating product quality can result in increased warranty and liability risk vis-à-vis the Schaeffler Group's customers. The Schaeffler Group responds to such risks by adopting strict quality control measures and continually improving its production processes in order to minimize the probability of warranty and liability risks materializing. Individual risks becoming reality could have a medium impact on the Schaeffler Group's financial position and earnings. All product liability risks are insured. The extent of actual reimbursements that can be claimed from insurers can only be assessed on a case-by-case basis.

## Product piracy risks

The Schaeffler brands INA, LuK, and FAG are associated with a high standard of quality, making them increasingly susceptible to product piracy. Counterfeit products are normally sold at significantly reduced prices, which can lead to increased pressure on the Schaeffler Group's prices. Combating product piracy is a high priority for the Schaeffler Group. The Schaeffler Group protects intellectual property not only using global patents and industrial property rights but also by actively combatting counterfeit products, which damage its image as well as its revenue. Based on the large number of counterfeit products seized, the Schaeffler Group estimates the impact of this issue on its earnings and financial position to be medium.

## Legal risks

The Schaeffler Group's operations give rise to legal risks, for instance those resulting from non-compliance with relevant regulations. Legal risks are reflected in provisions recognized in accordance with financial reporting standards and are not quantified further within risk management system.

## Antitrust proceedings

Current and future investigations and proceedings regarding violations of antitrust law could have an adverse impact on the financial position and earnings of the Schaeffler Group as well as on its reputation. Possible payment obligations in connection with these investigations and proceedings may result in unplanned cash outflows. The Schaeffler Group cooperates with the investigating authorities in current and future investigations as a matter of principle. The imposition of penalties cannot be ruled out. In Spain and Korea, the company has appealed judgments imposing penalties.


In addition, claims for damages have been filed against Schaeffler Group companies as a result of known antitrust proceedings. These claims could have a medium impact on the Schaeffler Group's financial position and earnings. The Schaeffler Group has recognized appropriate provisions for possible charges to earnings.

## Litigation

Certain Schaeffler Group companies are involved in various legal cases or could become involved in additional litigation. These could lead to claims for damages or to other claims. In addition, the company's or their opponents' legal expenses could be significant. These legal cases are mainly related to the Schaeffler Group's sales and purchases of goods and services. Existing legal cases could have a medium impact on the Schaeffler Group's financial position and earnings.

## Compliance risks

As a company with operations worldwide, Schaeffler has to comply with varying laws and regulations around the globe. It is possible that violations of existing law occur despite careful observance of such legal requirements. The consequences of such instances of non-compliance could have a negative impact on the Schaeffler Group's net assets, financial position, and earnings as well as on its reputation. The Schaeffler Group will cooperate with the authorities with respect to any current or future instances of non-compliance and will respond appropriately to weaknesses identified.

 See chapter entitled "Governance structure" for a discussion of the company's compliance management system.

The company uses a material compliance management system to help it meet its commitment to using only components and raw materials that comply with the applicable laws and regulations. However, there is a risk that legal requirements and changes therein are not identified in time and that products are distributed in the market in violation of the law. This could have a medium impact on the Schaeffler Group's financial position and earnings.

## Financial risks

Financial risks include tax risks and pension risks as well as the impact of changes in foreign exchange rates and liquidity risks.

### Tax risks

The Schaeffler Group is subject to tax audits worldwide. Tax authorities' interpretation of the tax law or of relevant facts made in current or future tax audits may differ from that of the Schaeffler Group. This may lead to adjustments to tax bases and increases in the tax liability. An adjustment to the tax base can have a high impact on the Schaeffler Group's financial position.

### Pension risks

The Schaeffler Group has extensive pension obligations, particularly in Germany, the U.S., and the United Kingdom. The obligations in the Anglo-Saxon countries are financed by pension funds. Pension obligations are measured using actuarial valuations based on assumptions regarding possible future events, such as the discount rate, increases in wages, salaries, and pensions, and statistical life expectancy. Plan assets may be invested in various asset classes, such as equity instruments, fixed-income securities, or real estate, which are subject to fluctuations in value. A change in the parameters listed above can have a medium impact on the Schaeffler Group's net assets, particularly in Germany and the United Kingdom.

## Currency risks

The Schaeffler Group is exposed to a wide range of currency risks due to its international reach. The largest such currency risks from operations result from fluctuations in the U.S. Dollar and Chinese Renminbi exchange rates.

Currency risks from financing activities arise mainly from the impact of changes in the U.S. Dollar exchange rate on the portion of bonds issued in U.S. Dollars that is not hedged.

Currency risks from operations and from financing activities are continually monitored and reported. Currency risk is managed at the corporate level. Currency risks are aggregated across the group and hedged using hedging instruments. Hedging instruments used include forward exchange contracts and cross-currency swaps. Currency risks, market values of foreign currency derivatives, and developments in foreign exchange markets are continuously monitored and managed as part of the risk management system.

To the extent competitors from other currency areas can offer lower prices due to movements in exchange rates, changes in foreign exchange rates can adversely affect the Schaeffler Group's competitive position. The Schaeffler Group's manufacturing locations are spread around the world, enabling the group to reduce the impact of changes in exchange rates on its competitive position. However, exchange rate trends can have a medium impact on the Schaeffler Group's earnings and financial position.

### Liquidity risks

The risk that the Schaeffler Group will not be able to meet its payment obligations as they come due is referred to as liquidity risk. The Schaeffler Group differentiates between short-, medium- and long-term liquidity risks.

Liquidity risks can arise if financing needs cannot be met by existing equity or debt financing arrangements. The Schaeffler Group's financing requirements were met throughout the year 2016 by existing financing instruments and by the refinancing arrangements completed.

To avoid unforeseen short- or medium-term liquidity needs to the extent possible, short- and medium-term liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period of up to twelve months. Short-term fluctuations in cash flow are monitored daily and can be offset using lines of credit. To this end, the Schaeffler Group has a revolving credit facility of EUR 1.3 bn and other bilateral lines of credit held by various subsidiaries.

The Schaeffler Group's loan and bond agreements, which are generally long-term, contain certain constraints including a requirement to meet certain financial covenants. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if covenants are not met, which would result in the debt becoming due immediately. Compliance with financial covenants is monitored on an ongoing basis and regularly reported to the lending banks. To date, the company has complied with the financial covenants as stipulated in the debt agreements. The Schaeffler Group also expects to comply with these covenants in the future.

Any non-compliance with the covenants contained in the debt agreements as well as any liquidity requirements exceeding those that can be covered by the existing lines of credit can have a medium impact on the Schaeffler Group's net assets, financial position, and results of operations. It is considered improbable that these situations will actually occur.

Risk assessment				No. 065
	Amount of damage in €	Probability of occurrence in %	Impact	Change from prior year
<b>Strategic risks</b>				
• Electric mobility	high	improbable	medium	new
• Digitalization	medium	possible	medium	new
• Strategic market risks	medium	possible	medium	→
<b>Operating risks</b>				
• Market developments	high	improbable	medium	new
• Loss of market share	high	improbable	medium	↗
• Dependence on customers	low	highly probable	medium	new
• Production risks	high	improbable	medium	→
• Warranty and liability risks	high	improbable	medium	→
• Product piracy risks	low	probable	medium	→
<b>Legal risks</b>				
• Antitrust proceedings	low	probable	medium	→
• Litigation	medium	possible	medium	↗
• Compliance risks	high	improbable	medium	new
<b>Financial risks</b>				
• Tax risks	high	highly probable	high	→
• Pension risks	high	possible	medium	→
• Currency risks	medium	possible	medium	↘
• Liquidity risks	high	improbable	medium	→

## 4.4 Opportunities

The responsibility for identifying and utilizing opportunities lies with operating management. Opportunities are discussed with the Board of Managing Directors during the regular Strategy Dialog and, based on these discussions, strategies are derived to determine the future direction of the Schaeffler Group.

An aggregated overview of the opportunities identified in the Strategy Dialog is included in the reports regularly provided to the Board of Managing Directors and the Supervisory Board of Schaeffler AG. Opportunities are documented in the risk management tool.

The Schaeffler Group's most significant opportunities lie in strategic trends and in changes to the legal environment that may lead to increased demand for Schaeffler products.

### Strategic opportunities

The Schaeffler Group with its range of products and services and its global presence is in a good position to participate in the expected megatrends of the future.

The Schaeffler Group's strategic and operational opportunities specifically result from the following factors:

#### Globalization

Shifting activities to local markets could enable the Schaeffler Group to tap opportunities for reducing cost and to improve proximity to the customer. The company also identifies and realizes additional potential worldwide. This also bolsters the company's competitive position vis-à-vis competitors from low-wage countries.

#### Potential in emerging countries

Increasing affluence in the emerging countries results in the development of a growing middle class there. The newly emerging group of buyers can lead to increasing demand for automobiles and industrial goods. The Schaeffler Group is a supplier to all well-known OEMs and suppliers, generally providing an opportunity to participate in increased demand. The company has invested in significant additional resources in order to increase its local presence in the emerging countries, and plans to continue to pursue this growth strategy.

#### Electric mobility

Increasing demands on OEMs to reduce fuel consumption and emissions as well as increased safety requirements provide the Schaeffler Group with an opportunity to increase its revenue per vehicle. A related issue is the increasing complexity of systems, which provides the opportunity to add new functionalities to its



product range. Reducing emissions by improving the technology of conventional internal combustion engines offers further opportunities to the Schaeffler Group, as do the plug-in hybrids currently being developed, which consist of a highly efficient internal combustion engine and an electric drive. Hybridized vehicles require expertise in the classic field of engine/transmission as well as in newer product fields such as hybrid modules and electric axles. The Electric Mobility Systems Division coordinates its wide range of activities relating to alternative types of drives, allowing the Schaeffler Group to benefit from comprehensive systems know-how.

### Public mobility

The increasing number of people living in mega-cities is making public transportation within cities, such as metros, rapid transit systems, and streetcars, as well as between cities, e.g. by high-speed train, more and more attractive and important. Especially rail vehicles represent an extremely interesting growing market for the Schaeffler Group. Reliable and innovative rolling bearing solutions for applications ranging from bogie to the drive train are key to modern rail vehicles – and also promise growth for mechatronic products in the age of digitalization in mobility. In addition, the high stresses and resulting wear and tear as well as safety regulations make this market a market of the future not only with respect to OEMs but also to the Aftermarket business.

### Global mobility

Increasing globalization is inherently associated with an increase in the volume of air traffic. As a result, growth in the aerospace sector is forecasted to be steady. In this sector, issues such as reducing CO<sub>2</sub>, reducing weight, and optimizing fuel consumption are increasingly gaining in importance. The Schaeffler Group is already actively participating in these developments.

### Urbanization

People are increasingly moving to larger cities and metropolises, whether for their job, cultural events, or consumer spending. As a result, energy and water consumption is expected to continue to rise in these central locations in the future. In addition, the increasing electrification of automobiles will drive a growing need for energy. The rising demand for energy and the beginning transition to renewable energy both lead to an inevitable demand for energy from renewable sources. Especially in the wind business, the Schaeffler Group is actively doing research, but is also already operating successfully in the market. Continually expanding the existing expertise in these business fields offers additional future opportunities for growth.

### OEM trends

In the last few years, OEMs have increasingly created global platforms aimed at standardizing components and vehicle systems in order to save costs by increasing efficiency. Consequently, OEMs are looking for suppliers who can supply standardized components worldwide. In return, they reduce the number of suppliers and concentrate on a few global suppliers. Suppliers such as the Schaeffler Group benefit from this trend due to their global presence and their ability to supply products to the same technological and quality standards worldwide.

## Operational opportunities

### Development of vehicle population

The absolute vehicle population drives growth in the Automotive Aftermarket. Growth depends on various factors, such as demand (determined by kilometers driven and the composition of the vehicle population), services offered, as well as products offered. Besides the vehicle population, increasing content per vehicle provides additional opportunities.

### Industry 4.0

The internet of things finding its way into the factory has started a fourth industrial revolution. Future scenarios in practice often referred to under the heading “Industry 4.0” are characterized by highly individualized products in very flexible manufacturing conditions. In future, companies will network their machinery, warehousing systems and equipment around the world. The accompanying global digitalization is progressing at an enormous speed everywhere. This requires components which can identify and transmit condition-based information. Rolling bearings play a key role as they are responsible for guidance and positioning as well as supporting process forces and movements. To this end, sensors, actuators, control elements, and software components are being added to rolling bearings. The objectives range from continuous condition monitoring to independently locating solutions in response to error messages or active process control based on data from the bearing. The Schaeffler Group views its sensor-equipped bearings as an opportunity to benefit from this trend.

### Digitalization

The topic of “digitalization” connects both divisions. It will significantly transform the entire economy and its traditional processes. The convergence of the real world and the digital world will produce new business models and a lasting increase

in value creation. The Schaeffler Group's "Digital Agenda" comprises four key elements: Products & services, Machines & processes, Analyses & simulation, and User experience & customer value. With its "Digital Agenda", the Schaeffler Group is concentrating both on internal processes and on products and solutions for its customers. It is not only internally that the company aims to increase the efficiency of its processes, use available data more intensively, and more effectively link production locations, machines, and buildings. It also aims to expand on its customers' existing business models and help them develop new ones.

## Legal opportunities

The Schaeffler Group's legal opportunities specifically result from the following factors:

### Emission standards

Constantly tightening exhaust emission standards (Euronorm, CAFE standard) are putting increased pressure on OEMs to use energy efficient solutions in their vehicle drives, consisting of the internal combustion engine and the transmission. The Schaeffler Group as their development partner can support the search for solutions with its innovative strength, creating innovations that manufacturers can turn into a competitive edge.

### Average fleet consumption

Besides emission standards, government pressure on OEMs is also increasing with respect to the fuel consumption of the vehicles they produce: Governments are prescribing certain limits for fleet consumption, to be achieved via their model mix. This also helps drive developments needed to reduce emissions, benefitting primarily technology-oriented suppliers like the Schaeffler Group, since the requirements established by the market and the law make a strong development partnership between the OEM and its suppliers a necessity.

## Financial opportunities

The Schaeffler Group's financial opportunities specifically result from the following factors:

### Rating

Rating agencies Standard & Poor's and Moody's have been assigning a company rating to the Schaeffler Group and instrument ratings to its outstanding bonds since January 2012. An improvement in the ratings published by Standard & Poor's and Moody's can provide the Schaeffler Group with more favorable financing conditions and open up new opportunities to obtain financing. In 2016, rating agency Moody's upgraded Schaeffler AG's company rating to Baa3 (investment grade) with a

stable outlook. Rating agency Standard & Poor's upgraded the Schaeffler AG company rating to BB+ (sub-investment grade) with a stable outlook. The issuance ratings for secured bonds improved to Baa3 (Moody's) and BB+ (Standard & Poor's). The issuance rating of the unsecured bonds has been withdrawn since the unsecured bonds were redeemed in full on October 13, 2016.

## Financial markets

Favorable trends in interest and foreign exchange rates can positively impact the Schaeffler Group's financial result and earnings. The company constantly monitors the financial markets in order to detect any possible impact on the Schaeffler Group on a timely basis and identify any potential need for action.

## 4.5 Overall assessment of Schaeffler Group opportunities and risks

The outlook issued by the Schaeffler Group is not in jeopardy, including from the existing risks. In addition to the specific risks described in the management report, unexpected developments significantly damaging or harming the company's production process, customer relationship, or reputation can occur at any time.

The Schaeffler Group's situation with respect to risks has deteriorated slightly compared to the prior year. This change is due to new risks being included and a change in the assessed impact of certain medium risks.

The overall assessment of the significant opportunities and risks does not indicate any risks which, either individually or in combination with other risks, jeopardize the company's continued existence as a going concern.

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## 5. Report on expected developments

### 5.1 Expected economic and sales market trends

The International Monetary Fund (January 2017) currently expects the global economy to gather momentum somewhat in 2017, growing by 3.4 %. Oxford Economics (January 2017) is also forecasting a more dynamic economy with a growth rate of 3.3 %. In light of these forecasts, the Schaeffler Group anticipates global economic growth of a good 3 % in 2017.

The expected development of the global economy is subject to a number of uncertainties. The plans of the new U.S. administration include measures that could strengthen the U.S. economy while also stimulating the global economy. However, a full reversal of the U.S. trade policy could hamper growth in world trade. In Europe, the exit negotiations between the United Kingdom and the European Union are expected to start in the spring. In addition, a number of important elections will take place in 2017, including those in the Netherlands, France, and Germany. As a result, the rise of anti-European forces clearly demonstrated in the referendum in the United Kingdom poses a threat that the already extensive political uncertainty will be aggravated further. In addition, problems remain unsolved in the European Union banking sector, particularly in Italy. As well, China is still susceptible to an unexpected economic downturn. The massive increase in the volume of corporate debt in recent years is particularly critical in this regard, as it increases the risk of a sudden destabilization – in the form of a banking crisis and/or a considerable slump in growth.

Based on the forecasts of research institute IHS (February 2017), the Schaeffler Group expects to see global automobile production, measured in terms of the number of passenger cars and light commercial vehicles produced, increase by approximately 1.5 % in 2017. The Schaeffler Group's growth expectation for automobile production in the Europe region is approximately comparable, while automobile production in the Americas region is expected to decline by approximately 1 %. For the Greater China and Asia/Pacific regions, the Schaeffler Group expects growth of approximately 3 % and 2 %, respectively.

The Schaeffler Group anticipates slightly higher growth in industrial production in 2017 than in 2016 (Oxford Economics, December 2016).

## 5.2 Schaeffler Group outlook

Outlook 2017

No. 066

	Actual 2016	Outlook 2017
Revenue growth compared with prior year <sup>1)</sup>	3.4 %	4 to 5 %
EBIT margin before special items	12.7 %	12 to 13 %
Free cash flow	EUR 735 m	~ EUR 600 m

<sup>1)</sup> Excluding the impact of currency translation.

The Schaeffler Group expects its revenue to grow by 4 to 5 % excluding the impact of currency translation in 2017. This outlook is based on the assumption that global automobile production will expand by approximately 1.5 % and worldwide industrial production will grow slightly.

The Schaeffler Group expects its Automotive division to continue to grow faster than global automobile production of passenger cars and light commercial vehicles in 2017. Given the expanding global fleet of passenger vehicles, the Aftermarket business will also likely continue to grow.

In the Industrial division, sluggish order intake in the fourth quarter of 2016 and the still strained economic environment in certain sectors suggest 2017 revenue levels at par with 2016.

Based on these considerations, the company expects to generate an EBIT margin before special items <sup>6</sup> of 12 to 13 %.

The Schaeffler Group expects approximately EUR 600 m in free cash flow for 2017.

Herzogenaurach, February 20, 2017

The Board of Managing Directors

<sup>6</sup> Please refer to page 48 for the definition of special items.

# Corporate Governance

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\* Included in the management report.

# 1. Corporate governance report including corporate governance declaration in accordance with section 289a HGB

Corporate governance stands for responsible management focused on adding long-term value. Efficient cooperation between the Board of Managing Directors and the Supervisory Board as well as openness and transparency in corporate and financial communications are key aspects of the Schaeffler Group's corporate governance that strengthen the confidence of shareholders, business partners, and employees in the company's management and supervision.

