SCHAEFFLER

Schaeffler Group

Combined Separate Nonfinancial Report 2017

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Further information on sustainability management at the Schaeffler Group is available in the Sustainability Report of the Schaeffler Group, which is published annually. In addition to management approaches, the Sustainability Report also includes a comprehensive array of key sustainability indicators.

1. Initial situation

1.1 Background

With this Combined Separate Nonfinancial Report, the Schaeffler Group fulfills the obligation to disclose nonfinancial information for the business year 2017 in accordance with Sections 289 and 315 of the German Commercial Code (HGB). Included in the nonfinancial report is a description of concepts and due diligence processes and their results for the five thematic aspects "environmental concerns," "personnel matters," "social matters," "respect for human rights" and "combating corruption and bribery." Information on these aspects is presented, if necessary, to understand the course of business, business results or the company's situation, and also if the company's activities had an effect on the respective aspects.

The report contents were selected based on a materiality analysis performed in 2016. This was developed in cooperation with key stakeholders: We invited all employees and selected customers and suppliers worldwide to participate in an online survey assessing the relevance of issues for Schaeffler, as a responsible corporation, and to formulate sustainability-related expectations for the group. The relevant topics had been previously identified based on the G4 framework for nonfinancial reporting of the Global Reporting Initiative (GRI), as well as on an industry and situational analysis, and validated by the Sustainability Governance organization of the Schaeffler Group, which is comprised of representatives of most of the business divisions. The GRI G4 framework also served as a guide for preparing the Combined Separate Nonfinancial Report for 2017. Furthermore, definitions and requirements were applied within the company for specific topics.

Based on the results of the materiality analysis, the 24 defined topics were discussed in an in-house workshop of the Sustainability Governance organization with regard to the opportunities and risks and their relevance to the Schaeffler Group. The company's internal perspective, in terms of their relevance to and impact on business activities, was then explored. On the basis of this, twelve nonfinancial topics were subsequently selected and included in the Group nonfinancial statement for the business year 2017. The option was hereby exercised, in accordance with Section 315b (3) HGB, to produce a Combined Separate Nonfinancial Report apart from the Group Management Report. The Combined Separate Nonfinancial Report was thereby combined with the separate nonfinancial report of the parent company in accordance with Section 315b (1) (2) HGB. The combined Combined Separate Nonfinancial Report is made publicly available on the company's website. The concepts and results of the specific nonfinancial topics are explained in part together, as the Schaeffler Group employs integrated management approaches and systems. This applies in particular to the issues "Environmental management," "Energy and emissions" and "Material and resource management" relating to the aspect "Environmental concerns." If the details and representations of concepts pertain solely to Schaeffler AG, this is pointed out accordingly.

Nonfinancial aspects, facts and circumstances of the Combined Separate Nonfinancial Report of the Schaeffler Group

Environmental concerns	Personnel matters	Social matters	Human rights	Combating corruption and bribery
Products and technologies	Employee advancement and development	Customer relations	Human rights	Compliance
Environmental management	Occupational safety and medicine	Transparency, dialogue and reporting: focus on community dialogue		
Energy and emissions		Responsibility in supplier relationships		
Material and resource management				
Logistics				

The Schaeffler Group has an integrated Sustainability Governance organization. The Supervisory Board of the Schaeffler Group is at the top of this organization and the Executive Board reports to it on relevant sustainability developments once a year. A key function is assumed by the Competence Center for Sustainability, which serves as an initiator and reports to the Executive Board. It is also responsible for coordinating sustainability activities and monitoring issues throughout the company.

The Steering Committee for Sustainability is a panel of experts comprised of representatives of relevant departments which, in cooperation with the Competence Center for Sustainability, determines the sustainability reporting, develops strategic goals and defines KPIs. It meets four times a year. The Sustainability Office, in cooperation with the Competence Center for Sustainability, is responsible for the operative sustainability work.

The Combined Separate Nonfinancial Report for the Schaeffler Group and Schaeffler AG for the business year 2017 is reviewed by the Supervisory Board of Schaeffler AG and, on behalf of the Supervisory Board, by the accounting firm KPMG AG in compliance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information,” issued by the International Auditing and Assurance Standards Board (IAASB) for the purpose of obtaining a limited assurance engagement with respect to the information required by law as per Sections 315b and 315c in conjunction with Sections 289c to 289e HGB.

Further information from the independent auditor on the voluntary limited assurance engagement pertaining to the Combined Separate Nonfinancial Report can be found via the following link: www.schaeffler.com/sustainability/nfr2017-assurance

1.2 Business model of the Schaeffler Group

The Schaeffler Group (hereinafter referred to also as "Schaeffler") is a global automotive and industrial supplier. Top quality, outstanding technology and an exceptionally innovative spirit form the basis for the continued success of the company. With 88,697 employees (Schaeffler AG: 647 employees) on average over the year, the Schaeffler Group is one of the world's leading technology companies. The Schaeffler Group identifies key trends at an early stage, invests in researching and developing new, future-oriented products and sets new standards in technology. In doing so, it focuses on its key opportunities for the future – E-Mobility, Industry 4.0 and Digitalization. Extensive systems know-how enables the Schaeffler Group to offer customized and holistic solutions, tailored to the respective 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. This includes offering innovative products for hybrid and electric vehicles.

Within the framework of its strategy "Mobility for tomorrow," the Schaeffler Group focuses on four target areas: eco-friendly drives, urban mobility, interurban mobility and energy chain. These four target areas are based on four large megatrends that will determine the business of the Schaeffler Group in the future: climate change, urbanization, globalization and digitalization. Eight strategic cornerstones were developed on this basis; they determine the course of action for the strategy "Mobility for tomorrow" and provide the basis for the continuous further development of the Schaeffler Group. Implementation of the strategy is ensured by the "Agenda 4 plus One" excellence program. The program now comprises 20 strategic initiatives (previous year: 16), which are grouped into five categories. In order to consistently implement the strategy, the Schaeffler Group has set Financial Ambitions 2020, which mark the financial framework for implementation of the strategy.

