SCHAEFFLER

Financial statements 2017

Schaeffler AG

Mobility for tomorrow

Leading into the future

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Combined management report

Combined management report in accordance with section 315 (5) 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.

Special items
In order to facilitate a transparent evaluation of the company’s results of operations, the Schaeffler Group reports EBIT, EBITDA, net income, net debt to EBITDA ratio, ROCE, and Schaeffler Value Added before special items (= adjusted).

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.

Rounding differences may occur.

References
Content of websites referenced in the group management report merely provides further information and is not part of the group management report. This does not apply to the corporate governance report including the corporate governance declaration in accordance with section 289f HGB and 315d HGB, including the declaration of conformity pursuant to section 161 AktG. The reference to the combined separate non-financial report in accordance with section 289b (3), section 315b (3), and section 298 (2) HGB also forms part of the group management report.

Disclaimer in respect of forward-looking statements
This group 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.

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. With its approx. 90,000 employees, the Schaeffler Group is one of the leading global technology companies. The Schaeffler Group identifies key trends early on, invests in researching and developing new forward-looking 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 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. This includes offering innovative products for hybrid and electric vehicles.

Under its strategy "Mobility for tomorrow", the Schaeffler Group concentrates on 4 focus areas: eco-friendly drives, urban mobility, interurban mobility, and energy chain. These 4 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. The 8 strategic pillars developed based on these focus areas define the scope for action under the strategy "Mobility for tomorrow" and constitute the basis for the continuous further development of the Schaeffler Group. The excellence program "Agenda 4 plus One" was developed to ensure implementation of the strategy; it now consists of 20 strategic initiatives (prior year: 16) which have been grouped into five categories. In order to consistently implement its strategy, the Schaeffler Group has set itself Financial Ambitions 2020 that mark the financial corridor for implementing the strategy.

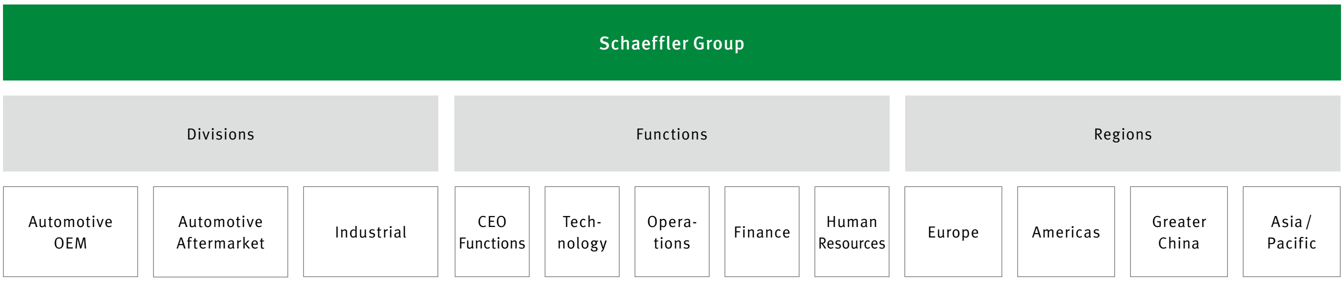
Schaeffler AG's common non-voting shares are listed on the Frankfurt Stock Exchange and are included in Deutsche Börse's MDAX index as well as in the STOXX Europe 600 index. The company's main shareholder is IHO Holding, a group of holding companies owned indirectly by the Schaeffler family that holds all of Schaeffler AG's common shares. The free float amounts to approx. 24.9% of Schaeffler AG's total common and common non-voting share capital. Schaeffler AG intends to continue to pay a dividend of 30 to 40% of consolidated net income before special items to its shareholders.

Organizational structure

The Schaeffler Group's corporate structure is characterized by a three-dimensional organizational and leadership structure which differentiates between **divisions, functions,** and **regions.** Thus, the Schaeffler Group's business is primarily managed based on the divisions, which also represent the reportable segments.

Until December 31, 2017, these divisions consisted of the Automotive and Industrial divisions. While the Automotive division organized its business in the Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket business divisions, the Industrial division was primarily managed based on the regions Europe, Americas, Greater China, and Asia/Pacific.

Schaeffler Group organizational structure No. 001
since January 01, 2018



Simplified presentation for illustration purposes.

In order to shape the company's future in a fast-changing market and competitive environment and to become even more customer-oriented, the Board of Managing Directors, in cooperation with the Schaeffler AG Supervisory Board, decided, in 2017, to separate the Automotive Aftermarket from the Automotive division of Schaeffler AG and set it up as a third stand-alone division as of January 01, 2018. As a consequence, the Schaeffler Group has been dividing its business into three divisions – Automotive OEM, Automotive Aftermarket, and Industrial – since January 01, 2018. Like the Industrial division, the Automotive Aftermarket division is managed based on four regions. In addition, the company created an independent E-Mobility business division within the Automotive OEM division effective January 01, 2018.

In addition to the divisions, the Schaeffler Group's organizational model includes five functional areas: (1) CEO Functions, (2) Technology, (3) Operations, (4) Finance, and (5) Human Resources. Distribution is embedded directly in each of the 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. Up until December 31, 2017, along with the Chairman of the Board of Managing Directors (Chief Executive Officer – CEO), the Board of Managing Directors comprised 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). Since the Automotive Aftermarket was set up as a separate division effective January 01, 2018, the Board of Managing Directors also includes the CEO Automotive Aftermarket.

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.

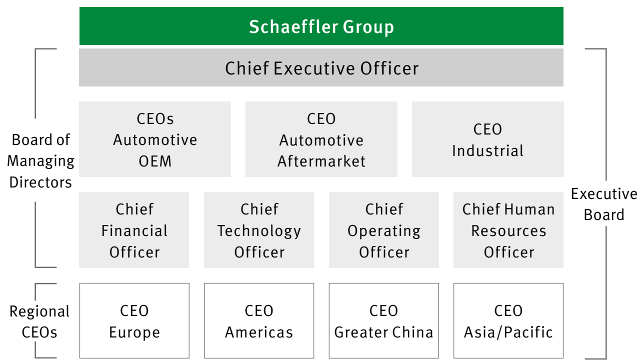
In addition to the divisions and the functions, the group's matrix organization comprises the regions Europe, Americas, Greater China, and Asia/Pacific, each managed by a Regional CEO. The Regional CEOs report directly to the CEO. Together, the Board of Managing Directors and the Regional CEOs represent 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.

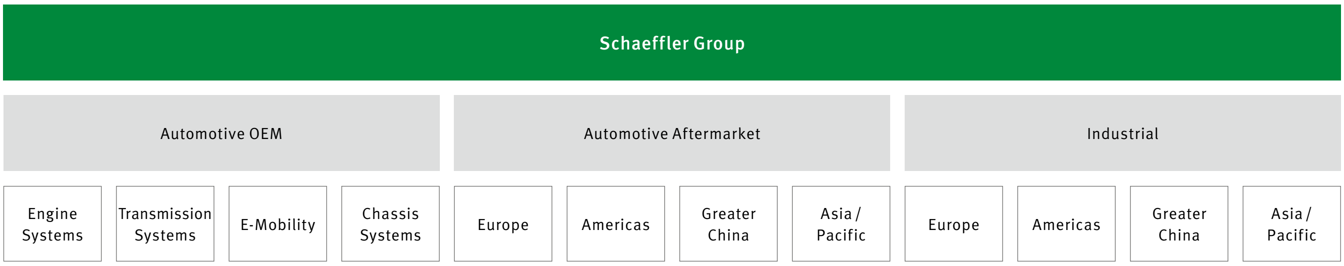
The Board of Managing Directors and the Supervisory Board comply with the recommendations of the German Corporate Governance Code in conducting their affairs and have issued the declaration of conformity pursuant to section 161 German Stock Corporations Act ("Aktiengesetz" – AktG) in December 2017. The corporate governance report including the corporate governance declaration in accordance with section 289f HGB and section 315d HGB including the declaration of conformity pursuant to section 161 AktG is publicly available from the company's website.

Corporate governance report including the corporate governance declaration in accordance with section 289f HGB and section 315d HGB including the declaration of conformity pursuant to section 161 AktG at: www.schaeffler.com/ir

Schaeffler Group leadership structure No. 002
since January 01, 2018



Schaeffler Group divisions and business divisions No. 003
since January 01, 2018



Simplified presentation for illustration purposes.

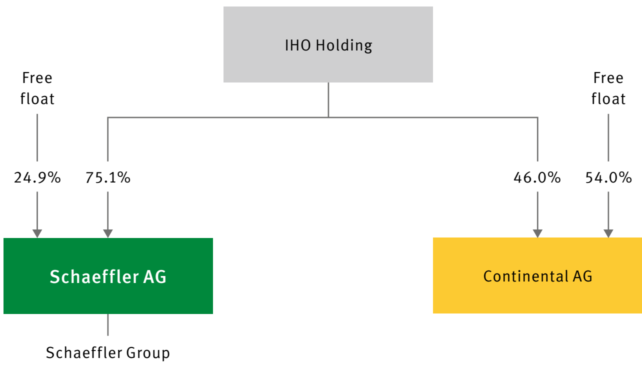
Locations and changes in the scope of consolidation

The corporate head office of the Schaeffler Group is located in Herzogenaurach. In addition, the Schaeffler Group's network of manufacturing locations, research and development facilities, and distribution companies consists of approx. 170 locations in over 50 countries. The production system with currently 74 manufacturing locations in 22 countries is the cornerstone of the Schaeffler Group's operations. The Schaeffler Group is actively helping to shape technological progress for "Mobility for tomorrow" at its 18 R&D centers and at additional R&D locations in a total of 24 countries. As a global development partner and supplier, Schaeffler maintains stable long-term relationships with its customers and suppliers. In addition to Schaeffler AG, which acts as the group's lead company, the Schaeffler Group included 151 (prior year: 152) domestic and foreign subsidiaries as at December 31, 2017. As at December 31, 2017, 103 (prior year: 104) of these subsidiaries are located in the Europe region, 25 (prior year: 26) in the Americas region, 10 (prior year: 9) in the Greater China region, and 13 (prior year: 13) in the Asia/Pacific region.

In 2017, the Schaeffler Group acquired the remaining 49% stake in Compact Dynamics GmbH. As a result, this company is now wholly-owned by the Schaeffler Group. The scope of consolidation underwent only minor changes overall during the year.

See the notes to the consolidated financial statements beginning on page 121 for further details

Legal group structure No. 004
as at December 31, 2017



Legal group structure

Schaeffler AG is a publicly listed corporation domiciled in Germany. Schaeffler AG's share capital consists of a total of 666 million shares. 500 million of these shares are unlisted common bearer shares and 166 million are common non-voting bearer shares. Each common share and each common non-voting share represents an interest in total share capital of EUR 1.00 each.

All 500 million of the common bearer shares are held by IHO Verwaltungs GmbH, which is part of IHO Holding. This represents an approx. 75.1% interest in Schaeffler AG. The 166 million common non-voting bearer shares in Schaeffler AG are widely held. The free float amounted to approx. 24.9% as at December 31, 2017. IHO Holding also holds approx. 46.0% of the shares in Continental AG.

1.2 Business activities

Divisions

The Schaeffler Group's business is primarily managed based on the operating divisions, which have global responsibility and also represent the reportable segments in accordance with IFRS 8.

Organizational structure up to December 31, 2017

Up to December 31, 2017, the Schaeffler Group divided its business activities into the two **divisions Automotive** and **Industrial,** with approx. 77% (prior year: approx. 77%) of the group's revenue generated by the Automotive division and approx. 23% (prior year: approx. 23%) by the Industrial division.

The Automotive division business was organized into the four **business divisions (BD) Engine Systems, Transmission Systems, Chassis Systems,** and **Automotive Aftermarket.** The Industrial division was primarily managed regionally, based on the **regions Europe, Americas, Greater China,** and **Asia/Pacific.**

Organizational structure since January 01, 2018

Effective January 01, 2018, the Automotive Aftermarket was separated from the Automotive division of Schaeffler AG and set up as a third stand-alone division.

As a consequence, the Schaeffler Group has been dividing its business into three divisions – **Automotive OEM, Automotive Aftermarket,** and **Industrial** – since January 01, 2018. The three divisions of the Schaeffler Group will in future be managed from decentralized divisional headquarters located in Buehl, Langen, and Schweinfurt. The Automotive OEM division will be headquartered in Buehl. The new Automotive Aftermarket division will be managed from Langen. The Industrial division continues to be located in Schweinfurt. The corporate head office of the Schaeffler Group is in Herzogenaurach.

The decisions taken further underscore the intention to render the company even more customer-oriented and decentralized in a fast-changing market and competitive environment. This realignment reflects the increased significance of the Automotive Aftermarket business to the Schaeffler Group. These decisions are designed to help emphasize the Schaeffler Group's various business models and to simplify the company's structures: increased focus on the business, increased responsibility for the divisions, closer to the customer, and faster and more flexible decisions.

At the same time, the separation provides the opportunity to streamline the Schaeffler Group's organizational and leadership structure and develop it with a view to the future. This also includes the new E-Mobility business division set up in the Automotive division and the independent organizational unit Industry 4.0 created in the Industrial division effective January 01, 2018.

As a consequence of these decisions, the Schaeffler Group has been reporting under the new structure discussed above since January 01, 2018.

Automotive OEM division

- Strong customer base: all major automotive manufacturers as well as approx. 1,200 automotive suppliers (Tier 1)
- Change to new powertrain technologies addressed proactively: The number of customer projects and volume production orders in the field of E-Mobility is increasing continually
- New E-Mobility business division set up

Customers and products

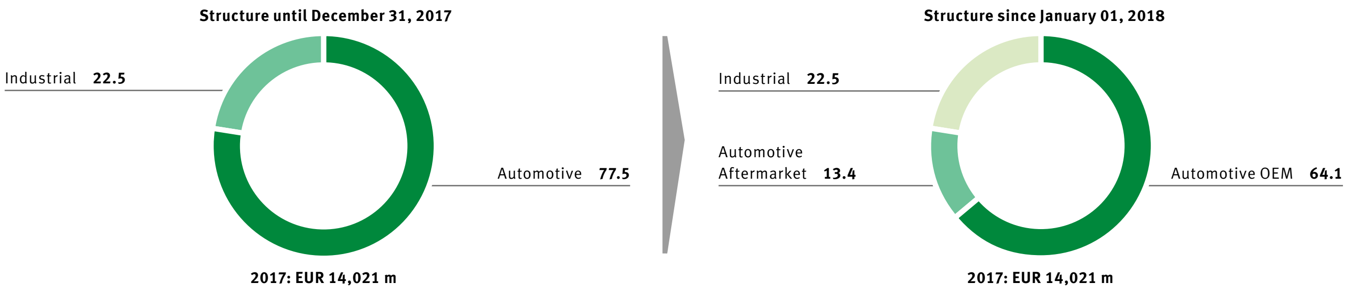
One of the preferred technology partners, the Automotive OEM division is working on technologies for the various drive concepts, markets, and regions and delivers appropriate solutions for the most varied requirements of the automotive industry.

The division's product range includes components and systems for vehicles with drive trains based on internal combustion engines as well as for hybrid and electric vehicle applications. Since January 01, 2018, all products and system solutions for electric mobility, i.e. for hybrid and purely battery-electric vehicles, are managed centrally through the new E-Mobility business division. On this basis, the Automotive division is subdivided into the following four business divisions, which in turn comprise several business units and product lines:

- The **Engine Systems BD** develops and provides components and systems for engines. Precision products are key to helping engines consume less fuel and comply with increasingly stringent emissions standards. The product portfolio includes valve-lash adjustment elements, variable camshaft phasing units, timing and front end auxiliary drives, and thermal management modules.
- The **Transmission Systems BD** develops and provides components and systems for transmissions. Recent years have seen the development of numerous products for the various types of transmissions that have already made it into volume production. Automated manual transmissions and double-clutch transmissions have joined the classic manual and automatic transmissions.

Schaeffler Group revenue by division
in percent

No. 005



- The **E-Mobility BD** combines all components and system solutions for hybrid and purely battery-electric vehicles – from mild hybrids (48 volt) and plug-in hybrids through to purely electric vehicles. The product portfolio includes hybrid modules, primary components for continuously variable transmissions (CVTs), electric axle drives, hydrostatic clutch actuators and electric wheel hub motors.
- The **Chassis Systems BD** develops and provides components and systems for chassis. Its wide range of products includes wheel bearings and mechatronic systems through to electromechanical actuators for active chassis control with integrated sensors that capture data.

The Automotive OEM division's global key account management function is responsible for serving key customers. In this manner, the Automotive OEM division is consistently aligned along customer and market needs and the course for its sustainable profitable growth has been set.

Sales markets

The key indicator for trends in the Automotive OEM division's relevant market is global automobile production. Research institute IHS expects steady market growth in the next few years, with electric drives characterizing the mobility of the future. By 2030, as much as 30% of all newly produced cars will be using all-electric drive systems according to a scenario recently proposed by Schaeffler. 30% will be equipped exclusively with an internal combustion engine and 40% will have a hybrid powertrain consisting of an internal combustion engine plus an electric drive. The Automotive OEM division responds to these challenges with a comprehensive approach. Whether components and systems for vehicles with drive trains based on the internal combustion engine or hybrid and electric vehicle applications – the division provides innovative solutions for all types of drives in order to make low-emission driving fit for the future.

Key growth drivers

Under the strategy "Mobility for tomorrow", the Automotive OEM division addresses the current megatrends of the automotive sector – drives reducing fuel consumption and emissions, electrification, shared mobility, interconnectedness, and autonomous driving. These megatrends offer growth perspectives in all market segments. These perspectives are driven, in particular, by growing sales of modules and systems in the field of new electrification technologies, which is intended to considerably increase content per vehicle, and, as a result, generate growth approx. four percentage points higher than the annual growth rate of the global automotive market.

From drive trains based solely on an internal combustion engine through to a hybrid or electric design: The Schaeffler Group's broad development expertise creates tailored drive solutions for the mobility needs of the various target markets, making an important contribution to ensuring that tomorrow's mobility is efficient and clean.

Drives reducing fuel consumption and emissions: The Automotive OEM division's comprehensive know-how enables it to make the classic drive train as eco-friendly as possible and has a broad and growing product portfolio. The integrated torque converter, the electronic clutch, the electric camshaft phasing unit, the fully variable valve control system UniAir, and the second-generation thermal management module offer innovative solutions for meeting legal limits and emission targets.

Electrification: Considerable potential improvements are offered by the electrification of conventional drive trains. In light of this, the field of E-Mobility represents one of the key opportunities for the future under the strategy "Mobility for tomorrow". Consequently, the E-Mobility initiative was defined as part of the excellence program "Agenda 4 plus One". The Automotive OEM division already offers innovative solutions for hybrid and electric vehicles today. 48-volt systems with components by the Automotive OEM division being a particularly cost-efficient solution for driving with zero local emissions. These systems enable electric clutch systems, as well as hybrid modules and electric axles to be integrated in existing vehicle architectures, making new efficient and convenient features possible. Plug-in hybrids can also be operated in all-electric mode and thus with zero local emissions. Another development was the electric axle, a modular kit solution for hybrid and all-electric vehicles. The fully electric drive system features a modular design for flexible use. The electric wheel hub motor "eWheelDrive" offers innovative technology for the mobility of tomorrow, as well. This highly integrated drive facilitates completely new vehicle designs.

The number of customer projects and volume production orders in the field of electric mobility is continually increasing. The division plans on as at least 15% of total Automotive OEM revenue being generated by components, subsystems and systems for hybrid and fully battery-electric vehicles as early as 2020. The Schaeffler Group has received a total of currently eight volume production orders for electric axles and hybrid modules from various automobile manufacturers around the world, the main driver being the Greater China region, which is increasingly setting global market trends in electric mobility. Three of these volume production orders for electric axles and hybrid modules came from China.

Shared mobility, interconnectedness, and autonomous driving: Interconnectedness between people, processes, data, and things is advancing at an unstoppable speed and is one of the strongest growth segments of the future. The digital revolution also influences all facets of the automotive sector. For Automotive OEM, a key component here is the development of intelligent components and systems for autonomous driving, electrification, and interconnectedness. The wheel hub motor offers the perfect platform for driverless and shared vehicles and mobility solutions. Integral electromechanical sensors assess parameters such as location and road surface condition and transmit them to the cloud. Topics such as autonomous and interconnected driving as well as shared mobility are also giving rise to new development partnerships and business models.

Automotive Aftermarket division

- Automotive Aftermarket business strengthened: Automotive Aftermarket set up as third stand-alone division
- Close to the customer due to approx. 2,200 customers and over 55 sales offices and branches worldwide
- Construction of an integrated European assembly and packaging center

Customers and products

Being one of the leading development partners to the global automotive sector, the Schaeffler Group can tap into decades of experience in the Aftermarket business and stands for groundbreaking innovations. Whether for passenger cars, light and heavy commercial vehicles, or tractors – the new Automotive Aftermarket division offers tailored solutions for transmission, engine, and chassis systems for all vehicle classes and models in original-equipment quality.

Setting up the Automotive Aftermarket as a separate division of the Schaeffler Group reflects the increased significance of the automotive aftermarket business to the company. The management model of the new division follows a regional approach based on the **regions Europe, Americas, Greater China,** and **Asia/Pacific.**

Within each region, the division uses two distribution channels to sell its products and services: the Original Equipment Service (OES) and the open (independent) market, known as the Independent Aftermarket (IAM). The OES comprises the automobile manufacturers' spare parts business, that is, supplying original spare parts and services to branded repair shops, i.e. those that are authorized by automobile manufacturers. IAM, on the other hand, supplies independent repair shops that are not tied to any one vehicle brand with spare parts and services via the various distribution levels. IAM differentiates between two types of business. In addition to the traditional component business consisting of replacing parts, the service business provides repair sets and kits custom assembled to help make vehicle repairs simple, efficient, and professional.

Schaeffler Automotive Aftermarket customers mainly include almost all major international and national trading companies, which in turn supply Schaeffler products to other distribution levels all the way down to the repair shop. In addition, the division cooperates with all international and national trade cooperatives in which a large number of its customers are organized.

Like the Automotive OEM and Industrial divisions, the Automotive Aftermarket division operates under the Schaeffler corporate brand. The comprehensive Aftermarket product range includes products and repair solutions for engine, transmission, and chassis applications, such as timing drives, clutch and clutch release systems, or wheel bearings, that are distributed using the four product brands LuK, INA, FAG, and Ruville. All components are optimally tuned to work together and allow for fast and professional replacement.

The division assists repair shops in professional clutch repairs with its LuK RepSet family. The product range also includes the complete hydraulic clutch release system, the dual-mass flywheel, as well as professional repair solutions for commercial vehicles and tractors.

Under its INA brand, Schaeffler offers know-how across the four key systems in an engine: The product portfolio of the full-range supplier comprises components for the timing drive (for both belt- and chain-driven vehicles), the front end auxiliary drive, the valve train, and the cooling system. The replacement parts program consists of individual products as well as solutions provided in the form of innovative kits and sets.

Schaeffler's FAG brand supplies what it takes to make replacing wheel bearings seamless. Its reliable wheel bearings and innovative repair solutions range from the classic wheel bearing set, the FAG WheelSet, and the FAG WheelPro (for replacing the wheel bearings of both wheels of an axle) through to wheel bearing repair solutions for light commercial vehicles and preassembled wheel bearing units for heavy commercial vehicles, such as the FAG RIU (Repair Insert Unit) and the FAG SmartSET.

Being a specialist for chassis and steering parts, the Automotive Aftermarket division develops intelligent repair solutions and kits for all common European and Asian vehicle models, tailored to suit market needs and requirements. All of them include all replacement and accessory parts required for professional installation.

Increasingly complex vehicle applications and the large number of new vehicle models are constantly confronting vehicle professionals with challenging repair situations. The Automotive Aftermarket division's REPXPERT offers comprehensive services covering every aspect of its products and repair solutions. Whether they utilize the web portal, service hotline, installation guides and videos, training seminars and events, or tools tailor-made for professional repairs – repair shops benefit from the Schaeffler Group's over 40 years of experience in the Automotive Aftermarket. In addition to its own services, the Automotive Aftermarket division has also co-founded important service initiatives with industry partners, a significant contribution to keeping repair shops and distributors well informed. These initiatives include TecAlliance, a company providing solutions for electronic catalog data, inventory management, and digitalization, as well as the telematics platform CARUSO.

Sales markets

The ever growing vehicle population, rising average vehicle age, and increasing vehicle complexity provide tremendous opportunities for growth in the division's replacement parts business. According to research institution IHS (February 2018), the worldwide vehicle population will grow from approx. 1.3 bn in 2017 to approx. 1.6 bn in 2022, and the average vehicle age will increase from approx. 9.5 years to approx. 9.8 years. As the most significant increase for both parameters is expected in the Greater China region, the division considers this region to hold a high potential for future growth. Although the move toward new drive technologies will only have a very minor impact on the Aftermarket business over the next 10 years, the Automotive Aftermarket division is already preparing for future demands. Networking with the Automotive OEM division within the Schaeffler Group is key to this preparation.

Key growth drivers

The division aims to generate annual revenue growth averaging approx. 3% in the coming years – based on technical excellence, intelligent solutions, and outstanding services, as well as a consistently global operation. The Greater China and Asia/Pacific regions are driving the division's growth. Another focus is on maintaining the high degree of coverage provided by the division's product and service portfolio as well as on further improvements regarding availability and customer loyalty. Digitalization is also becoming a focus of the Automotive Aftermarket's attention. Working with other disciplines from across the group, the division will develop repair solutions and services that make repair shops ready for the future.

In order to secure opportunities for growth and to considerably expand customer and delivery service, the division plans to realize a highly automated logistics location in Saxony-Anhalt near Halle/Saale, whose capacity can be adjusted flexibly; the facility is slated for commissioning in the first quarter of 2020. The project will establish a state-of-the-art integrated European assembly and packaging center known as ⊙ Aftermarket Kitting Operation (AKO). The AKO is part of the "Agenda 4 plus One". This logistical structure will be implemented in additional regions beyond Europe as well. The company is planning AKOs in North America, Asia/Pacific, and China, and there is already an AKO in operation in South America. Implementing the AKOs is an important step toward further improving the delivery performance of the Automotive Aftermarket division in order to generate maximum customer satisfaction in the long-term.

Industrial division

- Products and solutions for approx. 7,800 customers from a variety of industrial sectors
- Program "CORE" aimed at increasing earnings quality progressing on schedule
- Mechatronic systems and digital services business combined into organizational unit Industry 4.0

Customers and products

The Industrial division understands and meets the needs of customers in numerous different sectors. It offers goods and services ranging from high-volume standard products to individual specialized solutions and from mechanical components through to mechatronic systems and digital services. The common denominator is the technological expertise and the know-how covering the customer's entire system.

The management model of the Industrial division follows a regional approach based on the **regions Europe, Americas, Greater China,** and **Asia/Pacific.** Within the regions, the direct business with the OEMs is grouped into eight sector clusters: (1) wind, (2) raw materials, (3) aerospace, (4) railway, (5) offroad, (6) two-wheelers, (7) power transmission, and (8) industrial automation. In addition to these sector clusters, the division sells via distributors through the indirect distribution channel known as Industrial Distribution.

This structure has proven invaluable with respect to the Industrial division's customers, since many customers have a regional focus. It allows the division to target its response to local customer needs even more closely and to strengthen customer loyalty. Transregional issues, such as the global technology and product strategy, are driven forward by the close network linking the regions within the division. A global key account management function for key customers with operations in more than one region ensures that their needs are met equally all over the world. Thus, the Industrial business is consistently aligned along customer and market needs and the course for its sustainable profitable growth has been set.

With a view to mobility, the Industrial division develops rolling bearings and power transmission solutions for bicycles and motorcycles, rail vehicles, aircraft and spacecraft, as well as agricultural and construction machinery. A great deal of importance is placed on energy efficiency, for instance in eco-friendly engine designs in the aviation sector. Schaeffler offers bearing solutions for all types of drives, whether mechanical, electric, or hydraulic. The Industrial division's technological expertise in the field of renewable energy is already on display in products and solutions for hydropower, solar energy, and wind power applications. Customers in the paper industry and in the raw material extraction, preparation, and processing sectors with their generally "heavy duty" rolling bearing applications play an important role for the Industrial division. For decades, this division has also been an innovative systems partner in the industrial automation sector cluster, particularly for machine tools and machinery for the textile, printing, food, and packaging industries, as well as for medical technology and the semiconductor industry. Industrial Distribution is responsible for the business with distribution partners serving end customers and OEMs in the above sectors.

Customers require intelligent solutions and optimized lifecycle costs, which opens up new growth areas for the Industrial division. The newly established organizational unit Industry 4.0 is aimed at developing these growth areas. This unit combines the entire industry-specific business with mechatronic systems and digital services as well as the required related components. Industry 4.0 is to the Industrial division what electric mobility is to the Automotive OEM division. The field of Industry 4.0 is one of the key opportunities for the future under the strategy "Mobility for tomorrow". Consequently, the ▶ Industry 4.0 initiative was defined as part of the excellence program "Agenda 4 plus One". The division plans on approx. 10% of revenue being generated by Industry 4.0 products and solutions by 2022.

Sales markets

The key indicator for trends in the Industrial division's relevant market is the global market volume for rolling and plain bearings, linear technology, and service products. The Industrial division expects market volume to increase by approx. 3% at constant prices in the next five years. The growing number of competitors, especially from Asia, will intensify competition. Assuming this will cause prices to gradually decline, the relevant market will experience only a slight expansion.

Key growth drivers

In the future, the Industrial division's success will also be based on its strong product portfolio for rotary and linear applications. Gained in years of collaboration with customers, the know-how regarding the use of products in systems will enable the division to grow beyond rolling bearings with complex mechanical and mechatronic systems and Industry 4.0 applications.

Components: The cornerstone of the successful growth of the Industrial division is its core business with components, which are constantly being developed further and improved. Successful examples of newly developed products are bearings of X-life quality or the innovative material known as Mancrodur. The wide variety of goods and services, which comprises standard products offering good value for money, technical advice, as well as solutions developed specifically for the customer, offers the ideal balance between cost and benefit for every customer.