The following is a report by the Board of Managing Directors and the Supervisory Board on the corporate governance of Schaeffler AG in accordance with item 3.10 of the German Corporate Governance Code. The corporate governance report also comprises the corporate governance declaration in accordance with section 289a HGB which is a separate component of the management report in accordance with section 315 (5) HGB. However, according to section 317 (2) sentence 4 HGB, this information is not subject to audit; as a result, the audit is only required to determine whether these disclosures were provided.

 Corporate governance report including the corporate governance declaration in accordance with section 289a HGB at: [www.schaeffler.com/ir](http://www.schaeffler.com/ir)

## 1.1 Corporate governance principles

Managing the company with integrity and good corporate citizenship are integral components of the Schaeffler Group's long-standing corporate culture. The Schaeffler Group's manner of conducting business is based on integrity, fairness, and mutual respect. The Schaeffler Group wants to be a reliable partner to its business partners, employees, and shareholders. Transparency, trust, and teamwork are the three key success factors for achieving this. Transparency generates trust, and trust is the foundation of good teamwork. The updated Schaeffler Group Code of Conduct approved by the Board of Managing Directors provides guidance in this area. The Code of Conduct defines principles of acting with integrity and in compliance with the law. These principles apply equally to everyone – the Board of Managing Directors, management, and every single employee – and also represent a promise to the company's stakeholders. The Schaeffler Group lives up to its corporate responsibility and is laying the foundation for profitable growth and the company's long-term success. At the core of this success are top quality, outstanding technology, and exceptionally innovative spirit, in doing business with customers as well as in the group's internal processes. Being an innovation and technology leader with extensive expertise, the Schaeffler Group's products and solutions help make the mobility of tomorrow eco-friendly and energy-efficient.

Since the release of its last declaration of conformity in March 2016, Schaeffler AG complies with the recommendations of the “Governmental Commission German Corporate Governance Code” as amended on May 05, 2015 (“Code”) with the exceptions described below and will also comply with the recommendations in the future with the exception described under item 2 below:

1. The Code recommends in item 4.2.5 for the presentation of the remuneration of the Board of Managing Directors the use of template charts, which also provide for the presentation of comparative figures for the preceding year. As Schaeffler AG only has been converted into a stock corporation in October 2014 and the group management has only been transferred to the company at this point in time the remuneration report 2015 deviates from this recommendation. The remuneration report 2016 will show the comparative figures for the preceding year. Hence, Schaeffler AG will comply with the recommendation in item 4.2.5 in the future.
2. The Code recommends in item 5.4.1 para. 2, that the Supervisory Board shall specify concrete objectives regarding its composition and also set an age limit for the members of the Supervisory Board. The Supervisory Board of Schaeffler AG will not set such age limit because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board.


## 1.2 Mode of operation of the Board of Managing Directors and the Supervisory Board and membership and mode of operation of their committees

Schaeffler AG’s governance structure follows the two-tier model set out in the German Stock Corporations Act. The Board of Managing Directors has direct responsibility for managing the company. The members of the Board of Managing Directors are jointly responsible for managing the company. The Chief Executive Officer coordinates the activities of the members of the Board of Managing Directors. The Supervisory Board appoints, supervises, and advises the Board of Managing Directors and is involved in decisions that are fundamental to the company. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board.

### Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. Its actions and decisions are guided by the company’s best interest and, therefore, take into account the interests of shareholders, employees and other stakeholders of the company in order to add long-term value. It is directly responsible for managing the company, sets objectives and


the company’s strategic direction, consults on them with the Supervisory Board, manages the implementation of the company’s strategy, and regularly discusses the status of its implementation with the Supervisory Board. It is also responsible for the annual budget and long-range plan and for preparing the company’s quarterly and semiannual financial reports, the separate financial statements of Schaeffler AG, the consolidated financial statements, and the combined management report of the company and the group. The Board of Managing Directors also ensures that the company’s activities are in compliance with legal requirements and internal guidelines (“compliance”).

 See chapter entitled “Governance structure” for further detail on compliance.

The internal rules of procedure of the Board of Managing Directors set out the activities of the Board of Managing Directors, the issues that are the responsibility of the Board of Managing Directors, the majorities required to pass resolutions, and the areas of responsibility of the various members of the Board of Managing Directors. Based on the Schaeffler Group’s organizational structure, the Board of Managing Directors consists of the Group CEO and the CEOs of the divisions and corporate functions. Under the internal rules of procedure, specific management responsibilities are assigned to each member of the Board of Managing Directors. Their responsibility for jointly managing the company remains unaffected. Each member of the Board of Managing Directors is directly responsible for his or her assigned area of responsibility, taking into account the joint responsibility of the Board of Managing Directors. The members of the Board of Managing Directors run the business in accordance with the law, the company’s articles of association, and the internal rules of procedure, taking into account the obligation to obtain approval set out in the Supervisory Board’s internal rules of procedure.


The Schaeffler Group is managed using a three-dimensional matrix consisting of the divisions, the functions, and the regions. The Regional CEOs report directly to the CEO. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group’s Executive Board.

Consistent with the group’s international stature and wide variety of sectors, the Board of Managing Directors considers diversity when making appointments to leadership positions. It aims to give appropriate consideration to women and has set targets for the proportion of women at the two levels of management immediately below the Board of Managing Directors in accordance with sections 76 (4) and 111 (5) AktG.

 See section “Act on Equal Access for Men and Women to Leadership Positions” for further detail on women in leadership positions.

Members may serve on the Board of Managing Directors until their 68th birthday.


At the reporting date, no member of the Board of Managing Directors held more than three positions on supervisory boards of non-group public companies or similarly demanding positions on supervisory bodies of non-group companies.

 The members of the Board of Managing Directors, their areas of responsibility, and any positions they hold on supervisory boards of other companies are listed in the chapter entitled “Governing bodies of the company”.

## Supervisory Board

The Supervisory Board is responsible for advising and monitoring the Board of Managing Directors in managing the company. The Board of Managing Directors has to involve the Supervisory Board in any decisions that are fundamental to the company. The Supervisory Board fulfills its responsibilities in accordance with the requirements of the law, the company’s articles of association, and the internal rules of procedure. The internal rules of procedure of the Supervisory Board govern the Board’s organization and activities. In addition, the internal rules of procedure set out which legal transactions and measures taken by the Board of Managing Directors require approval by the Supervisory Board or the executive committee.

The Supervisory Board appoints the members of the Board of Managing Directors and sets their remuneration.

 See chapter entitled “Remuneration report” for further detail on the remuneration of the Board of Managing Directors.

In addition to considering the relevant technical qualifications, the Supervisory Board also strives for diversity when making appointments to the Board of Managing Directors. Under the “Act on Equal Access for Men and Women to Leadership Positions in the Private and Public Sectors”, Schaeffler AG’s Supervisory Board, being the body responsible for making appointments to the Board of Managing Directors, is required to set a target for the proportion of women on the Board of Managing Directors. Under a resolution passed by the Supervisory Board on September 30, 2015, the Board of Managing Directors has to have at least one female member. The Board of Managing Directors meets the target set by the Supervisory Board, as it has had one female member since January 01, 2016.

Together with the members of the Board of Managing Directors, the Supervisory Board ensures that long-term succession planning is performed for appointments to the Board of Managing Directors.

The Supervisory Board holds a minimum of two meetings during each of the first and second six months of the calendar year to discuss current issues and pass any resolutions required. Additional meetings are held when and if the interests of the company require such additional meetings.

As recommended by the German Corporate Governance Code, the Supervisory Board audits the efficiency of its activities at regular intervals. An efficiency audit was performed in 2016.

Under the requirements of the German Co-Determination Act, the Supervisory Board of Schaeffler AG, which is subject to co-determination on the basis of parity, consists of twenty members. Ten of these members are appointed by the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act. In addition, Schaeffler AG’s Supervisory Board has to consist of at least 30 % women and at least 30 % men (section 96 (2) AktG). This minimum quota is effective for new elections held on or after January 01, 2016, and applies to the Supervisory Board as a whole (joint compliance). Both the shareholder representatives and the employee representatives are entitled to object to joint compliance by a majority resolution; in this case, the quota has to be met separately by the shareholder representatives as well as by the employee representatives (separate compliance). The employee representatives unanimously objected to joint compliance with the gender quota on December 10, 2015. The Supervisory Board currently has four female members, three women are employee representatives and one woman represents the shareholders. As a result, the employee representatives meet the legally required quota. The employer representative’s quota is currently at 10 %.

In addition to the above legal requirements and in accordance with item 5.4.1 of the German Corporate Governance Code, the Supervisory Board has set the following concrete targets for its composition, considering the company’s specific situation and taking into account the company’s international operations, any potential conflicts of interest, the number of independent Supervisory Board members, and a set limit on the length of time a member may serve on the Supervisory Board, as well as diversity:

- Members should have the knowledge, skills and technical experience required to properly perform their duties and be able to devote sufficient time to these duties.
- The Supervisory Board aims to maintain the current proportion of members with an international background.
- Under the assumption that all employee representatives on the Supervisory Board can be considered independent, the Supervisory Board aims to have a minimum of 15 independent members (as defined in item 5.4.2 of the German Corporate Governance Code).
- Members of the Supervisory Board should not serve on the governing body of or in a consulting capacity to significant competitors of the Schaeffler Group.
- The Supervisory Board should not include more than two former members of the Board of Managing Directors.
- Members of the Supervisory Board should not normally serve on the Board for more than three terms of office.

The current Supervisory Board meets these targets. The Supervisory Board as a whole has the knowledge, skills and technical



experience required to properly perform its duties. The Supervisory Board as a whole is familiar with the industries and sectors in which the Schaeffler Group operates. The members of the Supervisory Board ensure that they are able to devote sufficient time to the performance of their duties. The Supervisory Board also has several members experienced in international business or with other international ties. Conflicts of interest related to members of the Supervisory Board must be disclosed to the Supervisory Board immediately; there were no such conflicts of interest in 2016. No member of the Supervisory Board currently serves on a governing body or in a consulting role with respect to a key competitor or is a former member of the Board of Managing Directors.

 See section "Avoiding conflicts of interest" for further detail on conflicts of interest.

The Supervisory Board has not set an age limit for its members, because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board. This deviation from the German Corporate Governance Code has been included in the declaration of conformity pursuant to section 161 AktG.

## Composition and mode of operation of Supervisory Board committees

Under its internal rules of procedure, the Supervisory Board establishes a total of four committees.

The mediation committee established in accordance with sections 27 (3) and 31 (3) of the German Co-Determination Act is responsible for proposing to the Supervisory Board a candidate for appointment to the Board of Managing Directors if the two-thirds majority required for an appointment was not obtained initially. The members of the mediation committee are Maria-Elisabeth Schaeffler-Thumann as well as Norbert Lenhard, Georg F. W. Schaeffler, and Jürgen Wechsler; Georg F. W. Schaeffler is the committee's chairman.

The nomination committee proposes to the Supervisory Board appropriate candidates for election to the Supervisory Board by the annual general meeting. The members of the nomination committee are the Chairman of the Supervisory Board, Georg F. W. Schaeffler, as well as Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, and Maria-Elisabeth Schaeffler-Thumann; Georg F. W. Schaeffler is the committee's chairman.

The executive committee consists of Barbara Resch and Maria-Elisabeth Schaeffler-Thumann as well as Norbert Lenhard, Georg F. W. Schaeffler, Jürgen Wechsler, and Prof. KR Ing. Siegfried Wolf; Georg F. W. Schaeffler is the committee's chairman. The executive committee advises and assists the Chairman of the Supervisory Board and his Deputy in their Supervisory Board responsibilities. It prepares the meetings of the Supervisory Board. Another significant responsibility of the executive committee is preparing personnel decisions to be made

by the Supervisory Board. It makes recommendations regarding new appointments or reappointments to and dismissals from the Board of Managing Directors. It also prepares the Supervisory Board's decision regarding the remuneration system and individual remuneration of the members of the Board of Managing Directors. In addition, the executive committee passes resolutions regarding the approval of certain legal transactions and measures specified in the Supervisory Board's internal rules of procedure on behalf of the Supervisory Board, to the extent such delegation is not prohibited by section 107 (3)(3) German Stock Corporations Act.

The audit committee is responsible for preparing the Supervisory Board's decision on adoption of the separate financial statements and approval of the consolidated financial statements. To this end, it is responsible for the preliminary review of the separate and consolidated financial statements, the management report and the group management report, the proposals for the appropriation of earnings, and for discussing the long-form audit report with the auditors. It is also responsible for the preliminary review of the report on relations with affiliated companies and for preparing the Supervisory Board's nomination of the auditors to be appointed by the annual general meeting.

The audit committee has the responsibility and authority to engage the auditors on behalf of the Supervisory Board, determine areas of focus for the audit, and agree the audit fees with the auditors. In addition, the audit committee monitors the independence of the external auditors, and, as such, is responsible for approving engagements for non-audit services. The audit committee also monitors the qualifications and efficiency of the auditors as well as the rotation of audit team members. On behalf of the Supervisory Board, the audit committee monitors the financial reporting process and the effectiveness of Internal Audit, the internal control system, and the risk management system, and addresses compliance within the company. It also regularly obtains information on the areas of focus for the audit as well as audit results from Internal Audit.

The audit committee consists of six members. His position automatically makes the Chairman of the Supervisory Board a committee member. The chairman of the audit committee has to be independent and can neither be a former member of the Board of Managing Directors nor the Chairman of the Supervisory Board; he should be particularly knowledgeable about and experienced in the application of accounting principles as well as internal control procedures. As the former chief financial officer of the Bertelsmann Group, the chairman of the audit committee, Dr. Siegfried Luther, meets these requirements. The remaining members of the audit committee are Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, Jürgen Worrich, and Dr. Reinold Mittag.

## Cooperation between Board of Managing Directors and Supervisory Board

The Board of Managing Directors and the Supervisory Board cooperate closely for the good of the company. Thus, the Board of Managing Directors regularly consults with the Supervisory Board on the strategic direction of the company and discusses the status of strategy implementation with the Supervisory Board.

On a regular basis, the Board of Managing Directors provides comprehensive and timely information to the Supervisory Board on all matters of relevance to the company with respect to strategy implementation, planning and budgeting, results of operations, risk management, and compliance. It discusses deviations of results of operations from budgets and targets and the reasons for those deviations. Documents required for decisions, especially the separate financial statements, the consolidated financial statements, and the long-form audit report, are provided to the members of the Supervisory Board in due time before the meeting. The Board of Managing Directors is required to submit any fundamental legal transactions and measures to the Supervisory Board or the executive committee for approval. The cooperation between the Board of Managing Directors and the Supervisory Board is characterized by mutual trust and a culture of open discussion as well as maintaining strict confidentiality.


The Chairman of the Supervisory Board regularly keeps in contact with the Board of Managing Directors and particularly with the Chief Executive Officer between meetings, as well, and discusses with him issues related to the company's strategy implementation, planning and budgeting, results of operations, risk management, and compliance. The Chief Executive Officer immediately informs the Chairman of the Supervisory Board of important events significant to evaluating the company's situation and development as well as for managing the company.

## Avoiding conflicts of interest

The members of the Board of Managing Directors and of the Supervisory Board are required to immediately disclose any conflict of interest to the Supervisory Board. Significant transactions between the company and members of the Board of Managing Directors or parties related to them require the Supervisory Board's approval. Consulting and other service contracts as well as contracts for specific deliverables between the company and members of the Supervisory Board also require approval by the Supervisory Board. The Supervisory Board reports to the annual general meeting on any conflicts of interest and their resolution. Neither the members of the Board of Managing Directors nor those of the Supervisory Board have experienced any conflicts of interest in 2016.

## Act on Equal Access for Men and Women to Leadership Positions

The Act on Equal Access for Men and Women to Leadership Positions in the Private and Public Sectors prescribes a fixed gender quota of 30 % for Schaeffler AG's Supervisory Board.

 See "Supervisory Board" section for further detail on the gender quota of Schaeffler AG's Supervisory Board.

In addition, it requires the Supervisory Board to set a target for the proportion of women on the Board of Managing Directors and the Board of Managing Directors to set targets for the proportion of women at the two levels of management immediately below the Board of Managing Directors.

The target set by the Supervisory Board for the proportion of women on the Schaeffler AG Board of Managing Directors states that the Board of Managing Directors has to have at least one female member. The Board of Managing Directors meets this target set by the Supervisory Board, as it has had one female member since January 01, 2016.

In order to increase the proportion of women below the level of the Board of Managing Directors, the Board of Managing Directors has set targets for the proportion of women of 5 % at the first level of management and 12 % at the second level of management. These targets must be achieved by June 30, 2017.

## 1.3 Other information on corporate governance

### Shares held by members of the Board of Managing Directors and the Supervisory Board, directors' dealings

Item 6.2 of the German Corporate Governance Code requires the ownership of shares in the company or related financial instruments by members of the Board of Managing Directors and the Supervisory Board to be disclosed if these directly or indirectly exceed 1 % of the shares issued by the company. On December 31, 2016, IHO Verwaltungs GmbH held a 75.1 % interest (500 million common shares) in Schaeffler AG. These shareholdings are attributable to Supervisory Board members Georg F. W. Schaeffler and Maria-Elisabeth Schaeffler-Thumann. The remaining members of the Supervisory Board and the Board of Managing Directors held less than 1 % of the common and common non-voting shares of the company as at that date.

Under article 19 of the Market Abuse Regulation, the members of the Board of Managing Directors and the Supervisory Board as well as persons closely associated with them are legally required to report any acquisition or disposal of shares in or bonds of Schaeffler AG or financial instruments linked thereto once the total amount of such transactions executed within a calendar year has reached EUR 5,000.

 For further detail on securities transactions reported in 2016 is available at: [www.schaeffler.com/ir](http://www.schaeffler.com/ir)

## Transparency

The company provides information on the situation of the company at the same time and on an equal footing to institutional investors, shareholders, financial analysts, business partners, employees, and the interested public by regular, transparent, and up-to-date communication. All significant information, such as ad hoc releases and press releases, as well as presentations given at analysts' conferences, all financial reports, and the financial calendar are published on the Schaeffler Group's website. Investor Relations maintains close contact with shareholders on an ongoing basis.

## Relationships with shareholders and annual general meeting

Shareholders exercise their rights at the annual general meeting. The annual general meeting passes resolutions on granting discharge to the Board of Managing Directors and the Supervisory Board, appropriating retained earnings, capital transactions, amendments to the company's articles of association, and appointing auditors. It has to be held during the first eight months of each year.

The company has issued common non-voting and common shares. Common non-voting shares do not convey voting rights, but entitle the holder to a preferred dividend of EUR 0.01 per share.

Shareholders have to register for the annual general meeting in due time in order to attend the annual general meeting. An invitation and other documents (e.g. annual report) containing information on the items on the agenda of the annual general meeting are provided to shareholders before the annual general meeting. This information is also available from the company's website.

## Financial reporting and financial statement audit

Schaeffler AG compiles its separate financial statements in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG). The consolidated financial statements are prepared in accordance with the principles set out in International Financial Reporting Standards (IFRS) as adopted by the EU.

It was agreed with Schaeffler AG's auditors that the Chairman of the Supervisory Board and the chairman of the audit committee would be informed promptly of any grounds for disqualification or indications of bias arising during the audit to the extent they are not remedied immediately. It was also agreed that the auditors would report on all findings and events arising during the performance of their audit that are significant to the responsibilities of the Supervisory Board. Under the agreement, the auditors have to inform the Supervisory Board and note in their long-form audit report if, during the course of the audit, they become aware of any facts rendering the declarations on

the German Corporate Governance Code issued by the Board of Managing Directors and the Supervisory Board inaccurate. The audit committee monitors the auditors' independence. In a letter dated March 10, 2016, the auditors have issued a binding independence letter for the year ended December 31, 2016.