Schaeffler AG is traded on the Frankfurt Stock Exchange with common non-voting shares and is listed both in the MDAX selection index of the Deutsche Börse and the STOXX Europe 600 index. The main shareholder is IHO Holding, a group of holding companies that indirectly belongs to the Schaeffler family, who hold all common shares of Schaeffler AG. As a proportion of the entire capital stock of common and common non-voting shares of Schaeffler AG, the free float is about 24.9%. Schaeffler AG still intends to distribute to the shareholders a dividend amounting to 30 to 40% of consolidated net income before special items.

Further information on the business model of the Schaeffler Group can be found in the Annual Report 2017 – Group Management Report "1.1 Overview of the Schaeffler Group," pages 3-5

2. Environmental concerns

2.1 Products and technologies

The Schaeffler Group carries out an annual strategy and planning process that consists of the three core elements Technology Dialogue, Strategy Dialogue and Planning Dialogue, which successively build on one another. Responsibility for research and development within the Schaeffler Group lies with the technology department, which centrally manages research and development activities. The executive divisions are integrated into the development process depending on the product.

Within the framework of the strategic dialogue process, the strategy "Mobility for tomorrow" was also developed in 2016 – with its 4 focus areas, 8 strategic pillars and 16 strategic initiatives of the Agenda 4 plus One excellence program. In January 2018, the number of strategic initiatives was expanded by four to a total of 20. Technology Dialogue essentially deals with the four megatrends of climate change, urbanization, globalization and digitalization and the resulting effects on technologies and innovations. The time horizon extends five to ten years into the future.

The changes in basic conditions require a holistic review of the energy chain and innovative mobility concepts. The ensuing challenges offer great opportunities for the Schaeffler Group and determine the current development environment. In this context, the Schaeffler Group relies on the continuous improvement of existing technologies as well as opening up completely new ones.

The company expects that by 2030 the worldwide automobile market will be powered on average by approx. 30% internal combustion engines, 40% hybrid drives and 30% all-electric drives. The Schaeffler Group is pursuing various directions with regard to the further development of the different drive technologies. Efficiency gains in internal combustion engines and (new) developments for electromobility are expected to be attained by 2030. In addition, improvements are expected to be achieved across all drive technologies through the use of overarching technologies, e.g. in the area of friction optimization.

In light of global trends, the Schaeffler Group pursues the goal of supporting customers with innovative products and system solutions to manage the challenges we face – such as the reduction of CO_2 emissions. The goal of CO_2-neutral mobility can only be achieved through the increased use of renewable energy sources, which is why the Schaeffler Group, together with its customers, develops products for the entire energy chain – with a technological focus on the renewable energy sector.

Furthermore, the legal framework is currently changing. Among other things, in November 2017, the EU Commission decided on new CO_2 emissions limits: The fleet average for new vehicle emissions must be reduced by 30% by 2030; this is based on the maximum value of 95 g/km to be reached by 2021.

In the coming years the Schaeffler Group expects a continued rise in the number of electric vehicles. The company therefore aims to consistently expand in the area of E-Mobility: On January 01, 2018, an independent E-Mobility business division was launched. It consolidates the efforts for all products and system solutions in the segment of electric-based drive technologies. Likewise, the business division "Industry 4.0," which also began operating in January 2018, is to support the E-Mobility business division by centrally identifying future opportunities and tapping into additional growth potential.

In addition to all-electric vehicles, a large number of vehicles on the road will be powered by hybrid drives in the future. In the field of environmentally friendly drives, the concept car

"Gasoline Technology Car II" (GTC II) has been developed. It demonstrates the potential of an intelligent 48-volt hybridization based on the current state of development. The GTC I, unveiled in 2014 at the International Vienna Motor Symposium, discharged CO_2 emissions of 95 g/km. Under the same test conditions, the GTC II discharges even about 10% less CO_2. Altogether, by the end of 2017, the Schaeffler Group had acquired a total of eight series projects for E-Mobility or hybrid products. These include, among other things, electrical axles and hybrid modules with an integrated torque converter.

However, in the next few years in particular, conventional drives will also continue to be in demand in large numbers. Against this backdrop, the Schaeffler Group pursues the continuous increase in the efficiency and performance of conventional drive technologies in order to reduce fuel consumption and CO_2 emissions in the long term.

One focus of the corporate research and development activities is on covering the entire energy chain – from energy generation, mainly from renewable energy sources, through to the storage and consumption of energy. In the field of energy generation, for instance, low-friction bearings are currently being developed for the wind power sector; they will reduce wear and tear, extending their operating life. In addition, Schaeffler is preparing to enter the field of industrialized fuel cell technology. Existing expertise in technologies such as forming, coating, and assembly is used to develop and manufacture high-performance metal bipolar plates, which are at the core of any fuel cell.

The concept with regard to product-related quality assurance measures and processes is described in subsection 4.1 Customer relations

2.2 Resource efficiency, environmental and energy management

National and international developments, legislation and frameworks are of great importance for the future-oriented environmental and energy management of the Schaeffler Group. In November 2016, the international community of nations at the UN Conference on Climate Change in Marrakesh ratified the target to reduce global warming to less than two degrees Celsius, compared with the level prior to the beginning of industrialization. Germany has also set ambitious goals for itself in climate protection. The Climate Action Plan 2050, adopted at the end of 2016, has the goal of achieving greenhouse gas neutrality in Germany to a great extent by 2050. The industrial sector should see a reduction of 49 to 51% by 2030. Energy efficiency measures, such as the utilization of existing heat loss potential, should contribute to this. Accordingly, the Schaeffler Group has set the climate protection goal for itself of saving 360,000 tonnes of CO_2, compared to the base year 2016, by 2025.