Mechanical systems, mechatronics, and Industry 4.0 services: Being successful in the systems business requires competitive components and an understanding of how they interact within the system. The Industrial division meets both of these requirements thanks to its many years of cooperating with its customers and providing advice to them. In the future, mechanical components, sensors, actuators, and control electronics will increasingly be combined into integrated mechatronic systems. Examples of components equipped with sensors include the "Spindlesense" (spindle bearing equipped with sensors) and the "Durasense" (linear guidance system equipped with sensors) presented at the EMO trade fair in Hanover.

The Industrial division itself provides a significant proportion of development and value added, with the remainder sourced in cooperation with suppliers. Direct drives for rotary tables in the food industry and linear drives used in medical technology, for instance, are developed and manufactured in-house by the Industrial division.

Mechatronic systems supply the data that forms the basis for digital services reducing the customer's lifecycle costs. Among other things, the Industrial division has been active in the field of "condition monitoring" (i.e. monitoring operating condition) for many years. Additional services are being developed and are aimed to help the Industrial division grow faster than the market.

Program "CORE"

The program "CORE" started by Schaeffler AG's Board of Managing Directors in 2015 is progressing on schedule. The agreed upon staff reduction targets having been reached, the first wave was completed successfully. In order to achieve future earnings targets, the company worked hard to further develop the second wave in 2017 that was initiated by Schaeffler AG's Board of Managing Directors in 2016. In addition to the measures addressing the production network and distribution that have already been communicated and executed, further efficiency measures are planned regarding overheads and production cost. Along with cost reductions, the company is also planning to increase its profitability using targeted price and portfolio measures. On this basis, the division aims to improve its EBIT margin before special items to 11 to 13% by 2020.

Schaeffler Group functions No. 006
since January 01, 2018

Schaeffler Group				
CEO Functions	Technology	Operations	Finance	Human Resources
– Quality – Schaeffler Consulting – Communications & Branding – Investor Relations – Legal – Internal Audit – Business Development & Strategy – Compliance & Corporate Security – Corporate Real Estate	– Corporate R&D Management – Technology Strategy & Innovation – R&D Processes, Methods & Tools – R&D Competence & Services – Intellectual Property Rights – Surface Technology – Information Technology – Strategic IT – Coordination Office Digitalization	– Operations Strategy & Processes – Production Technology – Special Machinery – Tool Management & Prototyping – Industrial Engineering – Bearing & Components Technologies – Logistics – Purchasing – MOVE	– Finance Strategy, Processes & Infrastructure – Corporate Accounting – Corporate Controlling – Corporate Treasury – Corporate Taxes – Corporate Insurance – Divisional Controlling Automotive OEM – Divisional Controlling Automotive Aftermarket – Divisional Controlling Industrial	– HR Strategy – HR Policies & Standards – Leadership, Recruiting & Talent Management – Schaeffler Academy – HR Systems, Processes & Reporting – Environment, Health & Safety – HR Functions – HR Automotive OEM – HR Automotive Aftermarket – HR Industrial

Simplified presentation for illustration purposes.

Functions

The multi-dimensional structure of the Schaeffler Group includes the functional management level with five functional areas: (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, R&D) and Operations are discussed in more detail below.

Quality

The Schaeffler Group's benchmark is consistently ensuring top quality and product safety across all applications. Based on the strategy "Mobility for tomorrow" and the "Agenda 4 plus One", the company's quality strategy is oriented toward ensuring products and processes are free of defects and errors. Thus, it focuses primarily on three issues in order to facilitate "Mobility for tomorrow":

- Continuous improvement of the core business, one of the Schaeffler Group's key success factors.
- Constant improvement of the management system and of the processes on which the company's entire business is founded.
- The preventative quality assurance measures in product development that ensure sustainability and set trends.

Quality strategy programs and projects are defined and promoted in a wide variety of events. Thus, in 2017, quality was covered in the Technology Dialog, including presentations on quality technology topics with a development horizon of 5 to 10 years. For instance, an end-of-line test for mechatronic applications was presented that is still under development; it uses Digitalization to perform correlation analyses in order to determine the cause of errors detected. Applied in volume production, this test rig will enable non-conformity costs and waste to be reduced for the long-term.

This innovative testing technology was also included as a pilot in the ⊙ Quality for Tomorrow initiative that is part of the "Agenda 4 plus One". The objective of this initiative is to increase the quality of both the product and the processes once again, regardless of complexity. The initiative addresses structuring the quality management function to accommodate increasingly complex products, new technologies for quality assurance, and improving existing quality processes. However, the overall aim of the initiative is not only to come up with a response to new trends in the market, but also to increase the quality and efficiency of the existing business. One example of this is the "Fit for low noise bearing quality" project, which coordinates activities related to ball bearings in order to meet the highest demands regarding noise. Thus, the "Quality for Tomorrow" initiative is not only of a safeguarding, preventative nature, but actively and measurably contributes to the Schaeffler Group's profitability.

The "Fit for Quality" initiative was one of the key topics at the quality day held in 2017. Well-established within the company for several years, "Fit for Quality" is a program aimed at achieving "zero defects" and delivering top quality to internal and external customers. A revision in 2015 resulted in a renewal: The change from a quality improvement program to a comprehensive quality culture. The amended guiding principles (Fit for Quality Axioms) follow the standards regarding quality-oriented leadership, systematic planning and training, tools and processes, error detection, and review of processes and measures, as well as the transfer of good solutions to other areas. Outstanding results were presented during the Fit for Quality Zero Defect Days in January 2017.

Outstanding quality is a key feature differentiating the Schaeffler Group from its competition and represents the basis of the group's future long-term growth. The Schaeffler Group's high quality standards are demonstrated by, among other things, numerous awards received from customers. The Schaeffler Group received a total of 58 quality awards in 2017, including Ford Motor Company's "World Excellence Award" in the "Quality Pillar" category. The "World Excellence Awards" are designed to recognize Ford's outstanding suppliers around the world; these suppliers distinguish themselves by excellence in all areas.

In addition, all of the Schaeffler Group's manufacturing locations are certified under globally recognized quality norms and standards. Following its activities in 2016, the Schaeffler Group has successfully rolled out, or initiated the rollout of, the requirements of the new certification standards IATF 16949:2016 (Quality management system – standard of the automotive sector), the ISO/TS 22163 (Quality management system – particular requirements for application of ISO 9001:2015 in the rail sector), as well as the SAE AS 9100D:2016-09-20 (Quality Management Systems – Requirements for Aviation, Space, and Defense Organizations) in all relevant Schaeffler plants worldwide in 2017. Compliance with these standards is reviewed and confirmed using regular internal and external audits at the relevant locations.

Technology

Globalization, urbanization, digitalization, scarcity of resources, renewable energy, and the growing need for mobility worldwide are resulting in changing market requirements. This also leads to changing EcoSystems requiring the development of comprehensive expertise ranging from energy generation through to energy supply and energy consumption. In light of this, the Schaeffler Group's Technology function relies on the continuous improvement of existing technologies as well as on the development of completely new technologies.

More on the group strategy on pp. 23 et seq.

The Schaeffler Group benefits from its many years of experience and expertise with product and systems development. Being a supplier of complex modules and complete system solutions, the Schaeffler Group will continue to expand this expertise while maintaining its established components business. The goal here is to safeguard the Schaeffler Group's technological leadership and to thoroughly delight customers worldwide by delivering innovative application- and customer-oriented system solutions from a single source.

From an organizational perspective, the Technology function includes Corporate R&D Management, Technology Strategy & Innovation, R&D Processes, Methods & Tools, R&D Competence & Services, Intellectual Property Rights, Surface Technology, as well as Information Technology and the Coordination Office Digitalization. Strategic IT was added in 2017.

Schaeffler Group R&D

The Schaeffler Group is actively helping to shape technological progress for "Mobility for tomorrow" with an average of 7,634 R&D staff (prior year: 7,121) at 18 R&D centers (prior year: 17) and additional R&D locations in a total of 24 countries. Its 2,316 patent registrations filed with the German Patent and Trademark Office made the Schaeffler Group the second most innovative company for the fourth consecutive year in 2016. The more than 3,294 inventions reported internally in 2017 (prior year: 2,950) 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 2017.

The Schaeffler Group's research and development activities comprise corporate research and development as well as the application-oriented development activities of the Automotive OEM, Automotive Aftermarket, and Industrial divisions.

Research and development expenses No. 007

	2013	2014	2015	2016	2017
Research and development expenses (in € millions)	611	622	673	751	846
Research and development expenses (in % of revenue)	5.5%	5.1%	5.1%	5.6%	6.0%
Number of research and development staff [1]	6,039	6,387	6,651	7,121	7,634

[1] Averages.

Corporate research and development: The company's corporate research and development, which is incremental to the divisions, facilitates long-term customer- and market-specific technical solutions and helps promote interdisciplinary knowledge transfer. The corporate R&D activities follow a systematic process that is aligned along the product lifecycle and speeds up development. The technical knowledge gathered is collected and combined in the Schaeffler Group's competence centers, ensuring increased technical depth of product development as well as quick and valid decisions.

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.

Collaborations: The corporate R&D activities are founded on a global innovation network that contributes significantly to the Schaeffler Group's global technological leadership. Collaborations with universities in the form of a "Schaeffler Hub for Advanced Research" (SHARE) under the "Company on Campus" concept ensure the consistent development of future-oriented technologies. For instance, SHARE at FAU (Friedrich-Alexander University of Erlangen-Nuremberg) focuses on Digitalization along the entire value chain, SHARE at KIT (Karlsruhe Institute for Technology) on electric mobility, lightweight design, and energy storage (battery and fuel cell), and SHARE at NTU (Nanyang Technological University, Singapore) on personal urban mobility. In 2017, the Schaeffler Group once again expanded its global footprint at universities by officially inaugurating a SHARE at Southwest Jiaotong University (SWJTU) in Chengdu, China. This collaboration with one of the most acclaimed universities in the world in the field of new-generation rail vehicles focuses on research and development regarding mobility concepts for railway transport. Schaeffler has also been successfully collaborating with various Fraunhofer Institutes for many years. In 2017, the Schaeffler Group has entered into a comprehensive strategic partnership with Fraunhofer-Gesellschaft designed to bring technologies into practical applications even faster and in a more targeted manner.

Interconnection with start-up companies adds to this innovation network. Many product and process innovations as well as new work and business models are initially created by start-up companies. Combined with Schaeffler's strengths and experience, ideas are efficiently developed into marketable products and services. Schaeffler operates an office in Silicon Valley to help extensively exchange ideas with start-up companies and also cooperates with the start-up campus Factory Berlin and the tech incubator ZOLLHOF in Nuremberg. In 2017, the company's innovative ability and resulting products received, among others, the PACE Award and the AutomotiveINNOVATIONS Award.

One example of the company's corporate innovation activities is the Bio-Hybrid. Intermodal traffic in areas where space is at a premium and the ability to change smoothly from one means of transport to another is becoming more and more important for dealing with the growing volume of traffic in urban centers. Schaeffler is offering an innovative solution, the Bio-Hybrid concept, which sits somewhere between a pedelec and an electric car in terms of size and range. The growing passenger traffic leads to another issue of the future: autonomous driving. Schaeffler is doing research in this field under publicly subsidized projects at the SHARE at KIT research location. The results have applications that go beyond those directed toward autonomous driving. For instance, the energy efficiency of power steering systems was improved, reducing the vehicle's consumption.

R&D in the Automotive OEM division

The megatrends globalization and urbanization require new forms of mobility. Climate change and the growing scarcity of resources make reducing energy consumption essential. These challenges offer significant opportunities for the Schaeffler Group and characterize the development environment in the automotive sector. In the future, in addition to fully battery-electric vehicles, a large share of the vehicle population will be hybrid-driven. Especially in the next few years, there will still be a demand for large numbers of conventional drives. As a result, the company's research and development activities are aimed at increasing the efficiency of internal combustion engines in order to reduce harmful emissions.

The Schaeffler Group predicts a steady increase in electrified vehicles over the coming years. In light of this, the field of E-Mobility, along with Industry 4.0 and Digitalization, represents one of the key opportunities for the future under the strategy "Mobility for tomorrow". Consequently, the company has defined the ⦿ E-Mobility initiative as part of its "Agenda 4 plus One" excellence program. The Schaeffler Group already offers innovative solutions for hybrid and electric vehicles today. To facilitate a consistent approach, the company created the E-Mobility Systems Division several years ago, which consolidates its wide range of activities relating to alternative types of drives across departments and national borders. This development was continued by establishing the E-Mobility business division effective

January 01, 2018. These internal activities are supplemented by work at research institutions such as the SHARE at KIT, where engineers are developing solutions in the field of energy storage, electric drives, and automated mobility. The know-how gained from the FIA Formula E Championship is also incorporated in the development of electric mobility technologies.

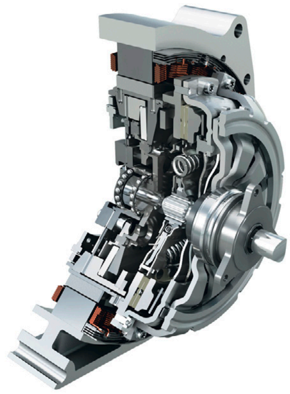
Starting with individual components, Schaeffler develops total technological system solutions for electric drives. Drives integrated in axles or wheels are particularly suitable for battery-electric vehicles. While the electric wheel hub motor is still at the predevelopment stage, volume production of the electric axle is imminent. The newly developed electric axle was presented at the International Motor Show (IAA) in 2017. Schaeffler's electric axle offers a modular solution for hybrid vehicles and battery-electric cars. The single-speed electric axle is designed with an extremely compact transmission, offering plenty of space for the electric motor. The basic configuration can be expanded by adding functional elements such as a parking lock. A second gear is particularly necessary for plug-in hybrid vehicles requiring dynamic, all-electric operation up to 120 km/h and high top speed. The two-speed axle developed by Schaeffler offers a solution to this need.

With a view to electric mobility, electrification of conventional drive trains offers significant potential improvements. A 48-volt system represents a comparatively cost-efficient solution to this issue. In current volume production vehicles, this system, instead of a starter-generator, is connected to the crankshaft of the internal combustion engine via a belt. For future vehicle generations, Schaeffler also offers the integration of the 48-volt electric motor into the engine-transmission unit and into the axle. This solution allows vehicles to move off from a standstill using electric power only, to maintain the speeds required in city traffic purely electrically, and to recuperate braking energy, all valuable contributions to protecting the environment.

A plug-in hybrid drive powertrain enables even greater fuel consumption savings to be achieved as well as driving with zero local emissions across longer distances. As far back as in 2010, Schaeffler delivered major components for such a drive system. Now, Schaeffler has developed its own high-voltage hybrid module enabling the transfer of very high torques that is about to enter volume production. A patented branching of the power flow within the module makes it possible to transfer such high torques, so that even vehicles with very large mass can comfortably move off from a standstill.

In addition to the mechanical architecture, electric vehicles also require power electronics to supply electric power as and when needed. In a collaborative partnership with SEMIKRON, Schaeffler is expanding its electronics expertise and, using

Schaeffler hybrid module 48-Volt No. 008



space-optimized power electronics, has the capability to efficiently convert, control and integrate electric energy into the entire system. Alternative drive systems also require individual software solutions. Schaeffler leverages its expertise in engineering, for instance to achieve perfect interaction between the drive units throughout the entire system.

Along with electricity-based drive technologies, the Schaeffler Group's research and development activities focus on improving the efficiency and performance of conventional internal combustion engines. The second-generation thermal management module, which went into volume production in 2017, is one example of this. The thermal management module uses rotary slide valves controlled by sensors to precisely manage the temperature within the vehicle's drive train and enables the ideal temperature window for the engine and transmission to be reached quickly. This has a positive effect on fuel consumption and consequently on CO_2 emissions. Due to these optimized temperatures, the thermal management module also positively affects component life within the drive train. The dynamic timing of the engine's valves is another important source of leverage for reducing fuel consumption and, consequently, emissions. To this end, the Schaeffler Group has developed an electric camshaft phasing unit that facilitates fast intake valve adjustment even in dynamic driving modes and has successfully introduced it into volume production.

R&D in the Automotive Aftermarket division

The R&D activities of the Automotive Aftermarket division focus on the specific requirements of customers in the service and replacement parts business. They consist of analyzing the markets' repair needs and behavior. Its broad and deep understanding of Schaeffler products and solutions enables the Automotive Aftermarket to offer solutions along entire systems. Building on this, product specialists consisting of engineers and master mechanics create intelligent repair solutions, allowing the repair shop to perform professional repairs with high product quality.

One example of the outcome of these research and development activities is the repair sets and kits that include all replacement parts required for a complete repair. The introduction of the LuK GearBOX has simplified transmission repairs to the extent that repair shops can now repair transmissions on their own. Another example is the introduction of mixed reality applications for the repair shop. These applications enable the customer to use virtual reality to take a look at the digitized future of the Automotive Aftermarket.

R&D in the Industrial division

The megatrend digitalization is among the key drivers of development in the Industrial division. Consequently, the company has developed the Industry 4.0 initiative as part of its "Agenda 4 plus One" excellence program. Under Industry 4.0, the Schaeffler Group relies on intelligent networks connecting product development, production, logistics, customers, and suppliers. Its technological basis are intelligent, digitally linked systems that will maximize the possibilities for autonomous production and optimum plant operation in the future: People, machines, and products communicate and collaborate directly with one another. In the future, the company will utilize this expertise for internal processes and offer it to customers while maintaining its "classic" components business. The technological expertise and the know-how covering the customer's entire system are key to achieving success with the entire range from mechanical components through to cloud-based services.

At the Hannover Messe, the Schaeffler Group presented, as part of its "Industry 4.0" initiative, the Smart EcoSystem, a digital infrastructure for new business models based on digital services that increases availability, reliability, and process quality of machines and plants. From a technical perspective, the Smart EcoSystem is structured in three levels. The lowest level, "Mechatronics", contains what are known as smart components, including, among others, mechatronic products with additional sensor- or actuator-based functionalities. One example of this is the VarioSense, a standard ball bearing equipped with a sensor cluster for recording machine and process data such as temperature or speed. At the next level, these systems can be linked via an interface, creating what are known as "Virtual Twins". The accompanying digital services offer a wide range of potential uses such as optimizing machine utilization. At its top level, "Applications", the Smart EcoSystem offers the possibility to perform analyses that can be used, among other things, to make improvements and to develop new products and services. Potential uses for both internal and external customers lie in increased machine availability and productivity, reduced operating and maintenance costs, improved process stability and quality, and improved product quality.

Spindle bearings with integrated sensor technology represent another successful example from 2017. Machine tool downtime is frequently the result of defective spindles. From this initial situation, Schaeffler has developed a system of sensors with the objective of preventing spindle failure. The completely new sensor system, which has been developed specifically for applications in machine tools, measures the displacement of the spindle shaft under load in high resolution and in five spatial directions. All of the software and the required algorithms are integrated into the sensor technology. In the event of a collision, the spindle is deactivated very quickly, preventing further damage to the spindle. In addition, the system allows the machine operator to detect unfavorable operating conditions in order to make targeted adjustments to the machining process.

Sensor system in a spindle bearing No. 009

In addition to the activities around the development focus Industry 4.0, the Industrial division pressed forward with several other initiatives, such as the improvement and new development of bearings for wind turbines. The bearing supports of the rotor in a wind turbine are exposed to enormous operational stresses. The rolling bearings are subjected to highly dynamic loads and operating conditions. Schaeffler has developed a new, compact bearing unit for locating bearing concepts for rotor bearing supports. The tapered roller bearing unit is pre-drilled for flange mounting and enables loads to be supported safely thanks to the large contact angle and narrow axial guidance of the rotor. Schaeffler offers the option of expanding the functionality of the unit by integrating the digital GreaseCheck. The sensor analyzes the grease used and optically measures the water content, turbidity, mechanical wear, and grease temperature directly in the bearing arrangement.

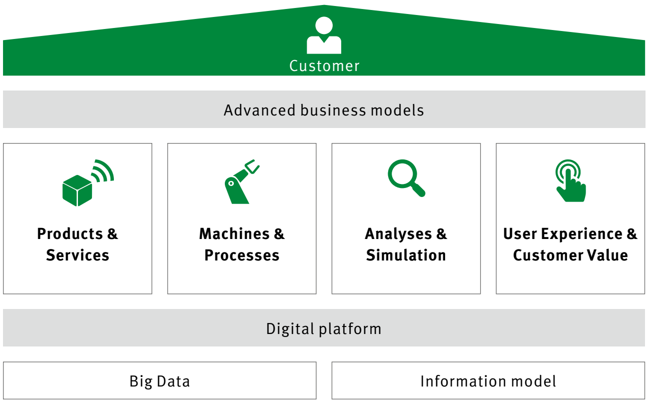
Digitalization and IT

As it increasingly merges the real world and the digital world, the digitalization megatrend poses new challenges, but also offers great opportunities in an enormous growth area. Digitalization is transforming traditional processes. Digital technologies are gradually becoming a core component of value added in purchasing, manufacturing, logistics, distribution, as well as in the human resources and finance functions. Therefore, the Schaeffler Group has developed and implemented the Digital Agenda initiative as part of its "Agenda 4 plus One" excellence program, a component of the group's strategy "Mobility for tomorrow". Its key objective is connecting the physical and the digital world. The company intends to raise the proportion of value added by digitally enhanced products and services to approx. 10% by 2020. The customer benefits from the combination of big data analyses with Schaeffler's thorough application know-how. To improve internal processes and generate added value for external customers, existing business models are expanded and new, digital business models are developed and implemented. To this end, the Schaeffler Group is adding sensors, actuators, and controllers, including the relevant software, to its components. They will facilitate collecting and processing data on machine or plant condition and behavior in the future.

Qualified employees are fundamental to the successful implementation of the Digital Agenda. In addition to existing specialists, the Schaeffler Group was able to win numerous "digital and IT talents" in 2017 and is aiming to establish a significant talent pool. To appropriately concentrate these activities, the Nuremberg location will be transformed into an IT campus which will act as the basis for consolidating the company's IT expertise. The Schaeffler Group has established a centralized project management in order to support the groupwide and cross-functional coordination and implementation of its Digitalization projects. This "Coordination Office Digitalization" manages the set-up and expansion of the group's digital activities under the "Digital Agenda" and has just moved into the corporate "Digital Home" in Herzogenaurach.

The "Digital Agenda" starts with the customer. The new digital business models are oriented toward the customer's benefit. The Schaeffler Group focuses on four components representing the key digital business scenarios. In 2017, projects were initiated for each of these components.

Digital Agenda of the Schaeffler Group No. 010



Products & Services: Functions of existing products are expanded using data generated by sensor systems. By linking products to the Cloud, the Schaeffler Group is aiming to add additional value. For instance, together with the experts from the Industrial division, a platform for digital services is being developed to enable wind park providers to efficiently monitor wind turbines.

Machines & Processes: In production, processes are continually being improved by providing digital assistance to humans and connecting, for instance, machines or transport vehicles. The Schaeffler Group is aiming to utilize data comprehensively. Among other things, the company is creating new service products to be offered to the customer. A "Digital Shadow" represents the digital image of a process, including historical and real-time information, in order to understand, quantitatively visualize, and improve the process. One example of this is an initial pilot project at the Berndorf, Austria, location implementing a comprehensive energy management system in production that resulted in significant energy savings.

Analyses & Simulation: Analyses based on the interaction of primary data and the sector- and application-related expertise of Schaeffler's specialists provide information that adds value. Analyses developed in 2017 include an automated acoustics analysis which detects product quality fluctuations. Given the complexity and limited reproducibility of manual tests, this automation has resulted in notable efficiency gains. Efficient data analytics algorithms are used to analyze big data collected. Production accuracy of ball screw drives was significantly increased in this manner, for instance. This approach also helped improve the accuracy of warehouse inventory planning within sales forecasting. The increased accuracy was achieved by training the model based on time series of past orders and connecting the forecasting models to expert knowledge and artificial intelligence.

User Experience & Customer Value: The interaction between humans and machines is a significant factor for productivity in the digital world. The primary objectives are quick recognition and learning as well as goal-oriented interactions between the user and the machine. For instance, a "digital twin" facilitates the digital representation of a physical entity or a system along its lifecycle. It represents an image used to comprehensively exchange or integrate data and functionalities across business processes. An actual application of this is the Engineering Cockpit, which accelerates and improves the development process. Among other benefits, it reduces the amount of effort required to manage configurations and changes. In distribution, the Supply Chain Cockpit creates a personalized digital working environment that facilitates comprehensive process improvements based on modularly adapted data from several source systems. In the field of augmented and virtual reality, initial prototypes for maintenance, special machinery, and tool assembly were realized in cooperation with FAU.

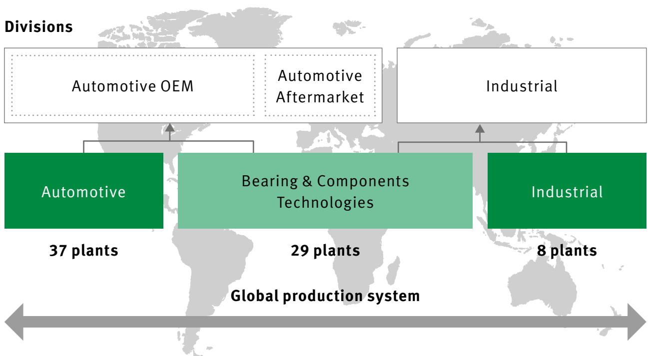
Implementing the four components requires the appropriate IT landscape. To put Schaeffler's IT in a position to successfully meet the challenges of the future, the company has developed the IT 2020 initiative as part of its "Agenda 4 plus One" excellence program. The initiative aims to rapidly put in place the information technology required for Digitalization, for renewing and further developing the application and infrastructure landscape, and for changing the role of IT within the company from that of an internal service provider to that of a strategic business partner shaping and integrating the digital business models. The Process Excellence initiative, part of the "Agenda 4 plus One", creates an organization comprising the clear responsibilities that this requires. To help implement "IT 2020", the company has centralized responsibility for the initiative in the new "Strategic IT" department that was set up in 2017 and will ensure efficient implementation of the initiative. The "IT 2020" initiative involves setting up the digital platform for the Schaeffler Group's own integrated cloud solution, which, based on leading IBM technology, is available worldwide and forms the basis for the future digital ecosystem. This puts in place the foundation for realizing new digital standards and solutions. In addition, the initiative harmonizes the IT architecture model in order to link to and integrate other standard IT solutions such as SAP S/4 HANA, Microsoft Office solutions, or IT security solutions. IT processes are expanded with a specific focus on smart products, processes, and services, as well as on operating more extensive embedded systems solutions.

Operations

Production

As a global automotive and industrial supplier, the Schaeffler Group currently has a global production system consisting of 74 plants in 22 countries. The plants, which employ approx. 65,000 staff, form the core of the Schaeffler production system. They represent the Schaeffler Group's "backbone" and 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.

Integrated production model No. 011

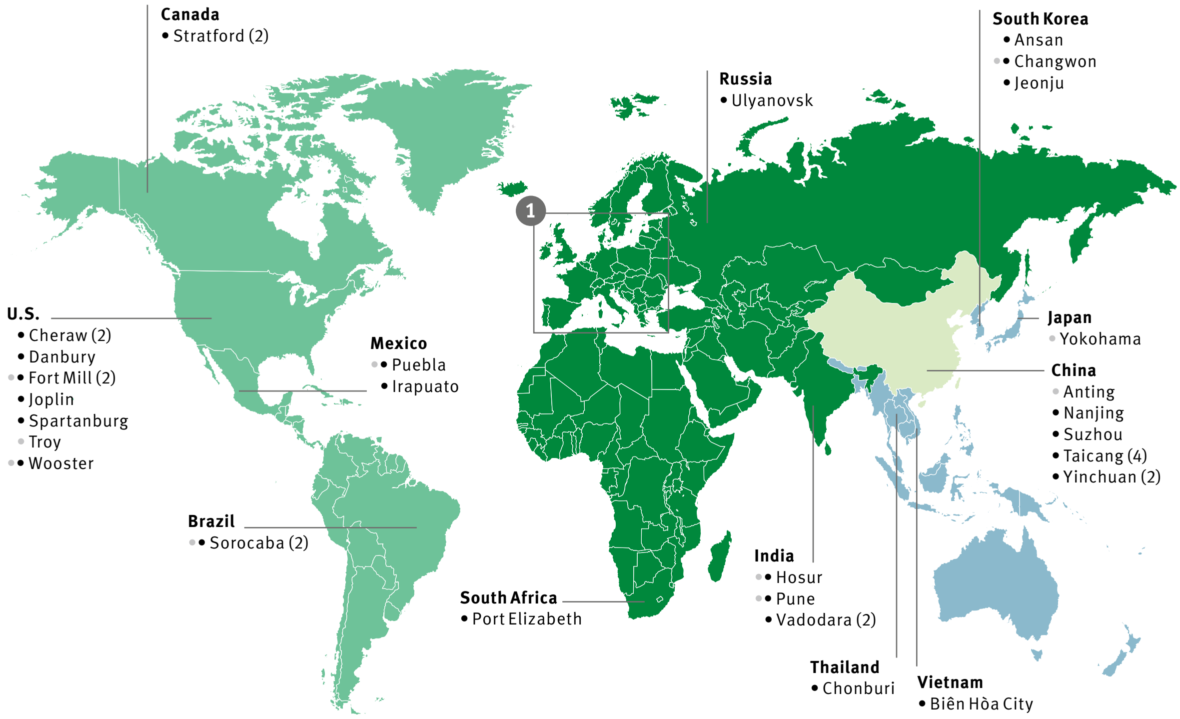


The global production system follows an integrated model. Along with currently 37 plants producing for the Automotive division and currently 8 plants producing for the Industrial division, the internal supplier "Bearing & Components Technologies" (BCT) brackets all of the Schaeffler Group's rolling bearing activities. BCT combines the Schaeffler Group's specialized expertise regarding development and production of rolling bearings and provides it to its internal customers. BCT defines the global standards for rolling bearings within the Schaeffler Group's production system. This streamlines organizational structures, increases transparency and standardization, and generates synergies.