## 1.4 Declaration of conformity pursuant to section 161 AktG

Since the release of its last declaration of conformity in March 2016, Schaeffler AG complies with the recommendations of the "Governmental Commission German Corporate Governance Code" as amended on May 05, 2015 ("Code") with the exceptions described below and will also comply with the recommendations in the future with the exception described under item 2 below:

1. The Code recommends in item 4.2.5 for the presentation of the remuneration of the Board of Managing Directors the use of template charts, which also provide for the presentation of comparative figures for the preceding year. As Schaeffler AG only has been converted into a stock corporation in October 2014 and the group management has only been transferred to the company at this point in time the remuneration report 2015 deviates from this recommendation. The remuneration report 2016 will show the comparative figures for the preceding year. Hence, Schaeffler AG will comply with the recommendation in item 4.2.5 in the future.
2. The Code recommends in item 5.4.1 para. 2, that the Supervisory Board shall specify concrete objectives regarding its composition and also set an age limit for the members of the Supervisory Board. The Supervisory Board of Schaeffler AG will not set such age limit because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board.

Herzogenaurach, December 2016

For the Supervisory Board      For the Board of Managing Directors

Georg F. W. Schaeffler  
Chairman of the  
Supervisory Board

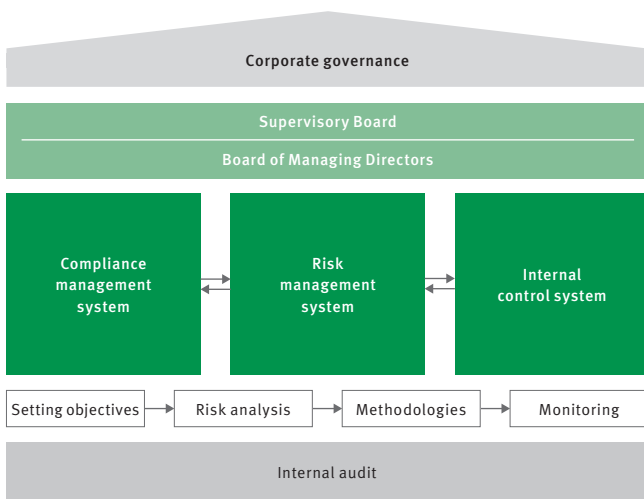
Klaus Rosenfeld  
Chief Executive Officer

## 2. Governance structure

The Schaeffler Group considers maintaining the corporate culture of a global family business essential and intends to play a leading role as a listed family business. Its focus is on customer relationships and acting with integrity. Its corporate values drive the nature of its transactions. Transactions and business relationships inconsistent with the group's corporate values are rejected.

Schaeffler Group governance structure

No. 067



The governance structure promotes transparency and supports the values of a global family business (sustainable, innovative, excellent, and passionate). The components of the governance structure support our business units in effectively identifying and managing risk.

The Schaeffler Group has continued to improve the processes within its governance structure with a view to meeting the needs of its customers while at the same time protecting the company. The governance structure is aimed at promoting the coordinated operation of the subsystems and, hence, the early identification of risks to the continued existence and development of the Schaeffler Group. Clearly assigned responsibilities and a robust internal control system are in place to manage significant risks. The Group Compliance and Risk Committee (GCRC) represents a key governance component in this regard, increasing transparency in internal structures, the organization, and in responsibilities. The GCRC is chaired by the Schaeffler Group's Chief Compliance Officer. It consists of the heads of the subsystems and the heads of other risk and corporate functions. The GCRC is responsible for assisting the Board of Managing Directors with its organizational responsibilities with respect to compliance and risk management. Among the key objectives of the GCRC are defining and delineating responsibilities and interfaces and preventing redundancies in the process. In addition, it is expected to create a consistent and complete view of the risk situation in the divisions, functions, and regions based on a uniform measurement and prioritization methodology. A further objective is developing and monitoring risk mitigation activities. The Compliance & Risk Working Group consisting of staff representatives from the functions represented on the GCRC provides operational support to the GCRC.

The activities of the subsystems within the governance structure are coordinated based on the internationally recognized three lines of defense model. It assigns clear responsibility for dealing with risks to the company's continued existence and development and is based on the principle that primary responsibility for a risk lies with its originator.

## Three lines of defense model

No. 068

Lines of defense	Responsible unit or function	Area of responsibility
<b>First line of defense</b>	<b>Operating business units</b>	At the first tier, operating business units are responsible for performing controls within all business processes to prevent risk. If prevention is not feasible, risks have to be identified and reduced to an appropriate level.
<b>Second line of defense</b>	<b>Risk functions</b> (e. g. controlling, risk management, compliance, and legal)	The second tier defines global standards and controls, regularly monitors compliance with them, and reports on their effectiveness. It is also responsible for regular and independent risk assessment.
<b>Third line of defense</b>	<b>Internal Audit</b>	The third tier is the audit by Internal Audit. Independent and objective audits are designed to ensure process efficiency in risk management, internal controls, and corporate governance.

The business units bear primary responsibility for the risks inherent in their business. Hence, the Schaeffler Group's employees represent the first line of defense against potential risks. The Schaeffler Code of Conduct encourages them to turn to their supervisor or the corresponding control function with any questions or concerns they might have regarding dealing with risks and inappropriate business practices. An anonymous whistleblowing system is available for this purpose where necessary.

With its corporate governance structure and its three lines of defense model, the Schaeffler Group fulfils its obligation to manage the company responsibly and to maintain effective controls.

## 2.1 Compliance management system

Integrity is one of the mainstays of the Schaeffler Group's manner of conducting business. Under the Schaeffler Code of Conduct, the Board of Managing Directors and all employees are required to comply with all applicable local, national, and international laws and regulations, wherever the Schaeffler Group does business. A compliance organization covering the entire Schaeffler Group provides them with support in doing so.

The Schaeffler Group's Board of Managing Directors emphatically supports the underlying compliance management system (CMS) and the necessity of consistently complying with legal requirements and internal regulations.

The CMS is based on the three pillars of prevention, detection, and reaction and is part of the second line of defense within the Schaeffler Group's governance structure. The CMS in its current state is the result of a comprehensive revision initiated by the Board of Managing Directors as part of the "Compliance Fit & Proper" program, a component of the "ONE Schaeffler" program. Following the successful completion of a review of the underlying conceptual design in accordance with the Principles for the

Proper Performance of Reasonable Assurance Engagements Relating to Compliance Management Systems IDW PS 980 by an independent audit firm, the next step planned is a review of the implementation of the CMS by an independent audit firm.

The CMS comprises, in particular, managing and monitoring the activities necessary to prevent, or detect early on, violations of law in the area of corruption, money-laundering, competition and antitrust law, and economic criminal activity. It also serves to actively manage risk and protect the company and its employees. The CMS consists of seven core components: Compliance culture, compliance objectives, vulnerability analysis, compliance program, compliance organization, communication, and monitoring and improvement.

The compliance organization derives its arrangements for preventing violations of antitrust and competition legislation, corruption, economic crime, and money-laundering from a regular groupwide risk analysis using a risk based approach. The risk analysis provides information on the current situation with respect to risks arising from operations and on the effectiveness of the preventive arrangements in place. The analysis is primarily based on interviews with management and employees of all divisions and regions with the objective of obtaining estimates of the probability of occurrence and the size of the potential loss of pertinent risk scenarios from the interviewee that are as close to the business processes as possible. These estimates are supplemented with sector and expert knowledge, experience with actual compliance violations, results of controls and audits, as well as by using operations-, market-, and country-specific risk criteria ranging from publicly available risk indicators, such as the Corruption Perception Index compiled by Transparency International, to issues regarding the location-specific design of Sales and Distribution.

The Schaeffler Group's Group Chief Compliance Officer heads up the compliance organization and reports directly to the Chief Executive Officer. The Group Chief Compliance Officer also has a

reporting line to the Chairman of the Supervisory Board and reports to the chairman of the audit committee on a regular basis. The compliance department provides the Group Chief Compliance Officer with the support of a network of experienced compliance specialists spanning all of the Schaeffler Group's Europe, Americas, Greater China, and Asia/Pacific regions. He also utilizes a centralized team of experts located at the corporate head office in Herzogenaurach which was expanded in 2016 and consists of the "Advisory", "Risk Analysis & Solutions", and "Forensics & Investigations" departments. The responsibilities of this team of experts include defining and monitoring appropriate groupwide compliance standards and activities, consulting on compliance, and improving processes and controls. The team is also responsible for independently investigating alleged violations and following up on the necessary consequences. It analyzes the causes of misconduct, derives suggestions for remedial measures, and follows up on their implementation. Violations of laws and regulations or of internal rules on compliance with these are not tolerated and result in disciplinary action.


Measures designed to prevent compliance violations include the Schaeffler Group's Code of Conduct, guidelines on behavior in compliance with antitrust and competition legislation, fighting corruption, and protecting confidential information, web-based and classroom training sessions, and a compliance helpdesk available for consultation on specific compliance issues. Training sessions are continually refined and updated and adapted to the employees' areas of responsibility. For instance, case studies in the Risk Awareness training session are customized to the relevant business units in order to make the presentation of potential risks as specific and clear as possible. In addition, the company has also put in place arrangements for detecting possible compliance violations; these arrangements include audits and controls as well as a whistleblowing system which can be used to report violations on an anonymous basis. All such reports received are reviewed independently. Reprisals against employees reporting concerns about misconduct within the company in good faith are prohibited.

The Schaeffler Group has further expanded its arrangements and measures for complying with legal requirements and internal rules in 2016. A new code of conduct applicable to all employees worldwide was introduced. In addition to requirements relating to general conduct, the principles and practices described also cover conduct vis-à-vis business partners and third parties, dealing with sensitive information, employees and co-workers, and requirements regarding the environment, health, and safety. In accordance with the corporate values, bribery or any form of corruption are not tolerated. All Schaeffler Group employees are expressly prohibited from engaging in bribery or corruption in any way. The same applies to conduct violating competition or anti-trust laws. The Schaeffler Group stays away from any

transactions that cannot be effected or continued without unacceptable conduct.


The company continued the implementation of a register of contacts with competitors as well as a groupwide business partner due diligence process. This underlines the standard the Schaeffler Group expects of its business partners with respect to acting with integrity and abiding by rules. In 2016, the compliance training program included training on risk awareness, the Schaeffler Code of Conduct, and security of information including classification of information. New training measures were introduced to protect against cybercrime and CEO fraud.

The company maintains a groupwide insider list in order to comply with capital markets regulations. The members of the Board of Managing Directors and the Supervisory Board as well as employees were informed of their obligations under capital markets laws and the consequences of the listing. In addition, there is an insider committee whose activities include maintaining the insider list, deciding on how to deal with potential insider information, and ensuring compliance with the requirements of capital markets laws.

 For further detail on significant compliance-related risks see "Report on opportunities and risks".

## 2.2 Risk management system


Like the compliance management system, the risk management system is part of the second line of defense in the Schaeffler Group's governance structure. It comprises all activities and arrangements made to identify, assess, manage, and monitor risk. A risk is defined as the danger that events or actions will prevent a company from achieving its plan or successfully implementing its strategies. For all identified risks, the probability of occurrence and possible impact on achieving objectives are continually identified, assessed, appropriate action initiated and followed-up on.

 For further detail on the risk management system see "Report on opportunities and risks".

## 2.3 Internal control system

The second line of defense also comprises the Schaeffler Group's internal control system. The internal control system consists of technological and organizational arrangements and controls that have been systematically designed to ensure compliance with guidelines and to prevent loss or damage that may be caused by the company's employees or by third parties. Controls can be

performed both process-dependent or independently of the process. The Schaeffler Group's internal control system is based on the COSO model and consists of the following components: Control environment, risk assessment, control activities, information and communication, and monitoring. It is focused on financial reporting and represents the arrangements and controls ensuring that the consolidated financial statements are prepared in accordance with financial reporting standards and ensuring accurate external financial reporting.

 For further detail on the internal control system see "Report on opportunities and risks".

## 2.4 Internal Audit

Internal Audit represents the third line of defense of the Schaeffler Group's governance structure. Internal Audit provides independent and objective audit and consulting services focused on adding value and improving business processes. The internal audit function contributes to meeting the corporate objectives the Schaeffler Group has communicated by assessing and helping to improve the effectiveness of the compliance management system, risk management, controls, and management and supervisory processes using a systematic and goal-oriented approach. Responsibility for establishing the internal audit function and for its effectiveness rests with the Board of Managing Directors and cannot be delegated. Hence, Internal Audit reports to the entire Board of Managing Directors. Organizationally, Internal Audit is assigned to the Chief Executive Officer of Schaeffler AG.

The Schaeffler Group has made the following arrangements to ensure the independence and objectivity of Internal Audit:

- direct organizational link to the Chief Executive Officer to ensure there are no gaps in audit coverage;
- neither the head of Internal Audit nor audit staff have any operational responsibilities;
- reports annually on potential impairment of independence to the CEO/Board of Managing Directors/audit committee;
- audit planning and significant changes therein have to be approved by the Board of Managing Directors and documented appropriately.

Internal Audit consists of the functions "Methods, Reporting and Quality Assurance", "Corporate Audits" and "IT and Special Audits". It also has locations in each of the four regions.

The responsibilities of Internal Audit specifically include, but are not limited to, the following activities:

- audit and assessment of the appropriateness, efficiency, and effectiveness of the internal control system;
- audit and assessment of the appropriateness, efficiency, and effectiveness of the management and supervisory processes;
- audit and assessment of the finance and accounting systems, the information system, and the reporting system;
- audit and assessment of the effectiveness of risk and compliance management;
- audit and assessment of the effectiveness of arrangements for preventing and detecting fraud;
- audit of arrangements for safeguarding assets;
- audit and assessment of the implementation of and compliance with legal requirements and the company's internal rules ("orderliness");
- performance of special investigations with respect to fraud, conflicts of interest and other irregularities.

Internal Audit performs systems and effectiveness audits. Systems audits involve auditing selected areas (e.g. Procurement) and documenting and analyzing the actual processes in place. Any findings documented during such systems audits are assigned to one of three assessment areas ("orderliness", "internal monitoring system", "business processes"). Effectiveness audits involve testing the effectiveness of the risk management system or the internal control system within the Schaeffler Group. Compliance risks are covered in the "orderliness" assessment area.

In a risk analysis done in preparation for audit assignments, Internal Audit exchanges information with other departments (e.g. Compliance and Corporate Security, Controlling, Legal, Quality, Risk Management).

In order to obtain sufficient reliable, relevant, and constructive information to achieve its audit objectives, Internal Audit regularly performs its audit assignments on location.

In its audit reports, Internal Audit communicates its findings, its recommendations for mitigating risk, and the persons responsible for implementation, with whom they agree binding implementation dates. In a monitoring and follow-up process, Internal Audit monitors implementation of its recommendations for remediating identified deficiencies.

In accordance with the International Standards for the Professional Practice of Internal Auditing 2016 of the Institute of Internal Auditors (IIA), the head of Internal Audit has established a quality assurance and improvement program covering all of Internal Audit's responsibilities.

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## 3. Remuneration report

This remuneration report describes the main features of the remuneration system for the Board of Managing Directors, i.e. the remuneration structure and amount. In addition, the remuneration report provides disclosures about benefits the company has promised to provide to the members of the Board of Managing Directors upon termination of their employment as well as disclosures on the remuneration of the Supervisory Board.

The remuneration report is in accordance with the requirements of the German Commercial Code (HGB) and International Financial Reporting Standards (IFRS) and is part of the group management report. It also reflects the recommendations of the German Corporate Governance Code.

### 3.1 Main features of the remuneration system for the Board of Managing Directors in effect since the listing

As stipulated in the German Corporate Governance Code (GCGC) and section 87 AktG, the Supervisory Board sets the total remuneration, reviews the remuneration scheme on a regular basis, and reviews the appropriateness of the remuneration of the Board of Managing Directors on a regular basis. To ensure that

the total remuneration is appropriate, the Supervisory Board takes into account customary levels of remuneration both in other companies of comparable size within the same industry and country (horizontal comparison) and the wage and salary structure within the enterprise itself (vertical comparison of remuneration of Board of Managing Directors to the company's workforce).

In preparation for the listing, Schaeffler AG's Supervisory Board approved the enhancement of the remuneration system for the members of the Board of Managing Directors on September 08, 2015. This remuneration system became effective retroactively as at January 01, 2015 on the date of the listing, October 09, 2015, and is effective for all members of the Board of Managing Directors in office in 2016.

The total remuneration of the Board of Managing Directors is performance- and success-based and supports the Schaeffler Group's operational and strategic objectives in a dynamic and international environment. The remuneration of each member of the Board of Managing Directors consists of a fixed amount as well as short- and long-term variable components. The variable component is largely long-term in nature. In addition, the members of the Board of Managing Directors receive the customary fringe benefits, pension commitments, a company car, and insurance benefits.



## Remuneration of Board of Managing Directors – system and components

No. 069

Components	Performance metric	Range of remuneration	Conditions for payment	Payment cycle
<b>Non-performance-based components</b>				
Fixed remuneration	Function and responsibility	None	Contractually agreed	Monthly
Fringe benefits	Function and responsibility	None	Contractually agreed	Payment not applicable
<b>Performance-based components</b>				
Short-term bonus	For the CEO and the Chief Officers of the functions (in 2015 also for the divisional CEOs): Free cash flow (FCF Group) and Schaeffler Value Added (SVA Group) of the Schaeffler Group (weighted equally). For the divisional CEOs: Free cash flow (FCF Group) and Schaeffler Value Added (SVA Group) of the Schaeffler Group, Schaeffler Value Added (SVA Division) and working capital (WC Division) of the division (weighted equally) <sup>1)</sup>	0 % – 150 % (target bonus = 100 %)	Meeting annual performance targets	Annually
Long-term bonus	Share price trend underlying performance share units (PSUs) granted and meeting targets consisting of:	Maximum is the number of PSUs granted, minimum number is nil		
Performance Share Unit Plan (PSUP)	50 % service condition and 25 % relative Total-Shareholder-Return-(TSR)-based performance target and 25 % cumulative FCF-based performance target	Share price cap: double the share price at grant date	Meeting service condition and/or performance targets	4 years after grant date
Retirement benefits			Retirement or triggering event	Generally monthly

<sup>1)</sup> Starting in 2017, cash flow of the division will replace working capital of the division for purposes of measuring the performance of the divisional CEOs.

## Non-performance-based components

## Fixed remuneration

Each ordinary member of the Board of Managing Directors receives an identical amount of fixed remuneration; the Chief Executive Officer receives twice this amount. Fixed remuneration is paid in twelve equal installments each month.

## Fringe benefits

Fringe benefits include the use of a company car, including for private purposes, and customary insurance benefits such as directors' and officers' liability insurance (D&O insurance). This D&O insurance policy includes a deductible provision that is in accordance with section 93 (2) (3) AktG. Tax on the pecuniary advantage related to fringe benefits granted is paid individually by each member of the Board of Managing Directors. No loans were granted to members of the Board of Managing Directors in 2016.

## Performance-based components

## Short-term variable component – short-term bonus

All members of the Board of Managing Directors in office in 2016 receive an annual short-term bonus if the relevant targets are met. The employment contracts of the members of the Board of Managing Directors set out the individual target-based bonus based on achievement of 100 % of the performance targets.