The Schaeffler Group operates 75 production plants worldwide at 71 locations[1]. Its production facilities consume energy and resources and thus have a global impact on the environment and climate change. The company bears a responsibility to reduce this impact. Thus, making its processes and products more energy and material-efficient, reducing emissions and waste, and prudently using water, are all important topics for the Schaeffler Group.

In order to continuously improve the environmental performance of the company, relevant environmental and energy issues are taken fully into account in the design of production processes. To manage these processes, the Schaeffler Group maintains an EnEHS management system (energy, environment, health and safety) that applies worldwide. The management system complies with the standards ISO 50001 regarding energy, ISO 14001 regarding environmental protection, OHSAS 18001 regarding occupational health and safety, and with EMAS (Eco-Management and Audit Scheme). The locations compile their local environmental and energy data within the scope of the management system. Key performance indicators (KPIs) are used to optimize the planning, evaluation and management of environmental measures. The Schaeffler Group handles its environmental and energy issues worldwide in a matrix organization. Local environmental protection and energy designees, regional coordinators and experts from the strategic departments work closely together in a network.

With its energy policy, the Schaeffler Group is not only targeting the optimization of energy costs, but also ensuring a secure supply and increasing energy efficiency. Starting in 2013, therefore, the company began gradually implementing an energy management system according to ISO 50001 as part of its EnEHS management system. In 2017, an energy management system according to ISO 50001 was introduced at four locations. It is the task of energy management to continuously evaluate and improve the company's processes with regard to energy requirements. In order to collect the required data around the world, the Schaeffler Group operates a standardized energy data management system (EDMS). The system is used to monitor consumption data, detect potential areas of savings and assess measures that have been implemented to ensure they are effective. The execution of the corresponding management systems and measures is reviewed at the sites on a regular basis within the scope of internal EnEHS audits by experienced EnEHS specialists and Schaeffler auditors. Furthermore, at least once a year, "management reviews" are carried out as a type of control function in which necessary actions are discussed and agreed on at group and site level. The respective En and EHS coordinators, plant manager and site management of each site take part in the reviews. At group level, coordination takes place between the Competence Center EHS unit, Energy and the Executive Board of Schaeffler AG.

1 Calculation is based on certification in accordance with ISO 14001, ISO 50001 and OHSAS 18001 and entry in the EMAS site registry; reporting date 12/31/2017. The key environmental indicators for energy and water consumption, and for emissions, are based on consumption at these plants.

Within the framework of the energy management system, plant objectives are defined at corporate level and considered the minimum to be achieved. In addition, the plants can set their own plant-specific objectives. The group-wide goal is to increase energy efficiency by 40%, compared to 2011, by the year 2020. The company's environmental management has also set the goal of attaining climate-neutral production at one site per region.

In 2017, the intensity of energy consumption[2] of the Schaeffler Group rose slightly. It was at 512 MWh per EUR 1 million of added value, compared to 510 MWh per EUR 1 million of added value in 2016. In conjunction with this, the intensity of emissions of greenhouse gases also increased. In 2017, it was 311 tonnes per EUR 1 million of added value. The absolute CO_2 emissions (Scope 1 and Scope 2) amounted to 1,419,042 tonnes and thus increased by 4% in comparison with the previous year.

The production sites of the Schaeffler Group work with environmental management systems that conform with EMAS or ISO 14001. The Schaeffler Group continuously develops these further and primarily applies the exacting European EMAS standard. The core element of both environmental management systems is an improvement cycle with which the continuous development of the environmental performance at the sites is ensured. Since December 31, 2017, 68 Schaeffler Group locations worldwide have been included in the EMAS site registry of the European Union, five more than in the previous year. Furthermore, 69 sites of the Schaeffler Group are ISO 14001 certified.

An overarching goal of the Schaeffler Group is the consistent reduction of water consumption at all locations worldwide compared to the previous year. By 2020, group-wide water consumption per euro of added value is to be reduced by 20% compared to the base year 2016. In 2017, a total water consumption of 1,160 m^3 per EUR 1 million of added value was reached, an increase of 2.1% compared to 2016. The annual reduction target was therefore slightly missed.

In Germany, 315,245 tonnes of waste was produced and properly disposed of or recycled, which amounts to an increase of about 1% compared to the previous year. For Germany, the recycling rate was 96.9%. In the medium term, each region's objective is have one site with a "zero waste factory," i. e. with a recycling rate of 100%. The Schaeffler Group is currently in the process of putting appropriate measures in place to achieve this goal, such as the introduction of a global waste catalog by the end of 2018.

2.3 Logistics

The Logistics division is responsible for the structure, operation and continuous improvement of the entire logistics chain of the Schaeffler Group. The logistics functions Corporate and Regional Logistics are responsible for managing some 210 storage locations with over 375,000 m^2 of storage space, and which move approximately 300,000 tonnes of cargo between the key destinations. About 67% of the logistics activities were concentrated in the region of Europe in 2017. Some 17%, 10% and 6% of all logistics activities related to the Americas, Greater China and Asia/Pacific regions, respectively.

An integral part of the strategic orientation of logistics at the Schaeffler Group is, within the framework of the "European Distribution Center (EDC)" project, to consolidate the warehouse functions in just a few large distribution centers and consequently improve the utilization of transport routes through freight bundling, optimized route planning and return-trip dispatching. The general aim is to use the most cost-effective route while also taking into account transport alternatives with low CO_2 emissions, such as maritime shipping instead of air freight.