In total, the global production system makes it possible to maintain consistent high levels of quality and efficiency at all Schaeffler plants. The Schaeffler production system is part of the group strategy and, as such, represents the basis for the continuous improvement 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.

Schaeffler Group plants and R&D centers No. 012

World



1 Europe

(enlarged section)

*) Location closing, operating (production) until early January 2018

Regions [1]		Europe	Americas	Greater China	Asia/ Pacific
R&D centers	● (grey)	10	5	1	2
Plants	●	47	14	8	5

[1] Regions reflect the regional structure of the Schaeffler Group.

This 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. The global production system is subject to continuous improvement, with all locations consistently applying the “zero defects principle”. Modern quality management techniques and integrated planning across the entire supply chain ensure that quality requirements are being met. Additionally, continuous value streams between the Schaeffler Group’s customers, plants, and suppliers can be created based on close integration of the network of plants with purchasing and distribution.

2017 was characterized by strong growth, mainly in the Greater China region. The company continued to realize improvements in quality and efficiency, resulting in, among other things, a reduction in the number of customer complaints. In addition, the global production system was consistently advanced with respect to efficiency and proximity to the customer. Examples include shifting capacity to lower-cost locations, closing the Elfershausen location, and restructuring production in Brazil. A further priority was the further expansion of the research and development network, which resulted in considerable improvements in proximity to the customer and response times.

In the future, Digitalization will offer significant opportunities for the global production system. The basis for this is interconnecting plant and machines and equipping them with sensors, which increases autonomy in manufacturing processes. For instance, unplanned downtime was minimized by analyzing machine and production data during ongoing production and using the results to predict machine failures. Combined with elements of “Lean Management”, this generates significant efficiency gains and, therefore, improvements in the Schaeffler Group’s competitive position.

Innovative products require an innovative production environment. Therefore, the company aims to create a production environment promoting this while at the same time handling resources in a sustainable manner. The ⦿ Factory for Tomorrow concept, an initiative under the “Agenda 4 plus One”, demonstrates solutions in response to this. The Schaeffler Group’s “Factory for Tomorrow” breaks new ground when it comes to designing factories. Under this concept, the Schaeffler Group’s objective is to make the plants attractive for employees while increasing the level of integration of all relevant areas in the value chain. Numerous factory planning projects until 2020 offer the opportunity to put this into practice. For instance, the concept is being implemented at the new plant under construction in Xiangtan, China, for the first time. Insight gained from this pilot project will be used in future projects.

Plants in the regions: A total of 47 plants represent the Schaeffler Group in its **Europe region.** In addition to manufacturing locations in Germany, France, the United Kingdom, Italy, Portugal, and Spain, the group also maintains significant production plants in Central and Eastern Europe. The main plant in Herzogenaurach with its approx. 3,500 production employees ranks among the largest Schaeffler plants and its eight production segments put it among the largest lead production plants worldwide. Along with transmission and steering components, components for the overrunning alternator pulley, and axial bearings, Herzogenaurach also produces complete systems for shifting units, mainly for the automotive sector. A total of just under one billion parts are produced at the Herzogenaurach plant each year. In the future, industrializing electrical axle transmissions under the group’s strategy “Mobility for tomorrow” will be one of its main priorities.

In addition, the “Additive Manufacturing FabShop” was set up at the Herzogenaurach plant. “Additive manufacturing”, colloquially known as 3D printing, covers a number of digital manufacturing methods, in which objects are manufactured by gradually adding material in layers. The FabShop is responsible for developing additive manufacturing into Schaeffler’s manufacturing technology of the future. Along with additive manufacturing of prototypes, tools, and devices from metals and plastics, the Fab Shop team also addresses issues related to process and materials development, design adapted to additive manufacturing, and the additive process chain. In order to ensure that insights are gained very quickly, the FabShop is used to manage a network of expertise in additive manufacturing that includes not only internal experts but also acclaimed external partners in industry and academia.

Production capacity at the Central and Eastern European production plants is continually being expanded due to increasing demand for Schaeffler products. For instance, a new plant was opened in Svitavy, Czech Republic, in 2017. The new plant further strengthens the Schaeffler Group’s network of plants in Eastern Europe, which is already quite strong. The thermal management modules Schaeffler produces in Svitavy are a product that is required in both internal combustion engines and future mobility concepts, and thus supports the Schaeffler Group’s strategy “Mobility for tomorrow”.

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 Fort Mill in the U.S., the Schaeffler Group operates two plants with a total of approx. 700 employees. In 2017, the plants at the Fort Mill location were expanded to increase capacity for stamping, heat treating, and the assembly of axial bearings.

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. As expansion in Taicang and Nanjing has reached its limits, the Schaeffler Group is establishing a new production location in Xiangtan, China, following the "Factory for Tomorrow" concept. It is constructing a plant for automotive parts and precision bearings approx. 200,000 square meters in size. The company intends to expand the new location gradually. Hence, the Tool and Prototyping departments at the new location started operating in 2017. The plant is scheduled to commence full operations in early 2019, which will expand the company's production capacity in the Greater China region, improving its delivery performance to customers in both the home market and in international markets.

The Schaeffler Group has 5 plants in its **Asia/Pacific region.** The plant in Changwon, South Korea, is the largest plant in this region. It is spread over three locations and employs a total of approx. 900 staff. In terms of the value chain, location 1 produces deep groove ball bearings and tapered roller bearings and is vertically integrated from heat treating through to assembly and packaging. A newly installed surface treatment machine will expand vertical integration for Automotive applications. Location 2 is the component supplier – vertical integration ranges from forging soft rings through to turning. Location 3 is a mix of precision bearing manufacturing, tapered roller bearing manufacturing, and special machines, as well as an R&D center. This setup facilitates very efficient and customer-specific process design, from development through to tooling and the full vertical range of manufacturing.

Logistics

The logistics function is responsible for designing, operating, and continually improving the Schaeffler Group's entire supply chain. 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.

In 2017, the logistics function was responsible for managing approx. 210 distribution locations with more than 375,000 square meters in storage space and for moving approx. 300,000 tonnes in freight between the most significant destinations within the Schaeffler Group. More than 120 shipping points ensure deliveries to customers. Logistics activities were expanded compared to the prior year.

A significant element of the strategic alignment 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 at 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 met their performance specifications with a good logistical performance in their first two years of operation. At the central distribution center "EDC Central" (Kitzingen), the next important milestone toward completing the new distribution network, construction is just about complete. The technical equipment is undergoing initial bulk testing, and the first Kitzingen employees are starting their jobs.

European Distribution Center (EDC) Central No. 013

For the Automotive Aftermarket, the company is currently planning the construction of a new assembly and packaging center to be known as Aftermarket Kitting Operation (AKO). The AKO is part of the "Agenda 4 plus One". The objective of this project is to expand the company's future competitive position and to mitigate any potential capacity bottlenecks at the seven European warehouses currently in operation. The new logistics center, which will be built in Saxony-Anhalt near Halle/Saale with a floor space of about 40,000 square meters, will be the main supply hub for all of the Automotive Aftermarket division's other regional warehouses in Europe. At the same time, it will serve as the regional warehouse for Central Europe. Construction of a new, highly automated logistics location whose capacity can be adjusted flexibly is designed to further optimize Schaeffler's Automotive Aftermarket processes, considerably improve delivery performance, increase customer satisfaction, and secure the forecasted revenue growth. The new logistics center will be commissioned in the first quarter of 2020.

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. In addition, the Working Capital initiative, which is part of the "Agenda 4 plus One", is aimed at adding value by harmonizing purchasing terms.

Purchasing consists of the corporate purchasing function for production and non-production materials, and project-related purchasing for the 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.

In 2017, the Schaeffler Group reported an 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 in proportion to the increase in production output. The purchasing volume in general purchasing (non-production materials, i.e. 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 2017. Purchases related primarily to the Europe (63.8%) and Americas (16.2%) regions. 13.6% and 6.4% related to the Greater China and Asia/Pacific regions, respectively.

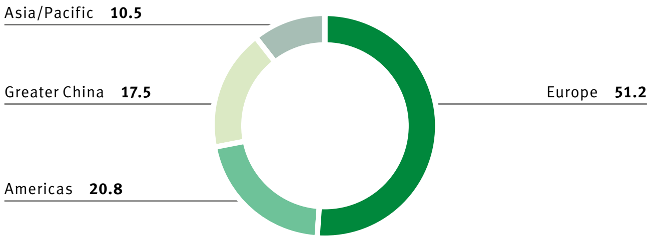
The Schaeffler Group uses various raw materials such as steel (flat steel or steel bar), iron and aluminum casting, as well as non-ferrous metals in manufacturing its products. The production materials Schaeffler uses primarily depend, directly or indirectly, on the trend in the price of scrap steel, 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.

Continental Group and the Schaeffler Group have been cooperating on purchasing for eight 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 in 2017.

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 flexible management of the regions and facilitates cooperation with regional customers.

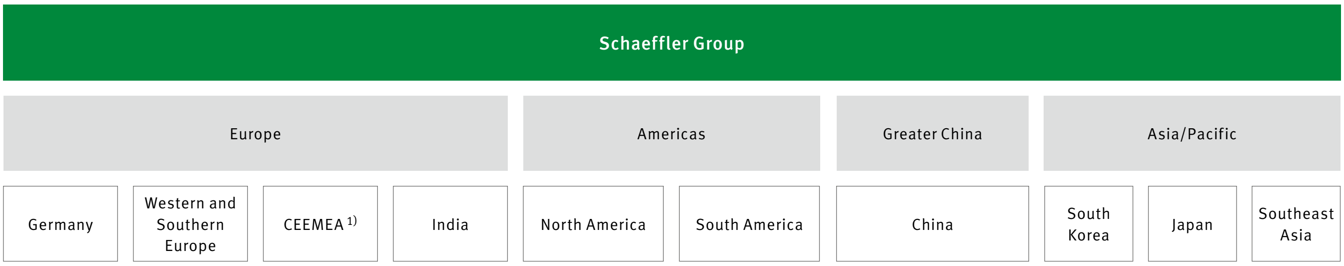
Schaeffler Group revenue by region No. 014
in percent by market view



The basis for the Schaeffler Group's economic success is its proximity to the customer. With approx. 170 locations worldwide, 74 production facilities, 18 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 its Global Footprint initiative, which is part of the "Agenda 4 plus One", the Schaeffler Group is continually working to further develop its global stature. Among other things, the initiative includes creating and expanding regional research and development expertise, enhancing the structure of the global plant network and logistics activities, as well as realigning the distribution locations. 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 head office 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 several benefits regarding 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 regions and subregions No. 015



1) CEEMEA = Central and Eastern Europe & Middle East and Africa.

The **Europe region** combines the subregions Germany, Western and Southern Europe, Central and Eastern Europe & Middle East and Africa (CEEMEA), as well as India. The Western Europe and Southern Europe subregions were combined into one subregion in 2017 in order to further simplify the organizational structure. The Germany subregion represents the Schaeffler Group's most important sales market. The Europe region contributed 51.2% (prior year: 53.1%) of consolidated revenue in 2017. The degree of localization amounted to approx. 96% (prior year: 96%) in 2017. The Europe region employed a total of 61,554 employees in 2017, representing 68.3% of the company's entire workforce. This figure includes the employees of the group's global head office in Herzogenaurach. The region has 47 plants and 10 R&D centers. Its regional head office is located in Schweinfurt.

In 2017, the Schaeffler Group further strengthened its network of plants in Eastern Europe, which is already quite strong, by opening the new plant in Svitavy, Czech Republic. As part of the measures taken to intensify the company's research and development activities in the growth region India, the Hosur location was developed into an R&D center focusing on clutch systems. Another focus was on streamlining the legal structure and on the synergies to be realized from better collaboration across companies in India. The result is a plan to merge the three Indian subsidiaries into one company. The merger is subject to the required local regulatory approvals and the consent of the minority shareholders. The transaction is expected to close in the third quarter of 2018. The company will be known as "Schaeffler India Limited".

In addition, a new shared service center will be set up for the Europe region as part of the strategic Shared Services initiative. The objective of the initiative is to develop a global, forward-looking, and cross-functional shared services concept, standardize and harmonize transaction processing, and further improve processes. The first processes to be combined, optimized, and digitized with a view to these objectives are those in Finance, Human Resources, Purchasing, Logistics, and IT. The improvements in the indirect areas resulting from the new shared service center for the Europe region affect several German and European locations.

The **Americas region** consists of the two subregions North America and South America. This region contributed 20.8% (prior year: 21.0%) of revenue in 2017. The degree of localization amounted to approx. 71% (prior year: 71%) in the Americas region. A total of 13,056 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 in the U.S. The Schaeffler Group has been manufacturing in this region since 1953. In 2017, the plants in Fort Mill were expanded and a new multifunctional administrative building, adapted to the new work environments of the New Work initiative, was opened. The company also invested in an expansion of the production area at the Wooster location in the U.S. Starting in 2018, the plant will manufacture products including hybrid modules on the additional production area of 8,900 square meters. This makes Wooster one of the Schaeffler Group's centers for further developing electric mobility in the U.S.

As China is a strategically important sales market for the Schaeffler Group, China, Taiwan, and Hong Kong are managed as a separate **Greater China region.** 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 17.5% (prior year: 15.4%) of group revenue in 2017. The degree of localization amounted to approx. 73% (prior year: 74%). A total of 12,537 staff were employed in Greater China. 8 plants and 1 R&D center are located in this region. As a consequence of the especially dynamic trend in recent years, it is important to the company to further expand not only E-Mobility, but also its local presence and to consistently raise the degree of localization in the future. At its Xiangtan location in China, the Schaeffler Group is building its first "Factory for Tomorrow". While the first production plant is scheduled for commissioning in early 2019, a training center was already opened officially in mid-June 2017. Employees are qualified based on the German dual system of vocational training.

The **Asia/Pacific region** comprises South Korea, Japan, and the countries in Southeast Asia. The Schaeffler Group has been represented in this region since 1953. 10.5% (prior year: 10.5%) of group revenue was generated by this region in 2017. The degree of localization amounted to approx. 38% (prior year: 38%) in 2017. The Asia/Pacific region had 3,004 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 a new plant in Bien Hoa City, Vietnam, the group is considerably expanding its production capacity in the Asia/Pacific region. Furthermore, due to the strong presence of robotics manufacturers in this region, it was agreed that Schaeffler Asia/Pacific would take the lead in creating a robotics competence center in consultation with the Industrial division. Along with the current component business, the competence center will also coordinate development and testing of mechatronic systems and Digitalization services for robotics applications.

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.

In late 2016, the Schaeffler Group developed its strategy "Mobility for tomorrow" to guide its way into the future and presented it to the public. The company continued to press forward with the implementation of this strategy in 2017: For instance, creating the new E-Mobility business division and the organizational unit Industry 4.0 set the course for future development in two key future-oriented fields. All initiatives under the "Agenda 4 plus One" excellence program are in the implementation phase. Implementation of the program is currently 35% complete. Following extensive communication measures, the strategy is fully known and understood throughout the company. All strategic activities, ranging from design right through to implementation and communication, focus on the same fundamental elements: one common vision and mission, 4 focus areas, 8 strategic pillars, and the 20 strategic initiatives of the "Agenda 4 plus One".

Vision and mission

In its mission, the Schaeffler Group describes the task it is committed to. Underlying this 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. 016

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."

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."

Mobility for tomorrow – 4 focus areas No. 017

4 Focus areas

As its fundamental assumption about the future of its markets, the Schaeffler Group has identified four megatrends that will significantly influence its future business: climate change, urbanization, globalization, and digitalization. From these megatrends, the Schaeffler Group derived 4 focus areas that form the basis for the company's strategic direction.

(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_2 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 motor "E-Wheel Drive", play an increasing role in achieving lower CO_2 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.

(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.

8 Strategic pillars No. 018

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

2 We are an Automotive and Industrial supplier.

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

4 We produce components and systems.

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

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

7 We want to be an attractive employer.

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

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 approx. 170 locations worldwide, 74 production facilities, 18 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. 019

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.

20 Strategic initiatives

In execution of the strategy “Mobility for tomorrow”, the company launched its “Agenda 4 plus One” excellence program with the Schaeffler Group‘s 16 most significant strategic initiatives in 2016. The strategic initiatives are grouped in 4+1 categories: Customer focus, Operational excellence, Financial flexibility, Leadership and talent management, and – as “plus One” – securing long-term competitiveness and value creation.
All initiatives have the same objective: positioning the Schaeffler Group for the future and making it even better. The stated aim is to successfully implement all initiatives by the end of 2020, i.e. in 4+1 years. Each initiative is the responsibility of a member of the Executive Board as a sponsor, managed by a project manager, and supported by a project organization.
A program office was established to coordinate the management of the strategic initiatives and thus ensure the success of the “Agenda 4 plus One”.

Once the program organization was successfully set up and had proven its worth, the Executive Board decided to expand the program by four additional initiatives, increasing the number of initiatives to 20 effective January 01, 2018: “Global Supply Chain”, “Aftermarket Kitting Operation” (AKO), “Global Reporting”, and “Focus”. This will ensure the initiatives are successfully implemented in a consistent format.

The Global Supply Chain initiative focuses on optimizing global supply chains taking into account integrated planning and the interfaces between production and distribution. The initiative is designed to improve working capital, speed up delivery, and improve delivery performance.

The Aftermarket Kitting Operation initiative involves the construction of a state-of-the-art assembly and packaging center – AKO for short – for the Automotive Aftermarket designed to further optimize Automotive Aftermarket processes and generate sustained improvements in quality of delivery.

The Global Reporting initiative is aimed at improving the Schaeffler Group‘s consolidation and reporting systems as well as management information.

The fourth new initiative, the Focus initiative, will deal with improving the building situation at the company’s main locations in Germany and is designed to increase efficiency and improve space requirements as well as appearance.

Like these four initiatives, all 16 initiatives originally planned are in the implementation phase. They have reached varying maturity levels depending on their scope. The following discusses selected key successes achieved over and above those already addressed elsewhere in the annual financial report. A transfer to or establishment of business units or line functions will ensure that the initiatives are implemented for the long term.

First and foremost, there are the E-Mobility and Industry 4.0 initiatives. As a result of the growing number of customer projects and in order to accommodate the increasing significance of these activities, dedicated business units were set up for both effective January 01, 2018. The E-Mobility business division brings together all products and system solutions for hybrid and pure battery-electric vehicles. Due to the significance of the Chinese market, a second competence center will be set up in China in 2018 as well. In the Industrial division, the entire industry-specific business with mechatronic systems and digital services as well as the required related components are being combined in an independent organizational unit Industry 4.0. As a supplier, Schaeffler wants to take an active role in shaping the digital transformation for its customers with Industry-4.0-enabled products.

Agenda 4 plus One No. 020

Schaeffler has been at its customers' side as an expert solution partner for many years, a connection that has always been key to innovation. The ⦿ Customer Excellence initiative moves this customer-focused culture further into the spotlight. It especially aims to continually improve and optimize the company's dialog with the customer, customer interaction, and customer relationship management.

An appropriate, customer-oriented structure is essential for the indirect functions as well. The objective of the ⦿ Shared Services initiative is to set up a powerful, cross-functional shared services organization. Starting with the first shared services units that are already well-established, this initiative will create a global network of coordinated multifunctional shared services locations embedded in the regions. Prerequisites include a new group process model with clear responsibilities that was developed in the ⦿ Process Excellence initiative and can now be used in a next step to optimize processes.

The company's brand identity and corporate image are harmonized under the ⦿ Global Branding initiative. In future, the Schaeffler Group, as a company with operations worldwide, will focus on the "Schaeffler" corporate brand. This will illustrate its commitment to growing together even more as a listed family business. This will only work with one common strategy, one corporate brand, one remuneration model, and one strong foundation of common values. Harmonizing the Schaeffler Group's corporate image around the world will reduce the complexity of the group's current brand architecture while at the same time strengthening its corporate brand. The individual product brands, such as INA, LuK, and FAG will remain, but will be used only in connection with the related product and in conjunction with the Schaeffler corporate brand. In Schweinfurt, this initiative has already started. The Schaeffler Group plans to move all Schaeffler locations worldwide to the new branding concept by the end of 2019.

Financial Ambitions 2020

The company intends to grow its revenue – excluding the impact of currency translation – by an average of 4 to 6% per year over the coming years and to achieve an EBIT margin before special items of 12 to 13% by 2020. On this basis, the Schaeffler Group wants to achieve free cash flow before cash in- and outflows for M&A activities of approx. EUR 900 m by 2020. Furthermore, the group intends to increase its earnings per share to approx. 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 ratio of net financial debt to equity – known as the gearing ratio, the quotient of the two variables – to be less than 75% by 2020. Moreover, the Schaeffler Group is planning to pay out dividends amounting to 30 to 40% of annual net income before special items 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 it represents the basis for further growth strategies.

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

Financial Ambitions 2020 No. 021

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

[1] Before cash in- and outflows for M&A activities.
[2] Net debt to equity ratio (excluding pensions).
[3] Dividend 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.

M&A strategy

The Schaeffler Group pursues a strategy of mainly organic growth based on its existing technological expertise and innovative edge. Under this strategy, acquisitions will primarily be made if they add technological value or strengthen the Schaeffler Group's current market position. The company will generally focus on acquisitions related to the future-oriented fields of E-Mobility, Industry 4.0, and Digitalization.

For this purpose, the company has defined the details of key elements of its M&A strategy and further developed its M&A process in 2017. At the core of this approach is an M&A radar that is applicable groupwide and defines seven focus areas where the company is aiming to acquire expertise and generate inorganic growth both within the various divisions and across divisions. The company's search for opportunities to expand the profile of its expertise and its portfolio specifically targets these clearly defined areas. It focuses on smaller, additive targets with a transaction volume in the nine figure range intended to complement and strengthen the technology spectrum, thus adding long-term value.

Having already successfully acquired Compact Dynamics GmbH in late 2016, Schaeffler acquired autinity systems GmbH, an IT company based in Chemnitz, Germany, in the context of Industry 4.0 and Digitalization in a variety of industrial applications in 2017. The acquisition builds on the existing collaboration between the two companies and allows the Schaeffler Group to benefit especially by accelerating further developments in the fields of machine data recording and condition monitoring.

Strategy communication

Following the announcement of the strategy "Mobility for tomorrow" in late 2016, the Board of Managing Directors explained the strategy in person to selected 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 were also communicated to individual customers and business partners.

Also in 2017, the strategy was rolled out to all employees at the various Schaeffler Group locations based on a comprehensive roll-out plan using a variety of media in the Schaeffler Group's four regions. The key elements of this communication were presentations and workshops with manufacturing plant employees and administrative staff as well as communication mainly via print media and digital platforms. On this basis, the core elements of the strategy – mission and vision, 4 focus areas, 8 strategic pillars, 20 strategic initiatives and the corporate values – are embedded within the company in a uniform manner for the long term. The company is planning additional activities for the coming years to ensure a long-term understanding of the strategy and to refresh knowledge of its contents.

Strategy and planning process

The Schaeffler Group goes through an annual strategy and planning process comprising three key components, (1) the Technology Dialog, (2) the Strategy Dialog, and (3) the Planning Dialog, that sequentially build on one another.

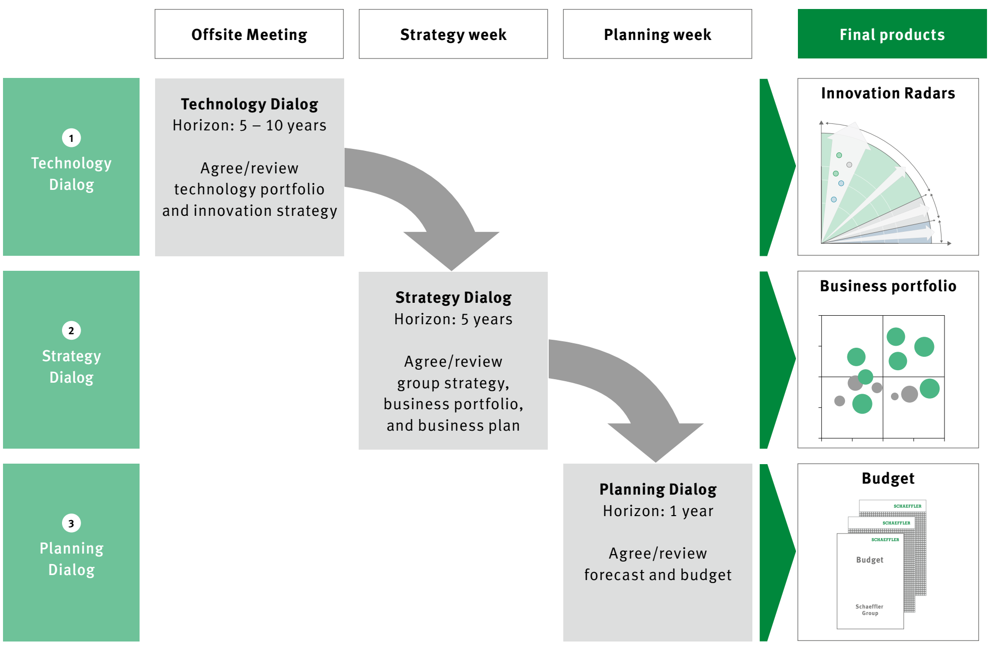
The starting point is the **Technology Dialog** that primarily deals with the megatrends and the resulting impact on technology and innovation. The time frame considered is 5 to 10 years into the future. Based on the information developed, an "Innovation Radar" is approved containing and prioritizing the initiatives aimed at securing the Schaeffler Group's profitable growth over a period of 5 to 10 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 (including 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 one another, prioritized, and added to where necessary.

In the Strategy Dialog 2017, specific business cases were developed for selected topics; these business cases systematically compare the quantitative and qualitative outcome of an initiative to the resources and investments required, enabling the Board of Managing Directors to make immediate strategic decisions. The company also defined overarching focus issues for the development of the substrategies, ensuring the various organizational units are aligned consistently. Additionally, as in prior years, numerous initiatives of the divisions, regions, and functions were identified and are being implemented and followed up on within the relevant 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 defined 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. 022



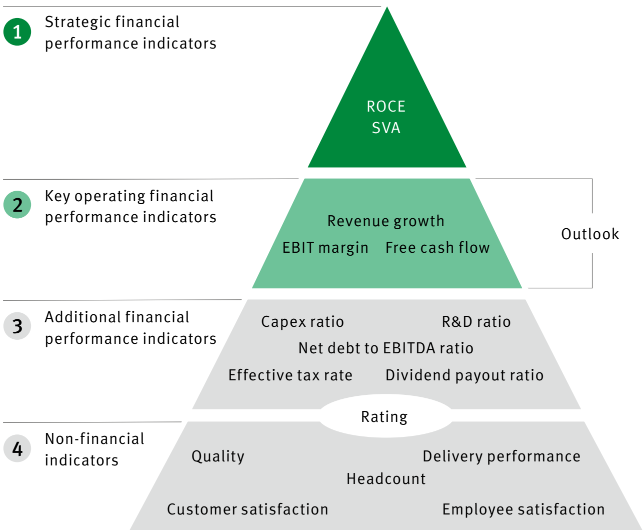
Group management

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 2017, 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 was primarily managed based on the Automotive and Industrial divisions. Effective January 01, 2018, the Automotive Aftermarket was set up as a third stand-alone division. As a consequence, the Schaeffler Group has primarily been managing its business based on three divisions – Automotive OEM, Automotive Aftermarket, and Industrial – since January 01, 2018.

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 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.

Management system No. 023



Value-based management

The Schaeffler Group's internal management system is designed to support implementation of the group strategy. Ensuring that the Schaeffler Group continues to meet its core business objective of growing profitably and creating long-term value necessitates a value-based approach to managing its business portfolio. One important principle underlying value-based management of companies is the necessity to reflect the interests and needs of investors.

Value-based management is an integral component of all planning, management, and control processes. Schaeffler's success-based management remuneration is directly linked to the economic development of the company as well.

1 Strategic financial performance indicators

In order to grow profitably and create long-term value, the company has to employ its available capital profitably. Having earnings sustainably exceed the cost of available debt and equity capital creates the fundamental basis for this.

The Schaeffler Group's internal management system consists of several levels. The Schaeffler Group's key value-based performance indicator is **return on capital employed (ROCE)** as well as **Schaeffler Value Added (SVA),** which is closely linked to ROCE. 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. Both indicators are determined before special items.

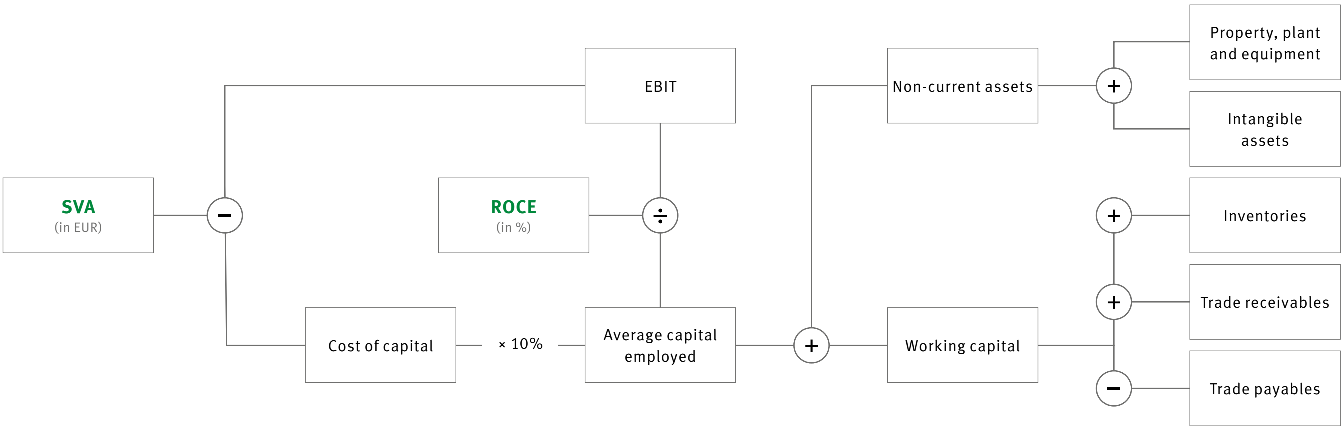
More on special items on pp. 60 et seq.