The Supervisory Board determines the performance target tiers on an annual basis. The targets underlying the remuneration reflect the strategic direction of the Schaeffler Group. The amount of the short-term bonus payable to the CEO and the Chief Officers of the functions (in 2015 also to the divisional CEOs) is determined based on the extent to which the performance targets have been met. The performance targets are weighted equally and consist of free cash flow (FCF Group) of the Schaeffler Group and Schaeffler Value Added (SVA Group) of the Schaeffler Group. For the divisional CEOs, the performance targets used to determine the extent to which performance targets have been met consist of free cash flow (FCF Group) of the Schaeffler Group and Schaeffler Value Added (SVA Group) of the Schaeffler Group and of Schaeffler Value Added (SVA Division) of the division and working capital (WC Division) of the division, again weighted equally.<sup>7</sup>

<sup>7</sup> Starting in 2017, cash flow of the division will replace working capital of the division for purposes of measuring the performance of the divisional CEOs.

FCF Group is generally calculated based on the Schaeffler Group's cash flows from operating activities and from investing activities for the relevant year. SVA Group is generally based on the Schaeffler Group's EBIT less its cost of capital. SVA Division is determined in the same manner based on measures segmented in accordance with IFRS 8. The Working Capital Division performance target is calculated as the ratio of the division's working capital to divisional revenue.

The Supervisory Board can set other strategic targets in addition to the FCF, SVA, and WC performance targets. The short-term bonus may lapse in its entirety if the minimum targets are not met. Furthermore, the Supervisory Board can establish a multiplier ranging from 0.8 to 1.2 to reflect a Managing Director's individual performance. In any event, payment of all short-term bonuses is limited to 150 % of the individual target-based bonus, regardless of whether an additional strategic target is set or a multiplier reflecting a Managing Director's individual performance is applied. The short-term bonus earned during a year is paid in a lump sum once the extent to which targets have been met has been determined.

### Long-term variable component – long-term bonus (Performance Share Unit Plan, PSUP)

The Supervisory Board has implemented a share-based remuneration instrument in the form of a PSUP in order to align the interests of the Board of Managing Directors with those of the shareholders and to promote the sustainable development of the Schaeffler Group. Based on relevant agreements, all current Managing Directors are eligible for the PSUP.

One performance share unit (PSU) conveys the right to a cash payment amounting to the average share price of the last 60 trading days of the performance period provided the previously defined performance targets are achieved. The PSUP is granted in annual tranches. Each tranche has a performance period of four years beginning on January 01 of the year it is granted. The target amount per tranche is stipulated in the employment contracts of the members of the Board of Managing Directors and is designed to create a remuneration structure that is largely oriented toward the long term. The target amount of the variable long-term remuneration exceeds the target bonus under the variable short-term remuneration. In addition, the number of PSUs granted to each individual member of the Board of Managing Directors is based on that member's duties and responsibilities. The number of PSUs cannot increase.

Vesting of PSUs is linked to the following three conditions:

- 50 % of PSUs (base number) are granted subject to a service condition. The base number is only paid out if the member of the Board of Managing Directors remains employed as a member of a governing body of Schaeffler AG and is not under notice of termination at the end of the performance period.<sup>8</sup>
- 25 % of the PSUs are granted subject to a long-term FCF-based performance target which involves a comparison of cumulative FCF for the performance period to the target FCF.
- 25 % of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). To determine to what extent these PSUs have vested, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

The Supervisory Board sets the FCF- and TSR-based target amounts for each tranche when PSUs are granted.

The 2015 and 2016 tranches of PSUs subject to FCF- and TSR-based performance targets vest based on the following target tiers.

PSUP performance targets for FCF		No. 070
Cumulative free cash flow for the performance period	FCF	Number of PSUs vested in %
Cumulative FCF compared to target FCF > ~ 6.01 %		100 %
2.01 % < cumulative FCF compared to target FCF < ~ 6.00 %		75 %
-2.00 % < cumulative FCF compared to target FCF < ~ 2.00 %		50 %
-6.00 % < cumulative FCF compared to target FCF < ~ -2.01 %		25 %
Cumulative FCF compared to target FCF < ~ -6.01 %		0 %

PSUP performance targets for TSR		No. 071
TSR outperformance over the performance period	TSR	Number of PSUs vested in %
> 25 %		100 %
5 % < TSR outperformance ≤ 25 %		75 %
-5 % < TSR outperformance ≤ 5 %		50 %
-25 % < TSR outperformance ≤ -5 %		25 %
≤ -25 %		0 %

The target amounts for the FCF-based performance target are derived from the Schaeffler Group's medium-term plan. The payment under a PSU is capped at double the underlying share price at the grant date.

<sup>8</sup> Taking into account the rules applicable to leavers.

The underlying share price of the 2016 tranche is EUR 14.58. The PSUs granted to each individual and the related fair values in 2016 are as follows:

PSUs granted in 2016		No. 072		
	Target amount (in € thousands)	Number of PSUs granted on January 01, 2016 <sup>1)</sup>	Grant date fair value per PSU (in € thousands)	Grant date fair value (in € thousands)
<b>Klaus Rosenfeld (CEO)</b>	1,300			
Base number of PSUs		44,581	13.82	616
FCFPSUs		22,291	13.82	308
TSR PSUs		22,291	9.13	204
<b>Prof. Dr. Peter Gutzmer</b>	950			
Base number of PSUs		32,578	13.82	450
FCFPSUs		16,290	13.82	225
TSR PSUs		16,290	9.13	149
<b>Dr. Ulrich Hauck</b>	800			
Base number of PSUs		27,434	13.82	379
FCFPSUs		13,718	13.82	190
TSR PSUs		13,718	9.13	125
<b>Norbert Indlekofer<sup>2)</sup></b>	950			
Base number of PSUs		32,578	13.82	450
FCFPSUs		16,290	13.82	225
TSR PSUs		16,290	9.13	149
<b>Oliver Jung</b>	950			
Base number of PSUs		32,578	13.82	450
FCFPSUs		16,290	13.82	225
TSR PSUs		16,290	9.13	149
<b>Prof. Dr. Peter Pleus</b>	950			
Base number of PSUs		32,578	13.82	450
FCFPSUs		16,290	13.82	225
TSR PSUs		16,290	9.13	149
<b>Corinna Schittenhelm</b>	650			
Base number of PSUs		22,290	13.82	308
FCFPSUs		11,146	13.82	154
TSR PSUs		11,146	9.13	102
<b>Dr. Stefan Spindler</b>	800			
Base number of PSUs		27,434	13.82	379
FCFPSUs		13,718	13.82	190
TSR PSUs		13,718	9.13	125
<b>Total</b>	<b>7,350</b>	<b>504,117</b>	<b>-</b>	<b>6,376</b>

<sup>1)</sup> Equals the number of PSUs outstanding as at December 31, 2016.

<sup>2)</sup> Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

The underlying share price of the 2015 tranche is EUR 13.15. The PSUs granted to each individual and the related fair values in 2015 are as follows:

PSUs granted in 2015 <sup>1)</sup>		No. 073		
	Target amount (in € thousands)	Number of PSUs granted on October 09, 2015 <sup>2)</sup>	Grant date fair value per PSU (in € thousands)	Grant date fair value (in € thousands)
<b>Klaus Rosenfeld (CEO)</b>	1,300			
Base number of PSUs		49,429	11.58	572
FCFPSUs		24,715	11.58	286
TSR PSUs		24,715	6.96	172
<b>Prof. Dr. Peter Gutzmer</b>	950			
Base number of PSUs		36,121	11.58	418
FCFPSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
<b>Dr. Ulrich Hauck</b>	600			
Base number of PSUs		22,813	11.58	264
FCFPSUs		11,407	11.58	132
TSR PSUs		11,407	6.96	79
<b>Norbert Indlekofer<sup>3)</sup></b>	950			
Base number of PSUs		36,121	11.58	418
FCFPSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
<b>Oliver Jung</b>	950			
Base number of PSUs		36,121	11.58	418
FCFPSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
<b>Prof. Dr. Peter Pleus</b>	950			
Base number of PSUs		36,121	11.58	418
FCFPSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
<b>Dr. Stefan Spindler</b>	533			
Base number of PSUs		20,278	11.58	235
FCFPSUs		10,140	11.58	117
TSR PSUs		10,140	6.96	71
<b>Total</b>	<b>6,233</b>	<b>474,016</b>	<b>-</b>	<b>4,940</b>

<sup>1)</sup> Kurt Mirlach and Robert Schullan left the Board of Managing Directors of Schaeffler AG as at December 31 and April 30, 2015, respectively. They were not granted any PSUs for 2015.

<sup>2)</sup> Equals the number of PSUs outstanding as at December 31, 2016.

<sup>3)</sup> Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

The PSUs granted are classified and measured as cash-settled share-based compensation. The fair value for PSUs subject to the TSR-based performance target was determined using a binomial model. The fair value of the base number and of the PSUs subject to the FCF-based performance target was determined based on the price of the company's common non-voting shares as at the measurement date. The valuation model takes into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target tiers, expected

dividend payments, as well as the volatility of the company's common non-voting shares and of the benchmark index).

The valuation as at the grant date of the 2016 tranche (prior year: 2015 tranche) reflects the following input parameters:

- risk-free interest rate for the remaining performance period of 0.15 % (prior year: 0.2 %),
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 2.15 % (prior year: 2.66 %),
- expected volatility of Schaeffler AG common non-voting shares of 33.02 % (prior year: 33.34 %),
- expected volatility of the benchmark index of 19.56 % (prior year: 18.97 %),
- expected correlation coefficient between the benchmark index and Schaeffler AG common non-voting shares of 0.43 (prior year: 0.34).

## Retirement benefits

All current members of the Board of Managing Directors hold retirement benefit commitments. The pension resulting from the various individual retirement benefit commitments is generally calculated as a percentage of pensionable remuneration based on the duration of the individual's service on the Board of Managing Directors. Individual percentages vary between 1.5 % and 3.0 % per year of membership on the Board of Managing Directors. Pension commitments for each member of the Board of Managing Directors are tailored individually. The pension received by a member of the Board of Managing Directors is based on their last pensionable employment income before retirement. Individual maximum pensions range from 40 % to 60 % of pensionable employment income.

Pension payments commence in the form of retirement benefits if employment ends at or after attainment of the age of 65, and in the form of disability benefits if employment ends due to disability. Beneficiaries are entitled to claim a reduced pension early as a retirement benefit beginning at age 60. Upon the death of the member of the Board of Managing Directors, the spouse is entitled to between 50 % and 60 % of the pension as a surviving dependants' pension. Surviving dependent children are entitled to 10 % or 20 % of the pension as a half- or full-orphan's pension, respectively.

The pension increases by 1.0 % each year beginning at retirement. The pension of one member of the Board of Managing Directors is subject to annual increases by the same percentage as the consumer price index in Germany. This also applies to disability, widows', and orphans' pensions.

The following tables summarize the service cost and defined benefit obligation of pension benefits earned up to December 31, 2016, calculated in accordance with IAS 19 and based on the beneficiary's current age and years of service.

### Service cost for 2016 and defined benefit obligations as at December 31, 2016 in accordance with IAS 19

No. 074

in € thousands	Year	Service cost	Defined benefit obligation
Klaus Rosenfeld (CEO)	2016	1,158	10,387
Prof. Dr. Peter Gutzmer	2016	287	4,840
Dr. Ulrich Hauck	2016	458	949
Norbert Indlekofer <sup>1)</sup>	2016	194	5,049
Oliver Jung	2016	272	2,750
Prof. Dr. Peter Pleus	2016	357	6,092
Corinna Schittenhelm	2016	319	326
Dr. Stefan Spindler	2016	250	517
<b>Total</b>		<b>3,295</b>	<b>30,910</b>

<sup>1)</sup> Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

### Service cost for 2015 and defined benefit obligations as at December 31, 2015 in accordance with IAS 19

No. 075

in € thousands	Year	Service cost	Defined benefit obligation
Klaus Rosenfeld (CEO)	2015	1,240	7,875
Prof. Dr. Peter Gutzmer	2015	273	4,178
Dr. Ulrich Hauck	2015	337	345
Norbert Indlekofer <sup>1)</sup>	2015	205	5,300
Oliver Jung	2015	288	2,166
Prof. Dr. Peter Pleus	2015	380	5,282
Dr. Stefan Spindler	2015	164	168
<b>Members who left the Board of Managing Directors in 2015 (remuneration under remuneration system in effect prior to listing)</b>			
Kurt Mirlach <sup>2)</sup>	2015	266	4,391
Robert Schullan <sup>3)</sup>	2015	130	3,824
<b>Total</b>		<b>3,283</b>	<b>33,529</b>

<sup>1)</sup> Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

<sup>2)</sup> Kurt Mirlach left the Board of Managing Directors of Schaeffler AG as at December 31, 2015.

<sup>3)</sup> Robert Schullan left the Board of Managing Directors of Schaeffler AG as at April 30, 2015. His employment contract continued until December 31, 2015.

## Change in remuneration system

When the new remuneration system for the Board of Managing Directors went into effect in 2015, any members of the Board of Managing Directors already in office in 2015 and whose term in office extended beyond December 31, 2015 were granted a one-time sign-on bonus to offset the shortfall in liquidity caused by the change. The sign-on bonuses were paid in equal installments in October 2015 and October 2016.

In addition, the company has committed to pay two Managing Directors EUR 300 thousand each for 2017 and EUR 300 thousand and EUR 225 thousand, respectively, for 2018, and has also committed to pay EUR 300 thousand to one of these Managing Directors for 2019; these payments will be offset against the long-term bonuses granted in 2017, 2018, and 2019.

Moreover, in 2015, certain members of the Board of Managing Directors received additional payments in connection with the change in the remuneration system and adjustment of their fixed remuneration. These payments, EUR 525 thousand in total, were offset in full against amounts payable by the company in 2016.

### Benefits granted in connection with the termination of membership on the Board of Managing Directors

Payments made to a member of the Board of Managing Directors upon early termination of their employment agreement without due cause are limited to two years' remuneration (severance cap) and must not represent compensation for more than the remaining term of the employment agreement. The severance cap is generally calculated based on the total remuneration for the last full financial year and also on the expected total remuneration for the current year where applicable.

Members of the Board of Managing Directors whose employment has terminated are generally subject to a noncompetition clause for a period of two years following termination of their employment agreement. In return, they are entitled to compensation in the amount of 50 % of the average contractual remuneration granted to the member of the Board of Managing Directors for the last twelve months before the end of their employment. Such contractual remuneration includes both performance-based and non-performance-based remuneration components. Income from other employment is deducted from the compensation payment in accordance with section 74c HGB.

The employment agreements of Corinna Schittenhelm, who was appointed to the Board of Managing Directors in 2016, and Dr. Ulrich Hauck and Dr. Stefan Spindler, who were appointed to the Board of Managing Directors in 2015, include post-contract non-competition clauses calling for corresponding compensation.

Robert Schullan left Schaeffler AG's Board of Managing Directors early at his own request effective April 30, 2015. He was entitled to receive non-performance-based remuneration including all fringe benefits until December 31, 2015, a total of EUR 301 thousand.

### External activities of members of the Board of Managing Directors

The members of the Board of Managing Directors have agreed to work exclusively for the company. External activities, whether paid or unpaid, require prior approval by the executive committee of the Supervisory Board. This ensures that neither the time commitment involved nor the related remuneration conflict with the individual's responsibilities toward Schaeffler AG. External activities representing a position on legally required supervisory boards or similar supervisory bodies of commercial enterprises are listed in section 5 "Governing bodies of the company".

### Appropriateness of the remuneration of the Board of Managing Directors

In accordance with section 87 AktG, the Supervisory Board of Schaeffler AG ensures that the remuneration of individual members of the Board of Managing Directors bears a reasonable relationship to the duties and performance of such member as well as the condition of the company. The Supervisory Board obtained the assistance of an independent remuneration expert for purposes of reviewing whether the remuneration of the Board of Managing Directors is appropriate.

### 3.2 Main features of the remuneration system for and amounts of remuneration of the Board of Managing Directors in effect prior to the listing

The remuneration system in effect prior to the listing remained applicable to the two members of the Board of Managing Directors who left the company, Kurt Mirlach (left effective December 31, 2015) and Robert Schullan (left effective April 30, 2015), without change in 2015 and consisted of fixed and variable remuneration components. The total remuneration of each member of the Board of Managing Directors was capped ("hard cap"). The fixed component of remuneration was based on the duties and responsibilities of each member of the Board of Managing Directors. In addition to the fixed component, each member of the Board of Managing Directors also received a performance-based bonus, which was calculated based on the following factors:

- operating earnings compared to minimum return on revenue,
- actual working capital compared to budgeted working capital, and
- individual performance factor.

In addition, the members of the Board of Managing Directors received fringe benefits which included the use of a company car for private purposes, insurance benefits, D&O insurance, and pension benefits.

The previous remuneration system was based on individual contractual arrangements entered into prior to the company's listing on the capital markets. On the date of the listing, the new remuneration system meeting the requirements for remuneration systems of listed companies became effective retroactively as at January 01, 2015.

### 3.3 Amounts of remuneration of the Board of Managing Directors

The fixed and variable components of remuneration are disclosed below. The following tables show the remuneration granted for and paid in 2016 and in 2015.