In the Industrial division, an effective logistics network is being established to improve market supply and optimize delivery performance with a smaller number of sites. This is associated with an increase in the energy efficiency of many processes, including through the utilization of technical possibilities for energy recovery from technical equipment, the avoidance of energy losses, and the avoidance of waste through the repeated use of undamaged disposable packaging. Another new logistics center in the Automotive Aftermarket business division will be built by early 2020. The warehouse to be built near Halle (Saale) in the German state of Saxony-Anhalt will have a building floor area of almost 40,000 m^2 and will be the most important supply point for all other European regional warehouses in the business division.

The company also plans to introduce an innovative transport management system (TMS) throughout the group starting in 2018. It bundles transport trips within a global supply network, directs them smoothly and securely to the stakeholders involved and then settles the accounts automatically. The purpose of the TMS is to create transparency throughout all transport orders, to increase the capacity utilization of the transport dispatches, and to enable the flexible consolidation of goods. At the same time, the current transport network is continuously examined for potential optimization of the utilization of individual routes. Thus, for example, in 2017, the transport trips from Caldas, Portugal, to Schweinfurt and Herzogenaurach, Germany, were rescheduled and the annual transport requirements along this route were reduced by almost 50% as a result.

[2] The energy intensity only pertains to the electricity consumption of the Schaeffler Group.

Within the scope of this general approach to attain more efficient logistics, the Schaeffler Group also aims to continuously reduce its CO_2 emissions. In 2017, the focus in this regard was on the railway connection between Europe and China. Theoretically, savings of up to 900 g CO_2 per tonne-kilometer could be achieved in comparison to air cargo. The Schaeffler Group is participating in the "One Belt, One Road" project, the aim of which is to develop the infrastructure – particularly of ports, roads and railways, as well as warehouses and logistics facilities – between Asia and Europe. One element of the project is the expansion of the "Silk Road Economic Belt" along the new Silk Road, which plays a key role in the expansion of links between the two continents.

The Schaeffler Group is working on establishing a process for reliably recording its greenhouse gas emissions (Scope 3 emissions), including those discharged from logistics activities. The initial results are expected to be available in 2018. In the future, the CO_2 emissions caused during the course of business travel and on approach routes are to be recorded, and corresponding measures for their reduction or compensation are to be explored.

3. Personnel matters

3.1 Employee advancement and development

Schaeffler Group employees contribute significantly to the company's sustainable development. Their expertise, skills and commitment ensure the competitiveness of the Schaeffler Group in the relevant markets. The aim of human resources work is to identify and promote qualified employees and to bolster their long-term commitment to the company. Strategic HR planning is therefore oriented at an early stage toward new requirements and skills.

Among other things, the company attracts qualified employees through its numerous university and college programs. They are then individually advanced by offering them attractive incentives such as training and qualification measures. The HR development measures of the Schaeffler Group are generally based on the 70:20:10 learning model: 70% on-the-job experience, 20% exchange with others and 10% on-site and off-site training. In line with our forward-looking management of young talent, employees with potential are identified and key positions are secured at an early stage. This is done within the framework of a globally uniform and compulsory talent management process, which includes an annual performance appraisal between managers and employees. The objective is to provide clear feedback on performance and to identify qualification requirements for present and future tasks, also in terms of potential development measures for the employee.

The special software developed in-house for this and the accompanying processes have been successfully rolled out in the majority of countries. Some 86% of the global target group are now covered. Starting in 2018, work will begin on an even more effective and efficient process and IT system within the framework of the "Global Talent Management 2.0" project, which will significantly increase usage benefits for all stakeholders – employees, managers and Schaeffler as a company. For hourly-wage employees, the need for advanced training is determined through task-oriented qualification matrices.

If a training course or advanced training measure was agreed on in the performance appraisal, this is indicated in the system by means of a reservation. Training courses can then be booked by the employees following approval by the relevant manager in the system. In production areas there are qualification matrices pertaining to training courses; all necessary qualifications which the respective employee should acquire are entered in them. The respective manager must ensure that the employee has these qualifications.

The Schaeffler Academy provides worldwide education and training activities, which are continuously being expanded. With the "Qualification for Tomorrow" initiative, as part of the "Agenda 4 plus One" excellence program, individually tailored training programs are offered in which the employee can develop professionally as well as personally. At present, the program has been implemented in Germany, France and China. In 2018, it is also expected to be established in Slovakia and the United States.

Worldwide availability of the program is planned for 2020. To this end, 3,514 classroom training courses (previous year: 4,054) were held in Germany in which 30,646 employees took part (previous year: 37,345). In addition, 97 different e-learning courses were available to employees; 15,593 employees took part (previous year: 90 e-learning courses were offered, 25,074 employees took part). In expanding its online training, the Schaeffler Group follows the trend toward enabling employees to carry out training measures independent of time and place. A combination

of classroom training and online training courses – referred to as blended learning – is used successfully for language training, for example. These concepts and measures also make the Schaeffler Group more attractive as an employer. In the business year 2017, the turnover rate was 3.9%; this corresponds to an increase of 8.3% or 0.3 percentage points from the previous year. The turnover rate of Schaeffler AG was 2.5% in 2017, which means an increase of 13.6% or 0.3 percentage points compared to the previous year.

3.2 Occupational safety and medicine

Demographic change has resulted in the company having to develop effective health promotion programs for its aging workforce. At the German locations in particular, the average age of Schaeffler Group employees is rising. In order to adequately cope with this development, the company is pursuing a sustainable and proactive occupational health and safety policy. Both the company and its employees are responsible for ensuring performance capabilities in the long term.