Schaeffler Value Added (SVA): The Schaeffler Group's value added is measured using the amount of value added by the company, referred to as Schaeffler Value Added (SVA). Calculation of the SVA starts with the company's EBIT (earnings before financial result and income taxes). EBIT has to be sufficient to cover the cost of capital. Positive SVA means that EBIT has exceeded the cost of capital for the period and, therefore, that the Schaeffler Group has added value in this amount. 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.

Strategic financial performance indicators

No. 024



Return on Capital Employed (ROCE): While Schaeffler Value Added is an absolute measure of the value added by the company, ROCE measures the relative return on capital employed in percent. The ROCE indicator measures the rate of return on capital and is defined as EBIT divided by average capital employed. The indicator shows how efficiently a company manages the use of its resources. Comparing ROCE to the cost of capital answers the question of how much value was added. If ROCE exceeds the cost of capital, the company is adding value. Thus, ROCE serves as a tool for value-based management.

2 Key operating financial performance indicators

The two indicators ROCE and SVA serve as indicators of the amount of shareholder value added during the year. However, their high level of aggregation makes using them as a basis for targeted operational management difficult. Therefore, these indicators are mainly used for reporting purposes.

Consequently, at group level, the objectives of profitable growth and adding long-term value are operationalized using key financial performance indicators. Thus, the Schaeffler Group focuses on continually monitoring and optimizing the following three key operating financial performance indicators:

- **Revenue growth (at constant currency)**
- **EBIT margin (before special items)**
- **Free cash flow**

These three key operating financial performance indicators represent the basis for operating decisions and also form the basis for the outlook. Overall optimization of these indicators adds shareholder value for the long-term by sustainably generating a premium over and above the cost of capital.

Revenue growth (at constant currency): Since the Schaeffler Group's economic success is based on a long-term growth strategy, significant importance is attached to the performance indicator revenue growth. Revenue growth is a relative indicator and measures the change in revenue compared to the prior year. In order to increase the comparability over time, the Schaeffler Group reports revenue growth at constant currency.

EBIT margin (before special items): The EBIT margin is used as an indicator of the Schaeffler Group's operating performance. The EBIT margin is a relative indicator calculated as the ratio of EBIT to revenue. This ratio measures the company's profitability and indicates how successfully the company's operating business is being managed. Thus, group management ensures that the Schaeffler Group is growing profitably while utilizing capital efficiently. The EBIT margin is calculated before special items in order to make the operating performance more comparable over time.

Free cash flow: 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, which is defined as the sum of cash flows from operating activities and cash flows from investing activities. Free cash flow measures the company's ability to convert its operating performance to cash inflows in order to finance ongoing operations and any required capital expenditures from the company's own operating activities. Along with profitability, the key factors affecting free cash flow are effective management of working capital as well as the level of capital expenditures.

In order to improve comparability over time, the Schaeffler Group will report free cash flow, one of its key operating financial performance indicators, before cash in- and outflows for M&A activities beginning in 2018.

More on trends in the indicators discussed above under "course of business" on pp. 50 et seq.

3 Additional financial performance indicators

In addition to the three key operating financial performance indicators, the Board of Managing Directors also continually tracks additional financial performance indicators including, among others, the capex ratio, R&D ratio, net debt to EBITDA ratio, effective tax rate, and the dividend payout ratio.

The company further monitors a number of leading **operating indicators** in order to be able to identify trends in a multitude of factors affecting the Schaeffler Group's business early on and take them into account in managing the company. For instance, the company analyzes forecasts of relevant market, economic, and sector data, such as gross domestic product, currency trends, as well as automobile and industrial production in order to gain important insight into the future of the business. Raw materials prices are monitored as well in order to estimate trends in significant costs.

In order to obtain a reliable indication of the likely level of capacity utilization and the probable revenue trend, Schaeffler also monitors certain leading operating indicators specific to each division.

- **Automotive OEM:** Multi-year master agreements won within one period are measured using the indicator "lifetime sales" on an ongoing basis and compared to current period revenue by calculating the "book-to-bill ratio", which provides an indication of the medium- to long-term utilization of the Automotive OEM division's capacity. Orders received for short-term delivery under master agreements with customers validly cover a period of approx. two months. Changes in this measure of capacity utilization are monitored on a weekly basis.
- **Automotive Aftermarket:** For the Automotive Aftermarket, no comparable leading indicators can be derived from the volume of order intake or orders on hand. This division holds regular discussions with major customers and observes its markets to obtain leading indications of the short-term demand situation.
- **Industrial:** The Industrial division uses the change in orders on hand due within the following three months as a leading indicator. This figure is monitored on a monthly basis.

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

4 Non-financial indicators

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, employee satisfaction, and rating.

Further non-financial indicators were defined for sustainability management purposes. Thus, the company has defined a set of key figures for each field of action addressed in the sustainability strategy, used to manage the operation of the group's sustainability measures. The company has a medium-term objective to define non-financial performance indicators and to incorporate these indicators in the value-based management of the company.

In managing the company, senior management considers it imperative that each individual Schaeffler Group employee act strictly within the relevant legal limits and comply with corporate governance standards.

More on corporate governance on pp. 84 et seq.

Presentation of strategic financial and key operating financial performance indicators in the group management report No. 025

	2017	2016	Course of business	Earnings	Performance indicators	Financial position and finance management	Overall assessment	Report on expected developments
ROCE (before special items, in %)	19.9	22.3	x		x		x	
SVA (before special items, in € millions)	787	939	x		x		x	
Revenue growth (at constant currency, in %)	5.9	3.4	x	x	x		x	x
EBIT margin (before special items, in %)	11.3	12.7	x	x	x		x	x
Free cash flow (in € millions)	488	735	x			x	x	x

Remuneration model

A company's success depends to a considerable extent on the performance of its employees. In order to appropriately acknowledge this performanceand to offer a motivating incentive, and to offer a motivating incentive, the company has developed a comprehensive remuneration system.

The Schaeffler Group aims to consistently align its brand identity, management model, and the four corporate values with one another and to focus the entire organization on common goals. A consistent performance-based remuneration system is key to achieving this aim. Harmonizing the indicators used to determine variable remuneration is one of the key objectives designed to standardize the Schaeffler Group remuneration models.

As a first step, the remuneration system for the Board of Managing Directors was adjusted and consistently oriented toward the Schaeffler Value Added/increasing shareholder value and free cash flow targets when Schaeffler AG's common non-voting shares were listed in October 2015. In a subsequent step, the company adjusted the remuneration system for its top executives in 2016, applying the same considerations underlying the remuneration system for the Board of Managing Directors. A significant change introduced in this amendment was the harmonization of the variable short-term component, the short-term bonus, and the introduction of a long-term variable component, the long-term bonus. The short-term bonus references a one-year period while the long-term bonus, with the share price trend acting as one of its key performance criteria, covers a four-year period.

More in the remuneration report on pp. 97 et seq.

The targets largely represent the strategic and key operating financial 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).

In 2017, the company then aligned the performance indicators relevant to variable remuneration across all remuneration models, both at the management level and for all levels of staff below management, e.g. for the profit sharing arrangement in Germany.

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.

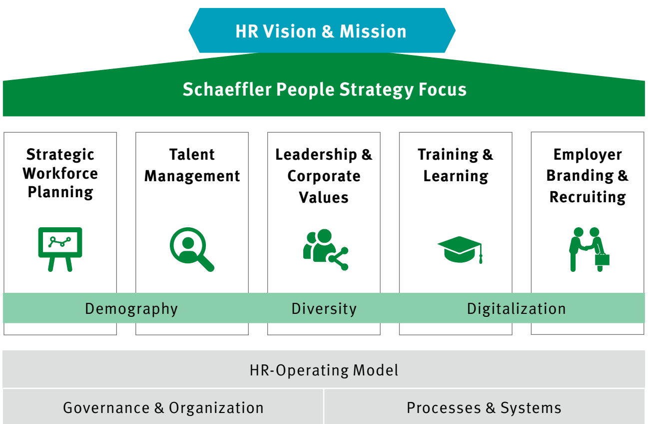
1.4 Employees

Its employees represent one of the key pillars of the Schaeffler Group's success. Their technical knowledge, skills, commitment, and passion for innovation 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 as an attractive employer in order to safeguard Schaeffler's competitive position.

HR strategy

The Schaeffler Group's strategic human resources activities are based on the HR strategy, which was redefined in 2016, and the related Roadmap 2020 with a set of initiatives for Human Resources (HR) that are designed to work in concert.

HR strategy house No. 026



The strategic direction of HR is summarized in the HR strategy house. Its starting point are the HR vision and mission creating a uniform global identity for the HR function. The HR strategy house is built on five pillars illustrating the fields of action prioritized by HR vis-à-vis employees.

- Strategic workforce planning
- Talent management
- Leadership & corporate values
- Training & learning
- Employer branding & recruiting

The company has created initiatives and projects for each of these pillars and is consistently working on them and driving them forward. They reflect the demands of demographics, diversity, and digitalization by assessing and appropriately taking into account their current and future impact. Underlying Schaeffler's human resources activities is an HR operating model including strong HR governance and a strong HR organizational structure, as well as a solid and efficient process and systems landscape.

Strategic workforce planning

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

It provides a 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, for instance in the future growth areas of E-Mobility, Digitalization, and increasing globalization.

The results of strategic human resource planning serve as a basis for deciding what actions are required, such as internal and external recruiting, qualification programs, or in- or outsourcing strategies. These actions enable the Schaeffler Group to identify and actively mitigate the risk of excess personnel or a shortage of staff. In late 2017, the company initiated a project to investigate the need for future technical and commercial vocational training and engineering degree programs at universities offering cooperative education in Germany. The results will be available in early 2018 and will be used as input to the Strategy Dialog.

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 using focused succession management.

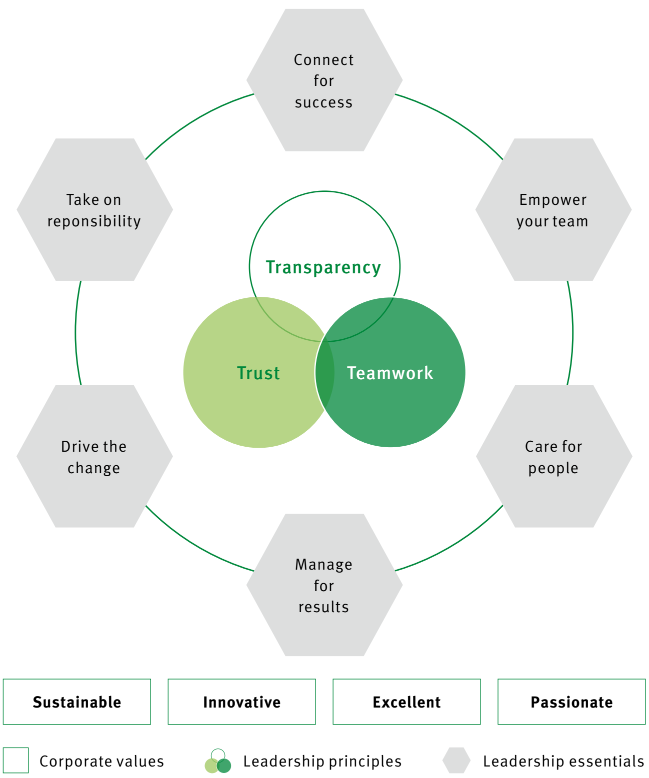
The worldwide standardization of the talent management process as part of the Global Talent Management HR initiative divided the process into two integrated phases: the Employee Development Dialog (EDD) and the Global Talent Review (GTR). Actions decided upon in EDDs and GTRs are realized throughout the year. The software developed specifically for this purpose and the related processes have been rolled out successfully in most countries, covering approx. 86% of relevant employees worldwide. Starting in 2018, the "Global Talent Management 2.0" project will work on an even more effective and efficient process and IT system in order to considerably increase its utility to everyone involved – employees, management, and Schaeffler as a company.

Leadership & corporate values

The ▶ Leadership & Corporate Values initiative that is part of the "Agenda 4 plus One" addresses the question of what leadership should look like within the Schaeffler Group in the future and defines leadership essentials applicable around the world that reflect the four corporate values.

The first phase of this initiative, which started in 2017, was an extensive analysis surveying a total of approx. 400 employees. All Executive Board members were interviewed, and workshops with participants representing various hierarchical levels and responsibilities were held in each of the four regions. An online survey was part of the process as well. The analysis was centered around the issues of how leadership is currently perceived within the company and what Schaeffler requires in terms of leadership in the future. Following the data collection phase, the results of the analysis were further consolidated using a variety of focus

Leadership essentials No. 027



groups. Participants of the Schaeffler Top Management Meeting dealt extensively with an initial draft of the new leadership essentials in workshops of various formats. After further reviews, the six leadership essentials, along with descriptions of five leadership behaviors for each, were issued in their final form in early October 2017. Starting now, these leadership essentials represent the framework – applicable around the world – preparing the Schaeffler Group's management for future developments.

- Connect for success
- Empower your team
- Care for people
- Manage for results
- Drive the change
- Take on responsibility

Together with the four corporate values and the leadership principles, the leadership essentials create a uniform understanding. The corporate values describe the Schaeffler Group's identity and provide orientation to all employees. The leadership principles and leadership essentials illustrate the benchmark in terms of leadership and how managers are expected to lead their staff.

Training & learning

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

The Qualification for Tomorrow initiative, part of the "Agenda 4 plus One", addresses 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 anywhere anytime is a success factor for being able to compete worldwide. As a result, this initiative focuses on the most important core issues and the company's future strategy related to the issue of learning.

The introduction of a new learning management system in 2017 is an important initial milestone in a modern world of learning. The cloud-based system is easy to use and is gradually being rolled out worldwide. Staff in Germany, France, and China are already enjoying its benefits.

The Schaeffler Academy supports the company's strategy by providing tailored qualification programs. Trends like digitalization and Industry 4.0 are transforming products and organizational processes as well as employee qualification requirements. In response, the Schaeffler Academy is adding issues such as design thinking, data analytics, and scrum to its training program, supplementing them with modular programs geared toward the relevant target groups.

Redesigning training content and methods creates a modern training program preparing trainees well for changing job profiles. A new comprehensive qualification program was created and launched in 2017. It prepares instructors for future challenges and provides them with input on issues like digitalization, generation Y and Z, new media, through to migration and diversity.

Employer branding & recruiting

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

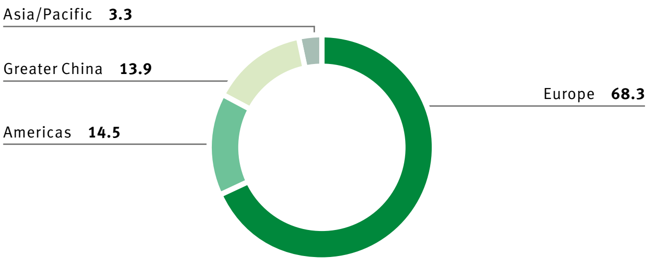
The human resources strategy is driven by the key commitment to making employment with the Schaeffler Group fit for the future – for external candidates as much as for employees who have been with the company for many years. Effectively positioning the company as an attractive employer worldwide is fundamental to continuing to successfully compete for the brightest talents in the future. The Schaeffler Group ranked highly in recognized employer rankings in 2017. Research institution "trendence" listed the company as one of the ten most popular employers among young professionals in the automotive sector and among the 30 employers most attractive to engineering students in Germany in 2017. The group was also successful internationally. In China, the Schaeffler Group was named "Top Employer China 2017" by the Top Employers Institute and received the "Best Employer of the Year" award for the Suzhou district from career platform Zhaopin.com.

In order to attract qualified students and graduates, the company focused on cooperative and sustainable partnerships with universities, student unions, student associations, and organizations such as Formula Student Germany in 2017 as well. As part of its university marketing activities, Schaeffler held more than 30 events in Germany alone during the year. Additionally, Schaeffler's technical departments helped run realistic case studies at universities and assisted students in various practical projects.

More on cooperation with universities on page 13

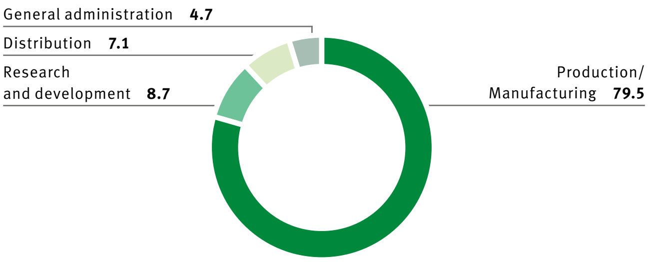
Schaeffler Group employees by region No. 028

in percent, as at December 31, 2017



Schaeffler Group employees by function No. 030

in percent, as at December 31, 2017



In 2017, Schaeffler took the important step of establishing global employer branding and recruiting functions aimed at creating global standards and utilizing synergies more effectively. This year, recruiting activities were especially affected by an increasing need for staff and changing job specifications, since the implementation of the strategy "Mobility for tomorrow" requires new job descriptions and new qualifications on the part of candidates.

In addition, the market for internal candidates remains a key source for filling open positions. In Germany, more than 40% of vacancies were successfully filled with internal talents in 2017.

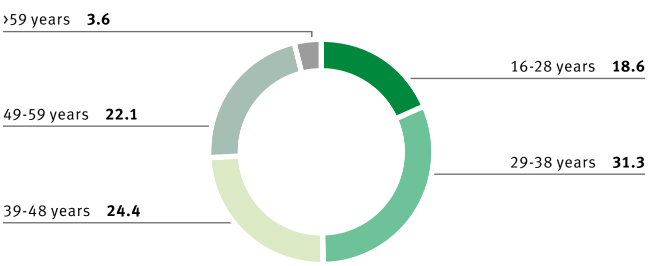
Employee structure and development

The Schaeffler Group employed an average of 88,697 employees (prior year: 85,733) in 2017. The number of employees at December 31, 2017, was 90,151 (prior year: 86,662), 4.0% above the prior year level.

The company recruited new personnel compared to December 31, 2016, primarily in production and production-related areas – mainly in the Greater China and Europe regions, especially in Eastern Europe.

Schaeffler Group employees by age group No. 029

in percent, as at December 31, 2017



Workforce structure

The average period employees have been with the Schaeffler Group (tenure) amounted to 11.0 years in 2017 (prior year: 11.2). The average age of the Schaeffler Group's workforce was 39.7 years (prior year: 39.8).

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 21.7% (prior year: 21.4%) in 2017, and the proportion of female managers was 12.4% (prior year: 11.8%).

The company signed the "Charta der Vielfalt" (diversity charter) as early as in 2008, committing to implementing the Charta's guidelines internally by taking 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.

More on diversity on page 43

Workforce – structural data No. 031

	12/31/2017	12/31/2016	Change	in %
Average age (years)	39.7	39.8	-0.3	%
Average tenure (years)	11.0	11.2	-1.8	%
Labor turnover rate (%) [1]	3.9	3.6	0.3	%-pts.
Proportion of female employees (%)	21.7	21.4	0.3	%-pts.
Proportion of female managers (%) [2]	12.4	11.8	0.6	%-pts.

[1] Initiated by employee.
[2] Managers are defined as employees in a supervisory function.

Number of employees No. 032

	2013	%	2014	%	2015	%	2016	%	2017	%
Europe [1)]	55,392	70.8	57,607	70.0	58,600	69.6	60,127	69.4	61,554	68.3
Americas	12,146	15.5	12,229	14.9	12,625	15.0	12,480	14.4	13,056	14.5
Greater China	8,068	10.3	9,741	11.8	10,216	12.1	11,255	13.0	12,537	13.9
Asia/Pacific	2,652	3.4	2,717	3.3	2,757	3.3	2,800	3.2	3,004	3.3
Schaeffler Group	**78,258**	**100**	**82,294**	**100**	**84,198**	**100**	**86,662**	**100**	**90,151**	100

Figures as at December 31.
1) Incl. employees of the corporate head office.

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.

3,514 classroom training sessions (prior year: 4,054) with an enrollment of 30,646 (prior year: 37,345) were held in Germany in 2017.

Employee qualification and continuing education No. 033

Number in Germany	2017	2016	Change in %
Classroom training sessions	3,514	4,054	-13.3
• Enrollments – classroom training sessions	30,646	37,345	-17.9
E-learning courses	97	90	7.8
• Enrollments – e-learning courses	15,593	25,074	-37.8

In addition, 97 different e-learning courses were offered to staff and were taken by 15,593 employees. The prior year included mandatory courses for employees on new, specific issues (prior year: 90 e-learning courses offered; 25,074 enrolled). 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 national and international management and leadership programs. 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.

In 2017, the company designed the "In The Lead@Europe" series of training events which ensures uniform leadership training events are held in each country in the Europe region. The leadership essentials defined as part of the "Leadership & corporate values" initiative form the basis for the content of the training, which is taught using modern and interactive learning methods. Three new regional development programs are geared to high-potential managers. The Accelerators Program (ACE) and the Management Talent Program (MTP) were implemented in the Asia/Pacific region. The Leadership Operations Program for candidates with potential in Operations, originally only available in Germany, has now been rolled out to the Europe region.

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 project managers who combine extensive technical expertise and key know-how with outstanding project management skills.

The specialist and project career path with its global standards, career stages, and requirements offers specialists and project managers within the Schaeffler Group a framework for following their strengths and interests in developing and establishing themselves in a career path.

Supporting new talents

Attracting and training new talents in all areas is essential to ensuring the company's long-term success. 3,185 trainees (or 3.5% of the Schaeffler Group's workforce) were pursuing an apprenticeship at the Schaeffler Group (prior year: 2,982 or 3.4% of the workforce) as at the end of 2017. These future specialists are trained in a total of 20 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 173 students were enrolled in the "Duales Studium" and 163 in "Two-in-One" bachelor programs in 2017. The company also offers a graduate degree in the form of a master's degree program with currently 22 students.

In addition, the Schaeffler Group offers special trainee programs to university graduates that have demonstrated above-average performance and commitment, 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, 49 young talents (prior year: 40) were enrolled in this trainee program as at December 31, 2017. Similar programs operate in other countries around the world, including in the U.S.

Health management and occupational safety

The demographic trend is profoundly changing the structure of the group's workforce. The future success of the company depends on the employees' qualification and motivation and on the long-term maintenance of their health. The Schaeffler Group's workplace health management program is based on the principles of the Luxembourg Declaration and represents a key element of the HR initiatives.

The design of the workplace health management program focuses on measures to maintain the mental and physical health of the company's employees as well as their capacity to work and their performance capabilities. Priorities are measures regarding the musculoskeletal system and providing individual skills for coping with stress. Ergonomic measures and reducing the negative impact of shift work also contribute to prevention.

The company consolidates measures promoting the health of individual employees in the "pit stop" ("Boxenstopp") program by specific target groups. In addition to this program, the company offers a multitude of measures for target groups with comparable tasks and similar health risks. Measures offered are based on an analysis of the requirements at each location, guaranteeing that they are tailored.

The workplace health management program is part of Schaeffler's EnEHS management system (Energy Environment Health and Safety), which ensures that working conditions are continually reviewed and occupational safety requirements complied with. Certification takes place worldwide in accordance with the European EMAS ("Eco-Management and Audit Scheme") Directive. The company regularly holds information days, training sessions and continuing education seminars on occupational safety. These types of preventative and awareness measures helped reduce the accident rate from 8.4 to 7.1 AccR (AccR = lost time incidents per 1 million labor hours) during the reporting period.

1.5 Sustainability

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. “Sustainable” is one of the Schaeffler Group‘s four key corporate values. The company accepts its corporate responsibility to operate its business as ecologically and socially responsibly as possible – even above and beyond legal requirements. As such, the Schaeffler Group has defined a framework in the form of its sustainability strategy “Responsibility for tomorrow 2030+”.

Sustainability strategy and management

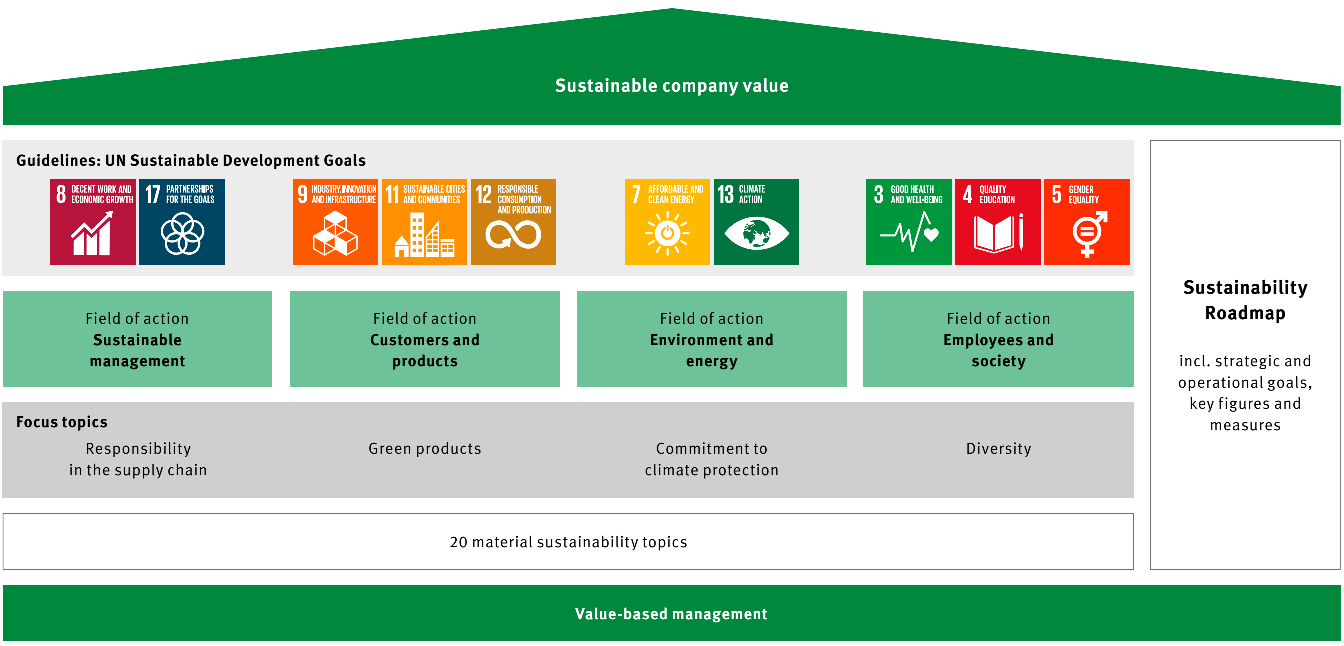
The sustainability strategy “Responsibility for tomorrow 2030+” is based on the Schaeffler Group’s vision and mission and supports the objective of adding long-term shareholder value. The company used the United Nations’ 17 “Sustainable Development Goals” (SDGs) to guide its sustainability focus.

The member states of the United Nations (UN) issued the Agenda 2030 for sustainable development in order to successfully address the global challenges. The Agenda 2030 is aimed at facilitating worldwide economic progress and prosperity while achieving social justice and respecting the ecological limits of global growth. The Agenda applies equally to all countries in the world: All developing countries, emerging countries, and industrialized nations have to contribute.

At the core of the Agenda are the 17 Sustainable Development Goals that officially came into effect in January 2016. For the first time, they reflect all three dimensions of sustainability: social issues, the environment, and the economy. The goals include reducing poverty and hunger, promoting good health and education, facilitating gender equality, protecting the environment and the climate, and making consumption more responsible. Meeting the ambitious SDGs requires everyone to cooperate: politicians, civil society, and the private sector. This puts the onus on companies, as well, to make concrete contributions with a view to their business activities. The Schaeffler Group lives up to this obligation and its responsible corporate behavior contributes to ten of the 17 United Nations SDGs:

- 3 Good health and well-being (SDG 3)
- 4 Quality education (SDG 4)
- 5 Gender equality (SDG 5)
- 7 Affordable and clean energy (SDG 7)
- 8 Decent work and economic growth (SDG 8)
- 9 Industry, innovation, and infrastructure (SDG 9)
- 11 Sustainable cities and communities (SDG 11)
- 12 Responsible consumption and production (SDG 12)
- 13 Climate action (SDG 13)
- 17 Partnerships for the goals (SDG 17)

Sustainability strategy “Responsibility for tomorrow 2030+” No. 034



The activities aimed at meeting the SDGs are grouped in the four fields of action set out in the “Responsibility for tomorrow 2030+” sustainability strategy:

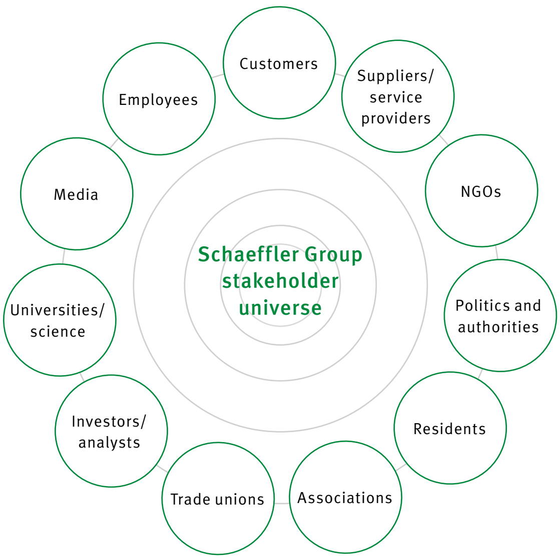
1. Field of action: “Sustainable management” (SDGs 8/17)
2. Field of action: “Customers and products” (SDGs 9/11/12)
3. Field of action: “Environment and energy” (SDGs 7/13)
4. Field of action: “Employees and society” (SDGs 3/4/5)

The focus here is on the topics of “responsibility in the supply chain”, “green products”, “commitment to climate protection”, and “diversity”.