## Remuneration for 2016

	Klaus Rosenfeld				Prof. Dr. Peter Gutzmer				Dr. Ulrich Hauck			
	Chief Executive Officer				Deputy Chief Executive Officer and Chief Technology Officer				Chief Financial Officer			
	since October 24, 2014				since October 24, 2014				since April 01, 2015			
in € thousands	2015	2016	2016 (floor)	2016 (ceiling)	2015	2016	2016 (floor)	2016 (ceiling)	2015	2016	2016 (floor)	2016 (ceiling)
Fixed remuneration	1,200	1,200	1,200	1,200	600	600	600	600	450	600	600	600
Sign-on bonus	1,200	-	-	-	600	-	-	-	600	-	-	-
Fringe benefits	27	27	27	27	28	28	28	28	20	28	28	28
<b>Total</b>	<b>2,427</b>	<b>1,227</b>	<b>1,227</b>	<b>1,227</b>	<b>1,228</b>	<b>628</b>	<b>628</b>	<b>628</b>	<b>1,070</b>	<b>628</b>	<b>628</b>	<b>628</b>
One-year variable remuneration	1,200	1,200	0	1,800	900	900	0	1,350	563	750	0	1,125
Multi-year variable remuneration												
• Long-term bonus: PSUP (4 years) – 2015 tranche	1,031	-	-	-	753	-	-	-	476	-	-	-
• Long-term bonus: PSUP (4 years) – 2016 tranche	-	1,128	0	2,600	-	824	0	1,900	-	694	0	1,600
<b>Total</b>	<b>4,658</b>	<b>3,555</b>	<b>1,227</b>	<b>5,627</b>	<b>2,881</b>	<b>2,352</b>	<b>628</b>	<b>3,878</b>	<b>2,109</b>	<b>2,072</b>	<b>628</b>	<b>3,353</b>
Pension cost	1,240	1,158	1,158	1,158	273	287	287	287	337	458	458	458
<b>Total remuneration</b>	<b>5,898</b>	<b>4,713</b>	<b>2,385</b>	<b>6,785</b>	<b>3,154</b>	<b>2,639</b>	<b>915</b>	<b>4,165</b>	<b>2,446</b>	<b>2,530</b>	<b>1,086</b>	<b>3,811</b>

## Payments for 2016

	Klaus Rosenfeld		Prof. Dr. Peter Gutzmer		Dr. Ulrich Hauck	
	Chief Executive Officer		Deputy Chief Executive Officer and Chief Technology Officer		Chief Financial Officer	
	since October 24, 2014		since October 24, 2014		since April 01, 2015	
in € thousands	2016	2015	2016	2015	2016	2015
Fixed remuneration	1,200	1,200	600	600	600	450
Sign-on bonus	600	600	300	300	300	300
Fringe benefits	27	27	28	28	28	20
<b>Total</b>	<b>1,827</b>	<b>1,827</b>	<b>928</b>	<b>928</b>	<b>928</b>	<b>770</b>
One-year variable remuneration	1,199	953	899	715	749	447
Multi-year variable remuneration						
• Long-term bonus: PSUP (4 years) – 2015 tranche	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2016 tranche	0	0	0	0	0	0
<b>Total</b>	<b>3,026</b>	<b>2,780</b>	<b>1,827</b>	<b>1,643</b>	<b>1,677</b>	<b>1,217</b>
Pension cost	1,158	1,240	287	273	458	337
<b>Total remuneration</b>	<b>4,184</b>	<b>4,020</b>	<b>2,114</b>	<b>1,916</b>	<b>2,135</b>	<b>1,554</b>

No. 076

Norbert Indlekofer				Oliver Jung				Prof. Dr. Peter Pleus				Corinna Schittenhelm				Dr. Stefan Spindler			
CEO Automotive				Chief Operating Officer				CEO Automotive				Chief Human Resources Officer				CEO Industrial			
from October 24, 2014 to December 31, 2016				since October 24, 2014				since October 24, 2014				since January 01, 2016				since May 01, 2015			
2015	2016	2016 (floor)	2016 (ceiling)	2015	2016	2016 (floor)	2016 (ceiling)	2015	2016	2016 (floor)	2016 (ceiling)	2015	2016	2016 (floor)	2016 (ceiling)	2015	2016	2016 (floor)	2016 (ceiling)
600	600	600	600	600	600	600	600	600	600	600	600	-	600	600	600	400	600	600	600
600	-	-	-	600	-	-	-	600	-	-	-	-	-	-	-	600	-	-	-
27	25	25	25	28	28	28	28	41	41	41	41	-	23	23	23	13	23	23	23
<b>1,227</b>	<b>625</b>	<b>625</b>	<b>625</b>	<b>1,228</b>	<b>628</b>	<b>628</b>	<b>628</b>	<b>1,241</b>	<b>641</b>	<b>641</b>	<b>641</b>	-	<b>623</b>	<b>623</b>	<b>623</b>	<b>1,013</b>	<b>623</b>	<b>623</b>	<b>623</b>
900	900	0	1,350	900	900	0	1,350	900	900	0	1,350	-	600	0	900	500	750	0	1,125
753	-	-	-	753	-	-	-	753	-	-	-	-	-	-	-	423	-	-	-
-	824	0	1,900	-	824	0	1,900	-	824	0	1,900	-	564	0	1,300	-	694	0	1,600
<b>2,880</b>	<b>2,349</b>	<b>625</b>	<b>3,875</b>	<b>2,881</b>	<b>2,352</b>	<b>628</b>	<b>3,878</b>	<b>2,894</b>	<b>2,365</b>	<b>641</b>	<b>3,891</b>	-	<b>1,787</b>	<b>623</b>	<b>2,823</b>	<b>1,936</b>	<b>2,067</b>	<b>623</b>	<b>3,348</b>
205	194	194	194	288	272	272	272	380	357	357	357	-	319	319	319	164	250	250	250
<b>3,085</b>	<b>2,543</b>	<b>819</b>	<b>4,069</b>	<b>3,169</b>	<b>2,624</b>	<b>900</b>	<b>4,150</b>	<b>3,274</b>	<b>2,722</b>	<b>998</b>	<b>4,248</b>	-	<b>2,106</b>	<b>942</b>	<b>3,142</b>	<b>2,100</b>	<b>2,317</b>	<b>873</b>	<b>3,598</b>

No. 077

Norbert Indlekofer		Oliver Jung		Prof. Dr. Peter Pleus		Corinna Schittenhelm		Dr. Stefan Spindler	
CEO Automotive		Chief Operating Officer		CEO Automotive		Chief Human Resources Officer		CEO Industrial	
from October 24, 2014 to December 31, 2016		since October 24, 2014		since October 24, 2014		since January 01, 2016		since May 01, 2015	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
600	600	600	600	600	600	600	-	600	400
300	300	300	300	300	300	-	-	300	300
25	27	28	28	41	41	23	-	23	13
<b>925</b>	<b>927</b>	<b>928</b>	<b>928</b>	<b>941</b>	<b>941</b>	<b>623</b>	-	<b>923</b>	<b>713</b>
862	715	899	715	862	715	599	-	522	397
0	0	0	0	0	0	0	-	0	0
0	0	0	0	0	0	0	-	0	0
<b>1,787</b>	<b>1,642</b>	<b>1,827</b>	<b>1,643</b>	<b>1,803</b>	<b>1,656</b>	<b>1,222</b>	-	<b>1,445</b>	<b>1,110</b>
194	205	272	288	357	380	319	-	250	164
<b>1,981</b>	<b>1,847</b>	<b>2,099</b>	<b>1,931</b>	<b>2,160</b>	<b>2,036</b>	<b>1,541</b>	-	<b>1,695</b>	<b>1,274</b>

**Remuneration for 2016 –  
Managing Directors who left the company in 2015**

No. 078

	Kurt Mirlach				Robert Schullan			
	Chief Human Resources Officer				CEO Industrial			
	from October 24, 2014 to December 31, 2015				from October 24, 2014 to April 30, 2015			
in € thousands	2015	2016	2016 (floor)	2016 (ceiling)	2015	2016	2016 (floor)	2016 (ceiling)
Fixed remuneration	450	-	-	-	142	-	-	-
Sign-On Bonus	-	-	-	-	-	-	-	-
Fringe benefits	22	-	-	-	9	-	-	-
<b>Total</b>	<b>472</b>	-	-	-	<b>151</b>	-	-	-
One-year variable remuneration	960	-	-	-	572	-	-	-
Multi-year variable remuneration								
• Long-term bonus: PSUP (4 years) – 2015 tranche	-	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) – 2016 tranche	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,432</b>	-	-	-	<b>723</b>	-	-	-
Pension cost	266	-	-	-	130	-	-	-
<b>Total remuneration</b>	<b>1,698</b>	-	-	-	<b>853</b>	-	-	-

**Payments for 2016 –  
Managing Directors who left the company in 2015**

No. 079

	Kurt Mirlach		Robert Schullan	
	Chief Human Resources Officer		CEO Industrial	
	from October 24, 2014 to December 31, 2015		from October 24, 2014 to April 30, 2015	
in € thousands	2016	2015	2016	2015
Fixed remuneration	-	450	-	142
Sign-On Bonus	-	-	-	-
Fringe benefits	-	22	-	9
<b>Total</b>	-	<b>472</b>	-	<b>151</b>
One-year variable remuneration	-	1,003	-	579
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) – 2015 tranche	-	-	-	-
• Long-term bonus: PSUP (4 years) – 2016 tranche	-	-	-	-
<b>Total</b>	-	<b>1,475</b>	-	<b>730</b>
Pension cost	-	266	-	130
<b>Total remuneration</b>	-	<b>1,741</b>	-	<b>860</b>



The total remuneration for 2016 and 2015 is broken down by individual and by its various components in accordance with section 285 (9a) HGB and section 314 (1) (6a) HGB below.

**Total remuneration (HGB) for 2016 by individual** No. 080

in € thousands	Remuneration components			Total remuneration
	fixed	variable, short-term	variable, long-term <sup>1)</sup>	
Klaus Rosenfeld (CEO)	1,227	1,199	1,128	3,554
Prof. Dr. Peter Gutzmer	628	899	824	2,351
Dr. Ulrich Hauck	628	749	694	2,071
Norbert Indlekofer <sup>2)</sup>	625	862	824	2,311
Oliver Jung	628	899	824	2,351
Prof. Dr. Peter Pleus	641	862	824	2,327
Corinna Schittenhelm	623	599	564	1,786
Dr. Stefan Spindler	623	522	694	1,839
<b>Total</b>	<b>5,623</b>	<b>6,591</b>	<b>6,376</b>	<b>18,590</b>

<sup>1)</sup> Share-based payment in the form of the PSUP.

<sup>2)</sup> Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

**Total remuneration (HGB) for 2015 by individual** No. 081

in € thousands	Remuneration components			Total remuneration
	fixed	variable, short-term	variable, long-term <sup>1)</sup>	
Klaus Rosenfeld (CEO)	2,427	953	1,031	4,411
Prof. Dr. Peter Gutzmer	1,228	715	753	2,696
Dr. Ulrich Hauck	1,070	447	476	1,993
Norbert Indlekofer <sup>2)</sup>	1,227	715	753	2,695
Oliver Jung	1,228	715	753	2,696
Prof. Dr. Peter Pleus	1,241	715	753	2,709
Dr. Stefan Spindler	1,013	397	423	1,833
<b>Managing Directors who left the company in 2015 (Remuneration under remuneration in effect prior to listing)</b>				
Kurt Mirlach (until December 31, 2015)	472	1,003	0	1,475
Robert Schullan (until April 30, 2015)	151	579	0	730
<b>Total</b>	<b>10,057</b>	<b>6,239</b>	<b>4,942</b>	<b>21,238</b>

<sup>1)</sup> Share-based payment in the form of the PSUP.

<sup>2)</sup> Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

The total expenses resulting from the PSUP for 2016 are broken down by individual in accordance with section 314 (1) (6a) (8) HGB in connection with IFRS 2.51a below.

<b>PSUP expenses in 2016</b>	<b>No. 082</b>
in € thousands	Expenses (IFRS)
Klaus Rosenfeld (CEO)	402
Prof. Dr. Peter Gutzmer	293
Dr. Ulrich Hauck	213
Norbert Indlekofer <sup>1)</sup>	948
Oliver Jung	293
Prof. Dr. Peter Pleus	184
Corinna Schittenhelm	88
Dr. Stefan Spindler	201
<b>Total</b>	<b>2,622</b>

<sup>1)</sup> Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

The total expenses resulting from the PSUP for 2015 are broken down by individual in accordance with section 314 (1) (6a) (8) HGB in connection with IFRS 2.51a below.

<b>PSUP expenses in 2015</b>	<b>No. 083</b>
in € thousands	Expenses (IFRS)
Klaus Rosenfeld (CEO)	92
Prof. Dr. Peter Gutzmer	67
Dr. Ulrich Hauck (since April 01, 2015)	42
Norbert Indlekofer <sup>1)</sup>	176
Oliver Jung	67
Prof. Dr. Peter Pleus	176
Dr. Stefan Spindler (since May 01, 2015)	38
<b>Managing Directors who left the company in 2015 (Remuneration under remuneration in effect prior to listing)</b>	
Kurt Mirlach (until December 31, 2015)	-
Robert Schullan (until April 30, 2015)	-
<b>Total</b>	<b>658</b>

<sup>1)</sup> Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

### 3.4 Remuneration of the Supervisory Board

The description of the remuneration of the Supervisory Board includes the disclosures required by German commercial law and is consistent with the recommendations of the GCGC. The remuneration of the Supervisory Board was set by a resolution passed by the general meeting on December 01, 2014.

The members of the Supervisory Board of Schaeffler AG receive fixed remuneration of EUR 50,000 per year. The Chairman of the Supervisory Board receives twice this amount, his Deputies 1.5 times this amount. In addition, membership on committees is compensated as follows:

- Executive committee; committee remuneration of EUR 20,000 for each ordinary member, twice this amount for the chairman.
- Audit committee; committee remuneration for each ordinary member of EUR 20,000, twice this amount for the chairman.

Where a member of the Supervisory Board chairs several committees or chairs both the Supervisory Board and one or more committees, no remuneration is paid for the additional chairmanship. Remuneration is pro-rated for changes in the Supervisory Board or its committees.

Remuneration for committee membership for any one financial year is conditional on the relevant committee actually having met to fulfill its responsibilities during the period.

In addition, each member of the Supervisory Board receives an attendance fee of EUR 1,500 for each meeting of the Supervisory Board or its committees he or she attends in person.

Members of the Supervisory Board are reimbursed for expenses incurred in connection with the performance of their duties and for any value-added tax on their remuneration.

The company has obtained director's and officers' liability insurance (D&O insurance) for all members of the Supervisory Board; the policy's deductible provision is in accordance with the German Stock Corporations Act and the GCGC.

No advances or loans were granted to members of the Supervisory Board in 2016 or 2015. The following tables summarize the amount of remuneration of each member of the Supervisory Board.

Supervisory Board remuneration for 2016 <sup>1)</sup>				No. 084
in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees	Total remuneration
Bullinger, Prof. Dr. Hans-Jörg	60		7	67
Engelmann, Dr. Holger	60		7	67
Gottschalk, Prof. Dr. Bernd	60		7	67
Lenhard, Norbert <sup>2)</sup>	60	24	12	96
Luther, Dr. Siegfried	60	48	16	124
Mittag, Dr. Reinold <sup>2)</sup>	60	24	16	100
Münch, Yvonne <sup>2)</sup>	60		9	69
Resch, Barbara <sup>2)</sup>	60	24	14	98
Schaeffler, Georg F.W.	119	48	14	181
Schaeffler-Thumann, Maria-Elisabeth	89	24	7	120
Schmidt, Stefanie <sup>2)</sup>	60		7	67
Spindler, Dirk	60		9	69
Stalker, Robin	60	24	14	98
Stolz, Jürgen <sup>2)</sup>	60		9	69
Vicari, Salvatore <sup>2)</sup>	60	24	14	98
Wechsler, Jürgen <sup>2)</sup>	89	24	12	125
Wiesheu, Dr. Otto	60		7	67
Wolf, Prof. KR Ing. Siegfried	60	24	9	93
Worrich, Jürgen <sup>2)</sup>	60	24	16	100
Zhang, Prof. Dr.-Ing. Tong	60		9	69
<b>Total</b>	<b>1,317</b>	<b>312</b>	<b>215</b>	<b>1,844</b>

1) All amounts shown include value-added tax on remuneration where applicable. The positions held by the Supervisory Board members are listed in section 5 "Governing bodies of the company".

2) These employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation in accordance with the guidelines issued by the German Federation of Trade Unions.

Supervisory Board remuneration for 2015 <sup>1)</sup>				No. 085
in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees	Total remuneration
Bänsch, Jürgen (until November 19, 2015) <sup>2)</sup>	53	21	16	90
Bullinger, Prof. Dr. Hans-Jörg	60		7	67
Engelmann, Dr. Holger	60		7	67
Gottschalk, Prof. Dr. Bernd	60		7	67
Lenhard, Norbert <sup>2)</sup>	60	24	16	100
Luther, Dr. Siegfried	60	48	12	120
Mittag, Dr. Reinold <sup>2)</sup>	60	24	18	102
Mölkner, Thomas (until November 19, 2015) <sup>2)</sup>	53		9	62
Münch, Yvonne (since November 19, 2015) <sup>2)</sup>	7		2	9
Resch, Barbara (since November 19, 2015) <sup>2)</sup>	7	1	4	12
Schaeffler, Georg F.W.	119	48	23	190
Schaeffler-Thumann, Maria-Elisabeth	89	24	12	125
Schmidt, Stefanie <sup>2)</sup>	60		7	67
Spindler, Dirk	60		9	69
Stalker, Robin	60	24	16	100
Stolz, Jürgen <sup>2)</sup>	60		9	69
Vicari, Salvatore <sup>2)</sup>	60	24	18	102
Wechsler, Jürgen <sup>2)</sup>	89	24	16	129
Wiesheu, Dr. Otto	60		9	69
Wolf, Prof. KR Ing. Siegfried	60	24	9	93
Worrich, Jürgen <sup>2)</sup>	60	24	18	102
Zhang, Prof. Dr.-Ing. Tong	60		5	65
<b>Total</b>	<b>1,317</b>	<b>310</b>	<b>249</b>	<b>1,876</b>

1) All amounts shown include value-added tax on remuneration where applicable. The positions held by the Supervisory Board members are listed in section 5 "Governing bodies of the company".

2) These employee representatives have stated that their board remuneration is transferred to the Hans Böckler Foundation in accordance with the guidelines issued by the German Federation of Trade Unions.

Members of the Supervisory Board have not received any compensation for personal services, especially consulting and agency services, in 2016 or 2015.

## 4. Governing bodies of the company

### 4.1 Supervisory Board

The Supervisory Board consists of twenty members. Ten of these members are appointed by a resolution of the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act. The term of office of the shareholder representatives on the Supervisory Board ends at the conclusion of the annual general meeting 2019. The term of office of the employee representatives ends at the conclusion of the annual general meeting 2020.

#### Georg F. W. Schaeffler

Shareholder of INA-Holding Schaeffler GmbH & Co. KG  
Chairman of the Supervisory Board of Schaeffler AG

Appointed: December 01, 2014

Committee memberships: Chairman of the mediation, executive, and nomination committees and member of the audit committee

Seats on supervisory and similar boards: Member of the supervisory board of Continental AG, Hanover

#### Maria-Elisabeth Schaeffler-Thumann

Shareholder of INA-Holding Schaeffler GmbH & Co. KG  
Deputy Chairperson of the Supervisory Board of Schaeffler AG

Appointed: December 01, 2014

Committee memberships: Member of the mediation, executive, and nomination committees

Seats on supervisory and similar boards: Member of the supervisory board of Continental AG, Hanover

#### Jürgen Wechsler\*

Regional Director of IG Metall Bavaria  
Deputy Chairman of the Supervisory Board of Schaeffler AG

Appointed: November 19, 2015

Committee memberships: Member of the mediation and executive committees

Seats on supervisory and similar boards: Member of the supervisory board of BMW AG, Munich; deputy chairman of the supervisory board of Siemens Healthcare GmbH, Munich

#### Prof. Dr. Hans-Jörg Bullinger

Senator of Fraunhofer-Gesellschaft zur Förderung angew. Forschung e.V.

Appointed: December 01, 2014

Seats on supervisory and similar boards: Chairman of the supervisory board of ARRI AG, Munich; member of the supervisory board of Bauerfeind AG, Zeulenroda-Triebes; chairman of the supervisory board of TÜV SÜD AG, Munich; deputy chairman of the supervisory board of WILO SE, Dortmund

#### Dr. Holger Engelmann

Chief Executive Officer of Webasto SE

Appointed: December 01, 2014

Committee memberships: Member of the nomination committee  
Seats on supervisory and similar boards: Member of the supervisory board of Webasto Roof Systems China Ltd., Hong Kong, China (until October 18, 2016); chairman of the supervisory board of Webasto Thermo & Comfort SE, Gilching

\* Employee representative on the Supervisory Board.