The Schaeffler Group's occupational health management program (OHM) is based on the framework guidelines of the Luxembourg Declaration on Workplace Health Promotion of the European Union. It is an essential element of the HR strategy and is used worldwide. In addition, it is continuously being further developed, especially in countries where there are no state regulations related to occupational health management. The OHM program was successfully rolled out in Germany in 2017. The aim is to create basic conditions that promote the health of employees; on the one hand, through ergonomic and safe jobs, on the other hand, through physically and mentally supportive course offerings. The occupational health management program is systematized according to the following concept: "Analysis > Strategy > Implementation > Evaluation." Site-specific customized health programs were established, which take into account the respective circumstances of the working environment. A standard analysis tool for surveying employees was developed and used for this purpose. In Schweinfurt, Wuppertal and Herzogenaurach, the "pit stop active back" ("Boxenstopp Rücken Aktiv") program was initiated to offer exercises to counteract the specific strains and stresses of the production workplace. In Herzogenaurach, Eltmann and Bühl, the training program "Fit4Shift" was developed for shift workers, in order to prevent health issues such as insomnia and stress. In Bühl and Herzogenaurach, the program "Fit4Innovation" was launched. With this, future project managers gain knowledge about avoiding stress and strengthening resilience while establishing a mutually stabilizing network. In order to offer the occupational health management measures in the same quality throughout Germany, in the year under review, a cooperative arrangement was started nationwide with health insurance providers. This allows the company to draw on an existing network of certified service providers. Flexible planning and implementation of OHM measures is therefore possible.

At the Sorocaba site in Brazil, a program for compensatory exercises at the workplace was launched and permanently implemented. At the Taicang site, the first steps were taken to set up a program for preventing psychological disorders.

The newly developed workplace register for ergonomic workplace design, devised within the scope of the "Factory for tomorrow" initiative, as part of the "Agenda 4 Plus One," was rolled out at two sites. It is a database solution that identifies the causes of ergonomic stress in the workplace and makes them visible. With the help of this tool, employee capabilities can be matched with the requirements of the workplace. This makes it possible, within the framework of inclusion, to identify jobs for employees with impaired physical abilities that are appropriate for their performance capabilities and medical condition. At the same time, it supports the targeted reduction of stress-inducing workplaces. The system is expected to be rolled out in 2018 at all German locations, with worldwide rollout being completed by 2021.

The Schaeffler Group has set itself the goal of reducing occupational accidents annually by 10% (parameter: AccR = injuries resulting in lost working hours per one million hours worked) to reduce costs. Building on the vision of "zero occupational accidents within the Schaeffler Group," the personal responsibility of each employee is also emphasized as a part of this. Regular information events, training courses and advanced training are held in the field of occupational health and safety to further this. For example, Schaeffler Brazil offers an annual campaign week promoting environmental protection, as well as health and safety awareness. In 2017, the motto was "Care is in your hands." A total of 2,686 internal and external employees took part in it. Every day, new activities and lectures were offered and various booths provided information about compressed air leaks, working with hazardous substances and the proper handling of fire extinguishers. The highlight of the week was the "Risk perception simulator," in which the employees put on 3D virtual reality glasses and then had to identify various hazards in a virtual production plant.

Within the framework of the team leader concept, new team leaders around the world receive training (EHS crash course) relating to their core tasks in accordance with uniform minimum standards for occupational health and safety training. As a result of such prevention and awareness-raising measures, it was also possible in the period under review to reduce the frequency of accidents by 15% – from 8.36 to 7.09 AccR – and thus significantly exceed the annual reduction target. This positive global development is overshadowed by a fatal workplace accident that occurred when work equipment brought in by an external company exploded.

Compliance with regulations pertaining to occupational health and safety is continuously examined and safe and employee-compatible working conditions are further developed. The comprehensive EnEHS management system (energy, environment, health and safety), which takes into account international OHSAS 18001 standards, is used to ensure their consistent practice. The occupational health and safety specialists at the respective production sites advise management on the legally compliant implementation of the specifications in the EnEHS management manual. Particular attention is paid to the joint assessment of residual risks, the submission of suggestions, support for the implementation of measures, and the documentation in the respective hazard assessments. Results and measures are regularly discussed with the responsible Board members and necessary additional measures are coordinated.

4. Social matters

4.1 Customer relations

Long-term customer relations are a central contributing factor to the success of the Schaeffler Group. To be able to fulfill or even exceed the expectations of its customers, the company places a high value on open dialogue and solution-oriented interactions.

The customer-based global key account management (GKAM) of the Schaeffler Group works closely with the regional and divisional sales functions of the Automotive OE (Original Equipment), Automotive Aftermarket and Industrial divisions. It is the task of GKAM to strengthen customer relations worldwide according to uniform principles. For each key customer, the key account team individually brings together the expertise available in the company from industrial and automotive application areas. Company headquarters and regional sales departments, as well as global and local key account managers, work closely together for this. According to the principle "one face to the customer," each major customer has one contact person who takes care of all their matters. In order to harmonize the collection of market data or benchmarks and take advantage of synergy benefits from the divisions involved, all relevant stakeholders of the strategic process, the Executive Board members and regional directors of the divisions, as well as sector and product line managers, regularly conduct joint "GKAM strategy alignments."

As of January 01, 2018, the business division Automotive Aftermarket will be expanded and established as a third standalone division. With the introduction of the new division, the Schaeffler Group will organize its business into the three divisions of Automotive OE, Automotive Aftermarket and Industrial. This step will make it possible to respond to the demands of the various customer segments more individually.