A “Sustainability Roadmap” sets out specific objectives and measures that are relevant to the four fields of action and that are used in the operating and strategic measurement and management of Schaeffler’s sustainability performance. The Sustainability Roadmap represents the medium-term, dynamic element of the sustainability strategy.

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 success of the sustainability strategy “Responsibility for tomorrow 2030+”, the Schaeffler Group regularly and openly exchanges information with its key stakeholders. Additionally, the Schaeffler Group regularly completes a significance process in order to detect key sustainability issues early on.

Schaeffler Group stakeholders No. 035



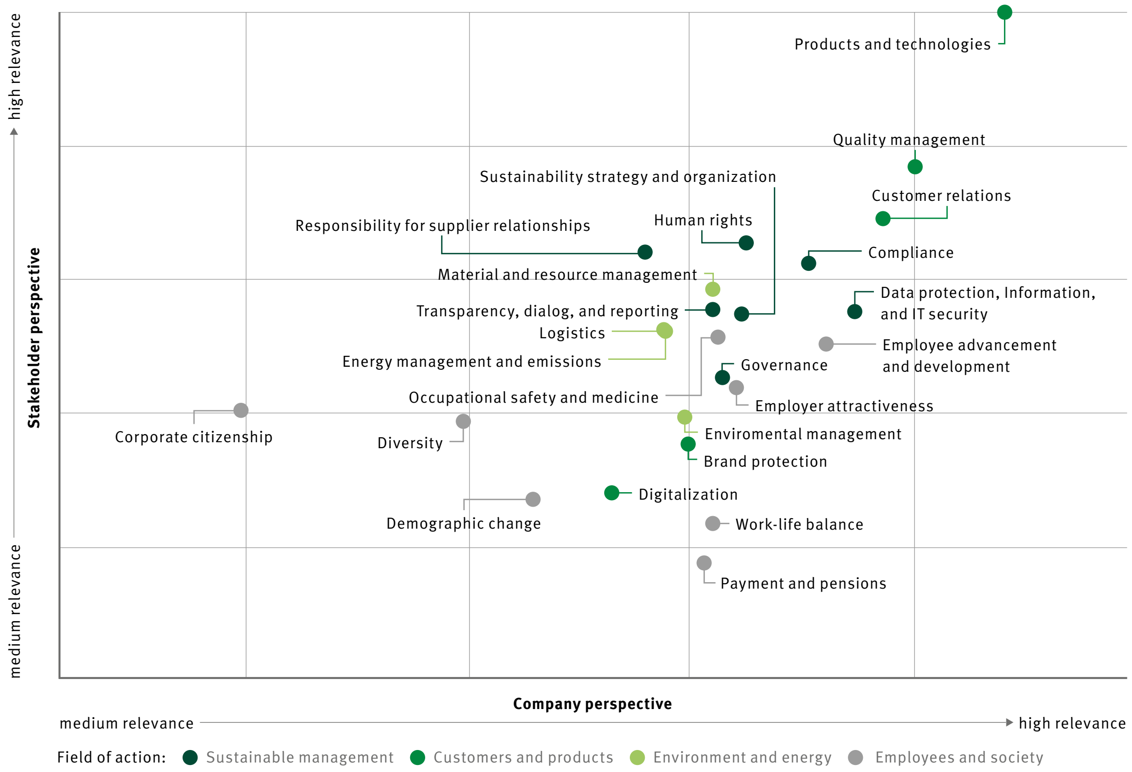
The significance analysis performed in 2016 by the Schaeffler Group was developed in cooperation with selected stakeholders: The company invited all employees as well as selected customers and suppliers from around the world to participate in an online survey assessing the relevance of certain issues to Schaeffler as a responsible company and to formulate sustainability-related expectations of the company. A total of 1,250 employees and 431 customers and suppliers participated in the survey. The relevant issues were initially identified by means of a comprehensive document analysis, and participants were given the opportunity to add to them.

The result of the significance analysis consisted of 24 topics that were assigned to the four fields of action “Sustainable management”, “Customers and products”, “Environment and energy” and “Employees and society”. The topics identified in the significance analysis were verified by the Schaeffler Group’s sustainability organization in the context of the company’s operations and used to create a materiality matrix. The group’s Sustainability Roadmap lists concrete objectives and measures for each issue set out in the matrix. The materiality matrix illustrates the relevance of the various issues to the company and its stakeholders and serves as the basis for reporting on sustainability.

The sustainability organization then held an internal workshop to discuss the opportunities, risks, and relevance to the Schaeffler Group of the 24 topics defined, starting with the results of the significance analysis, and to consider the internal perspective regarding their relevance to and the impact of the company’s operations. The results of this workshop were then used to select the 12 non-financial topics to be included in the non-financial statement for 2017. In accordance with section 315b (3) HGB, Schaeffler AG has prepared a separate group combined non-financial report that is not part of the group management report and that combines the non-financial report of the parent company with that of the group in accordance with section 289b (3), section 315b (3), and section 298 (2) HGB. The combined separate non-financial report is publicly available from the company’s website.

Combined separate non-financial report in accordance with section 289b (3), section 315b (3), and section 298 (2) HGB at: www.schaeffler.com/sustainability/nfr2017

Materiality matrix – 24 topics No. 036



The Schaeffler Group also reports on significant sustainability topics in a voluntary annual sustainability report covering additional non-financial concepts, goals, and measures. The company issued an initial separate sustainability report, entitled "Responsibility for tomorrow", in 2017, laying the foundation for future sustainability reports. The sustainability report was prepared in accordance with the fourth generation (G4) of the Guidelines of the Global Reporting Initiative (GRI), the guidelines most frequently used to prepare sustainability reports worldwide. The next sustainability report will be issued in April 2018.

When evaluating its sustainability performance, the company refers to external sustainability ratings and rankings. In 2016, the sustainability rating platform EcoVadis awarded the "Silver Recognition Level" to the Schaeffler Group in recognition of the company's sustainability performance. The assessment covered the four categories "environment", "working conditions", "responsible management", and "sustainable procurement".

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

1. Field of action: "Sustainable management"

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."

In following this vision, the Schaeffler Group's actions are guided by the core values of a global family business: Schaeffler's actions are sustainable, innovative, excellent, and passionate. This applies to its own operations as well as to its global supply chain. Fairness, mutual respect, and integrity are the cornerstones upon which the Schaeffler Group's actions are based. The Schaeffler Code of Conduct sets out the principles and practices that all Schaeffler employees, managers, and the Executive Board must follow, and the Schaeffler Group expects the same of its business partners.

To the Schaeffler Group, responsibly managing its own supply chain also means raising service providers' and suppliers' awareness of the group's requirements and expectations. This applies to high-quality and efficient cooperation as well as to compliance with obligations and norms regarding environmental and social issues. National legislators' requirements regarding responsible procurement are high. For instance, the British Modern Slavery Act requires companies to disclose steps they have taken to prevent modern slave labor in their supply chain. In response, responsibility in the supply chain was identified as a focus topic within the sustainability strategy "Responsibility for tomorrow 2030+". It represents the Schaeffler Group's objective of cooperating with its suppliers to make its own supply chain more and more sustainable.

Establishing sustainability in procurement requires the Schaeffler Group's partners to adhere to the group's commitments. The Schaeffler Group's Supplier Code of Conduct plays a key role in this. It sets out minimum requirements for suppliers regarding, for instance, respect for human rights, handling information subject to data protection legislation, and conduct regarding the environment, health, and safety. The Schaeffler Group's Supplier Code of Conduct (SCoC) is based on the principles of the United Nations Global Compact (UNGC) and the core conventions of the International Labour Organization (ILO). Any violation of principles, guidelines, or requirements set out in the SCoC is considered a fundamental breach of contract by the supplier causing such violation and results in an escalation process that may result in the termination of the supplier relationship. Acknowledging the SCoC is an integral part of contracts governing new supplier relationships.

The Schaeffler Group reviews potential suppliers with respect to their compliance with environmental and social standards before integrating them into its supplier portfolio. If the initial assessment (formerly known as assessment of potential) of possible new business partners with respect to energy, environment, health, and safety (EnEHS) issues indicates that they do not meet the required minimum standards, they are eliminated from the selection process during supplier development. If violations are serious, existing business relationships are terminated as well.

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 compliance management system helps the company and its employees comply with all relevant local, national, and international laws and regulations.

More on the governance structure on pp. 93 et seq.

2. Field of action: "Customers and products"

The Schaeffler Group aims to help customers meet the challenges resulting from global trends such as urbanization, digitalization, shortage of resources, and climate change, such as reducing CO_2 emissions with innovative products and system solutions. In 2017, the company defined the focus topic "Green products" for the "Customers and products" field of action. This includes developing and manufacturing products contributing significantly and measurably to making urban and interurban mobility, eco-friendly drives, and the energy chain environmentally sound.

One example in the field of eco-friendly drives is the "Gasoline Technology Car II" (GTC II) concept car, which demonstrates the potential of intelligent state-of-the-art 48-volt hybridization. The GTC II facilitates additional fuel savings of 13% in the NEDC (New European Driving Cycle) compared to the GTC I presented at the Vienna Motor Symposium in 2014.

Sustainable "Mobility for tomorrow" requires considering the entire energy chain. In the energy chain field, the Schaeffler Group develops solutions for generating, storing as needed, converting, and utilizing energy. The Schaeffler Group develops high-performance components for wind and hydro-power plants and supports operators with services such as sensor-based remote diagnostics. In addition, the company is researching coatings to increase the efficiency of hydrogen and fuel cells. In the field of energy utilization, the Schaeffler Group is working on improving existing technologies and further electrifying the drive train.

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 place high demands on brand protection. In 2017, the Schaeffler Group gave end customers, distributors, and authorities the OriginCheck app, a tool to quickly and easily carry out an initial check on products purchased. If this check leads the user to suspect that a product may be counterfeit, he or she can use the app to take direct further steps to obtain proper clarification. These checks are based on GS1-standard data matrix codes (DMC) that are placed on Schaeffler packaging. These two-dimensional codes contain various types of information in an encrypted form and identify the product worldwide with no conflicts.

3. Field of action: “Environment and energy”

The Schaeffler Group’s sustainability strategy documents the company’s high standard when it comes to environmental protection and reducing greenhouse gas emissions. In 2017, the company defined the focus topic “Commitment to climate protection” for the “Environment and energy” field of action. The targets are clearly defined: Increasing energy efficiency by 40% by 2020 (base year 2011) and carbon neutrality for one location in each region in the medium-term. The Schaeffler Group is implementing a stringent energy policy and related measures in order to meet these targets.

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 continually improving energy management. The Schaeffler Group measures and monitors its progress with respect to energy management using its energy data management system (EDMS).

In 2017, a pilot project aimed at further digitalizing energy management and maintenance was initiated at Schaeffler’s Berndorf location in Austria. In the first step of the project’s development, data-based energy efficiency and maintenance as well as the appropriate supply of media to all machines and the production environment were combined in what is known as the Schaeffler Group’s digital platform. The pilot project is designed to help develop new approaches to increasing the “Industry 4.0 capability” of machines, plants, and buildings and to solve new innovation-related issues early on.

To help the company effectively protect the environment, the Schaeffler Group 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 57 to 61 in 2017. Nearly all manufacturing locations worldwide have been validated under EMAS and certified under ISO 14001 by independent assessors. The Schaeffler Group has demonstrated its first-rate environmental management by having nearly all of its manufacturing locations worldwide entered into the EMAS site register by the end of 2017.

In February 2017, Schaeffler officially commissioned a new water supply commences operation on the banks of the Main river in Schweinfurt that had been constructed over a period of several months. It is aimed at helping to make production at the Schaeffler Group’s Schweinfurt location more economical while reducing the strain on the valuable groundwater supply and meeting environmental requirements imposed by the city of Schweinfurt and the Water and Shipping Authority.

The Schaeffler Group also strives to support its employees in making their mobility more sustainable. To this end, it is in the process of implementing a comprehensive conceptual mobility plan. As part of the plan, the infrastructure for charging electric vehicles at the company’s German locations was doubled compared to the prior year. In addition, the Schaeffler Group has opened up its company car policy in Germany to plug-in hybrids and electric vehicles, allowing employees to order and use these vehicles as company vehicles.

4. Field of action: “Employees and society”

The responsibility for its employees and good corporate citizenship are deeply embedded in the Schaeffler Group’s core. Based on the significance process, the “Employees and society” field of action focuses on the issues of diversity, being an attractive employer, work-life balance, health management, compensation and retirement benefits, supporting and developing employees, as well as good corporate citizenship.

Diversity is anchored in the HR strategy and, to Schaeffler, it means acknowledging, appreciating, and including diverse views, experiences, and technical expertise across all hierarchical and organizational units. The company signed the “Charta der Vielfalt” (diversity charter) as early as in 2008 and is committed to proactively promoting diversity within the company. In order to gradually embed this issue throughout the company, it has issued a conceptual diversity plan in 2017 that it plans to implement in the coming years. Demographics, promoting women, internationality, and people with disabilities are important issues to be dealt with here. During the year, a reverse mentoring program was launched in order to promote the sharing of experiences between young and old and an international network was founded. The objective of the latter is connecting employees around the world using the opportunities for interaction and teamwork provided by Schaeffler CONNECT, the company’s new social intranet.

Globalization and digitalization make new demands on organizational and work processes. The Schaeffler Group responds to these trends with its New Work working methods initiative that forms part of its “Agenda 4 plus One”. Working method and space planning concepts that promote interaction are used to promote knowledge transfer and communication between employees and to support innovation processes. The comprehensive approach to finding the ideal combination of space planning, structuring work processes, and technology increases interdisciplinary collaboration. Advancing the existing company culture and providing flexible workspace layouts ensures that the “Mobility for tomorrow” strategy can be experienced in the working environment as well. The Schaeffler Group has initiated or completed four pilot projects at its Schweinfurt , Erlangen, and Nuremberg locations. These projects include providing multifunctional rooms, quiet areas, and „gravity points“, where employees can have flexible meetings and conversations in an appropriate and attractive atmosphere. A win–win situation for the company and its employees: The innovative use of existing resources in a manner that meets existing needs significantly increases employee satisfaction and Schaeffler's attractiveness as an employer.

The company has continued to systemize its workplace health management program during the year. Location-specific health management programs were established that have been adapted to the situation in the specific working environment. To help with this project, a standard analysis instrument for surveying employees was developed and used. In Schweinfurt, Wuppertal, and Herzogenaurach, the company initiated the "pit stop active back" ("Boxenstopp Rücken Aktiv") program involving exercises to counteract the specific strains and stresses of the production workplace. The training program "Fit4Shift" for shift workers was developed in Herzogenaurach, Eltmann, and Buehl in order to prevent health issues like insomnia and stress. The "Fit4Innovation" program was launched in Buehl and Herzogenaurach. It provides future project managers with information on avoiding stress and on resilience, and helps them form stabilizing networks among themselves. In order to be able to offer measures under the workplace health management program at the same level of quality all over Germany, the company began cooperating with a health insurer with operations throughout the country. This provides the company with access to an existing network of certified service providers, allowing it to flexibly plan and execute its health management program measures.

In its Factory for Tomorrow initiative, which is part of the "Agenda 4 plus One", the newly developed job register was rolled out at two locations as part of the company's efforts to design workspaces more ergonomically. The register uses a database solution to determine and visualize the ergonomic strain involved in the job. The Schaeffler Group uses the instrument in its inclusion efforts to compare the employee's skills to the requirements of the job, allowing the company to identify jobs for employees with impaired physical abilities that are appropriate for their performance capabilities and medical condition. At the same time, it also promotes the focused reduction of high-strain jobs.

Attractive remuneration and benefit programs are key elements of the HR strategy aimed at promoting employee satisfaction. In addition, fair, transparent, and performance-based remuneration and retirement benefit schemes that meet employees' needs are important characteristics of an attractive employer.

The Schaeffler Group's remuneration models were changed to reflect uniform, consistent performance indicators and adjusted for all levels of staff. As a result of these changes, the profit sharing arrangement in Germany is now based in equal parts on three indicators. Along with the existing quality indicator, in 2017, the company component, comprising Schaeffler Value Added and free cash flow, was adjusted and delivery performance of the German production locations was added as a new indicator.

By making this adjustment, the company is not only pursuing its objective of consistent and performance-based remuneration models, but also highlights the importance of the proven "Quality-Cost-Delivery performance" approach, which emphasizes a strong quality and cost mindset as well as delivery performance.

A further significant step toward becoming a more attractive employer was coming to an agreement that LuK GmbH und Co. KG will join the collective labor agreement of the metal and electric industry in Baden Wuerttemberg effective January 01, 2018. Collectively bargained working conditions and transparent remuneration rules now apply to blue- and white-collar workers alike.

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 in Germany 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 33,988 ideas via the ideas management software in 2017, generating cost savings of approx. EUR 20.8 m. The group is currently using this system at 45 locations in 13 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.

More on the HR strategy on pp. 33 et seq.

The Schaeffler Group focuses its corporate citizenship activities on three main areas: education and science, health and social affairs, and sports and cultural events. Its priority is on supporting organizations and projects near Schaeffler locations.

Schaeffler's strategic partnerships and collaborations in education and science demonstrate its commitment in this field. For instance, the company is the main partner of the "Young Car Mechanic" competition held for the first time in Poland in May 2017. Students from Poland, Lithuania, and Latvia competed against each other in a variety of virtual vehicle repair tasks using a specifically designed simulator. The competition is designed to get young people interested in being a professional mechanic.

Through its HOPE initiative (Health, Occupational skills, Preservation of culture & heritage, and Empowerment of society), the Schaeffler Group continually provides support in India via Schaeffler India Limited. Under the heading "May everyone be happy", the initiative helped expand a school in Vadodara, India, which will shortly provide 800 students with the opportunity to obtain an education, compared to less than 200 students previously.

In addition, the Schaeffler Group supports sports and cultural activities to help convey values and provide impetus for the positive development of society. In November 2017, female employees of Schaeffler's Barcelona location participated in the "Carrera de la Mujer", the largest women's sports event in Europe, in order to raise funds for initiatives against breast cancer and violence against women. Schaeffler also once more supported the "Lauf für Kaya!" ("Run for Kaya!"), which was held in conjunction with the 7th Earth Day in Herzogenaurach to promote cultural exchange between Germany and Burkina Faso.

2. Report on the economic position

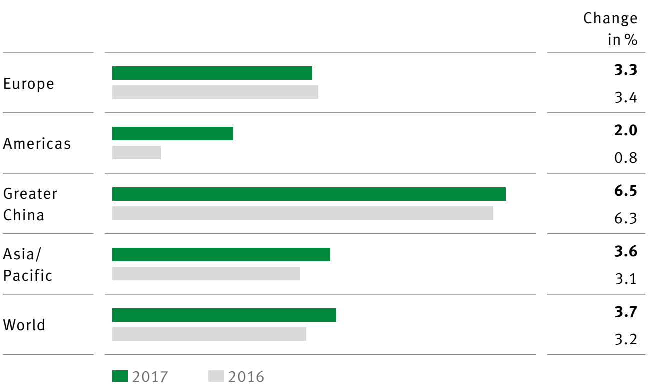
2.1 Economic environment

Macroeconomic environment

The **global economic** upturn that had emerged in the second half of 2016 continued in 2017. Global gross domestic product rose by 3.7% in 2017; this represents the strongest growth rate in six years (Oxford Economics, January 2018). The increasing momentum took hold of large parts of the industrialized economies as well as of the emerging and developing countries.

In the euro region, the continuing economic upturn was felt across countries and sectors. Growth in gross domestic product reached its highest level in a decade, driven by private consumption and investment as well as by strong foreign demand brought on by the worldwide economic recovery. The German economy expanded significantly, generating its highest growth rate since 2011. In the United Kingdom, however, the economy was much less dynamic. Continuing uncertainty regarding the upcoming withdrawal from the EU and the impact of the considerably weaker pound contributed to economic growth there falling behind that of the euro region. Following a weak first quarter of 2017, economic activity in the U.S. increased considerably during the remainder of the year. The Fed continued to gradually tighten its monetary policy and raised its benchmark interest rate three more times. The situation of the Japanese economy improved, with especially stronger foreign demand bolstering the higher-than-expected rise in gross domestic product.

Growth in gross domestic product No. 037



Source: Oxford Economics (January 2018).
Regions reflect the regional structure of the Schaeffler Group.

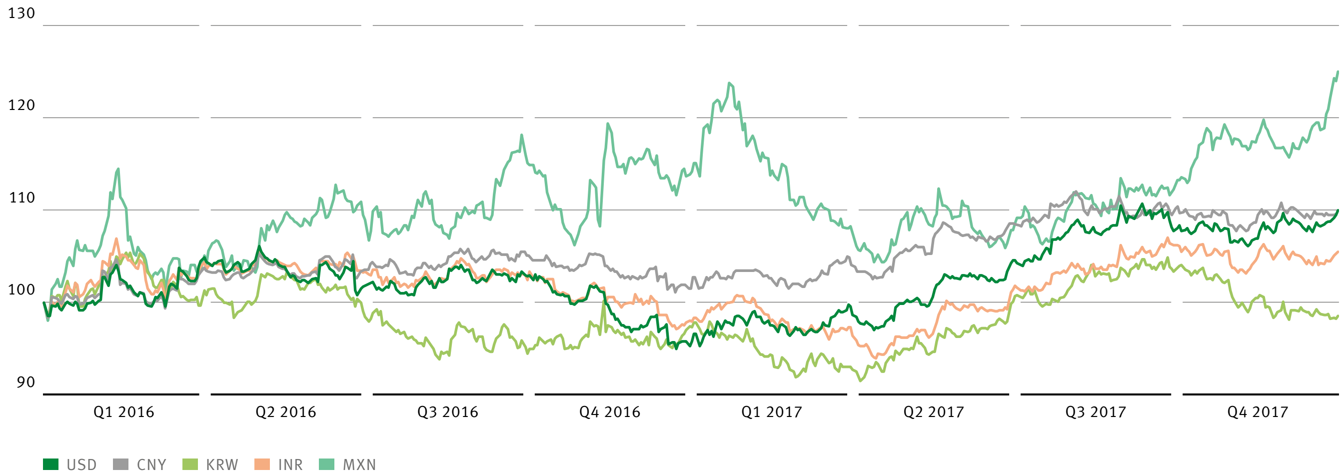
In China, growth temporarily increased slightly for the first time since 2010, primarily due to stronger demand for exports. In addition, private consumption continued to gain in significance compared to investment, as intended by the ongoing restructuring of the economy. Momentum in the Indian economy slowed temporarily due to non-recurring impacts. The economies in Brazil and in Russia, on the other hand, began to recover from their earlier deep recession.

In this context, the situation of the Schaeffler Group's regions during the year was as follows: Gross domestic product in the Europe region rose by 3.3%, and the economic output of the Americas region grew by 2.0%. The Greater China region reported a growth rate of 6.5%, while gross domestic product in the Asia/Pacific region increased by 3.6%.

The global **capital markets** reported some significant increases in the reporting year, with both the Dow Jones Industrial Average (DJIA) and the Deutsche Aktienindex (DAX) rising to new all-time highs in the fourth quarter of 2017.

Currency market trends No. 038

EUR against selected currencies in percent (12/31/2015 = 100)



Source: Bloomberg.

In the **currency markets,** the euro rose against all foreign currencies significant to the Schaeffler Group over the course of the year. However, comparing annual averages to prior year provides a mixed view. In terms of annual average exchange rates, the euro gained ground against the U.S. dollar, the Chinese renminbi, and the Mexican peso. However, the euro declined slightly against the South Korean won and the Indian rupee based on annual average rates.

More on foreign currency translation on pp. 123 et seq.

Sector-specific environment

Trends in automobile production and vehicle population significantly affect the results of operations of the Schaeffler Group's Automotive OEM and Automotive Aftermarket business. The global trend in industrial production provides an indication of the development of the Industrial division's business.

Automobile production

Global **automobile production,** measured as the number of passenger cars and light commercial vehicles produced, increased by 2.1% to approx. 95.1 million (IHS, February 2018). A strong first quarter of 2017 was followed by noticeably lower growth rates during the remainder of the year.

The Europe region reported significant growth in automobile production of 3.9%. While Turkey, France, and Russia generated above-average growth rates, especially Germany and Spain experienced declines. Growth in India, which is also part of the Europe region, remained relatively high despite momentum declining there. Automobile production in the Americas region was down 0.9% compared to prior year, since very significant increases in Brazil and Mexico did not fully offset the considerable contraction in Canada and particularly in the U.S. Greater China region growth in automobile production came in at 2.6%, significantly less than the high prior-year level. The main reason for the decreased momentum was a reduction in buying incentives provided by the government. Automobile production in the Asia/Pacific region rose by 2.1%, supported, in particular, by a very strong first half of the year in Japan, while South Korea experienced a slight decline.

Automobile production No. 039

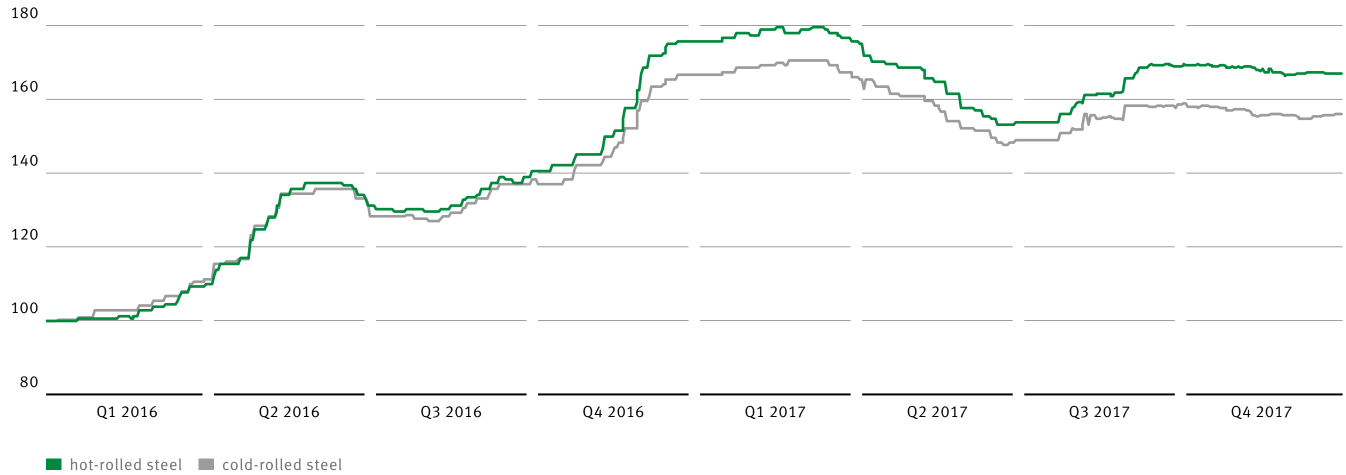
		Change in %	million units
Europe	2017	**3.9**	**28.7**
	2016	5.0	27.7
Americas	2017	**-0.9**	**20.2**
	2016	0.0	20.4
Greater China	2017	**2.6**	**28.1**
	2016	14.1	27.4
Asia/Pacific	2017	**2.1**	**18.0**
	2016	-2.2	17.6
World	2017	**2.1**	**95.1**
	2016	4.8	93.1

2017 2016

Source: IHS (February 2018).
Regions reflect the regional structure of the Schaeffler Group.

Prices of selected steels No. 040

in percent (12/31/2015 = 100)



Source: Bloomberg, based on hot- and cold-rolled strip Northern Europe from Platts (EUR/metric ton).

Vehicle population and average vehicle age

The global **vehicle population,** measured as the number of passenger cars and light commercial vehicles, rose by 3.9% to approx. 1.3 billion in 2017 (IHS, February 2018), and the average **vehicle age**[1] increased slightly to 9.5 years.

In the Schaeffler Group's Europe region, the vehicle population expanded by 2.8% to just under 530 million; the mean vehicle age rose to 11.7 years. India experienced an above-average increase in vehicle population levels. The vehicle population in the Americas region increased by 2.1% to approx. 420 million, with growth in South America slightly exceeding that in the three NAFTA states. The average age of the vehicle population rose to 9.8 years. In the China region, the vehicle population grew by 12.3% to approx. 200 million; its average age rose to 5.2 years. The vehicle population in the Asia/Pacific region was up 2.5% at 175 million, mainly driven by growth in Southeast Asia. The average vehicle age increased to 8.4 years.

Industrial production

Global **industrial production,** measured as gross value added based on constant prices and exchange rates, grew by 3.6% (Oxford Economics, December 2017).

Industrial production in the Europe region rose by 2.2%, mainly driven by the encouraging trend in Germany, where growth was noticeably higher than in previous years, not least due to higher foreign demand. India, on the other hand, reported significantly less dynamic growth. In the Americas region, industrial production rose by 2.4%. Both the U.S. and Latin America (primarily Brazil) recovered from the weak prior year. In Mexico, however, production once again remained flat with the prior year. The

Vehicle population No. 041

		Change in %	million units
Europe	2017	**2.8**	**529.2**
	2016	2.9	514.8
Americas	2017	**2.1**	**421.7**
	2016	2.6	413.0
Greater China	2017	**12.3**	**200.2**
	2016	14.5	178.3
Asia/Pacific	2017	**2.5**	**175.8**
	2016	2.4	171.5
World	2017	**3.9**	**1,326.9**
	2016	4.2	1,277.6

2017 2016

Source: IHS (February 2018).
Regions reflect the regional structure of the Schaeffler Group.