**Prof. Dr. Bernd Gottschalk**

Acting Partner of AutoValue GmbH

Appointed: December 01, 2014

Committee memberships: Member of the nomination committee

Seats on supervisory and similar boards: Member of the supervisory board of JOST-Werke Deutschland GmbH, Neu-Isenburg; member of the supervisory board of Plastic Omnium SA, Levallois-Perret, France; chairman of the advisory board of Woco Industrietechnik GmbH, Bad Soden-Salmünster

**Norbert Lenhard\***

Chairman of the central Works Council of Schaeffler Technologies AG &amp; Co. KG; Chairman of the Works Council at the Schweinfurt plant

Appointed: November 19, 2015

Committee memberships: Member of the mediation and executive committees

**Dr. Siegfried Luther**

Management Consultant

Appointed: December 01, 2014

Committee memberships: Chairman of the audit committee

Seats on supervisory and similar boards: Member of the supervisory board of Evonik Industries AG, Essen; member of the board of directors of Sparkasse Gütersloh, Gütersloh

**Dr. Reinold Mittag\***

Trade Union Secretary of IG Metall

Appointed: November 19, 2015

Committee memberships: Member of the audit committee

**Yvonne Münch\***

Manager Plant Purchase and Logistics

Appointed: November 19, 2015

**Barbara Resch\***

Wage coordinator

Appointed: November 19, 2015

Committee memberships: Member of the executive committee

**Stefanie Schmidt\***

Chairperson of the Works Council at the Wuppertal plant

Appointed: November 19, 2015

**Dirk Spindler\***

Senior Vice President R&amp;D Processes, Methods and Tools of Schaeffler AG

Appointed: November 19, 2015

**Robin Stalker**

Chief Financial Officer of adidas AG, Herzogenaurach

Appointed: December 01, 2014

Committee memberships: Member of the audit committee

**Jürgen Stolz\***

Chairman of the Works Council at the Bühl plant

Appointed: November 19, 2015

**Salvatore Vicari\***

Chairman of the Works Council at Homburg/Saar plant

Appointed: November 19, 2015

Committee memberships: Member of the audit committee

**Dr. Otto Wiesheu**

Lawyer

Appointed: December 01, 2014

**Prof. KR Ing. Siegfried Wolf**

Chairman of the Board of Directors of Russian Machines LLC

Appointed: December 01, 2014

Committee memberships: Chairman of the executive committee

Seats on supervisory and similar boards: Member of the supervisory board of Banque Eric Sturdza SA, Geneva, Switzerland; member of the supervisory board of Continental AG, Hanover; chairman of the supervisory board of GAZ Group, Nizhny Novgorod, Russia; member of the supervisory board of Miba AG, Mitterbauer Beteiligungs AG, Laakirchen, Austria; chairman of the supervisory board of SBERBANK Europe AG, Vienna, Austria; member of the supervisory board of UC RUSAL Plc, Nicosia, Cyprus (since June 24, 2016)

**Jürgen Worrich\***

Chairman of the European Schaeffler Works Council; member of the Works Council at the Herzogenaurach plant

Appointed: November 19, 2015

Committee memberships: Member of the audit committee

**Prof. Dr.-Ing. Tong Zhang**

Director Clean Energy Automotive Engineering Center at Tongji University in Shanghai, China

Appointed: December 01, 2014

\* Employee representative on the Supervisory Board.

## 4.2 Supervisory Board committees

### Mediation committee

Georg F. W. Schaeffler (chairman),  
Norbert Lenhard, Maria-Elisabeth Schaeffler-Thumann,  
and Jürgen Wechsler

### Executive committee

Georg F. W. Schaeffler (chairman), Norbert Lenhard,  
Barbara Resch, Maria-Elisabeth Schaeffler-Thumann,  
Jürgen Wechsler, and Prof. KR Ing. Siegfried Wolf

### Audit committee

Dr. Siegfried Luther (chairman), Dr. Reinold Mittag,  
Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari,  
and Jürgen Worrich

### Nomination committee

Georg F. W. Schaeffler (chairman),  
Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk,  
and Maria-Elisabeth Schaeffler-Thumann

## 4.3 Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors currently has eight members: the Chief Executive Officer (CEO), the CEOs of the two divisions Automotive and Industrial, and the Managing Directors responsible for the functions (1) Technology, (2) Operations, (3) Finance, and (4) Human Resources. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board.

### Klaus Rosenfeld

Chief Executive Officer

Responsible for: Quality; MOVE, Communications & Marketing; Investor Relations; Legal; Internal Audit; Corporate Development & Strategy; Compliance & Corporate Security; Corporate Real Estate

Appointed: October 24, 2014

Term of office ends: June 30, 2019

Seats on supervisory and similar boards: Member of the supervisory board of Continental AG, Hanover; member of the supervisory board of FAG Bearings India Ltd., Mumbai, India

### Prof. Dr.-Ing. Peter Gutzmer

Deputy Chief Executive Officer and Chief Technology Officer

Responsible for: Corporate R&D Management; Corporate Innovation; R&D Processes, Methods & Tools; R&D Competence & Services; Intellectual Property & Rights; Surface Technology; Information Technology; Coordination Office Digitalization

Appointed: October 24, 2014

Term of office ends: December 31, 2019

Seats on supervisory and similar boards: Member of the supervisory board of Continental AG, Hanover

### Dr. Ulrich Hauck

Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Taxes; Divisional Controlling Automotive; Divisional Controlling Industrial; Corporate Insurance

Appointed: April 01, 2015

Term of office ends: March 31, 2018

Seats on supervisory and similar boards: Member of the supervisory board of mutares AG, Munich

### Oliver Jung

Chief Operating Officer

Responsible for: Operations Strategy & Processes; Production Technology; Special Machinery; Tool Management & Prototyping; Industrial Engineering; Bearing & Components Technologies; Logistics; Purchasing; MOVE Operations

Appointed: October 24, 2014

Term of office ends: September 30, 2018

Seats on supervisory and similar boards: Member of the supervisory board of SupplyOn AG, Munich

### Prof. Dr. Peter Pleus

CEO Automotive

Responsible for: Engine Systems and Chassis Systems business divisions; Global Key Account Management Automotive division; Business Development Automotive

Appointed: October 24, 2014

Term of office ends: December 31, 2018

Seats on supervisory and similar boards: Member of the supervisory board of IAV GmbH, Berlin

**Corinna Schittenhelm**

Chief Human Resources Officer

Responsible for: HR Strategy; HR Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Environment, Health & Safety; HR Functions; HR Automotive; HR Industrial

Appointed: January 01, 2016

Term of office ends: December 31, 2018

**Dr. Stefan Spindler**

CEO Industrial

Responsible for: Strategic Planning Sectors & Customers; Global Sales Industrial; Research & Development and Application Engineering; Operations and Supply Chain Management; Program "CORE"

Appointed: May 01, 2015

Term of office ends: April 30, 2018

Seats on supervisory and similar boards: Deputy Chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria

**Matthias Zink (since January 01, 2017)**

CEO Automotive

Responsible for: Transmission Systems and Automotive Aftermarket business divisions; Research & Development Automotive division

Appointed: January 01, 2017

Term of office ends: December 31, 2019

**The following member left the Board of Managing Directors in 2016****Norbert Indlekofer (until December 31, 2016)**

CEO Automotive

Responsible for: Transmission Systems and Automotive Aftermarket business divisions; Research & Development Automotive division

Appointed: October 24, 2014

Term of office ended: December 31, 2016

Seats on supervisory and similar boards: Member of the supervisory board of Gienanth GmbH, Eisenberg

# Financial statements 2016

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# 1. Balance sheet

Balance sheet of Schaeffler AG			No. 086
in €	12/31/2016	12/31/2015	Change in %
<b>ASSETS</b>			
<b>Intangible assets</b>	<b>4,016.00</b>	<b>3,788.00</b>	<b>6.0</b>
<b>Property, plant and equipment</b>	<b>321,461.00</b>	<b>144,711.00</b>	<b>&gt; 100</b>
Shares in affiliated companies	14,108,811,259.16	14,108,811,259.16	0.0
Loans receivable from affiliated companies	120,000,000.00	1,797,562,175.80	-93.3
<b>Long-term financial assets</b>	<b>14,228,811,259.16</b>	<b>15,906,373,434.96</b>	<b>-10.5</b>
<b>Fixed assets</b>	<b>14,229,136,736.16</b>	<b>15,906,521,933.96</b>	<b>-10.5</b>
Receivables from affiliated companies	11,505,345,290.98	11,099,877,765.37	3.7
Receivables from entities to which the company is linked by equity ownership	1,021.02	8,179.34	-87.5
Other assets	98,234,547.43	178,207,423.19	-44.9
<b>Receivables and other assets</b>	<b>11,603,580,859.43</b>	<b>11,278,093,367.90</b>	<b>2.9</b>
<b>Cash at banks</b>	<b>635,193,409.31</b>	<b>449,047,348.64</b>	<b>41.5</b>
<b>Current assets</b>	<b>12,238,774,268.74</b>	<b>11,727,140,716.54</b>	<b>4.4</b>
<b>Prepaid expenses and deferred charges</b>	<b>100,871.04</b>	<b>208,362.71</b>	<b>-51.6</b>
<b>Excess of plan assets over post-employment benefit liability</b>	<b>8,376,620.45</b>	<b>6,186,680.13</b>	<b>35.4</b>
<b>Total assets</b>	<b>26,476,388,496.39</b>	<b>27,640,057,693.34</b>	<b>-4.2</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Share capital	666,000,000.00	666,000,000.00	0.0
Capital reserves	2,359,000,000.00	2,359,000,000.00	0.0
Revenue reserves	3,342,775,184.50	0.00	-
Retained earnings	566,156,626.00	3,670,775,184.50	-84.6
<b>Shareholders' equity</b>	<b>6,933,931,810.50</b>	<b>6,695,775,184.50</b>	<b>3.6</b>
<b>Special reserve</b>	<b>8,399,813.00</b>	<b>10,499,813.00</b>	<b>-20.0</b>
Provisions for pensions and similar obligations	37,964,871.69	22,838,769.16	66.2
Tax provisions	101,770,939.00	78,971,913.00	28.9
Other provisions	128,386,105.09	142,121,914.37	-9.7
<b>Provisions</b>	<b>268,121,915.78</b>	<b>243,932,596.53</b>	<b>9.9</b>
Bank debt	1,000,000,255.44	654,151,873.16	52.9
Trade payables	3,434,613.72	1,271,373.95	> 100
Amounts payable to affiliated companies	18,203,582,140.14	19,604,157,234.86	-7.1
Other liabilities	58,917,947.81	50,688,711.85	16.2
<small>• including taxes of EUR 9,802,848.83 (prior year: EUR 1,416,347.02)</small>			
<b>Liabilities</b>	<b>19,265,934,957.11</b>	<b>20,310,269,193.82</b>	<b>-5.1</b>
<b>Deferred income</b>	<b>0.00</b>	<b>66,968,571.63</b>	<b>-100</b>
<b>Deferred tax liabilities</b>	<b>0.00</b>	<b>312,612,333.86</b>	<b>-100</b>
<b>Total shareholders' equity and liabilities</b>	<b>26,476,388,496.39</b>	<b>27,640,057,693.34</b>	<b>-4.2</b>

## 2. Income statement

### Income statement of Schaeffler AG

No. 087

in €	2016	2015	Change in %
1. Revenue	87,643,064.28	53,709,067.94	63.2
2. Cost of sales	-83,541,220.99	-51,461,784.88	62.3
<b>3. Gross profit</b>	<b>4,101,843.29</b>	<b>2,247,283.06</b>	<b>82.5</b>
4. General and administrative expenses	-70,595,659.77	-45,975,659.96	53.6
5. Other operating income	634,722,049.87	745,177,830.80	-14.8
6. Other operating expenses	-516,506,210.41	-714,831,817.36	-27.7
7. Income from equity investments	600,000,000.00	1,118,829,976.36	-46.4
• affiliated companies EUR 600,000,000.00 (prior year: EUR 1,118,829,976.36)			
8. Income from other securities and long-term loans receivable	50,819,945.05	72,601,132.59	-30.0
• affiliated companies EUR 50,819,945.05 (prior year: EUR 72,601,132.59)			
9. Other interest and similar income	33,293,903.64	130,402,584.10	-74.5
• affiliated companies EUR 29,073,322.65 (prior year: EUR 43,683,791.04)			
10. Interest and similar expenses	-373,241,643.31	-611,387,826.36	-39.0
• affiliated companies EUR 305,261,493.83 (prior year: EUR 449,552,476.54)			
11. Income taxes	203,601,896.24	-121,628,866.44	-
<b>12. Earnings after income taxes</b>	<b>566,196,124.60</b>	<b>575,434,636.79</b>	<b>-1.6</b>
13. Other taxes	-39,498.60	-175,271.00	-77.5
<b>14. Net income for the year</b>	<b>566,156,626.00</b>	<b>575,259,365.79</b>	<b>-1.6</b>
15. Retained earnings brought forward	0.00	3,095,515,818.71	-100
<b>16. Retained earnings</b>	<b>566,156,626.00</b>	<b>3,670,775,184.50</b>	<b>-84.6</b>

## 3. Notes to the financial statements

### 3.1 General information on the financial statements

Schaeffler AG, Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestraße 1 – 3, 91074 Herzogenaurach. It is registered in the Commercial Register B of the Fürth Local Court under No. HRB 14738.

These financial statements were prepared in accordance with sections 242 et seq. and 264 et seq. of the German Commercial Code (“Handelsgesetzbuch” – HGB) and the supplementary provisions of the German Stock Companies Act (“Aktiengesetz”).

The company is subject to the requirements for large corporations as defined in section 267 (3) HGB in connection with section 264 d HGB.

Comparability with prior year financial statements:

The presentation of the income statement has been amended due to changes arising from the Accounting Directives Implementation Act (“Bilanzrichtlinien-Umsetzungsgesetz”) and is in accordance with the presentation requirements of section 275 (3) HGB.

The concept of revenue has been redefined as a result of the introduction of the Accounting Directives Implementation Act and its initial application to years beginning after December 31, 2015. As the revised version of section 277 (1) HGB no longer refers to goods and services typically offered as part of the company’s ordinary business activities, it also applies to other types of income. As a result, prior year comparative amounts for revenue and the corresponding income statement line items have been adjusted to reflect the amounts that would have resulted had section 277 (1) HGB been applied as amended by the Accounting Directive Implementation Act. Revenue of

EUR 53,709 m is not included in other operating income and the related cost of sales of EUR 51,462 m is not included in general and administrative expenses.

Unlike in the prior year, commission expense on letters of credit is included in interest and similar expenses rather than in other operating expenses. Because commission expense on letters of credit is directly related to the group financing arrangements, presenting it in interest and similar expenses better reflects that economic relationship. Prior year comparative amounts have been adjusted for commissions on letters of credit of EUR 49.0 m.

### 3.2 Accounting policies

Details of the company’s accounting policies are as follows:

**Intangible assets** are recognized at acquisition cost or, where there is a lasting impairment, at their lower fair value. Intangible assets with a definite useful life are amortized over their expected useful life.

**Property, plant and equipment** is recognized at acquisition or manufacturing cost and depreciated over its expected useful life using either the straight-line or the declining balance method.

Depreciation is determined based on normal useful lives. Write-downs to the lower fair value are recognized when an impairment has occurred that is not reflected in regular depreciation and is expected to be permanent.

Write-downs are reversed when the cause of the write-down no longer exists.

**Long-term financial assets** are recognized at acquisition cost or, where there is a permanent impairment, at their lower fair value.

Write-downs to the lower fair value are recognized when the impairment is expected to be permanent. Write-downs are reversed to the extent the cause for the write-down no longer exists.

**Receivables** are recognized at face value.

**Other assets** are recognized at face or fair value, settlement amount, or present value.

Derivative financial instruments in the form of cross-currency swaps and forward exchange contracts are measured separately. Their book value is capped at acquisition cost. Negative market values are reflected in provisions for pending losses. Fair value is measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. Embedded derivatives are measured using a Hull-White model. Key inputs to this model include interest rates, volatilities and credit default swap rates.

Some of the cross-currency swaps entered into to hedge currency risk related to financing arrangements are accounted for using hedge accounting together with the underlying amounts payable to affiliated companies. Similarly, cross-currency swaps with parties external to the group are accounted for using hedge accounting together with intragroup hedging instruments with identical but opposite features that are used to hedge highly probable forecasted sales transactions of an affiliated company. The company uses the net hedge presentation method of hedge accounting, which involves fixing the amounts of the separate components as at the date hedge accounting commences. Subsequent effective changes in their value with respect to the hedged risk are not recognized.

Cash at banks is measured at face value.

**Prepaid assets and deferred charges** are recognized at the amount that is reasonably attributable to periods subsequent to the balance sheet date.

**Deferred taxes** are recognized on temporary differences between amounts recognized for financial reporting and for tax purposes for assets, liabilities, prepaid assets and deferred charges, as well as deferred income. Deferred tax assets have not been recognized in the balance sheet.

**Provisions for pensions and similar obligations** are determined by actuarial calculations using the projected unit credit method (PUC) based on the "Heubeck-Richttafeln 2005 G" mortality tables. The valuation of pension provisions reflects future annual salary increases of 3.25 %, pension increases of 1.0 – 1.75 %, and an employee turnover rate of 2.1 %. The forecasted interest rate used to discount pension obligations as at December 31, 2016, amounts to 4.01 %, which is the forecast of the average market interest rate for an assumed term of 15 years determined and published by the German Central Bank ("Deutsche Bundesbank"). As a result of the Act Implementing the Directive on Loans for Residential Real Estate and Amending Commercial Law Requirements dated March 11, 2016, provisions for pension obligations with a remaining term of more than one year are no longer discounted using the 7-year average discount rate, but using the 10-year average discount rate instead. Under new section 253 (6) HGB, the difference in the pension provision when measured using the 10-year average discount rate rather than the 7-year average discount rate of EUR 8,169 thousand as at December 31, 2016 (prior year: EUR 0 thousand) has to be separately disclosed and is included in net interest expense.

**Tax provisions** reflect all identifiable risks and uncertain liabilities and are recognized at the amount payable estimated based on reasonable business judgment. Provisions due in more than one year are discounted at the average of the previous seven years' market interest rate appropriate to their term to maturity. Provisions due in less than one year are not discounted.

**Other provisions** reflect all identifiable risks and uncertain liabilities. These provisions are recognized at the amount required to settle the expected expenditures related to uncertain liabilities as determined using reasonable business judgment. Future increases in prices and costs are reflected in the calculation to the extent sufficient objective evidence of their occurrence exists. Provisions due in more than one year are discounted at the average of the previous seven years' market interest rate appropriate to their term to maturity using the

present value method. Provisions due in less than one year are not discounted.

Schaeffler AG's Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan. The company recognizes a provision in the amount of the fair value of the payment obligation attributable to the period up to the reporting date. The liability is remeasured at the end of each reporting period from the grant date until settlement. The fair value per Performance Share Unit (PSU) is determined using generally accepted financial valuation models. The fair value is recognized as personnel expense over the relevant vesting period and presented under administrative expenses.

**Bank debt, trade payables, amounts payable to affiliated companies, and other liabilities** are recognized at their settlement amount.

**Deferred income** is recognized at the amount that is reasonably attributable to periods subsequent to the balance sheet date.

With respect to **currency translation**, receivables and liabilities in foreign currency are recognized at the exchange rate

applicable at the time of the transaction, and re-translated at the mean spot exchange rate on the balance sheet date. Gains are only recognized to the extent they relate to receivables and liabilities due in up to one year. Foreign exchange losses on hedging instruments are recognized in appropriate provisions for expected losses.

Cash at banks in foreign currency is translated at the mean spot exchange rate applicable on the balance sheet.