In order to explore customer satisfaction and the intensity of customer loyalty, the Schaeffler Group tracks which and how many awards for outstanding customer satisfaction and product quality it receives each year from its customers. In the year under review, the Schaeffler Group received 58 awards – eight more than in the previous year. One of these awards was the DMG MORI "Partner Award 2017," which was bestowed upon the company at the world's leading metalworking trade fair, the "EMO 2017," in Hannover, Germany. The basis of the award was the contribution that the Schaeffler Group's innovative spirit made toward boosting efficiency and process optimization, such as in the joint development of additive manufacturing processes for rolling bearing components in small batches by means of laser cladding. The company verifies the effectiveness of measures to improve customer relations by using different feedback tools. Up to now, these have included the Customer Satisfaction Index (CSI) via telephone and online surveys. In 2017, within the scope of the "Customer Excellence" initiative of the Agenda 4 plus One, a new approach to the customer satisfaction survey was devised and adopted by the Executive Board of the Schaeffler Group. This new concept includes the compiling of a "net promoter score" (NPS) to measure the probability that a customer would further recommend the Schaeffler Group. The new concept will be implemented for the first time in 2018 and will be applied to all divisions and regions of the Schaeffler Group.

The Schaeffler Group takes great care to ensure that consistently high-quality products are made available to customers. The company has established the "zero defects principle" at all locations as a measure of product quality. It stands for an ongoing stabilization of processes and product improvement. The company maintains a comprehensive quality management

system to implement its quality policy. The production locations of the Schaeffler Group hold valid certificates based on globally accepted quality standards such as ISO 9001:2015 or ISO TS 16949:2009. To underscore its high quality standards, the company set the group-wide measurable goal to prevent product liability claims that could arise from product safety and product conformity issues, and to further reduce the number of complaint claims in comparison with the previous year. Both goals were achieved in 2017.

4.2 Transparency, dialogue and reporting: focus on community dialogue

As a globally active company, regular, open and constructive dialogue with key stakeholder groups is of paramount importance for the business success of the Schaeffler Group. This helps us to develop trusting relationships, understand contrary positions, recognize trends and deepen partnerships.

In addition to stakeholder dialogues within the scope of a regular group-wide materiality analysis, the Schaeffler Group pursues the approach of dialogue and cooperation at local and regional level. The requirements and implementation of the different formats are usually discussed and coordinated at each location. This reflects the history of the Schaeffler Group as a responsible family-run company. The various forms of cooperation with local stakeholders in all regions where the company carries out its business are put into effect. Great emphasis is thereby placed on local corporate citizenship. Focal points for this are often the fields “Education and science,” “Health and social services” and “Sport and culture.”

In India, the HOPE initiative (Health, Occupational skills, Preservation of culture and heritage, and Empowerment of society) was established in 2015. Through Schaeffler India Limited, ongoing talks about the needs of the local population are held and appropriate measures are implemented. Under the motto “May everyone be happy,” a school in Vadodara was expanded in 2017. Soon, 800 students will be given the opportunity to obtain an education, compared to less than 200 students previously.

In 2017, Schaeffler Group employees at the Fort Mill, USA, site recognized the need to help the local population cope with the damage caused by Hurricane Harvey. They donated USD 11,431 to the local Red Cross; in addition, the company donated USD 35,000. At the site in Anting, China, a cooperative effort with the “Tongji Primary School” was started in 2017, and in Herzogenaurach, Germany, the company plans to introduce a stakeholder day to enable information and ideas to be exchanged about various nonfinancial aspects, depending on the focal topic. This enables all stakeholder groups of the Schaeffler Group to get involved.

Local stakeholder involvement is also used to identify nonfinancial topics that are relevant to the Schaeffler Group at a higher level. For example, in the course of the materiality analysis in 2016 it was determined that residents and regional non-governmental organizations in the vicinity of the future Schaeffler logistics center in Kitzingen, Germany, would like to see more freight transported by rail rather than truck. These and similar findings, along with the fact that the determination of Scope 3 emissions (including from logistics) will be increasingly relevant to the company in the future, have led to the topic of “logistics” being identified as a core nonfinancial issue for the sustainability management of the Schaeffler Group.

4.3 Responsibility in supplier relationships

For the Schaeffler Group, responsible management of the company’s own supply chain also means strengthening the awareness of service providers and suppliers for the demands and expectations that are raised. This applies to both high-quality, efficient cooperation and to the adherence to environmental and social obligations and standards.

National legislators place high demands on responsible procurement. For example, the British Modern Slavery Act requires that companies document concepts and measures to prevent modern slave labor in their supply chain. In order to establish sustainability in procurement, it is necessary that partners hold to the voluntary commitments of the Schaeffler Group. The Supplier Code of Conduct (SCoC) of the Schaeffler Group defines the minimum requirements for suppliers pertaining to the respect for human rights, behavior with regard to the issues of environment, health and safety, for example, as well as the handling of information protected by data privacy legislation. The Supplier Code of Conduct of the Schaeffler Group is based on the principles of the United Nations Global Compact (UNGC) and the core labor standards of the International Labor Organization (ILO). Violations of fundamental principles, guidelines and requirements of the SCoC are essentially viewed as a material breach of contract by the causal supplier and lead to an escalation process which can end in the exclusion of the supplier from business activities. Acknowledgment of the SCoC is an integral part of new contractual relationships with suppliers. Starting in 2018, it is intended that the SCoC is also subsequently accepted in writing by existing production resource suppliers.

The Schaeffler Group examines potential new production material suppliers as to their compliance with environmental and

social standards before they are integrated into its portfolio of suppliers. New business partners who do not fulfill the required minimum standards in a so-called initial assessment (formerly potential analysis) regarding the issues of environment, health and safety (EHS) are excluded from the selection process or require a special approval.