Industrial production No. 042

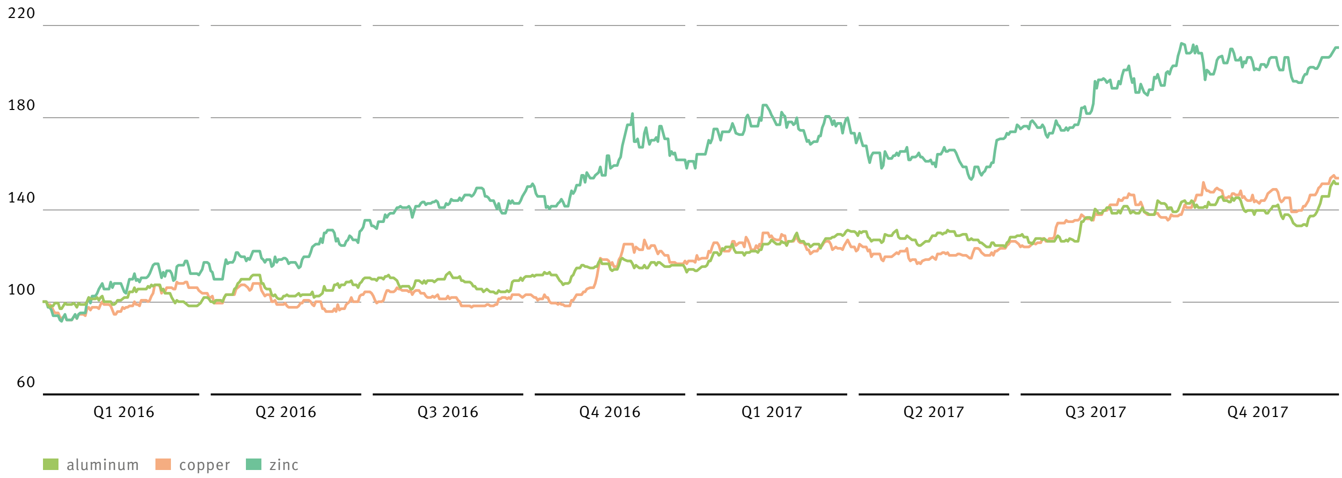
		Change in %
Europe	2017	**2.2**
	2016	2.7
Americas	2017	**2.4**
	2016	-1.6
Greater China	2017	**6.2**
	2016	5.6
Asia/Pacific	2017	**3.9**
	2016	1.9
World	2017	**3.6**
	2016	2.4

2017 2016

Source: Oxford Economics (December 2017).
Regions reflect the regional structure of the Schaeffler Group.

[1] Average vehicle age, worldwide and for the Schaeffler Group's various regions, was calculated based on approx. 84% of the global vehicle population (IHS, February 2018).

Prices of aluminum, copper, and zinc No. 043
in percent (12/31/2015 = 100)



Source: Bloomberg, based on London Metal Exchange (USD/metric ton).

Greater China region's industrial production was up significantly by 6.2%, although growth was slightly less dynamic in the second half of the year. Industrial production in the Asia/Pacific region increased by 3.9%, mainly driven by the favorable trend in Japan; South Korea reported more dynamic growth as well.

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 affect the Schaeffler Group's cost to varying degrees and in some instances with some delay, depending on the terms of the relevant supplier contracts.

Prices in the **procurement markets** for most of the Schaeffler Group's significant input materials increased during the year. Comparing annual averages to prior year showed higher price levels across the board.

Steel is used to manufacture rolling bearings and automotive components. Depending on the source region, average prices for cold- and hot-rolled steel increased by between approx. 13 to just under 40% compared to prior year. The price of metallurgical coal, an important input material for steel and especially carbon-based castings, rose by approx. 30%.

Aluminum is primarily used for pressure die castings and stamped and bent parts, while applications for zinc include coating mechanical components. Copper is mainly required for use in electric motors and mechatronic components. Higher global demand combined with a decrease in supply in China drove up the annual average price of aluminum by more than 20%. The copper price increased by over 25%, with reasons including higher growth rates in industrial production. The mean price of zinc was nearly 40% higher than the prior year average.

The Schaeffler Group uses plastics, for instance to produce cages for rolling bearings, as lubricants designed to reduce friction in components, and as preservatives. Plastics and lubricants are often made based on crude oil. Increased demand and the continuation of the OPEC agreement on limiting production volumes brought the crude oil price to its highest level in two years. The annual average was still just under 25% higher than 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, rose by over 15% compared to the prior year average.

2.2 Course of business

Overview of results of operations 2017

The Schaeffler Group continued its positive revenue trend in 2017, buoyed especially by the encouragingly dynamic growth in the second half of the year. The Automotive business once again grew faster than the market, i.e. global production of passenger cars and light commercial vehicles. The measures to improve efficiency and reduce costs in the Industrial division were consistently executed and are proving effective.

The Schaeffler Group's **revenue** increased by 5.1% to EUR 14,021 m in 2017 (prior year: EUR 13,338 m). Excluding the impact of currency translation, revenue increased by 5.9%, which was attributable to both divisions. All of the Schaeffler Group's regions, and especially Greater China, contributed to this growth.

The market and competitive environment of the Automotive division continued to be characterized by the dynamic evolution of mobility in 2017, which entails ongoing technological change and the accompanying high capital expenditures. In this challenging environment, the division increased its revenue by 5.1% to EUR 10,869 m (prior year: EUR 10,338 m). Excluding the impact of currency translation, the division generated 5.9% in additional revenue. Revenue growth for the fourth quarter, excluding the impact of currency translation, amounted to 8.3%. Thanks to the strong third and fourth quarters the Automotive division once again expanded faster than global production volumes for passenger cars and light commercial vehicles, which grew by 2.1% during the year.

With global industrial production increasing, the Industrial division expanded its revenue for the year by 5.1% to EUR 3,152 m (prior year: EUR 3,000 m). Excluding the impact of currency translation, the division generated revenue growth of 5.7% primarily due to higher volumes in the Greater China region. In the fourth quarter, the Industrial division grew its revenue by 9.0%, excluding the impact of translation. These figures demonstrate that the Industrial division has returned to a long-term growth path.

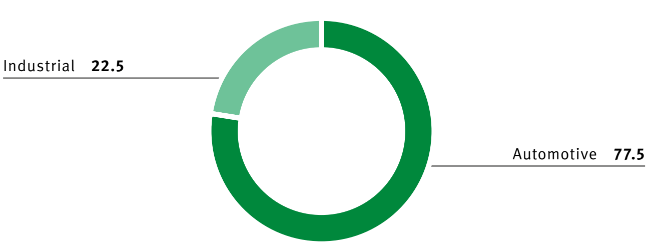
The Schaeffler Group's EBIT for the reporting period amounted to EUR 1,528 m (prior year: EUR 1,556 m), resulting in an EBIT margin of 10.9% (prior year: 11.7%). Before special items[2] of EUR 56 m, EBIT amounted to EUR 1,584 m (prior year: EUR 1,700 m). The group's **EBIT margin before special items** amounted to 11.3% (prior year: 12.7%). The Industrial division's EBIT margin before special items improved to 8.1% (prior year: 7.3%), thus continuing to stabilize. Meanwhile, the Automotive division's EBIT margin before special items declined to 12.2% (prior year: 14.3%), primarily due to increased pricing pressure in the automotive original equipment business in combination with rising costs for new product launches and higher other expenses in connection with increased research and development expenses.

Net income increased by 14.3% from EUR 872 m to EUR 997 m. Excluding net income attributable to non-controlling interests of EUR 17 m (prior year: EUR 13 m), net income attributable to shareholders of the parent company amounted to EUR 980 m, 14.1% more than in the prior year (prior year: EUR 859 m). Earnings per common share amounted to EUR 1.47 (prior year: EUR 1.29). Earnings per common non-voting share amounted to EUR 1.48 (prior year: EUR 1.30).

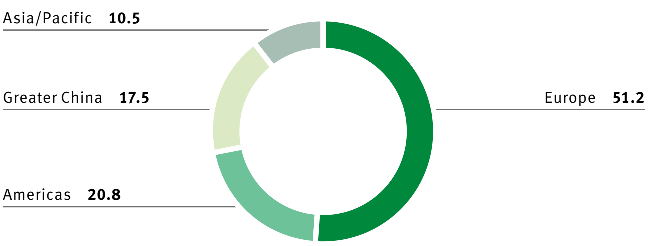
The Schaeffler Group generated **free cash flow** of EUR 488 m in 2017, EUR 247 m less than the prior year amount of EUR 735 m. One reason for the decrease was cash flow from operating activities declining from EUR 1,876 m to EUR 1,778 m, one of the reasons being non-persistent cash outflows in 2017. Another reason was the increase in capital expenditures (capex) by 11.1% to EUR 1,273 m (prior year: EUR 1,146 m) or 9.1% of revenue (prior year: 8.6%) in 2017.

Schaeffler Value Added before special items **(SVA)** amounted to EUR 787 m during the reporting period (prior year: EUR 939 m), representing a return on capital employed **(ROCE)** before special items of 19.9% (prior year: 22.3%). The decline was the result of the weaker earnings trend compared to the prior year as well as an increase in average capital employed.

Schaeffler Group revenue by division No. 044
in percent



Schaeffler Group revenue by region No. 045
in percent by market view



[2] Please refer to pp. 60 et seq. for the definition of special items.

Significant events 2017

Fitch assigns investment grade rating to Schaeffler AG

On April 25, 2017, rating agency Fitch Ratings published its first rating of Schaeffler AG. Fitch assigned a rating of BBB- (investment grade) to Schaeffler AG with a stable outlook. The bonds were also rated BBB-. Thus, Schaeffler AG is now rated by three rating agencies – Fitch, Moody's, and Standard & Poor's.

Dividend – increase to 50 cents per common non-voting share

On April 26, 2017, Schaeffler AG's annual general meeting passed a resolution to pay a dividend of EUR 0.49 per common share (prior year: EUR 0.34; special dividend EUR 0.15) and EUR 0.50 per common non-voting share (prior year: EUR 0.35; special dividend EUR 0.15) to Schaeffler AG's shareholders for 2016. This represents a dividend of 34.1% of net income attributable to shareholders before special items, falling within the dividend payout ratio of 30 to 40% planned by the company.

Schaeffler accelerates transformation

The Schaeffler Group's Strategy Dialog held on July 10 to 13, 2017, was devoted to the necessary decisions on the direction to be taken with respect to certain strategic issues. One of these was the decision to create an independent E-Mobility business division bringing together all products and system solutions for hybrid and pure battery-electric vehicles as of January 01, 2018. Further, the company is setting up an additional competence center for E-Mobility in China, alongside the existing German E-Mobility competence center in Buehl, to accommodate the increasing importance of the Chinese market in the field of E-Mobility. In the Industrial division, the entire industry-specific business with mechatronic systems and digital services as well as the required related components have been combined in an independent organizational unit Industry 4.0 since January 01, 2018. The strategic decisions were made based on the model of an integrated automotive and industrial supplier and the company's strategy "Mobility for tomorrow" with its three key opportunities for the future – E-Mobility, Industry 4.0, and Digitalization.

Indian subsidiaries being merged

On August 30, 2017, the Schaeffler Group announced its intention to merge its three subsidiaries in India – Schaeffler India Ltd. (previously FAG Bearings India Ltd.), INA Bearings India Private Ltd., and LuK India Private Ltd. The merger is subject to the required local regulatory approvals and the consent of the minority shareholders. The transaction is expected to close in the third quarter of 2018. The objective of the transaction is to simplify the existing structure, reduce complexity, and create a strong Schaeffler entity in India in order to better realize the potential for future growth in India. Based on the strategy "Mobility for tomorrow" and the "Agenda 4 plus One" excellence program, the company is also taking another important step toward establishing the "Schaeffler" brand as a global umbrella brand and ensuring a uniform brand identity worldwide. The company will be known as "Schaeffler India Limited" and remain listed. The transaction increases Schaeffler AG's indirect interest in Schaeffler India Limited from currently approx. 51% to approx. 74%.

Schaeffler sets up third division

At its meeting on October 05, 2017, the Executive Committee of the Supervisory Board of Schaeffler AG accepted the proposal of the Board of Managing Directors to separate the Automotive Aftermarket from the Automotive division of Schaeffler AG and to set it up as a third stand-alone division as of January 01, 2018. As a consequence, the Schaeffler Group will divide its business into three divisions – Automotive OEM, Automotive Aftermarket, and Industrial.

On that basis, the Supervisory Board of Schaeffler AG decided to appoint Michael Söding to become member of the Board of Managing Directors of Schaeffler AG effective January 01, 2018. He has assumed responsibility for the Automotive Aftermarket business at board level. Previously, Michael Söding had been Head of Automotive Aftermarket within the Automotive division since 2009.

The three divisions of the Schaeffler Group will in future be managed from decentralized divisional headquarters located in Buehl, Langen, and Schweinfurt. The Automotive OEM division will be headquartered in Buehl. The new Automotive Aftermarket division will be managed from Langen. The Industrial division continues to be located in Schweinfurt. The corporate head office of the Schaeffler Group is in Herzogenaurach.

Investing in Aftermarket Kitting Operation (AKO)

In November 2017, the Board of Managing Directors of Schaeffler AG and its Supervisory Board approved a EUR 180 m investment to build a new state-of-the-art assembly and packaging center called "Aftermarket Kitting Operation" (AKO) in the "Star Park" industrial estate in the city of Halle (Saale) in Saxony-Anhalt. Occupying an area of about 40,000 square meters, the new facility will assemble and package kits from Schaeffler's inventory of automotive aftermarket spare parts and repair solutions. The new assembly and packaging center will further optimize the Schaeffler Group's Automotive Aftermarket processes and generate sustained improvements in quality of delivery.

Execution of M&A strategy continued

On October 04, 2017, the Schaeffler Group concluded a purchase agreement for 100% of the shares in autinity systems GmbH. The Chemnitz-based IT company specializes in digital machine data recording and evaluation. The acquisition represents another important step in implementing the Schaeffler Group's Digital Agenda and is part of the M&A strategy adopted by the company. The M&A strategy supports the strategy "Mobility for tomorrow" by targeting additional technological capabilities for Industrial and Automotive in seven strategic focus areas.

One year after acquiring a majority interest in Compact Dynamics GmbH, the Schaeffler Group acquired the remaining 49% interest in this company from SEMIKRON International GmbH on December 12, 2017. Compact Dynamics GmbH, based in Starnberg, 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. The acquisition expands Schaeffler's expertise in the field of electric motors and power electronics for developing and manufacturing electric drives.

Changes in Board membership

At its meeting on July 17, 2017, the Supervisory Board of Schaeffler AG appointed Dietmar Heinrich (previously Regional CEO Europe) to the Board of Managing Directors. On August 01, 2017, Dietmar Heinrich took up his role as Chief Financial Officer of Schaeffler AG, replacing Dr. Ulrich Hauck. The Supervisory Board also decided to extend the contract of Dr. Stefan Spindler, CEO Industrial, for a term of five years ending on April 30, 2023. Jürgen Ziegler was appointed to the Schaeffler Group's Executive Board effective August 01, 2017, succeeding Dietmar Heinrich as Regional CEO Europe.

In November 2017, Oliver Jung, Chief Operating Officer, informed the Supervisory Board that he will not renew the contract for his position on the Board of Managing Directors, which expires on September 30, 2018. The Supervisory Board took note of Oliver Jung's wish.

Results of operations compared to outlook 2017

Comparison to outlook 2017 No. 046

	Actual 2016	Outlook 2017	Actual 2017
Revenue growth [1]	3.4%	4 to 5%	5.9%
EBIT margin before special items [2]	12.7%	11 to 12% [3]	11.3%
Free cash flow	EUR 735 m	~ EUR 500 m [4]	EUR 488 m

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 60 et seq. for the definition of special items.
[3] Adjusted to 11 to 12% (original outlook 12 to 13%) on June 26, 2017.
[4] Adjusted to ~ EUR 500 m (original outlook ~ EUR 600 m) on June 26, 2017.

The Schaeffler Group had issued guidance regarding revenue growth of 4 to 5% for 2017, excluding the impact of currency translation. This guidance was based on the assumption that global automobile production would expand by approx. 1.5% and worldwide industrial production would grow slightly. Based on these considerations, the company expected to generate an EBIT margin before special items of 12 to 13%. In addition, the company expected approx. EUR 600 m in free cash flow. On June 26, 2017, the Board of Managing Directors decided to reduce its guidance for the EBIT margin before special items to 11 to 12% due to a substantially lower earnings development in the Automotive division in the second quarter of 2017 compared to the prior year. At the same time, the guidance for free cash flow was reduced from approx. EUR 600 m to approx. EUR 500 m. The company confirmed its revenue guidance.

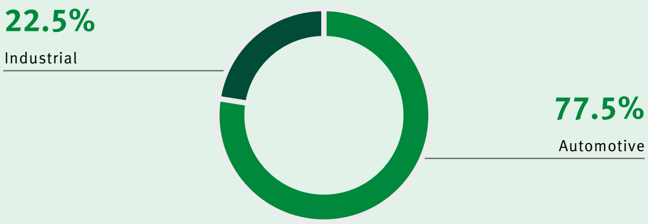
Excluding the impact of currency translation, the Schaeffler Group's revenue grew by 5.9% in 2017. Thus, the Schaeffler Group has exceeded its revenue target for 2017 of 4 to 5%. The Automotive division raised its revenue by 5.9% compared to the prior year, excluding the impact of currency translation. The Industrial division reported additional revenue of 5.7% excluding the impact of currency translation.

The EBIT margin before special items of 11.3% falls within the company's earnings guidance of 11 to 12% (previously 12 to 13%), which it had reduced on June 26, 2017.

Free cash flow for 2017 amounted to EUR 488 m, also reaching the outlook reduced to approx. EUR 500 m (previously approx. EUR 600 m) on June 26, 2017. Free cash flow included EUR 27 m in net cash outflow for M&A activities.

Schaeffler Group

Revenue EUR 14,021 m



EBIT margin before special items 11.3%

Positive revenue trend continued – revenue growth at 5.9% at constant currency // Both divisions contribute to the encouraging trend // Growth continues to gather momentum in the second half of the year – strong Q4 with growth of 8.5% at constant currency // Double-digit growth in the Greater China region in 2017 // EBIT before special items at EUR 1.6 bn // Earnings quality below prior year – both divisions' EBIT margins stabilized in the second half of 2017 // R&D activities expanded considerably // Earnings per common non-voting share increased to EUR 1.48 (prior year: EUR 1.30)

Schaeffler Group earnings No. 047

in € millions	2017	2016	Change in %
Revenue	**14,021**	**13,338**	**5.1**
• at constant currency			5.9
Revenue by division			
Automotive	10,869	10,338	5.1
• at constant currency			5.9
Industrial	3,152	3,000	5.1
• at constant currency			5.7
Revenue by region 1)			
Europe	7,183	7,077	1.5
• at constant currency			1.4
Americas	2,910	2,803	3.8
• at constant currency			4.6
Greater China	2,456	2,053	19.6
• at constant currency			24.1
Asia/Pacific	1,472	1,405	4.8
• at constant currency			5.6
Cost of sales	-10,175	-9,552	6.5
Gross profit	**3,846**	**3,786**	**1.6**
• in % of revenue	27.4	28.4	-
Research and development expenses	-846	-751	12.6
Selling and administrative expenses	-1,413	-1,343	5.2
Earnings before financial result and income taxes (EBIT)	**1,528**	**1,556**	**-1.8**
• in % of revenue	10.9	11.7	-
Special items 2)	56	144	-61.1
EBIT before special items	**1,584**	**1,700**	**-6.8**
• in % of revenue	11.3	12.7	-
Financial result	-192	-341	-43.7
Income taxes	-339	-343	-1.2
Net income 3)	980	859	14.1
Earnings per common non-voting share (basic/diluted, in €)	1.48	1.30	13.8

1) Based on market (customer location).
2) Please refer to pp. 60 et seq. for the definition of special items.
3) Attributable to shareholders of the parent company.

2.3 Earnings

Schaeffler Group earnings

The Schaeffler Group increased its revenue by 5.1% to EUR 14,021 m in 2017 (prior year: EUR 13,338 m). Excluding the impact of currency translation, revenue grew by 5.9%. Both divisions contributed to this encouraging performance. Thanks to the strong third and fourth quarters, the Automotive division generated 5.9% in additional revenue, excluding the impact of currency translation. The Industrial division grew its revenue by 5.7% excluding the impact of currency translation, reporting a growth rate excluding the impact of currency translation of 9.0% for the fourth quarter of 2017. These figures demonstrate that the Industrial division has returned to a long-term growth path.

All regions of the Schaeffler Group contributed to the increase in revenue in 2017. Revenue in the Europe region was up 1.5% (+1.4% at constant currency), with both divisions reporting similar growth rates. The Americas region reported growth of 3.8% (+4.6% at constant currency). Along with the Automotive business, the Industrial division's business also made a positive impact, growing again after declining in the prior year. The Greater China region once again reported the most dynamic growth in the reporting year. Revenue there was up 19.6% (+24.1% at constant currency) thanks to the encouraging performance of both divisions. The Asia/Pacific region generated a 4.8% revenue growth rate (+5.6% at constant currency) with the support of both divisions.

Cost of sales increased by 6.5% to EUR 10,175 m (prior year: EUR 9,552 m) during the year. Gross profit improved by 1.6% or EUR 60 m to EUR 3,846 m (prior year: EUR 3,786 m). The company's gross margin declined to 27.4% (prior year: 28.4%). Affected by the impact of sales prices and currency translation it could not fully offset, the Automotive division saw its gross margin fall to 27.2% (prior year: 28.5%). The gross margin of the Industrial division, on the other hand, rose to 28.3% (prior year: 27.9%), since a favorable volume impact more than offset the adverse impact of sales prices and currency translation.

Research and development expenses increased significantly by 12.6% to EUR 846 m in the reporting period (prior year: EUR 751 m), representing an R&D ratio of 6.0% (prior year: 5.6%) of revenue. Apart from inflation-related cost increases, the increase is especially attributable to a focused expansion of the headcount in connection with the strategic alignment of the company's research and development capacities in order to lay the foundation for future growth.

Selling and administrative expenses increased by 5.2% to EUR 1,413 m (prior year: EUR 1,343 m) in the reporting year, mainly due to higher selling expenses (+6.0%). These higher expenses resulted primarily from increased logistics expenses driven by rising volumes, due, among other things, to the significant expansion of the business in the Greater China region. Total functional costs rose by 7.9% to EUR 2,259 m (prior year: EUR 2,094 m), growing to 16.1% of revenue (prior year: 15.7%).

EBIT decreased by EUR 28 m or 1.8% to EUR 1,528 m (prior year: EUR 1,556 m) during the reporting period. The Schaeffler Group's EBIT margin was 10.9% (prior year: 11.7%). In 2017, the group's EBIT was adversely affected by EUR 56 m in special items (prior year: EUR 144 m), including EUR 17 m in special items for legal cases resulting from provisions for claims for damages. In addition, the company recognized EUR 39 m in restructuring expenses incurred to set up a shared service center in Europe in 2017. The prior year included EUR 86 m in special items for legal cases resulting from provisions for claims for damages in antitrust cases and for other compliance cases. The company also recognized restructuring expenses of EUR 45 m in connection with the second wave of the program "CORE" in the prior year. Additionally, the prior year was adversely affected by other special items of EUR 13 m resulting from streamlining the production portfolio. Based on these items, EBIT before special items declined to EUR 1,584 m (prior year: EUR 1,700 m) in 2017, and the EBIT margin before special items dropped to 11.3% (prior year: 12.7%). The decline was primarily due to the decrease in gross margin as described above and the significantly expanded R&D activities, mainly in the Automotive division. In addition, the EBIT margin was also affected by an adverse impact of currency translation.

The Schaeffler Group's financial result improved by EUR 149 m to EUR -192 m (prior year: EUR -341 m) in 2017.

Schaeffler Group financial result No. 048

in € millions	2017	2016
Interest expense on financial debt [1]	-123	-286
Interest income on shareholder loans	0	49
Gains and losses on derivatives and foreign exchange	-17	-33
Fair value changes on embedded derivatives	-14	-30
Interest income and expense on pensions and partial retirement obligations	-38	-45
Other	0	4
Total	**-192**	**-341**

[1] Incl. amortization of transaction costs and prepayment penalties.

Interest expense on financial debt amounted to EUR 123 m in 2017 (prior year: EUR 286 m) and included prepayment penalties of EUR 13 m (prior year: EUR 48 m) and EUR 5 m (prior year: EUR 31 m) in deferred transaction costs derecognized.

In 2016, IHO Verwaltungs GmbH prepaid its loans payable to Schaeffler AG in full. As a result, the Schaeffler Group no longer earned any interest income on loans to shareholders in 2017 (prior year: EUR 49 m).

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to EUR 17 m (prior year: EUR 33 m). These include the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross-currency swaps.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 14 m (prior year: EUR 30 m).

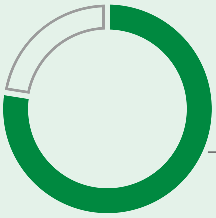
Income tax expense amounted to EUR 339 m in 2017 (prior year: EUR 343 m), resulting in an effective tax rate of 25.4% (prior year: 28.2%) The change compared to the prior year resulted primarily from lower non-deductible expenses of EUR 24 m (prior year: EUR 32 m) and from additional income tax benefits related to prior years of EUR 29 m (prior year: EUR 7 m). The U.S. tax reform had comparatively little impact on the Schaeffler Group's deferred taxes.

Net income attributable to shareholders of the parent company for 2017 was EUR 980 m (prior year: EUR 859 m). Net income before special items amounted to EUR 1,022 m (prior year: EUR 962 m). The Board of Managing Directors and the Supervisory Board will propose a dividend for 2017 of EUR 0.54 (prior year: EUR 0.49) per common share and EUR 0.55 (prior year: EUR 0.50) per common non-voting share to the annual general meeting. This represents a dividend of 35.4% (prior year: 34.1%) of net income attributable to shareholders before special items.

Basic and diluted earnings per common share increased to EUR 1.47 (prior year: EUR 1.29) in 2017. Basic and diluted earnings per common non-voting share amounted to EUR 1.48 (prior year: EUR 1.30). 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: 166 million), respectively.

Automotive division

Revenue EUR 10,869 m



77.5%
of group revenue

EBIT margin before special items 12.2%

Revenue up 5.9% at constant currency – strong Q3 and Q4 2017 // Growth driven by Automotive OEM as well as by Aftermarket business // Growth once again exceeds global automobile production // Revenue growth in all regions – China business maintains highly dynamic growth // Earnings quality below prior year // Higher expenses for R&D: activities for E-Mobility and for improving drives reducing fuel consumption and emissions expanded // Independent business division for E-Mobility starting January 01, 2018

Automotive division earnings No. 049

in € millions	2017	2016	Change in %
Revenue	**10,869**	**10,338**	**5.1**
• at constant currency			5.9
Revenue by business division			
BD Engine Systems	2,787	2,646	5.3
• at constant currency			6.7
BD Transmission Systems	4,620	4,346	6.3
• at constant currency			7.4
BD Chassis Systems	1,588	1,533	3.6
• at constant currency			4.2
BD Automotive Aftermarket	1,874	1,813	3.4
• at constant currency			3.2
Revenue by region [1]			
Europe	5,380	5,305	1.4
• at constant currency			1.3
Americas	2,335	2,242	4.1
• at constant currency			4.9
Greater China	1,984	1,675	18.4
• at constant currency			22.9
Asia/Pacific	1,170	1,116	4.8
• at constant currency			5.8
Cost of sales	-7,915	-7,389	7.1
Gross profit	**2,954**	**2,949**	**0.2**
• in % of revenue	27.2	28.5	-
Research and development expenses	-713	-618	15.4
Selling and administrative expenses	-908	-833	9.0
EBIT	**1,283**	**1,373**	**-6.6**
• in % of revenue	11.8	13.3	-
Special items [2]	47	108	-56.5
EBIT before special items	**1,330**	**1,481**	**-10.2**
• in % of revenue	12.2	14.3	-

Prior year information presented based on 2017 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 60 et seq. for the definition of special items.

Automotive division earnings

Automotive division revenue increased by 5.1% to EUR 10,869 m (prior year: EUR 10,338 m) in 2017. Excluding the impact of currency translation, the growth rate was 5.9%. Thus, in 2017, the division once again expanded faster than the market, i.e. global production volumes for passenger cars and light commercial vehicles, which grew by 2.1% in 2017. This expansion was largely attributable to encouragingly dynamic growth in the second half of 2017, driven by both the Automotive OEM and the Aftermarket business.

Overall, revenue trends varied widely across market regions in 2017. The Europe region reported slight revenue growth of 1.4% (+1.3% at constant currency), less than average regional growth in production volumes (+3.9%). The Americas region reported 4.1% (+4.9% at constant currency) in additional revenue, growing faster than regional vehicle production, which declined by 0.9%. The Automotive division once again significantly expanded its revenue in the Greater China region, especially due to product ramp-ups in the Automotive OEM business. The Automotive division generated a total of 18.4% (+22.9% at constant currency) in additional revenue in Greater China, while regional vehicle production increased by 2.6%. Reasons for the increase Asia/Pacific region revenue by 4.8% (+5.8% at constant currency) included product ramp-ups, with vehicle production there rising by 2.1%.

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 2017.

The **Engine Systems BD** generated revenue growth of 5.3% (+6.7% at constant currency) in 2017, largely driven by the valve train product groups, mainly fully variable valve train systems (primarily Multiair). The camshaft phasing units product group also saw significant increases, especially for electric phasing systems. In addition, the innovative thermal management module, which is required in both internal combustion engines and future mobility concepts, also performed very well.

Transmission Systems BD revenue rose by 6.3% (+7.4% at constant currency), with revenue from components for automated transmissions, such as torque converters and dual clutches, generating double-digit growth rates. Revenue in the dual-mass flywheel product group was up significantly as well. The business division's growth was primarily driven by product ramp-ups in the Greater China region.

The **Chassis Systems BD** generated revenue growth of 3.6% (+4.2% at constant currency) mainly based on the solid growth in revenue from the newest generation of wheel bearings in the Greater China region.

The **Automotive Aftermarket BD** increased revenue by 3.4% (+3.2% at constant currency) in 2017, mainly due to increased requirements in the independent aftermarket in the Americas region.