### 3.3 Notes to the balance sheet

#### Fixed assets

#### Summary of changes in fixed assets and information on shareholdings

Please refer to the separate appendices to these notes for the summary of changes in fixed assets and information on the company's shareholdings.

#### Receivables and other assets

in € thousands	12/31/2016			12/31/2015		
	Due in up to one year	Due in between 1 and 5 years	Due in more than 5 years	Due in up to one year	Due in between 1 and 5 years	Due in more than 5 years
Receivables from affiliated companies	11,505,345	0	0	11,099,878	0	0
• including short-term loans of	7,647,533	0	0	7,698,542	0	0
• including other financial receivables of	172,924	0	0	376,800	0	0
• including trade receivables of	82,266	0	0	24,745	0	0
• including other receivables of	3,602,622	0	0	2,999,791	0	0
Receivables from entities to which the company is linked by equity ownership	1	0	0	8	0	0
Other assets	34,990	0	63,245	78,847	36,115	63,245

Other receivables largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 3,599,784 thousand (prior year: EUR 2,999,784 thousand) that had not yet been paid out to Schaeffler AG as at December 31, 2016.

Receivables from affiliated companies do not include any receivables from shareholders (prior year: EUR 1,817 thousand). Other assets include the positive initial value of cross-currency swaps used to hedge currency risk of EUR 63,245 thousand (prior year: EUR 63,245 thousand). Since these cross-currency swaps are subject to hedge accounting under the net hedge

presentation method, they have not been written down to their lower fair value. The fair value of the proportional nominal amount of EUR 305,460 thousand (prior year: EUR 305,460 thousand) is EUR 56,868 thousand (prior year: EUR 108,215 thousand).

Due to the imparity principle, the company has not capitalized forward exchange contracts with positive market values of EUR 105,735 thousand (prior year: EUR 132,304 thousand) used to hedge currency risk from operations. The nominal amount of these contracts is EUR 3,210,703 thousand (prior year: EUR 3,556,811 thousand).

## Excess of plan assets over post-employment benefit liability

The company holds assets to partially fund its obligations under pension commitments and similar long-term obligations. The exclusive purpose of these assets is settling pension obligations and similar long-term obligations and they are protected from access by other creditors. The assets were offset against the related obligations in accordance with section 246 (2)(2) HGB in 2016 and consist mainly of reimbursement insurance policies and units of equity, fixed income, and money market funds. The fair value shown in the table below for assets that are interests in funds was derived from market prices of the funds' assets as at the balance sheet date.

**Net amount of pensions and similar obligations** No. 089

in € thousands	12/31/2016	12/31/2015
Settlement amount of pensions and similar obligations	23,938	21,147
Fair value of plan assets offset	32,315	27,334
<b>Net amount of pensions and similar obligations</b>	<b>8,377</b>	<b>6,187</b>
<b>Acquisition cost of plan assets offset</b>	<b>32,260</b>	<b>23,760</b>

in € thousands	2016	2015
Interest income on plan assets offset	740	598
Interest expense on pensions and similar obligations	-701	-5,876
<b>Net interest income (expense)</b>	<b>39</b>	<b>-5,278</b>

## Shareholders' equity

### Share capital

Schaeffler AG's share capital of EUR 666 m remains unchanged.

It is divided into 666 million no-par-value bearer shares, each representing an interest in share capital of EUR 1.00. The no-par-value shares are divided into 500 million common shares and 166 million common non-voting shares. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.

The common shares are held by IHO Verwaltungs GmbH (until September 27, 2016: Schaeffler Verwaltung Zwei GmbH). The common non-voting shares are widely held. Share capital is fully paid up and Schaeffler AG had no authorized or contingent capital or any resolutions with respect to these types of capital as at December 31, 2016.

### Capital reserves

Capital reserves of EUR 2,359 m as at the reporting date are unchanged from prior year.

### Retained earnings

In 2016, a dividend of EUR 328 m was paid to the shareholders from retained earnings, and the remaining EUR 3,343 m was added to other revenue reserves. The company's net income for the year of EUR 566 m was added to retained earnings.

For 2016, the Board of Managing Directors will propose to the Schaeffler AG annual general meeting a resolution to pay a dividend of EUR 328 m and to add the remaining retained earnings to revenue reserves.

### Special reserve

When Schaeffler AG assumed the functions of the Board of Managing Directors from IHO Verwaltungs GmbH (formerly Schaeffler AG) on October 24, 2014, it also assumed that company's operating assets and liabilities in return for an agreed upon amount of consideration. In the financial statements of Schaeffler AG, the difference between the recognized amount of net assets assumed and the receivable recognized for the consideration was initially recognized as a special reserve of EUR 12,600 thousand on the liability side of the balance sheet.

This entire special reserve represents the difference between the EUR 44,286 thousand in compensation paid by IHO Verwaltungs GmbH for release from pensions and similar obligations and the book value of these items of EUR 31,686 thousand, measured based on the requirements of the German Commercial Code as at the date of the transfer. The special reserve is amortized to income over a period of six years on a straight-line basis.

Amortization of EUR 2,100 thousand was recognized on the special reserve in 2016.

## Other provisions

Other provisions		No. 090
in € thousands	12/31/2016	12/31/2015
Provisions for pending losses on open transactions	100,537	122,254
Provisions for profit sharing, other bonuses, and share-based payments	14,874	11,232
Miscellaneous other provisions	12,975	8,636
<b>Total other provisions</b>	<b>128,386</b>	<b>142,122</b>

The company has recognized EUR 100,537 thousand (prior year: EUR 118,298 thousand) in provisions for pending losses for negative market values of forward exchange contracts used to hedge currency risk from operations. The nominal amount of these contracts is EUR 3,236,146 thousand (prior year: EUR 3,780,073 thousand).

## Liabilities

Liabilities		No. 091				
in € thousands	12/31/2016			12/31/2015		
	Due in up to one year	Due in between 1 and 5 years	Due in more than 5 years	Due in up to one year	Due in between 1 and 5 years	Due in more than 5 years
Bank debt	0	1,000,000	0	0	654,152	0
Trade payables	3,435	0	0	1,271	0	0
Amounts payable to affiliated companies	15,470,833	1,062,760	1,669,989	14,558,554	2,043,001	3,002,602
• including loans of	14,246,064	1,062,760	1,669,989	13,927,012	2,043,001	3,002,602
• including other financial debt of	1,164,224	0	0	573,779	0	0
• including trade payables of	1,835	0	0	1,016	0	0
• including other liabilities of	58,710	0	0	56,747	0	0
Other liabilities	58,918	0	0	50,689	0	0
• including taxes of	9,803	0	0	1,416	0	0

Schaeffler Finance B.V., a direct subsidiary of Schaeffler AG, issued the Schaeffler Group's bonds. Amounts payable to affiliated companies include EUR 2,772,382 thousand (prior year: EUR 5,051,573 thousand) payable to Schaeffler Finance B.V., largely relating to the transfer of the proceeds from the bond issuance by Schaeffler Finance B.V. Refinancing measures taken during the year have reduced the total amount of loans payable to Schaeffler Finance B.V.

As in the prior year, amounts payable to affiliated companies do not include any amounts payable to shareholders as at the reporting date.

Certain of the company's cross-currency swaps with a nominal amount of EUR 303,304 thousand (prior year: EUR 303,304 thousand) are included in other liabilities at a book value of EUR 28,274 thousand (prior year: EUR 28,274 thousand). The book value is the result of a negative initial market value. The positive fair value is EUR 53,759 thousand (prior year: EUR 45,511 thousand).

Bank debt secured by liens or similar rights (primarily long-term financial assets) amounts to EUR 1,000,000 thousand (prior year: EUR 654,152 thousand).

## Hedge accounting

Cross-currency swaps with a nominal amount of EUR 305,460 thousand (prior year: EUR 766,849 thousand) have been designated as hedging instruments in micro-hedges of the risk of changes in cash flows due to changes in foreign exchange rates related to financing arrangements. These hedging instruments include cross-currency swaps with positive fair values totaling EUR 56,868 thousand (prior year: EUR 108,215 thousand).

The hedged items are intragroup liabilities denominated in foreign currency with a book value of EUR 379,075 thousand (prior year: EUR 840,464 thousand).

The hedge covers the entire term to maturity of the hedged items (up to 2023).

There is an additional micro-hedge relationship between cross-currency swaps with a nominal value of EUR 114,017 thousand (prior year: EUR 0 thousand). The hedging instrument has a negative fair value of EUR 295 thousand (prior year: EUR 0 thousand), and the hedged item has a positive fair value of EUR 295 thousand. The hedge covers the entire term to maturity of the hedged item (up to 2024).

The hedging relationships are considered to be highly effective since the key drivers of the value of the hedged items and the hedging instruments are identical. Effectiveness is tested prospectively using sensitivity analysis and retrospectively using the dollar offset method.

Based on the net hedge presentation method, a total of EUR -136 thousand (prior year: EUR -104,385 thousand) in changes in the value of hedged items and EUR -10,207 thousand (prior year: EUR 109,564 thousand) in changes in the value of hedging instruments have not been recognized in the balance sheet.

## Deferred taxes

The deferred taxes of the entire income tax group are allocated to Schaeffler AG, the tax group's controlling company.

Deferred tax liabilities significant in amount result from differences between amounts recognized in accounting and tax balance sheets with respect to non-current assets. Deferred tax assets offset against these deferred tax liabilities also result from differences between amounts recognized in accounting and tax balance sheets with respect to non-current assets. The company has chosen not to recognize a deferred tax asset for the total net future tax benefit in accordance with section 274 (1)(2) HGB.

Deferred taxes on differences between amounts recognized in accounting and tax balance sheets are measured using a tax rate of 28.6 %.

## 3.4 Notes to the income statement

### Analysis of revenue

Analysis of revenue		No. 092
in € thousands	2016	2015
Domestic	85,892	52,317
Foreign	1,751	1,392
<b>Total</b>	<b>87,643</b>	<b>53,709</b>

As Schaeffler AG is the ultimate parent company of the Schaeffler Group, it provides services as part of managing the group; these services include public relations activities, treasury, legal consulting, tax consulting, compliance, human resources, internal audit, quality management, and general management.

Since January 01, 2016, all staff at the Schaeffler Group's corporate head office are employed by Schaeffler AG. Due to the transfer of employees from other Schaeffler Group companies to Schaeffler AG, the average number of employees has expanded from 354 in 2015 to 612 in 2016, increasing revenue from recharges for the services referred to above to other Schaeffler Group companies as well as personnel expenses in 2016.

### Disclosures required for the cost of sales format

Disclosures required for the cost of sales format		No. 093
in € thousands	2016	2015
Wages and salaries	78,435	50,758
Social security, post-employment, and other employee benefit costs	14,104	6,157
<b>Personnel expense</b>	<b>92,539</b>	<b>56,915</b>

### Income and expenses from discounting/compounding provisions and foreign exchange gains and losses

Other operating income includes foreign exchange gains of EUR 580,228 thousand (prior year: EUR 726,487 thousand).

Other operating expenses include foreign exchange losses of EUR 516,605 thousand (prior year: EUR 699,683 thousand).



Other interest and similar income does not include any income from discounting provisions (prior year: EUR 675 thousand). Other interest and similar expenses includes EUR 8,225 thousand (prior year: EUR 5,876 thousand) in expenses from compounding provisions.

### Expenses and income related to prior years

Expenses and income related to prior years		No. 094
in € thousands	2016	2015
Tax expense and benefits related to prior years	-347	32,400
Income from reversals of provisions	486	3,536
<b>Income related to prior years</b>	<b>139</b>	<b>35,936</b>

### Unusual income and expenses

EUR 33,325 thousand of deferred income was recognized as unusual income. Since further refinancing transactions have eliminated the basis for deferring this income, the entire balance was recognized in profit and loss.

## 3.5 Other information

### Contingent liabilities

The company has the following contingent liabilities, largely arising from bond issuances of Schaeffler Finance B.V.:

Contingent liabilities		No. 095	
in € thousands	12/31/2016	12/31/2015	Change in %
From granting security for third-party liabilities	2,760,599	4,614,093	-40.2
• including amounts secured by liens of	2,760,599	4,614,093	-40.2
• including security granted for liabilities of affiliated companies of	2,760,599	4,614,093	-40.2

The company had guarantees outstanding of EUR 144,790 thousand (prior year: EUR 42,901 thousand) at December 31, 2016.

As a result of the positive development of the Schaeffler Group, the company considers the risk of claims under its guarantees for liabilities of others to be low.

The company is the general partner of the following companies:

- Schaeffler Technologies AG & Co. KG, Herzogenaurach,
- Schaeffler Immobilien AG & Co. KG, Herzogenaurach.

### Other financial obligations

Other financial obligations		No. 096	
in € thousands	2016	2015	Change in %
Off-balance sheet payment obligations	2,662	1,524	74.7
• including obligations under multi-year leases of	1,974	1,053	87.5
• including obligations to affiliated companies of	688	471	461

### Average number of employees for the year

Average number of employees		No. 097	
	2016	2015	Change in %
Salaried employees	596	341	74.8
Temporary staff	16	13	23.1
<b>Total</b>	<b>612</b>	<b>354</b>	<b>72.9</b>

### Governing bodies of the company

#### Board of Managing Directors

The members of the Board of Managing Directors of Schaeffler AG, Herzogenaurach, are as follows:

**Klaus Rosenfeld**  
Chief Executive Officer

Responsible for: Quality; MOVE, Communications & Marketing; Investor Relations; Legal; Internal Audit; Corporate Development & Strategy; Compliance & Corporate Security; Corporate Real Estate

Appointed: October 24, 2014

Term of office ends: June 30, 2019

Seats on supervisory and similar boards: Member of the supervisory board of Continental AG, Hanover; member of the supervisory board of FAG Bearings India Ltd., Mumbai, India

**Prof. Dr.-Ing. Peter Gutzmer**

Deputy Chief Executive Officer and Chief Technology Officer

Responsible for: Corporate R&D Management; Corporate Innovation; R&D Processes, Methods & Tools; R&D Competence & Services; Intellectual Property & Rights; Surface Technology; Information Technology; Coordination Office Digitalization

Appointed: October 24, 2014

Term of office ends: December 31, 2019

Seats on supervisory and similar boards: Member of the supervisory board of Continental AG, Hanover

**Dr. Ulrich Hauck**

Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Taxes; Divisional Controlling Automotive; Divisional Controlling Industrial; Corporate Insurance

Appointed: April 01, 2015

Term of office ends: March 31, 2018

Seats on supervisory and similar boards: Member of the supervisory board of mutares AG, Munich

**Oliver Jung**

Chief Operating Officer

Responsible for: Operations Strategy & Processes; Production Technology; Special Machinery; Tool Management & Prototyping; Industrial Engineering; Bearing & Components Technologies; Logistics; Purchasing; MOVE Operations

Appointed: October 24, 2014

Term of office ends: September 30, 2018

Seats on supervisory and similar boards: Member of the supervisory board of SupplyOn AG, Munich

**Prof. Dr. Peter Pleus**

CEO Automotive

Responsible for: Engine Systems and Chassis Systems business divisions; Global Key Account Management Automotive division; Business Development Automotive

Appointed: October 24, 2014

Term of office ends: December 31, 2018

Seats on supervisory and similar boards: Member of the supervisory board of IAV GmbH, Berlin

**Corinna Schittenhelm**

Chief Human Resources Officer

Responsible for: HR Strategy; HR Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Environment, Health & Safety; HR Functions; HR Automotive; HR Industrial

Appointed: January 01, 2016

Term of office ends: December 31, 2018

**Dr. Stefan Spindler**

CEO Industrial

Responsible for: Strategic Planning Sectors & Customers; Global Sales Industrial; Research & Development and Application Engineering; Operations and Supply Chain Management; Program "CORE"

Appointed: May 01, 2015

Term of office ends: April 30, 2018

Seats on supervisory and similar boards: Deputy Chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria

**Matthias Zink (since January 01, 2017)**

CEO Automotive

Responsible for: Transmission Systems and Automotive Aftermarket business divisions; Research & Development Automotive division

Appointed: January 01, 2017

Term of office ends: December 31, 2019

**The following member left the Board of Managing Directors in 2016:****Norbert Indlekofer (until December 31, 2016)**

CEO Automotive

Responsible for: Transmission Systems and Automotive Aftermarket business divisions; Research & Development Automotive division

Appointed: October 24, 2014

Term of office ended: December 31, 2016

Seats on supervisory and similar boards: Member of the supervisory board of Gienanth GmbH, Eisenberg

## Supervisory Board

In accordance with section 11 of its articles of incorporation, the company has a twenty-member supervisory board. The Supervisory Board consists of the following individuals:

### Georg F. W. Schaeffler

Shareholder of INA-Holding Schaeffler GmbH & Co. KG  
Chairman of the Supervisory Board of Schaeffler AG

Appointed: December 01, 2014

Committee memberships: Chairman of the mediation, executive, and nomination committees and member of the audit committee

Seats on supervisory and similar boards: Member of the supervisory board of Continental AG, Hanover

### Maria-Elisabeth Schaeffler-Thumann

Shareholder of INA-Holding Schaeffler GmbH & Co. KG  
Deputy Chairperson of the Supervisory Board of Schaeffler AG

Appointed: December 01, 2014

Committee memberships: Member of the mediation, executive, and nomination committees

Seats on supervisory and similar boards: Member of the supervisory board of Continental AG, Hanover

### Jürgen Wechsler\*

Regional Director of IG Metall Bavaria  
Deputy Chairman of the Supervisory Board of Schaeffler AG

Appointed: November 19, 2015

Committee memberships: Member of the mediation and executive committees

Seats on supervisory and similar boards: Member of the supervisory board of BMW AG, Munich; deputy chairman of the supervisory board of Siemens Healthcare GmbH, Munich

### Prof. Dr. Hans-Jörg Bullinger

Senator of Fraunhofer-Gesellschaft zur Förderung angew. Forschung e.V.

Appointed: December 01, 2014

Seats on supervisory and similar boards: Chairman of the supervisory board of ARRI AG, Munich; member of the supervisory board of Bauerfeind AG, Zeulenroda-Triebes; chairman of the supervisory board of TÜV SÜD AG, Munich; deputy chairman of the supervisory board of WILO SE, Dortmund

### Dr. Holger Engelmann

Chief Executive Officer of Webasto SE

Appointed: December 01, 2014

Committee memberships: Member of the nomination committee

Seats on supervisory and similar boards: Member of the supervisory board of Webasto Roof Systems China Ltd., Hong Kong, China (until October 18, 2016); chairman of the supervisory board of Webasto Thermo & Comfort SE, Gilching

### Prof. Dr. Bernd Gottschalk

Acting Partner of AutoValue GmbH

Appointed: December 01, 2014

Committee memberships: Member of the nomination committee

Seats on supervisory and similar boards: Member of the supervisory board of JOST-Werke Deutschland GmbH, Neu-Isenburg; member of the supervisory board of Plastic Omnium SA, Levallois-Perret, France; chairman of the advisory board of Woco Industrietechnik GmbH, Bad Soden-Salmünster

### Norbert Lenhard\*

Chairman of the central Works Council of Schaeffler Technologies AG & Co. KG; Chairman of the Works Council at the Schweinfurt plant

Appointed: November 19, 2015

Committee memberships: Member of the mediation and executive committees

### Dr. Siegfried Luther

Management Consultant

Appointed: December 01, 2014

Committee memberships: Chairman of the audit committee

Seats on supervisory and similar boards: Member of the supervisory board of Evonik Industries AG, Essen; member of the board of directors of Sparkasse Gütersloh, Gütersloh

### Dr. Reinold Mittag\*

Trade Union Secretary of IG Metall

Appointed: November 19, 2015

Committee memberships: Member of the audit committee

### Yvonne Münch\*

Manager Plant Purchase and Logistics

Appointed: November 19, 2015

\* Employee representative on the Supervisory Board.