The initial assessment is conducted on-site at the production facility of the supplier. If, for example, a supplier cannot verify that the contamination of water, air and soil is being adequately prevented, this leads to a halt in the approval process. In 2017, requests were submitted for a total of 157 new production material suppliers. The initial assessment has been successfully completed for 13 of these suppliers. 27 suppliers have been accepted under the condition that they implement pending measures. Eleven cases have been terminated. The remaining cases are currently being assessed.

5. Human rights

5.1 Human rights

The respect for human rights is an integral part of the entrepreneurial responsibility of the Schaeffler Group. Due to its complex international supply chain, the Schaeffler Group is exposed to a certain level of risk of being confronted either directly or indirectly with violations of law or human rights. The company's acceptance of responsibility and the corresponding due diligence processes with regard to human rights issues are oriented toward the UN Guiding Principles on Business and Human Rights, the National Action Plan (NAP) for Business and Human Rights, the ten principles of the United Nations Global Compact (UNGC) and the Modern Slavery Act (MSA). The aim here is always to ensure that absolutely no confirmed cases of human rights violations occur.

In accordance with the PDCA (Plan-Do-Check-Act) management method, the process of human rights due diligence on the part of the Schaeffler Group is iteratively and continuously further developed and improved. Preparation of the process is currently in the conceptualization phase. It consists of six key elements which recursively intermesh: (1) Declaration of principles of respecting human rights, (2) Complaint mechanism, (3) Human rights risk assessment and impact analysis, (4) Anchoring and integration, (5) Monitoring, communication and reporting, (6) Awareness raising, training, stakeholder commitment and networking. Of the six core elements, some elements (phases 1, 2, 4 and 5) have already been implemented. For example, the Schaeffler Group has affirmed its respect for human rights in both its company and supplier codes of conduct, as well as through its declaration regarding the Modern Slavery Act, as required in the United Kingdom. A channel for complaints was established through a whistle-blower system, in order to identify suspicious cases at an early stage. The whistle-blower system allows for the notification of violations of the Schaeffler Group's Code of Conduct, including human rights violations, at any time. The system is available in several languages and enables confidential and specially encrypted, secure communication with the investigation team of the Compliance department. As a further element, the establishment of a human rights risk assessment and impact analysis is in progress, in order to examine process-related potential risks pertaining to the respect for human rights. Up to now, there has been no human rights risk assessment and impact analysis. Both are currently being conceptualized. Thus far, reputational damage in the event of a breach of human rights has been included in the structured risk management of the Schaeffler Group as a qualitative issue. If necessary, human rights are reported to the Executive Board of Schaeffler AG within the framework of internal risk reporting.

In the future, the due diligence approach of the Schaeffler Group with regard to human rights should be further structured and detailed. The business partner due diligence process has not yet been comprehensively rolled out. It includes business partners who are susceptible to corruption. Conventional material suppliers are not yet covered. Objectives and measures for human rights due diligence have been anchored in the Sustainability Road Map and are currently being implemented. For this, the conceptual development of a comprehensive human rights management policy is being advanced.

The information on respecting human rights is made available to the stakeholders of the Schaeffler Group in different report formats, such as through the Sustainability Report, for example. Schaeffler Group employees are made aware of human rights issues through internal training measures. This is done within the framework of compliance training, with reference to the Schaeffler Group's Code of Conduct. Up to now, no separate training courses have been carried out on the subject of human rights. There were no confirmed cases of human rights violations in the period under review.

6. Anti-corruption

6.1 Compliance

The management and all employees of the Schaeffler Group are obliged by the Code of Conduct to comply with all applicable local, national and international laws and regulations. The entire worldwide compliance organization of the Schaeffler Group provides support in doing this. The underlying compliance management system (CMS) of the Schaeffler Group is based on the three pillars of "prevention," "detection" and "response" and is part of the "second line of defense" in the governance structure of the Schaeffler Group. In its present form, it was initiated by the Executive Board as the result of a fundamental review within the framework of the "Compliance Fit & Proper" program as part of the "ONE Schaeffler" program. After the underlying concept was successfully subjected to a concept review by an independent auditing company in accordance with the testing standards of the compliance management system IDW PS 980, in 2017, an independent auditing company began to examine the implementation.

In particular, the CMS comprises the control and monitoring of the necessary activities for the prevention or early detection of legal violations with regard to corruption, money laundering, competition and antitrust law, as well as business crime violations. It also supports active risk control and has a protective function for both the company and its employees.

The CMS is based on the basic elements of compliance culture, compliance objectives, compliance organization, compliance risk, compliance program, compliance communication, as well as monitoring and improvement. The compliance organization derives its precautions to counter antitrust and competition law violations, corruption, economic crime and money laundering on the basis of a risk-based approach and stemming from a regular group-wide risk analysis. The risk analysis provides information on the current risks associated with business activities and on the effectiveness of arrangements already in place.

Management of the compliance organization is the responsibility of the group chief compliance officer of the Schaeffler Group, who reports directly to the chief executive office, the chairman of the Supervisory Board and the chairman of the Audit Committee. With the Compliance department, the group chief compliance officer has a comprehensive network of experienced compliance specialists covering the regions of Europe, Americas, Greater China and Asia/Pacific. They also have access to a core team of experts from the fields of "Advisory," "Risk Analysis & Solutions" and "Forensics and Investigations" at the headquarters in Herzogenaurach, Germany. The tasks of the team of experts include defining and monitoring appropriate group-wide compliance standards and measures, compliance consulting, and the improvement of procedures and controls. The team is also responsible for independently investigating alleged violations and enforcing the necessary consequences. The causes of misconduct are analyzed, proposals for countermeasures are derived and their implementation observed. Violations of laws, regulations and internal rules, and the compliance thereof, are not tolerated and result in disciplinary action.