Cost of sales rose by 7.1% to EUR 7,915 m (prior year: EUR 7,389 m) in 2017, growing faster than revenue. Gross profit amounted to EUR 2,954 m (prior year: EUR 2,949 m). The gross margin declined by 1.3 percentage points to 27.2% (prior year: 28.5%), mainly due to adverse pricing effects, which could not be compensated by corresponding production cost optimization.

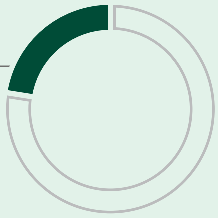
Functional costs increased by 11.7% to EUR 1,621 m (prior year: EUR 1,451 m), rising to 14.9% of revenue (prior year: 14.0%). The main driver of this increase was the rise in research and development expenses by 15.4% to EUR 713 m (prior year: EUR 618 m) or 6.6% (prior year: 6.0%) of revenue. Apart from the increased activities in the field of E-Mobility, which has already won several volume production orders, the higher research and development expenses also reflect projects aimed at further optimizing the drive train based on an internal combustion engine. Selling and administrative expenses of EUR 908 m were 9.0% ahead of prior year (prior year: EUR 833 m). The increase is primarily the result of higher logistics expenses driven by higher volumes that were mainly attributable to significantly expanded business in the Greater China region.

EBIT for the reporting period amounted to EUR 1,283 m (prior year: EUR 1,373 m), and the division's EBIT margin was 11.8% (prior year: 13.3%). In 2017, the division's EBIT was adversely affected by EUR 47 m in special items (prior year: EUR 108 m), including EUR 17 m in special items for legal cases resulting from provisions for claims for damages. In addition, the division recognized its share of restructuring expenses incurred to set up a shared service center in Europe amounting to EUR 30 m in 2017. The prior year included EUR 82 m in special items for legal cases resulting from provisions for claims for damages in antitrust cases and for other compliance cases. Furthermore, EUR 13 m in expenses relating to the Automotive division in connection with the second wave of the program "CORE" (consolidation of shared functions and plant structures) were recognized in the prior year. Additionally, the prior year was adversely affected by other special items of EUR 13 m resulting from streamlining the production portfolio. Based on these items, EBIT before special items declined to EUR 1,330 m (prior year: EUR 1,481 m) in 2017, and the EBIT margin before special items fell to 12.2% (prior year: 14.3%). Apart from the lower gross margin, reasons for the decline include rising R&D costs and other expenses. E-Mobility R&D activities were expanded considerably in order to lay the foundation for future growth. The EBIT margin was also affected by an adverse impact of currency translation.

Industrial division

Revenue EUR 3,152 m

22.5%
of group revenue



EBIT margin before special items 8.1%

Industrial division back on long-term growth path: revenue increases by 5.7% at constant currency – growth rate for Q4 at 9.0% // Mainly driven by power transmission, offroad, and raw materials sector clusters // Significant additional revenue in the Greater China region // Margins stabilized further – gross and EBIT margins increased over prior year // Cost and efficiency measures are consistently executed and proving effective

Industrial division earnings No. 050

in € millions	2017	2016	Change in %
Revenue	**3,152**	**3,000**	**5.1**
• at constant currency			5.7
Revenue by region [1]			
Europe	1,803	1,772	1.8
• at constant currency			1.7
Americas	575	561	2.5
• at constant currency			3.3
Greater China	472	378	24.9
• at constant currency			29.3
Asia/Pacific	302	289	4.5
• at constant currency			4.9
Cost of sales	-2,260	-2,163	4.5
Gross profit	**892**	**837**	**6.6**
• in % of revenue	28.3	27.9	-
Research and development expenses	-133	-133	0.0
Selling and administrative expenses	-505	-510	-1.0
EBIT	245	**183**	**33.9**
• in % of revenue	7.8	6.1	-
Special items [2]	9	36	-75.0
EBIT before special items	**254**	**219**	**16.0**
• in % of revenue	8.1	7.3	-

Prior year information presented based on 2017 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 60 et seq. for the definition of special items.

Industrial division earnings

Industrial division revenue increased by 5.1% to EUR 3,152 m (prior year: EUR 3,000 m) in 2017. Excluding the impact of currency translation, the division generated 5.7% in additional revenue and has thus returned to a growth path. This growth was mainly driven by significant increases in the power transmission, offroad, and raw materials sector clusters, all three of which reported double-digit growth rates. The industrial automation and Industrial Distribution sector clusters also made significant contributions to the division's growth, while revenue in the aerospace and railway sector clusters grew slightly. The two-wheelers and wind sector clusters, however, experienced declining revenue.

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.

In the **Europe region,** revenue rose by 1.8% (+1.7% at constant currency), mainly due to higher sales in Industrial Distribution. The raw materials, offroad, power transmission, and industrial automation sector clusters also reported considerably higher revenue. Revenue in the wind, aerospace, and railway sector clusters, however, declined from the prior year period. The two-wheelers sector cluster was flat with prior year.

The **Americas region** reported a considerable increase in revenue of 2.5% (+3.3% at constant currency) during the reporting period. This trend was primarily driven by double-digit revenue growth rates in the raw materials, offroad, and power transmission sector clusters. The aerospace sector cluster and Industrial Distribution generated revenue growth as well. The railway, wind, two-wheelers, and industrial automation sectors experienced declining revenue in 2017.

The **Greater China region** reported significant revenue growth of 24.9% (+29.3% at constant currency), with all significant sector clusters reporting double-digit growth rates. The region's encouraging revenue trend was bolstered significantly by considerable increases in demand in the power transmission, wind, industrial automation, railway, and raw materials sector clusters. Industrial Distribution revenue was in line with prior year.

In the **Asia/Pacific region,** revenue increased by 4.5% (+4.9% at constant currency), driven, in particular, by the aerospace, offroad, and power transmission sector clusters. The sector clusters railway, industrial automation and two-wheelers, and industrial distribution generated revenue growth as well. The significant decrease in demand in the raw materials sector cluster had an adverse influence on the region's revenue trend.

Industrial division cost of sales increased by 4.5% to EUR 2,260 m (prior year: EUR 2,163 m), growing less than revenue. In total, the Industrial division improved its gross profit by EUR 55 m or 6.6% to EUR 892 m (prior year: EUR 837 m). The division's gross margin of 28.3% was 0.4 percentage points ahead of the prior year level (prior year: 27.9%). The division offset price reductions as well as cost increases, primarily due to collectively bargained wage and salary increases, with operational improvements in costs and economies of scale. The fourth quarter of 2017 was adversely affected by quality-related expenses and by temporary productivity losses resulting from extremely high utilization of capacity. The division plans to step up its investments in additional capacity in 2018.

Functional costs of EUR 638 m (prior year: EUR 643 m) were slightly below the prior year level. Functional costs as a percentage of revenue fell to 20.2% (prior year: 21.4%). Research and development expenses amounted to EUR 133 m (prior year: EUR 133 m), and selling and administrative expenses were EUR 505 m (prior year: EUR 510 m). The cost reduction measures of the program "CORE" more than offset inflation-related cost increases, particularly in personnel expenses, as well as higher group overheads.

The Industrial division increased its EBIT for 2017 to EUR 245 m (prior year: EUR 183 m), while its EBIT margin stabilized further, improving by 1.7 percentage points to 7.8% (prior year: 6.1%). EBIT was adversely affected by EUR 9 m in special items representing the Industrial division's share of restructuring expenses incurred to set up a shared service center in Europe in 2017. The prior year was adversely affected by EUR 36 m in special items, 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 had recognized EUR 4 m in expenses for legal cases in the prior year. Based on these items, EBIT before special items improved to EUR 254 m (prior year: EUR 219 m) in 2017, and the EBIT margin before special items increased to 8.1% (prior year: 7.3%). The increase was the result of an increase in gross profit as described above and the success of the program "CORE", with cost and efficiency measures consistently executed and beginning to prove effective for the long-term. Currency translation had an adverse effect on the division's EBIT margin, however.

Performance indicators and special items

Reconciliation No. 051

	2017	2016	2017	2016	2017	2016
Income statement (in € millions)		Total		Automotive		Industrial
EBIT	**1,528**	**1,556**	**1,283**	**1,373**	**245**	**183**
• in % of revenue	10.9	11.7	11.8	13.3	7.8	6.1
Special items	**56**	**144**	**47**	**108**	**9**	**36**
• Legal cases	17	86	17	82	0	4
• Restructuring	39	45	30	13	9	32
• Other	0	13	0	13	0	0
EBIT before special items	**1,584**	**1,700**	**1,330**	**1,481**	**254**	**219**
• in % of revenue	11.3	12.7	12.2	14.3	8.1	7.3
EBITDA	**2,295**	**2,293**				
Special items	**56**	**144**				
• Legal cases	17	86				
• Restructuring	39	45				
• Other	0	13				
EBITDA before special items	**2,351**	**2,437**				
Net income [1]	**980**	**859**				
Special items	**56**	**144**				
• Legal cases	17	86				
• Restructuring	39	45				
• Other	0	13				
– Tax effect [2]	-14	-41				
Net income before special items [1]	**1,022**	**962**				
Statement of financial position (in € millions)	**12/31/2017**	**12/31/2016**				
Net financial debt	2,370	2,636				
/ EBITDA	2,295	2,293				
Net financial debt to EBITDA ratio	**1.0**	**1.1**				
Net financial debt	2,370	2,636				
/ EBITDA before special items	2,351	2,437				
Net financial debt to EBITDA ratio before special items	**1.0**	**1.1**				
Value-based management (in € millions)	**2017**	**2016**				
EBIT	1,528	1,556				
/ Average capital employed	7,966	7,613				
ROCE (in %)	**19.2**	**20.4**				
EBIT before special items	1,584	1,700				
/ Average capital employed	7,966	7,613				
ROCE before special items (in %)	**19.9**	**22.3**				
EBIT	1,528	1,556				
– Cost of capital	797	761				
Schaeffler Value Added (SVA)	**731**	**795**				
EBIT before special items	1,584	1,700				
– Cost of capital	797	761				
SVA before special items	**787**	**939**				

[1] Attributable to shareholders of the parent company.
[2] Based on the group's effective tax rate for the relevant year.

The information on the Schaeffler Group's earnings, net assets, and financial position is based on the requirements of International Financial Reporting Standards (IFRS) and, where applicable, German commercial law and German Accounting Standards (GAS).

In addition to the disclosures required by these standards, the Schaeffler Group also discloses certain performance indicators that are not defined in the relevant financial reporting standards. The company presents these measures in accordance with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority, ESMA. Therefore, these indicators should be considered supplementary information. They are designed to provide comparability over time and across sectors and are calculated by making certain adjustments to, or calculating ratios between, line items contained in the income statement, statement of financial position, or statement of cash flows prepared in accordance with applicable financial reporting standards.

Performance indicators

These performance indicators include EBIT, EBITDA, the net debt to EBITDA ratio, ROCE, and SVA. The key indicators used in evaluating the company's operations are EBIT and the EBIT margin. **EBIT** is defined as earnings before financial result and income taxes. The EBIT margin represents EBIT as a percentage of revenue. In addition to EBIT, the company calculates **EBITDA,** which represents EBIT before amortization of intangible assets, depreciation of property, plant and equipment, and impairment losses. It is primarily used to calculate the **net 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 **ROCE** as well as **SVA,** which is closely linked to ROCE.

More on ROCE and SVA on pp. 30 et seq.

The Schaeffler Group also calculates certain additional performance measures not defined in the relevant financial reporting standards. These are defined and discussed in the relevant chapters.

Special items

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 (=adjusted). 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 dividend 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.

Special items are categorized as legal cases, restructuring, and other.

2.4 Financial position and finance management

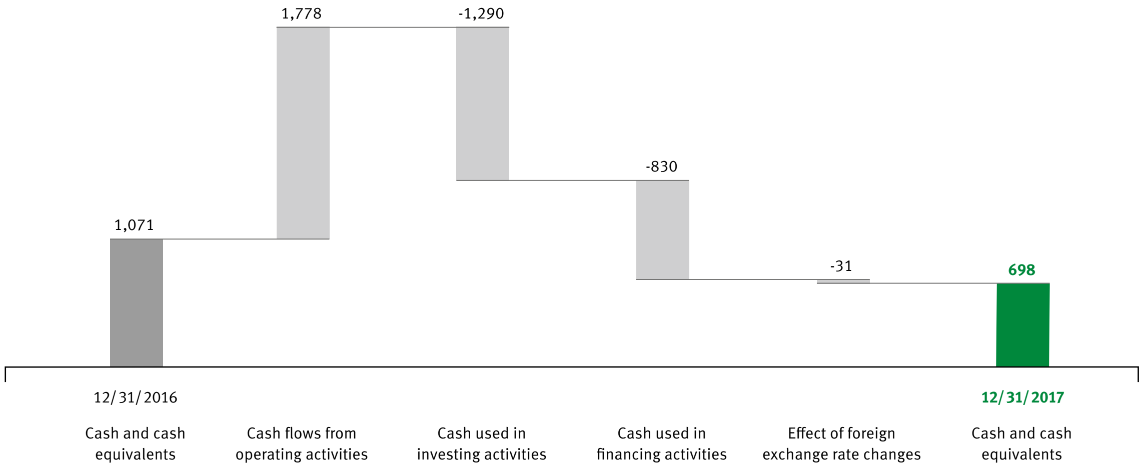
Cash flow and liquidity

The Schaeffler Group generated free cash flow of EUR 488 m (prior year: EUR 735 m) in 2017.

Cash flow No. 052

in € millions	2017	2016	Change in %
Cash flows from operating activities	1,778	1,876	-5.2
Cash used in investing activities	-1,290	-1,141	13.1
Free cash flow	**488**	**735**	**-33.6**
Cash used in financing activities	-830	-466	78.1
Net increase (decrease) in cash and cash equivalents	**-342**	**269**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents	-31	3	-
Cash and cash equivalents as at beginning of period	1,071	799	34.0
Cash and cash equivalents	**698**	**1,071**	**-34.8**

Change in cash and cash equivalents No. 053
in € millions



Cash flow from operating activities for 2017 declined by EUR 98 m to EUR 1,778 m (prior year: EUR 1,876 m), adversely affected by non-persistent cash outflows related to legal cases and restructuring. In addition, the prior year included interest received on a loan receivable by Schaeffler AG from IHO Verwaltungs GmbH. Since the loan was repaid in full in 2016, no such interest was received in 2017. Cash outflows related to expanding working capital amounted to EUR 31 m and were slightly higher than the prior year amount of EUR 22 m. The significant increase in inventories was partially offset by a reduction in trade receivables under a receivable sale program. Sales of receivables resulted in a cash inflow of EUR 150 m. The working capital ratio, defined as working capital as a percentage of revenue, was 19.0% at December 31, 2017 (prior year: 20.3%).

Capital expenditures on property, plant and equipment and intangible assets (capex) amounted to EUR 1,273 m (prior year: EUR 1,146 m) in 2017.

In addition, the acquisition of Compact Dynamics GmbH and autinity systems GmbH resulted in a cash outflow of EUR 47 m, while the disposals of Schaeffler Motorenelemente AG & Co. KG and the fine blanking activities in Switzerland led to a cash inflow of EUR 20 m. Thus, net cash outflow for M&A activities amounted to EUR 27 m in 2017.

These developments resulted in **free cash flow** for 2017 of EUR 488 m (prior year: EUR 735 m).

EUR 830 m in cash was used in **financing activities** (prior year: EUR 466 m) during the year. EUR 328 m of the EUR 330 m in dividends paid during the year represented the dividends paid to Schaeffler AG's shareholders. A total of EUR 587 m in cash was used to redeem a USD bond and to terminate the related cross-currency derivatives in May 2017. EUR 350 m of the Revolving Credit Facility (RCF) was utilized in connection with these transactions, but was repaid in full by year-end. A new EUR 250 m loan agreement obtained to finance long-term logistics projects resulted in a cash inflow to the Schaeffler Group of EUR 90 m (prior year: EUR 0 m).

Cash and cash equivalents decreased by EUR 373 m to EUR 698 m as at December 31, 2017 (prior year: EUR 1,071 m).

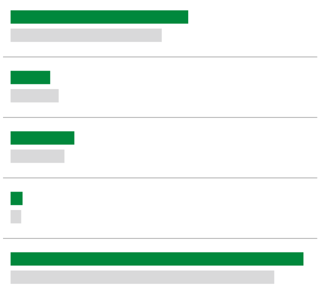
At December 31, 2017, cash and cash equivalents consisted primarily of bank balances. EUR 293 m (prior year: EUR 325 m) of this amount related to countries with foreign exchange restrictions and other legal restrictions. In addition, the Schaeffler Group has a Revolving Line of Credit of EUR 1.3 bn (prior year: EUR 1.3 bn), of which EUR 12 m (prior year: EUR 13 m) were utilized at December 31, 2017, primarily in the form of letters of credit.

Capital expenditures

The Schaeffler Group's growth strategy is based, among other things, on investments in new products and technologies as well as in expanding the group's global production network. Investing in intangible assets and property, plant and equipment is key to driving the Schaeffler Group's growth.

The Schaeffler Group increased its capital expenditures on property, plant and equipment and intangible assets (capex) by 11.1% to EUR 1,273 m (prior year: EUR 1,146 m) in 2017. Capital expenditures amounted to 9.1% (prior year: 8.6%) of revenue (capex ratio). By far the largest share of total capital expenditures related to the Europe and Greater China regions.

Capital expenditures by region (capex) No. 054



	in € millions	Change in € millions
Europe	**772** 657	+115
Americas	**172** 209	-37
Greater China	**277** 234	+43
Asia/Pacific	**52** 46	+6
Schaeffler Group	**1,273** 1,146	+127

2017 2016

Regions reflect the regional structure of the Schaeffler Group.

Total additions to intangible assets and property, plant and equipment amounted to EUR 1,287 m (prior year: EUR 1,115 m). Approx. 81% of these additions related to the Automotive division and approx. 19% to the Industrial division. In order to strengthen its competitive position, the Schaeffler Group primarily invested in strategically aligning its logistics activities, expanding capacity, and in equipment and machinery for product start-ups.

In the Europe region, the company decided to make a significant investment by building a state-of-the-art integrated assembly and packaging center known as "Aftermarket Kitting Operation" (AKO) in Saxony-Anhalt near Halle (Saale). The new assembly and packaging center will further optimize the Schaeffler Group's Automotive Aftermarket processes and generate sustained improvements in quality of delivery. Another significant element of the strategic alignment of the group's logistics activities is the central distribution center "EDC Central" (Kitzingen), which forms part of the "European Distribution Center" (EDC) project. Construction in Kitzingen is nearly complete.

More on AKO and EDC on page 20

Apart from these projects, the company invested mainly in equipment and machinery for new product start-ups in the Europe region. For instance, the first assembly lines for electric axles and hybrid modules were set up in Herzogenaurach. The group also continued to expand its production capacity at the Central and Eastern European production plants. For instance, a new plant was opened in Svitavy, Czech Republic, in 2017. The plant focuses on manufacturing thermal management modules for applications in both internal combustion engines and future mobility concepts.

In the **Americas region,** the Schaeffler Group invested especially in expanding capacity and in equipment and machinery for new product start-ups of future electrified drive concepts. The recent addition of new capacity at the Wooster location in the U.S. permits the Schaeffler Group to continue to meet the high demand for components for automatic transmissions, torque converters, and torque converter lockup clutches in addition to producing hybrid modules. In Puebla, Mexico, the Schaeffler Group primarily invested in expanding capacity for continuously variable transmissions (CVT) as well as torque converters, and torque converter lockup clutches. At the Irapuato location in Mexico, investments mainly related to expanding production capacities and new product start-ups.

In the **Greater China region,** the company made targeted investments in expanding capacity and to realize new product start-ups in the Automotive division. Significant investments related to the Engine and Transmission Systems business divisions, mainly for products that form part of the strategy "Mobility for tomorrow". Key investments in the Industrial division were made to expand production and logistics capacities for the standard rolling bearing business to be able to optimally meet the continuing high demand in the high-volume business.

In the **Asia/Pacific region,** the Schaeffler Group invested primarily in the production locations in South Korea, Vietnam, and Thailand. In South Korea, apart from replacements in the standard rolling bearing business of the Industrial division, the company mainly invested in equipment and machinery for new product start-ups in the Automotive division. In addition, a new plant to produce rolling bearings is under construction in Vietnam. It will expand the range of radial insert ball bearings for industrial customers. In Thailand, the Schaeffler Group invested mainly in new product start-ups in the Transmission Systems business division.

Financial debt

The group's net financial debt decreased by EUR 266 m to EUR 2,370 m (prior year: EUR 2,636 m) in 2017.

Net financial debt No. 055

in € millions	12/31/2017	12/31/2016	Change in %
Bonds	1,994	2,719	-26.7
Facilities Agreement	983	982	0.1
Capital investment loan	89	0	-
Other financial debt	2	6	-66.7
Total financial debt	**3,068**	**3,707**	**-17.2**
Cash and cash equivalents	698	1,071	-34.8
Net financial debt	**2,370**	**2,636**	**-10.1**

The net debt to EBITDA ratio, defined as the ratio of net financial debt to earnings before financial result, income taxes, depreciation, amortization, and impairment losses (EBITDA), amounted to 1.0 at December 31, 2017 (prior year: 1.1). The net debt to EBITDA ratio before special items was 1.0 (prior year: 1.1).

The gearing ratio, the ratio of net financial debt to shareholders' equity including non-controlling interests, decreased to 93.0% as at December 31, 2017 (prior year: 132.0%).

On May 24, 2017, the Schaeffler Group fully redeemed the bond with a principal of USD 700 m, a coupon of 4.25%, and an original maturity of May 2021. The redemption was funded using available liquidity and by utilizing EUR 350 m of the Revolving Credit Facility. On November 23, 2017, the Schaeffler Group reduced the amount drawn under the Revolving Credit Facility to a remaining balance of EUR 150 m by repaying EUR 200 m from available liquidity. On December 27, 2017, the Schaeffler Group repaid the remaining balance of EUR 150 m outstanding under the Revolving Credit Facility in full.

On December 15, 2017, Schaeffler AG signed a loan agreement to finance long-term logistics projects. These logistics projects, which form part of the "European Distribution Center" (EDC) project, are the central distribution center "EDC Central" (Kitzingen) and the European assembly and packaging center known as "Aftermarket Kitting Operation (AKO)". The total amount of the loan is EUR 250 m, of which EUR 90 m (prior year: EUR 0 m) were drawn as at December 31, 2017. The loan has a term until 2022 plus certain renewal options.

On April 25, 2017, rating agency Fitch Ratings published its first rating of Schaeffler AG. Fitch assigns a rating of BBB- (investment grade) to Schaeffler AG with a stable outlook. The bonds were assigned an issuance rating of BBB-, the same as the company rating.

Rating agency Standard & Poor's raised the outlook for the company's rating from stable to positive on September 26, 2017. The following summary shows the ratings assigned to the Schaeffler Group by the three rating agencies Fitch, Moody's, and Standard & Poor's as at December 31:

Schaeffler Group ratings No. 056
as at December 31

	2017	2016	2017	2016
	Company		Bonds	
Rating agency	Rating/Outlook		Rating	
Fitch	BBB-/stable	-	BBB-	-
Moody's	Baa3/stable	Baa3/stable	Baa3	Baa3
Standard & Poor's	BB+/positive	BB+/stable	BB+	BB+

The Schaeffler Group had the following loans outstanding at December 31, 2017:

Schaeffler Group loans No. 057

Tranche	Currency	Principal in millions 12/31/2017	Principal in millions 12/31/2016	Carrying amount in € millions 12/31/2017	Carrying amount in € millions 12/31/2016	Coupon 12/31/2017	Coupon 12/31/2016	Maturity
Term Loan	EUR	1,000	1,000	991	992	Euribor [1] + 1.20%	Euribor [1] + 1.20%	07/18/2021
Revolving Credit Facility [2]	EUR	1,300	1,300	-8	-10	Euribor [1] + 0.80%	Euribor [1] + 0.80%	07/18/2021
Capital investment loan [3]	EUR	250	0	89	0	Euribor [1] + 1.00%	n/a	12/15/2022
Total				**1,072**	**982**			

[1] Euribor floor of 0.00%.
[2] EUR 12 m (December 31, 2016: EUR 13 m) were drawn down as at December 31, 2017, primarily in the form of letters of credit.
[3] EUR 90 m (December 31, 2016: EUR 0 m) were drawn down as at December 31, 2017.

In addition, the Schaeffler Group had further committed lines of credit in the equivalent of approx. EUR 154 m (prior year: approx. EUR 160 m), primarily for the U.S. and China. Approx. EUR 111 m (prior year: approx. EUR 160 m) of these committed facilities were unutilized at December 31, 2017.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at December 31, 2017. All Schaeffler bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange.

Schaeffler Group bonds No. 058

ISIN	Currency	Principal in millions 12/31/2017	Principal in millions 12/31/2016	Carrying amount in € millions 12/31/2017	Carrying amount in € millions 12/31/2016	Coupon	Maturity
XS1212469966	EUR	400	400	398	397	2.50%	05/15/2020
US806261AJ29 [1)]	USD	0	700	0	658	4.25%	05/15/2021
XS1067864022	EUR	500	500	498	498	3.50%	05/15/2022
US806261AM57	USD	600	600	502	571	4.75%	05/15/2023
XS1212470972	EUR	600	600	596	595	3.25%	05/15/2025
Total				**1,994**	**2,719**		

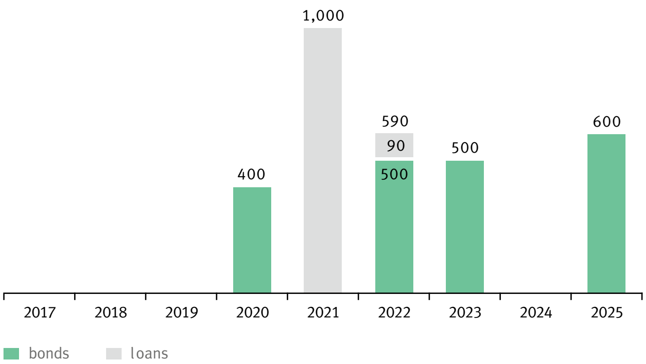
1) Redeemed in full on May 24, 2017.

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. Compliance with this financial covenant is monitored continually and reported to the lending banks on a regular basis. As in the prior year, the company has complied with the leverage covenant throughout 2017 as stipulated in the debt agreements.

The company's maturity profile, which consists of the term loan, the capital investment loan, and the bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, was as follows as at December 31, 2017:

Maturity profile No. 059

Principal outstanding as at December 31, 2017, in € millions



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. To this end, the company particularly intends to maintain the investment grade rating it initially gained in 2016 for the long-term.

External group financing is primarily provided by money and capital market instruments as well as syndicated and bilateral lines of credit from international banks. One such line of credit is a contractually agreed RCF of EUR 1,300 m available to cover any short- to medium-term liquidity needs. In addition, the Schaeffler Group uses receivable sale programs to a limited extent to manage liquidity and improve its working capital. For this purpose, the company has access to an ABCP program (asset-backed commercial paper) of revolving sales of trade receivables with a committed volume of EUR 150 m (prior year: EUR 0 m). Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

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 had EUR 11,537 m in **total assets** as at December 31, 2017 (prior year: EUR 11,564 m).

Consolidated statement of financial position (abbreviated) No. 060

in € millions	12/31/2017	12/31/2016	Change in %
ASSETS			
Total non-current assets	6,178	5,979	3.3
Total current assets	5,359	5,585	-4.0
Total assets	**11,537**	**11,564**	**-0.2**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Total shareholders' equity	2,548	1,997	27.6
Total non-current liabilities	5,676	6,361	-10.8
Total current liabilities	3,313	3,206	3.3
Total shareholders' equity and liabilities	**11,537**	**11,564**	**-0.2**

Non-current assets rose by EUR 199 m to EUR 6,178 m as at December 31, 2017 (prior year: EUR 5,979 m), primarily due to an increase in property, plant and equipment of EUR 358 m. Additions to intangible assets and property, plant and equipment amounted to EUR 1,287 m and were partially offset by the termination of the cross-currency swaps in connection with the bond redemption as well as negative changes in the fair value of the remaining non-current derivatives. In addition, deferred tax assets dropped by EUR 80 m; reasons for the decline include the bond redemption and a slight increase in the discount rate for pension obligations.

Current assets decreased by EUR 226 m to EUR 5,359 m (prior year: EUR 5,585 m) in 2017. The decrease was largely attributable to the reduction in cash and cash equivalents (see "Cash flow", pp. 61 et seq.). Trade receivables decreased by EUR 26 m in 2017. At December 31, 2017, trade receivables with a carrying amount of EUR 123 m (prior year: EUR 0 m) net of retained default risks had been sold under the ABCP program. The decrease was partially offset by an increase in inventories and favorable changes in the fair value of derivatives used to hedge currency risk.

Shareholders' equity including non-controlling interests rose by EUR 551 m to EUR 2.548 m as at December 31, 2017 (prior year: EUR 1,997 m). Net income of EUR 997 m increased shareholders' equity. The increase was partially offset by EUR 328 m in dividends paid to Schaeffler AG's shareholders. Other comprehensive loss totaled EUR 116 m as at December 31, 2017, and consisted mainly of the impact of translating the net assets of foreign group companies (EUR -247 m), of remeasurements of pensions and similar obligations (EUR 81 m), and of cash flow hedges (EUR 50 m). The equity ratio was 22.1% at December 31, 2017 (December 31, 2016: 17.3%).

Non-current liabilities declined by EUR 685 m to EUR 5,676 m as at December 31, 2017 (prior year: EUR 6,361 m). The decline was largely due to the redemption of the USD bond in May 2017. The decrease in provisions for pensions and similar obligations by EUR 58 m, which resulted primarily from a slight increase in the average discount rate to 2.2% (December 31, 2016: 2.1%), and a decrease in other financial liabilities also contributed to the decline. These decreases were partially offset by a new capital investment loan of EUR 90 m and an increase in provisions, including EUR 39 m related to setting up a shared service center in Europe.