**Barbara Resch\***

Wage coordinator

Appointed: November 19, 2015

Committee memberships: Member of the executive committee

**Stefanie Schmidt\***

Chairperson of the Works Council at the Wuppertal plant

Appointed: November 19, 2015

**Dirk Spindler\***

Senior Vice President R&amp;D Processes, Methods and Tools of Schaeffler AG

Appointed: November 19, 2015

**Robin Stalker**

Chief Financial Officer of adidas AG, Herzogenaurach

Appointed: December 01, 2014

Committee memberships: Member of the audit committee

**Jürgen Stolz\***

Chairman of the Works Council at the Bühl plant

Appointed: November 19, 2015

**Salvatore Vicari\***

Chairman of the Works Council at Homburg/Saar plant

Appointed: November 19, 2015

Committee memberships: Member of the audit committee

**Dr. Otto Wiesheu**

Lawyer

Appointed: December 01, 2014

**Prof. KR Ing. Siegfried Wolf**

Chairman of the Board of Directors of Russian Machines LLC

Appointed: December 01, 2014

Committee memberships: Chairman of the executive committee

Seats on supervisory and similar boards: Member of the supervisory board of Banque Eric Sturdza SA, Geneva, Switzerland; member of the supervisory board of Continental AG, Hanover; chairman of the supervisory board of GAZ Group, Nizhny Novgorod, Russia; member of the supervisory board of Miba AG, Mitterbauer Beteiligungs AG, Laakirchen, Austria; chairman of the supervisory board of SBERBANK Europe AG, Vienna, Austria; member of the supervisory board of UC RUSAL Plc, Nicosia, Cyprus (since June 24, 2016)

**Jürgen Worrich\***

Chairman of the European Schaeffler Works Council; member of the Works Council at the Herzogenaurach plant

Appointed: November 19, 2015

Committee memberships: Member of the audit committee

**Prof. Dr.-Ing. Tong Zhang**

Director Clean Energy Automotive Engineering Center at Tongji University in Shanghai, China

Appointed: December 01, 2014

**Total remuneration of the company's governing bodies**

Total remuneration of the Board of Managing Directors in accordance with section 285 (9a) (1-3) HGB amounted to EUR 19 m in 2016 (prior year: EUR 21 m).

In addition, the following share-based remuneration was granted to members of the Board of Managing Directors in 2016 under the Performance Share Unit Plan (PSUP) implemented in 2015: 252,051 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 13.82), 126,033 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 13.82), and 126,033 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 9.13). Please refer to the remuneration report for a detailed discussion of the PSUP.

Certain members of the Board of Managing Directors have received advances on their variable short-term remuneration in connection with the change in the remuneration system and adjustment of their fixed remuneration. Advances paid in 2016 amounted to EUR 525 thousand.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 1.8 m (prior year: EUR 1.9 m).

The remuneration system for the Board of Managing Directors and the Supervisory Board of Schaeffler AG is outlined in the remuneration report. The remuneration report also includes information on the remuneration of individual members of the Board of Managing Directors and additional information required by section 285 (9) HGB.

Former members of the Board of Managing Directors of Schaeffler AG and its legal predecessors (and their surviving dependants) received remuneration of EUR 2.9 m in 2016 (prior year: EUR 0.3 m).

Provisions for pensions and similar obligations for former members of the Board of Managing Directors of Schaeffler AG and its legal predecessors (and their surviving dependants), before netting of related plan assets, amounted to EUR 11 m at December 31, 2016.

\* Employee representative on the Supervisory Board.

## Information about amounts not available for distribution under section 268 (8) HGB

EUR 472 thousand (prior year: EUR 232 thousand) is not available for distribution because it relates to assets recognized at fair value.

The difference between the amount recognized for the provision for pensions and similar obligations based on the relevant average market interest rate for the past ten years and the amount that would have been recognized based on the relevant average market interest rate for the past seven years amounts to EUR 8,169 thousand (prior year: EUR 0 thousand).

Gains are only available for distribution to the extent that distributable reserves remaining after such distribution plus any retained earnings brought forward less any losses brought forward are at least equal to the amounts not available for distribution.

## Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code required by section 161 AktG in December 2016 and have made it publicly available on the Schaeffler Group's website ([www.schaeffler.com/ir](http://www.schaeffler.com/ir)).

## Auditors' fees

The information on auditors' fees required by section 285 (17) HGB is disclosed in the consolidated financial statements of Schaeffler AG, Herzogenaurach.

## Group affiliation

The company prepares consolidated financial statements and, in addition, is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach. Both of these are filed with the operator of the Electronic Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Electronic Federal Gazette.

## Events after the reporting period

No material events expected to have a significant impact on the net assets, financial position, or results of operations of Schaeffler AG occurred after December 31, 2016.

## Responsibility statement by the company's legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements provide a true and fair view of the assets, liabilities, financial position, and profit or loss of the company, and the combined management

report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Herzogenaurach, February 20, 2017

Schaeffler Aktiengesellschaft  
The Board of Managing Directors

Klaus Rosenfeld  
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dr. Ulrich Hauck

Oliver Jung

Prof. Dr. Peter Pleus

Corinna Schittenhelm

Dr. Stefan Spindler

Matthias Zink

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# 1. Summary of changes in fixed assets

## Fixed assets of Schaeffler AG (HGB)

No. 098

in € thousands	Licenses	Intangible assets	Furniture and fixtures	Property, plant and equipment	Shares in affiliated companies	Other loans receivable	Long-term financial assets	Total
<b>Historical cost</b>								
<b>Balance as at January 01, 2016</b>	<b>108</b>	<b>108</b>	<b>438</b>	<b>438</b>	<b>14,108,811</b>	<b>1,797,562</b>	<b>15,906,373</b>	<b>15,906,919</b>
Additions	2	2	263	263	0	120,000	120,000	120,265
Disposals	0	0	-22	-22	0	-1,797,562	-1,797,562	-1,797,584
Transfers	0	0	0	0	0	0	0	0
<b>Balance as at December 31, 2016</b>	<b>110</b>	<b>110</b>	<b>679</b>	<b>679</b>	<b>14,108,811</b>	<b>120,000</b>	<b>14,228,811</b>	<b>14,229,600</b>
<b>Accumulated amortization, depreciation, and write-downs</b>								
<b>Balance as at January 01, 2016</b>	<b>104</b>	<b>104</b>	<b>293</b>	<b>293</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>397</b>
Additions	2	2	86	86	0	0	0	88
Disposals	0	0	-22	-22	0	0	0	-22
Transfers	0	0	0	0	0	0	0	0
<b>Balance as at December 31, 2016</b>	<b>106</b>	<b>106</b>	<b>357</b>	<b>357</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>463</b>
<b>Net book values</b>								
<b>as at January 01, 2016</b>	<b>4</b>	<b>4</b>	<b>145</b>	<b>145</b>	<b>14,108,811</b>	<b>1,797,562</b>	<b>15,906,373</b>	<b>15,906,522</b>
<b>as at December 31, 2016</b>	<b>4</b>	<b>4</b>	<b>322</b>	<b>322</b>	<b>14,108,811</b>	<b>120,000</b>	<b>14,228,811</b>	<b>14,229,137</b>



## 2. List of shareholdings of Schaeffler AG as at December 31, 2016

List of shareholdings Schaeffler AG as at 12/31/2016

No. 099

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income in € thousands
<b>A. Affiliated companies</b>					
<b>I. Germany</b>					
AS Auslandsholding GmbH <sup>2)</sup>	Bühl	DE	100.00	20,369	0
CBF Europe GmbH	Wuppertal	DE	100.00	-4,864	-1
Compact Dynamics GmbH	Starnberg	DE	51.00	2,798	362
CVT Beteiligungsverwaltungs GmbH	Bühl	DE	100.00	45	2
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Bühl	DE	100.00	1,636	1,949
Dürkopp Maschinenbau GmbH <sup>2)</sup>	Schweinfurt	DE	100.00	4,289	0
Egon von Ruville GmbH <sup>2)</sup>	Hamburg	DE	100.00	59,835	0
FAG Aerospace GmbH	Schweinfurt	DE	100.00	43	2
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00	59,338	8,228
FAG Industrial Services GmbH <sup>2)</sup>	Herzogenrath	DE	100.00	760	0
FAG Kugelfischer GmbH <sup>2)</sup>	Schweinfurt	DE	100.00	726,565	0
Gesellschaft für Arbeitsmedizin und Umweltschutz mbH - AMUS <sup>2)</sup>	Homburg	DE	100.00	795	0
IAB Grundstücksverwaltungsgesellschaft mbH	Bühl	DE	100.00	263	-7
IAB Holding GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	4,567,977	0
IAB Verwaltungs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	1,322,860	0
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00	27	-1
INA - Drives & Mechatronics AG & Co. KG	Suhl	DE	100.00	2,696	525
INA Automotive GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	25	0
INA Beteiligungsverwaltungs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	1,248,248	0
Industrieaufbaugesellschaft Bühl mbH <sup>2)</sup>	Bühl	DE	100.00	56,928	0
Industriewerk Schaeffler INA-Ingenieurdienst GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	558,435	0
KWK Verwaltungs GmbH	Langen	DE	100.00	31	0
LuK ASG GmbH	Bühl	DE	100.00	25	0
LuK Auslandsholding GmbH <sup>2)</sup>	Bühl	DE	100.00	59,029	0
LuK Beteiligungsgesellschaft mbH <sup>2)</sup>	Bühl	DE	100.00	34,342	0
LuK GmbH & Co. KG	Bühl	DE	100.00	844,874	388,325
LuK Management GmbH	Bühl	DE	100.00	96	0
LuK Truckparts GmbH & Co. KG	Kalttenordheim	DE	100.00	35,965	406
LuK Unna GmbH & Co. KG	Unna	DE	100.00	18,344	-629
LuK Vermögensverwaltungsgesellschaft mbH <sup>2)</sup>	Bühl	DE	100.00	1,809,970	0
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Bühl	DE	100.00	46,081	14,503
PD Qualifizierung und Beschäftigung GmbH <sup>2)</sup>	Schweinfurt	DE	100.00	122	0
Raytech Composites Europe GmbH <sup>2)</sup>	Morbach	DE	100.00	15,781	0
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00	467,863	224,202
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	435	-8
Schaeffler Beteiligungsverwaltungs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	40,841	0
Schaeffler Elfershausen AG & Co. KG	Herzogenaurach	DE	100.00	4,611	4,569
Schaeffler Engineering GmbH <sup>2)</sup>	Werdohl	DE	100.00	5,347	0
Schaeffler Europa Logistik GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	25	0
Schaeffler Friction Products GmbH <sup>2)</sup>	Morbach	DE	100.00	5,131	0
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00	5,295	1,774

Schaeffler Immobilien AG & Co. KG	Herzogenaurach	DE	100.00	114,338	9,130
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00	14,198,771	3,750,451
Schaeffler Versicherungs-Vermittlungs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	8,282	0
Schaeffler Verwaltungsholding Drei GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	1,893,562	0
Schaeffler Verwaltungsholding Eins GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	5,910,725	0
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00	24	-1
Schaeffler Verwaltungsholding Zwei GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00	1,748,118	0
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00	8,954	-1,457
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	63	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00	60,976	3,221

**II. Foreign**

Schaeffler Middle East FZE	Jebel Ali	AE	100.00	16,277	2,312
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00	2,708	-1,243
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00	54,490	14,068
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00	14,750	-94
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00	44,800	894
Schaeffler Bulgaria OOD	Sofia	BG	100.00	2,322	276
LuK do Brasil Embregens Ltda.	Sorocaba	BR	100.00	578	31
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00	174,257	-4,114
Schaeffler Belarus OOO	Minsk	BY	100.00	229	154
FAG Aerospace Inc.	Stratford	CA	100.00	99,913	19,496
Schaeffler Canada Inc.	Oakville	CA	100.00	41,947	9,842
Schaeffler Schweiz GmbH	Romanshorn	CH	100.00	14,920	-27,195
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00	2,326	-184
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00	580,490	164,800
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00	92,612	10,193
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00	41,503	673
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00	955	-233
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00	78,470	8,122
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00	397,551	66,563
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00	163,321	61,242
Schaeffler Colombia Ltda.	Bogotá	CO	100.00	609	322
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00	13,991	3,904
Schaeffler CZ s.r.o.	Prag	CZ	100.00	7,921	929
Schaeffler Danmark ApS	Aarhus	DK	100.00	7,244	333
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00	84,466	5,362
Schaeffler Finland Oy	Espoo	FI	100.00	8,977	707
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00	9,061	3,936
Schaeffler France SAS	Haguenau	FR	100.00	74,894	3,588
LuK (UK) Limited	Sheffield	GB	100.00	0	-349
LuK Leamington Limited	Sheffield	GB	100.00	19,665	242
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00	25,418	14,802
Schaeffler Automotive Aftermarket (UK) Limited	Sheffield	GB	100.00	195	-75
Schaeffler Trading (UK) Limited	Sutton Coldfield	GB	100.00	0	0
Stocklook Limited	Swansea	GB	100.00	741	-4
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00	20,563	7,453
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Halandri	GR	100.00	68	32
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00	44,973	-2,964
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00	672	298
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00	28,801	1,778
LuK Savaria Kft.	Szombathely	HU	100.00	145,545	44,143
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00	3,815	233
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00	2,626	-313

Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00	276	161
FAG Bearings India Ltd.	Mumbai	IN	51.33	206,662	26,161
INA Bearings India Private Limited	Pune	IN	100.00	27,879	9,215
LuK India Private Limited	Hosur	IN	100.00	38,731	7,930
FAG Railway Products G.e.i.e.	Milan	IT	75.00	0	0
INA Invest S.r.l.	Momo	IT	100.00	59,415	56,835
Schaeffler Italia S.r.l.	Momo	IT	100.00	202,243	5,133
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00	44,216	6,263
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00	60,858	10,168
Schaeffler Korea Corporation	Changwon-si	KR	100.00	380,261	60,699
NACO Technologies SIA (ab 01.Januar 2017: SIA „Schaeffler Baltic“)	Riga	LV	100.00	369	-22
LuK Puebla, S. de R.L. de C.V.	Puebla	MX	100.00	48,412	19,512
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00	788	-149
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Puebla	MX	100.00	19,329	6,151
Schaeffler Mexico Holding, S. de R.L. de C.V.	Irapuato	MX	100.00	66,416	3,120
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00	3,588	1,199
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00	52,540	2,964
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00	7,806	640
Radine B.V.	Barneveld	NL	100.00	1,499	646
Schaeffler Finance B.V.	Barneveld	NL	100.00	67,087	35,994
Schaeffler Nederland B.V.	Barneveld	NL	100.00	8,864	957
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00	7,500	2,390
LuK Norge AS	Kongsberg	NO	100.00	15,790	3
Schaeffler Norge AS	Oslo	NO	100.00	4,653	-230
Schaeffler Peru S.A.C.	Lima	PE	100.00	750	285
Schaeffler Philippines Inc.	Makati City	PH	100.00	2,631	-1,024
Schaeffler Polska Sp. z o.o.	Warsaw	PL	100.00	8,743	8,093
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.00	25,617	2,872
Schaeffler Romania S.R.L.	Brasov	RO	100.00	174,180	15,637
Schaeffler Manufacturing Rus OOO	Uljanowsk	RU	100.00	13,171	-2,367
Schaeffler Russland GmbH	Moscow	RU	100.00	7,391	2,778
Schaeffler Sverige AB	Arlandastad	SE	100.00	8,393	1,138
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00	-1,470	-1,083
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00	29,698	-167
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00	397	31
Schaeffler Kysuce, spol. s r.o.	Kysucke Nove Mesto	SK	100.00	158,343	17,553
Schaeffler Skalica spol. s r.o.	Skalica	SK	100.00	98,032	16,000
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00	2,414	379
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49.00	2,197	61
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49.00	-257	-27
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00	2,871	-469
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.00	2,825	703
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00	2,773	-42
Schaeffler Ukraine GmbH	Kiew	UA	100.00	809	206
FAG Bearings LLC	Danbury	US	100.00	15,402	-272
FAG Holding LLC	Danbury	US	100.00	0	0
FAG Interamericana A.G.	Miami	US	100.00	25,411	673
LMC Bridgeport, Inc.	Danbury	US	100.00	11,418	-362
LuK Clutch Systems, LLC	Wooster	US	100.00	133,523	1,690
LuK Transmission Systems LLC	Wooster	US	100.00	223,809	28,207
LuK USA LLC	Wooster	US	100.00	127,167	939
LuK-Aftermarket Services, LLC	Valley City	US	100.00	-3,576	0
Roland Corporate Housing LLC	Cheraw	US	100.00	1,046	32
Schaeffler Group USA, Inc.	Fort Mill	US	100.00	652,546	2,381

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Notes I List of shareholdings of Schaeffler AG as at December 31, 2016

The Barden Corporation	Danbury	US	100.00	165,051	6,719
Schaeffler Venezuela, C.A.	Caracas	VE	100.00	-81	-234
Schaeffler Vietnam Co., Ltd.	Bien Hoa City	VN	100.00	11,834	1,399
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00	86,886	12,657
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00	22,801	8,450
<b>B. Investments</b>					
<b>I. Germany</b>					
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00	43	-4
Contitech-INA GmbH & Co. KG	Hanover	DE	50.00	215	-5
PStec Automation and Service GmbH <sup>1)</sup>	Niederwerrn	DE	40.00	627	164
<b>II. Foreign</b>					
Eurings Zrt. <sup>1)</sup>	Debrecen	HU	37.00	4,720	100
Colinx, LLC <sup>1)</sup>	Greenville	US	20.00	3,434	7

<sup>1)</sup> Values from 2015.<sup>2)</sup> There is a profit and loss transfer agreement.

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# Independent auditors' report

This auditors' report, prepared in accordance with § 322 HGB [Handelsgesetzbuch: "German Commercial Code"], refers to the complete annual financial statements, comprising the balance sheet, the income statement, and the notes to the annual financial statements, together with its report on the position of the Company and the Group for the financial year from January 1, 2016, to December 31, 2016. The above-mentioned auditors' report and annual financial statements are both translations of the respective German-language documents.

We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system and its report on the position of the Company and the Group prepared by the Schaeffler AG, Herzogenaurach, for the business year from January 1, 2016, to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [Handelsgesetzbuch: "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system

and the evidence supporting the disclosures in the books and records, the annual financial statements, and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position, and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, February 21, 2017

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Alt-Scherer  
Wirtschaftsprüferin

Koeplin  
Wirtschaftsprüfer

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# Contact details/imprint

## Forward-looking statements

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond Schaeffler's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies, and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. Schaeffler does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

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You can find up-to-date news about Schaeffler on our website at [www.schaeffler.com/ir](http://www.schaeffler.com/ir). You can also download all documents from this site.

## Schaeffler in Social Media



## Variances for technical reasons

For technical reasons (e.g. conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette shall be binding.

Rounding differences may occur.

This English version of the annual report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.

For better readability, this report generally uses only the masculine form when referring to groups of persons. Unless indicated otherwise, these statements should not be construed to refer to a specific gender.

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