Measures for preventing breaches of compliance include, among other things, the Schaeffler Group's Code of Conduct, guidelines governing compliance with antitrust and competition law and anti-corruption, as well as those protecting information confidentiality, and Web-based and classroom training measures. There is also a compliance help desk to advise on specific compliance issues. In addition to basic behavioral requirements, the principles and practices described in the Code of Conduct also cover behavior toward business partners and third parties, the

handling of sensitive information, conduct toward employees and colleagues, and requirements with regard to environment, safety and health. In accordance with corporate values, neither bribes nor any form of corruption are tolerated. All employees of the Schaeffler Group are expressly prohibited from taking part in any form of bribery or corruption. This also applies to illegal anti-competitive and antitrust conduct. The Schaeffler Group avoids business dealings which cannot be carried out or maintained without unacceptable behavior.

Compliance training courses are continuously further developed and adapted to the areas of activity of the employees. Hence, among other things, the case studies of the "Risk Awareness" training course pertain to the relevant business units in order to identify potential risks in the most concrete and comprehensible manner. In the business year 2017, the compliance training program of the Schaeffler Group included, among other things, training courses on the issues of risk awareness and the Code of Conduct. The training serves both to clarify and raise the awareness of management and employees for such circumstances in accordance with the principle of prevention by creating an increased risk awareness toward reducing risks. In 2017, for example, 8,741 employees were trained in classroom training and workshops on the subject of compliance. The goal is for every new employee to be trained on essential compliance topics by 2020. In addition, measures are in place to detect any compliance violations. These include audits and controls, and a worldwide whistle-blower system that enables alleged violations to be reported anonymously. All submitted claims are independently verified. Retaliation against employees who, in good faith, express concerns about misconduct in the company are prohibited.

The duties of the corporate governance system of the Schaeffler Group also include ensuring material-specific compliance with laws and standards (material compliance). The Schaeffler Group applies material compliance management as an important tool. In addition, the Schaeffler Group takes a responsible approach in the use of raw materials such as tin, carbide, tantalum or gold, as the mining of such materials is used to finance martial conflicts and human rights abuses in some countries. The Schaeffler Group established a monitoring process in 2013, and provides information on material origins to companies who submit inquiries. The Schaeffler Group takes a "Reasonable Country of Origin Inquiries" (RCOI) approach to ascertain the regions from which sub-tier suppliers obtain the components with critical raw materials, and also to initiate any specific measures in the supply chain that are necessary. With this, the Schaeffler Group fulfills the requirements placed on the supply chain by the "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas."

7. Overview of nonfinancial key indicators

The following are quantitative details which can be used for the performance measurement of nonfinancial aspects and conditions at the Schaeffler Group in accordance with Section 289c HGB. The reference period includes the business years 2016 and 2017 respectively.

The key environmental indicators of energy and water consumption, as well as for emissions, are based on the consumption of the 75 production plants at 71 locations. Calculation is based on certification in accordance with ISO 14001, ISO 50001 and OHSAS 18001 and entry in the EMAS site registry; reporting date 12/31/2017.

Additionally, in April 2018, the Sustainability Report will be published.

Nonfinancial key indicators of the Schaeffler Group

Key indicator	Unit	2017	2016
Eenvironmental matters			
Number of locations with ISO 50001 certification	Number	61	57
Number of locations with ISO 14001 certification	Number	69	69
Number of locations with EMAS validation	Number	68	63
Total energy consumption [1]	GWh	3,263	3,119
Electricity consumption	GWh	2,339	2,255
Natural gas consumption	GWh	798	742
Fuel oil consumption	l	748,143	850,959
Propane/LPG consumption	t	3,938	3,401
District heating consumption	MWh	67,393	69,414
Intensity of energy consumption [2]	GWh per EUR 1 m of added value	0.51	0.51
Greenhouse gas emissions (total) [3]	tCO_2	1,419,042	1,364,251
Greenhouse gas emissions (Scope 1)	tCO_2	171,543	158,870
Greenhouse gas emissions (Scope 2)	tCO_2	1,247,498	1,205,381
Intensity of the discharge of greenhouse gas emissions	t per EUR 1 m of added value	311	309
Water consumption [4]	m^3	5,296,528	5,018,560
Intensity of water consumption	m^3 per EUR 1 m of added value	1,160	1,136
Amount of waste, Germany	t	315,245	313,259
Recycling rate, Germany [5]	%	96.9	96.3
Personnel matters			
Participants in classroom training, Germany	Number	30,646	37,345
Participants in e-learning courses, Germany	Number	15,593	25,074
Employee turnover rate [6]	%	3.9	3.6
Accident frequency	AccR [7]	7.09	8.36
Social matters			
Awards for customer satisfaction/product quality	Number	58	50
Suppliers for whom initial assessments have been carried out [8]	Number	157	114
• fully completed	Number	13	-
• fully excluded	Number	11	-
• accepted with open measures	Number	27	-
Combating corruption and bribery			
Number of employees trained in classroom training and workshops on the topic of compliance	Number	8,741	9,988

[1] Energy sources included: electricity, natural gas, district heating, propane and fuel oil.
[2] In terms of energy intensity, only electrical power consumption is taken into account.
[3] The emission factors of the German Association of the Automotive Industry (VDA) are used to ascertain emissions (2017).
[4] Water consumption includes city water and company water.
[5] Recycling and recovery/total waste volume, without metals and scrap.
[6] Pertains to employee-initiated turnover.
[7] Group-wide AccR = Accidents involving absence from work per one million working hours (from the first day of absence).
[8] Requested in 2017; the remaining cases are still being assessed.

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