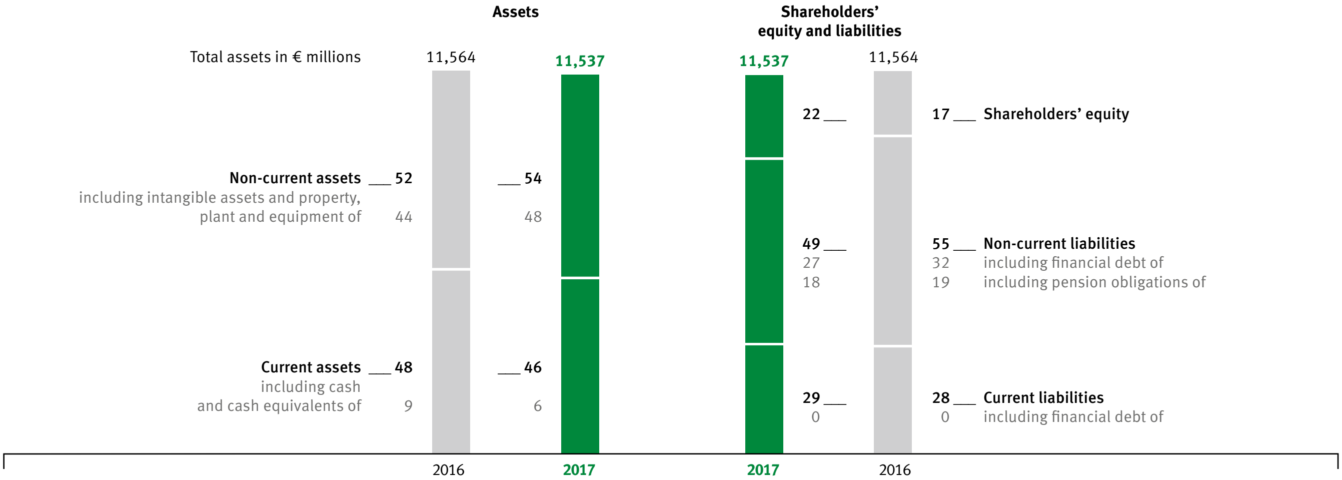
Current liabilities increased by EUR 107 m to EUR 3,313 m (prior year: EUR 3,206 m) as at December 31, 2017. The increase was largely attributable to higher trade payables, partially offset by reductions in other provisions and in restructuring provisions.

The acquisitions and disposals of companies had no significant impact on the Schaeffler Group's net assets and capital structure in the reporting year.

The Schaeffler Group's significant off-balance sheet commitments include obligations under operating rental and lease agreements and contingent liabilities. The Schaeffler Group's

Structure of the consolidated statement of financial position No. 061

in %



obligations under non-cancelable operating rental and lease agreements totaled EUR 133 m at December 31, 2017 (prior year: EUR 123 m); obligations under finance leases were insignificant.

2.6 Overall assessment of the 2017 business year

The Board of Managing Directors considers 2017 a satisfactory year overall. In a highly dynamic market and competitive environment, which is profoundly changing the Automotive as well as the Industrial business, the Schaeffler Group generated **revenue growth** of 5.9% excluding the impact of currency translation in 2017, exceeding its guidance for the year of 4 to 5% (at constant currency). The positive growth trend in the latter half of the year was particularly encouraging. Both of the company's divisions contributed to this encouraging performance. While Automotive division revenue increased by 5.9% excluding the impact of currency translation in 2017, thus once again outperforming global automobile production, the Industrial division grew its revenue by 5.7% excluding the impact of currency translation. In the fourth quarter of 2017, the Industrial division expanded by 9.0% excluding the impact of currency translation. These figures demonstrate that the Industrial division has returned to a long-term growth path.

However, the company's original expectations for the EBIT margin before special items and free cash flow were not met. On June 26, 2017, the Board of Managing Directors of Schaeffler AG decided to reduce its guidance for the EBIT margin before special items from previously 12 to 13% to 11 to 12% due to a substantially lower earnings development in the Automotive division in the second quarter of 2017 compared to the prior year. At the same time, the guidance for free cash flow was reduced from previously approx. EUR 600 m to approx. EUR 500 m. The Schaeffler Group met the amended earnings guidance by generating an **EBIT margin before special items** of 11.3%. While the Automotive division's EBIT margin before special items declined to 12.2% this year, due to lower earnings in the Automotive division compared to the prior year, the Industrial division reported an increase in its EBIT margin before special items to 8.1%. The measures taken under the program "CORE" to improve efficiency and reduce costs are beginning to prove effective for the long-term.

The Schaeffler Group generated **free cash flow** of EUR 488 m, achieving the amended guidance of approx. EUR 500 m. The strategic indicator Schaeffler Value Added before special items **(SVA),** which serves as an indicator of the amount of shareholder value added during the year, amounted to EUR 787 m in 2017 (prior year: EUR 939 m), representing a return on capital employed **(ROCE)** before special items of 19.9% (prior year: 22.3%).

The company continued to execute its strategy "Mobility for tomorrow" in 2017. Its "Agenda 4 plus One" excellence program and its 20 initiatives have laid the foundation to make the Schaeffler Group even more future-proof. Like any transformation program, the "Agenda 4 plus One" will initially result in one-time charges and investments that will impact the company's earnings, including in 2018. The company has decided to accelerate the implementation of the program in 2018. The Schaeffler Group adheres to its Financial Ambitions for 2020. With the strategy "Mobility for tomorrow", the Board of Managing Directors views key fundamentals for long-term growth and adding value to be in place.

2.7 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

Income statement of Schaeffler AG (abbreviated) No. 062

in € millions	2017	2016	Change in %
Revenue	100	88	13.6
Cost of sales	-94	-84	11.9
Gross profit	**6**	**4**	**50.0**
General and administrative expenses	-60	-71	-15.5
Net other operating income	101	118	-14.4
Income from equity investments	675	600	12.5
Interest result	-171	-289	-40.8
Income taxes	-98	204	-
Earnings after income taxes	**453**	**566**	**-20.0**
Net income for the year	**453**	**566**	**-20.0**
Retained earnings brought forward	0	0	0.0
Retained earnings	**453**	**566**	**-20.0**

As Schaeffler AG is the ultimate parent company of the Schaeffler Group, it generated 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 60 m (prior year: EUR 71 m) in general and administrative expenses.

As part of its financing function, Schaeffler AG performed 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 withdrawals from Schaeffler Technologies AG & Co. KG.

Interest expense included interest paid and accrued on the company's institutional loans of EUR 16 m (prior year: EUR 25 m). The proceeds of the bond issuance, which Schaeffler Finance B.V. transferred to Schaeffler AG via intercompany loans, resulted in interest paid and accrued of EUR 84 m (prior year: EUR 169 m). The prepayment penalty of EUR 13 m (prior year: EUR 48 m) payable in connection with the early redemption of a bond was also transferred to Schaeffler AG.

Income tax expense for 2017 amounted to EUR 98 m (prior year: income tax benefit of EUR 204 m) and consisted entirely of current tax expense of EUR 98 m (prior year: EUR 109 m). Schaeffler AG has had deferred tax assets since 2016. It has opted out of recognizing deferred tax assets in accordance with section 274 (1) sentence 2 HGB. Consequently, the company did not have any deferred tax expense or benefit in 2017 (prior year: benefit of EUR 313 m from the reversal of deferred tax liabilities).

Net income for the year amounted to EUR 453 m (prior year: EUR 566 m) in 2017 and equalled retained earnings for 2017.

The Board of Managing Directors and the Supervisory Board will propose a dividend for 2017 of EUR 0.54 (prior year: EUR 0.49) per common share and EUR 0.55 (prior year: EUR 0.50) per common non-voting share to the annual general meeting.

Schaeffler AG financial position and net assets

Balance sheet of Schaeffler AG (abbreviated) No. 063

in € millions	12/31/2017	12/31/2016	Change in %
ASSETS			
Fixed assets	14,302	14,229	0.5
Current assets	8,744	12,239	-28.6
Excess of plan assets over post-employment benefit liability	9	8	12.5
Total assets	**23,055**	**26,476**	**-12.9**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	7,059	6,934	1.8
Provisions	314	268	17.2
Liabilities	15,676	19,266	-18.6
Deferred income	6	8	-25.0
Total shareholders' equity and liabilities	**23,055**	**26,476**	**-12.9**

Fixed assets consisted primarily of shares in Schaeffler Technologies AG & Co. KG.

Short-term loans and other financial receivables included in current assets related 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 675 m (prior year: EUR 3,600 m) that had not yet been paid out to Schaeffler AG as at December 31, 2017. Schaeffler Technologies AG & Co. KG paid EUR 3.6 bn in respect of prior years' net income to Schaeffler AG in 2017. Schaeffler AG in turn used these funds entirely to pay off existing liabilities due to Schaeffler Technologies AG & Co. KG.

Schaeffler AG managed the Schaeffler Group's cash pool and held bank balances of EUR 189 m (prior year: EUR 635 m) at the end of the reporting period.

On April 26, 2017, Schaeffler AG's annual general meeting passed a resolution to pay a dividend of EUR 328 m to Schaeffler AG's shareholders and to add the remaining retained earnings of EUR 238 m to revenue reserves.

Provisions rose by EUR 46 m to EUR 314 m (prior year: EUR 268 m), primarily due to higher income tax provisions for expected income tax payments and higher provisions for pensions and similar obligations.

Liabilities included primarily 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 2,104 m (prior year: EUR 2,772 m) largely relating to the transfer of the proceeds from the bond issuances by Schaeffler Finance B.V. In May 2017, Schaeffler Finance B.V. redeemed one USD bond. The redemption was funded using available liquidity and a portion of the Revolving Credit Facility and was transferred to Schaeffler Finance B.V. by repaying an existing loan.

The signing of a new loan agreement increased the company's bank debt by EUR 93 m to EUR 1,093 m (prior year: EUR 1,000 m).

More on financial debt on pp. 64 et seq.

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".

2.8 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 289f HGB and section 315d HGB" beginning on page 85,
- "Governance structure" beginning on page 93,
- "Remuneration report" beginning on page 97, and
- "Governing bodies of the company" beginning on page 110.

The following references also form part of the combined management report.

Corporate governance report including corporate governance declaration in accordance with section 289f HGB and 315d HGB, including the declaration of conformity pursuant to section 161 AktG at: www.schaeffler.com/ir

Combined separate non-financial report in accordance with section 289b (3), section 315b (3), and section 298 (2) HGB at: www.schaeffler.com/nachhaltigkeit/nfr2017

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, 2017.

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), free cash flow (financial position), and statement of financial position (net assets), depending on the risk category.

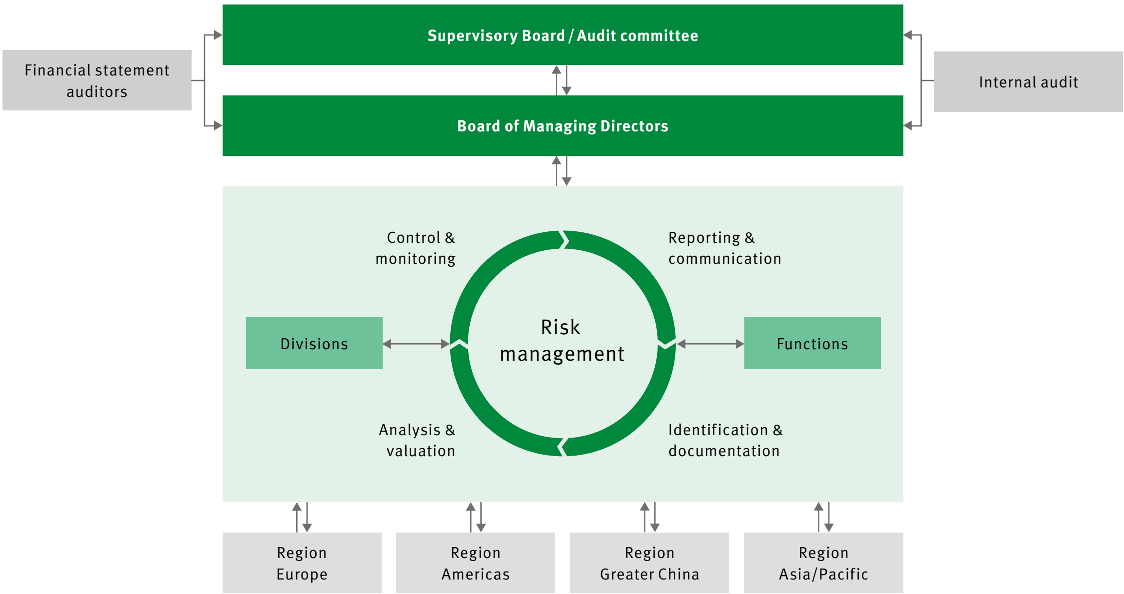
4.1 Risk management system

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 Schaeffler Group's risk management process described below is based on the COSO ERM framework.

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 Corporate Risk Management are binding on all individuals responsible for risk.

Structure of risk management system No. 064



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.

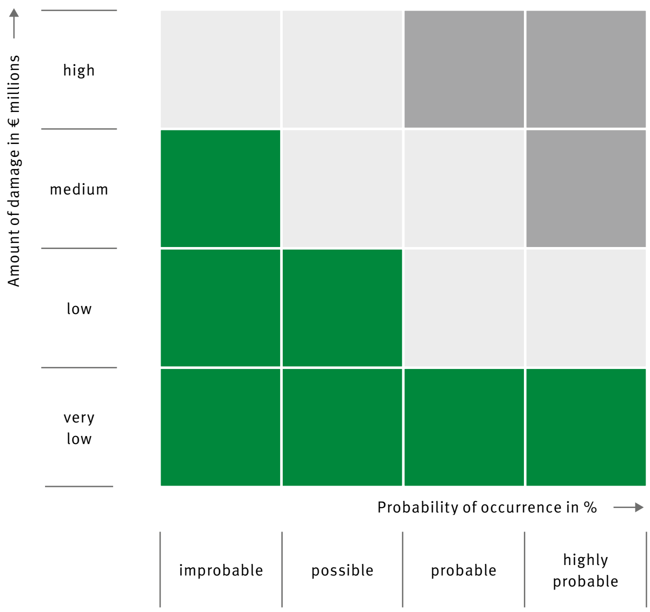
The guideline also defines a groupwide catalog of risk categories to ensure that all risks along the value chain are identified. Identified risks have to be assigned to predefined risk categories. This catalog must be completely reviewed by all those responsible for risk in order to ensure uniform and 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 2017, 44 of 152 Schaeffler Group entities were included, representing 94% of revenue and 93% 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 classified in the 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. Risks are assigned to the various risk classes using the risk matrix.

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.

Risk matrix No. 065



Impact assessment

Amount of damage in €	
‹ 10 million	very low
› = 10 million - ‹ 25 million	low
› = 25 million - ‹ = 50 million	medium
› 50 million	high

Probability of occurrence in %	
‹ 25%	improbable
25% - ‹ 50%	possible
50% - 75%	probable
› 75%	highly probable

Risk classes

low medium high

Impact on net assets, financial position, and earnings

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 a 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. The Schaeffler Group 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 group and company level, ensure that the separate and consolidated financial statements of Schaeffler AG are compiled, prepared, and issued in accordance with the law, 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. This review involves evaluating and assessing risks as well as reporting on them to management with the relevant responsibility at all organizational levels of the companies and the group. Where control weaknesses exist, actions to eliminate these weaknesses have to be defined.

Regardless of the assessed level of the Schaeffler Group's internal control system, the effectiveness of any internal control system is inherently limited. No control system, no matter how effective, can prevent or detect all inaccuracies.

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 2017.

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 the Schaeffler Group'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 of automobiles 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 and applications will be replaced. The Schaeffler Group has established its E-Mobility business division with the intention of further expanding a portfolio of products for this field that is 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.

Country risks

Changes in the social, political, legal, or economic stability in certain markets could hamper the Schaeffler Group's operations or planned expansion projects. The current heightened uncertainty about the future of the EU, particularly regarding the negotiations for the withdrawal of the United Kingdom, could make customers hesitant to buy and could result in additional adverse currency impacts. Depending on the specific nature of new barriers to trading with the EU market (assuming a hard Brexit), duties payable and increased administrative expenses could have a medium impact on the net assets, financial position, and earnings of the Schaeffler Group. The Schaeffler Group continually monitors the withdrawal process and, in addition, has established a task force to coordinate its local and global activities in this area.

Protecting the environment is a high priority for the Schaeffler Group. Since the Schaeffler Group's production and manufacturing locations are located all over the world, they are subject to a wide variety of environmental standards. The locations meet high environmental standards, a fact highlighted by the large number of locations certified under EMAS. New legislation or changes in the legal environment, both at the national and at the international level, could entail risks jeopardizing trouble-free production that could adversely affect the Schaeffler Group's value added. These risks could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings. Since the group's environmental management system, which has been rolled out worldwide, is constantly being improved and enhanced, occurrence of these risks is considered improbable.

Strategic market and technology risks

The markets for the products offered by the Schaeffler Group 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 expiration of key patents.

Schaeffler currently relies on a high degree of vertical integration and comprehensive production expertise, that facilitate improvements in the production process and ultimately safeguard the company's ability to maintain its margins. The evolution of the company's business from being component-driven toward being more systems-based is ongoing, and this change could reduce the proportion of value added by Schaeffler. The company is taking a variety of measures to address this trend, including, for instance, strategically enhancing its production system to be more modular and building strategic supplier relationships.

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.

The Schaeffler Group operates in a highly competitive and technologically fast-paced environment. The Automotive division's 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 focused and leaner competitors, especially in the emerging markets. The company is currently not fully passing these demands for extensive price reductions on to its own suppliers and cannot absorb them entirely with its existing structure.

Like the Automotive division, the Industrial division is also increasingly faced with competitors from emerging countries that are aggressively exerting pressure on market prices, considerably so in some cases. Customers increasingly prefer standardized products over customer-specific developments, and this trend benefits competitors from emerging countries as well.

Both of these trends require the Schaeffler Group to constantly improve its efficiency and diversify into new lines of business in order to safeguard and further expand its market position. The increasing pricing pressure 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 its activities on this issue on a timely basis. 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.

Operating risks

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

Procurement risks

The Schaeffler Group's purchasing function ensures optimal supply of goods and services to the company, focusing on quality, cost, and delivery performance. Extensive cooperation with suppliers increases the quality of goods and services supplied. Improving logistics connections to suppliers helps secure supply.

Procurement risks arise mainly from fluctuations in market prices, particularly for purchases of raw materials. Adverse fluctuations in market prices could have a high impact on the Schaeffler Group's financial position and earnings. By negotiating prices and utilizing synergies resulting from numerous cross-regional projects and programs, the Schaeffler Group was able to obtain competitive procurement prices.

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.

The Schaeffler Group faces numerous competitors in its various business fields. 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. 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.

Loss of market share could have a medium impact on the Schaeffler Group's earnings and financial position. 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.

Close cooperation with the Schaeffler Group's key customers on product development and strict product quality control measures reduce the likelihood of substitution.

The ability to deliver and delivery performance represent a key competitive factor, which is constantly being enhanced by systematic improvements in production and delivery logistics. The company is building high-performance distribution centers for the Industrial division and the Automotive Aftermarket aimed at improving market supply and delivery performance with fewer logistics locations. Ensuring that contractual delivery dates are met could have a high 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 product 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.

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. Identified instances of non-compliance are immediately addressed with appropriate action. The consequences of these instances of non-compliance could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings as well as on its reputation. The Schaeffler Group cooperates with the authorities with respect to any current and future investigations of possible instances of non-compliance and responds appropriately to weaknesses identified.

More on the company's compliance management system on pp. 94 et seq.

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.

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.

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.

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 additional tax payment as a result of an adjustment to the tax base could 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 could 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 the bond 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 could 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 2017 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 an RCF 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 could 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. 066

	Amount of damage in €	Probability of occurrence in %	Risk class	Change from prior year
Strategic risks				
• Electric mobility	high	possible	medium	↗
• Country risks	high	possible	medium	new
• Strategic market risks	medium	probable	medium	↗
• Technology risks	medium	possible	medium	new
• Digitalization	medium	possible	medium	→
Operating risks				
• Procurement risks	medium	highly probable	high	new
• Delivery performance	medium	highly probable	high	new
• Market development	high	improbable	medium	→
• Loss of market share	high	improbable	medium	→
• Production risk	high	improbable	medium	→
• Warranty and liability risks	high	improbable	medium	→
• Product piracy risks	low	probable	medium	→
Legal risks				
• Compliance risks	high	improbable	medium	→
• Litigation	medium	possible	medium	→
• Antitrust proceedings	low	probable	medium	→
Financial risks				
• Tax risks	high	probable	high	↘
• Pension risks	high	possible	medium	→
• Currency risks	high	possible	medium	↗
• Liquidity risk	high	improbable	medium	→

↗ increased → unchanged ↘ reduced

4.4 Opportunities

The responsibility for identifying and utilizing opportunities lies with operating management. Their objective is to identify these opportunities on a timely basis and to take appropriate action to utilize them. Opportunities identified are discussed with the Board of Managing Directors as part of the Strategy Dialog and strategies are then derived based on these discussions. During this process, the relevant opportunities for growth are prioritized, specific targets are derived, and actions and resources required to achieve operating targets for the future direction of the Schaeffler Group are determined.

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 manufacturers and suppliers, which provides a general 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 automobile manufacturers 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 E-Mobility business division coordinates its wide range of activities relating to alternative types of drives, allowing the Schaeffler Group to benefit from comprehensive systems know-how.

Urban mobility

The increasing number of people living in megacities 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 undercarriage 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 with respect not only to original equipment 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_2, 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 already successfully operating in the market. Continually expanding the existing expertise in these business fields offers additional future opportunities for growth.

Trends related to automobile manufacturers

In the last few years, automobile manufacturers have increasingly created global platforms aimed at standardizing components and vehicle systems in order to save costs by increasing efficiency. Consequently, automobile manufacturers are looking for suppliers that 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 factories 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. Highly interconnected machines and plants can facilitate progress in manufacturing, including by employing this type of machine in the company’s own production. Along with production technology, Industry 4.0 also comprises digitally connecting components and machines. The Schaeffler Group’s products can be found wherever something is turning and primary data can be obtained. This allows bearings to be monitored continually and their operation to be improved based on the results.

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 automobile manufacturers 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 automobile manufacturers 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, benefiting 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 automobile manufacturer 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 issuance ratings to its outstanding bonds since January 2012. In addition, Fitch became the third rating agency to assign such ratings, in April 2017. An improvement in the ratings published by the three rating agencies can provide the Schaeffler Group with more favorable financing conditions and open up new opportunities to obtain financing. Moody's maintained Schaeffler AG's company rating at Baa3 (investment grade) with a stable outlook throughout 2017. Standard & Poor's kept its rating unchanged at BB+ (sub-investment grade), but upgraded the outlook from stable to positive on September 26, 2017. Fitch published its first rating of Schaeffler AG on April 25, 2017, and has kept its rating for the company constant at BBB- (investment grade) with a stable outlook since then. At December 31, 2017, all three rating agencies' issuance ratings for the Schaeffler Group's outstanding bonds was equal to the corresponding company rating, i.e. Baa3 (Moody's), BB+ (Standard & Poor's), and BBB- (Fitch).

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 Board of Managing Directors estimates that the Schaeffler Group's situation with respect to risks has deteriorated 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 outlook issued by the Schaeffler Group is not in jeopardy, including from the existing risks. In addition to the specific risks described in the group management report, unexpected developments significantly damaging or harming the company's production process, customer relationship, or reputation can occur at any time.

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.

5. Report on expected developments

5.1 Expected economic and sales market trends

The International Monetary Fund (IMF) anticipates that the global economy will continue to gather momentum in 2018 (January 2018). The IMF expects global gross domestic product to grow by 3.9%. Oxford Economics anticipates the same growth rate (January 2018). In light of these forecasts, the Schaeffler Group expects global economic growth of just under 4% in 2018.

The expected development of the global economy is subject to a number of uncertainties. Should the international equities markets experience persistently falling prices, this would adversely affect the real economy. In addition, if the global financing environment tightens up more than currently expected, for instance in the form of an unforeseen increase in interest rates, this could especially hamper the development of the emerging countries and could also destabilize the global financial markets. China remains susceptible to an unexpected setback in growth, especially considering the debt problem in that country. Finally, global economic growth might be impaired by increasing trade protectionism and an escalation of existing geopolitical conflicts.

The negotiations between the United Kingdom and the EU are currently focusing on future trade relations between the two economies. Based on their current status, it appears unlikely that the two parties will fail to reach an agreement – which would result in the United Kingdom withdrawing from the EU unsystematically and trade regulations reverting to the rules of the World Trade Organization. Additionally, it is currently expected that there will be a transition period until the end of 2020, during which the United Kingdom will remain a member of the EU single market and the European Union Customs Union. However, if it becomes clear early-on that the result of the negotiations will be adverse to the United Kingdom, this could lead to (further) economic distortions prior to the withdrawal – primarily in the United Kingdom itself, but, due to existing trade ties, in other EU countries as well.

Taking into account the forecasts of research institute IHS (February 2018), the Schaeffler Group expects automobile production, measured in terms of the number of passenger cars and light commercial vehicles produced, to increase by about 2% in 2018. The Schaeffler Group anticipates growth of about 3.5% for the Europe region and a growth rate of about 1.5% for the Americas region. The Greater China region is expected to experience a growth rate of about 3%, while automobile production in the Asia/Pacific region is forecasted to decline by about 1%.

In light of the IHS forecasts (February 2018), the Schaeffler Group expects the global vehicle population, measured in terms of the number of passenger cars and light commercial vehicles, to decline slightly in 2018 compared to 2017, with the average vehicle age remaining nearly unchanged.

The Schaeffler Group anticipates industrial production to grow at a similar rate in 2018 as it did in 2017 (Oxford Economics, December 2017).

5.2 Schaeffler Group outlook

Outlook 2018 – group No. 067

Schaeffler Group	Actual 2017	Outlook 2018
Revenue growth [1]	5.9%	5 to 6%
EBIT margin before special items [2]	11.3%	10.5 to 11.5%
Free cash flow [3]	EUR 515 m [4]	~ EUR 450 m

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 60 et seq. for the definition of special items.
[3] Before cash in- and outflows for M&A activities.
[4] Adjusted comparative figure before cash in- and outflows for M&A activities.

The Schaeffler Group expects its revenue to grow by 5 to 6% excluding the impact of currency translation in 2018.

In addition, the company expects to generate an EBIT margin before special items of 10.5 to 11.5% in 2018.

The Schaeffler Group also anticipates approx. EUR 450 m in free cash flow before cash in- and outflows for M&A activities for 2018. In a change from the guidance provided for this indicator in the prior year, beginning in 2018, the Schaeffler Group will report free cash flow before cash in- and outflows for M&A activities. The adjusted comparative figure, free cash flow before cash in- and outflows for M&A activities for 2017, amounts to EUR 515 m.

Outlook 2018 – divisions No. 068

Automotive OEM	Actual 2017	Outlook 2018
Revenue growth [1]	6.5%	6 to 7%
EBIT margin before special items [2]	10.8% [3]	9.5 to 10.5%
Automotive Aftermarket	**Actual 2017**	**Outlook 2018**
Revenue growth [1]	3.2%	3 to 4%
EBIT margin before special items [2]	19.0% [3]	16.5 to 17.5%
Industrial	**Actual 2017**	**Outlook 2018**
Revenue growth [1]	5.7%	3 to 4%
EBIT margin before special items [2]	8.0% [3]	9 to 10%

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 60 et seq. for the definition of special items.
[3] Comparative figure based on 2018 segment structure.

The Schaeffler Group anticipates that its Automotive OEM division will continue to outperform the global automobile production of passenger cars and light commercial vehicles, expected to expand by about 2%, in 2018. Based on this expected outperformance, the Schaeffler Group expects its Automotive OEM division to generate revenue growth excluding the impact of currency translation of 6 to 7% (2017: 6.5%). This expectation is supported by orders won in the 2017 reporting period, known as lifetime sales, of EUR 11.5 bn, representing a “book-to-bill ratio”, the ratio of order intake to revenue for the year, of 1.3x. The company also expects an EBIT margin before special items of between 9.5 and 10.5% for 2018 (2017: 10.8%) for the Automotive OEM division.

Given the stable growth in the global vehicle population and a nearly unchanged average vehicle age, the Aftermarket business will likely continue to grow as well. Based on its own observation of the market, the group expects the Automotive Aftermarket division to generate revenue growth - excluding the impact of currency translation – of 3 to 4% (2017: 3.2%) and an EBIT margin before special items of 16.5 to 17.5% in 2018 (2017: 19.0%).

In the Industrial division, an encouraging trend in order intake combined with the economic environment in certain sectors suggests a slight increase in revenue in 2018. Based on these considerations, the company expects its Industrial division to generate 3 to 4% (2017: 5.7%) in revenue growth in 2018, excluding the impact of currency translation. In addition, the Industrial division anticipates generating an EBIT margin before special items of between 9 and 10% in 2018 (2017: 8.0%).

Herzogenaurach, February 19, 2018

The Board of Managing Directors

Corporate Governance

* Included in the group management report.

1. Corporate governance report including the corporate governance declaration in accordance with section 289f HGB and section 315d 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 stakeholders 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 289f HGB and 315d HGB, including the declaration of conformity pursuant to section 161 AktG, which is a separate component of the group management report. However, according to section 317 (2) sentence 6 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 corporate governance declaration in accordance with section 289f HGB and 315d HGB, including the declaration of conformity pursuant to section 161 AktG at: www.schaeffler.com/ir

1.1 Declaration of conformity pursuant to section 161 AktG

In December 2017, the Board of Managing Directors and the Supervisory Board issued the following declaration of conformity pursuant to section 161 AktG:

Declaration by the Board of Managing Directors and the Supervisory Board of Schaeffler AG pursuant to § 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code

Since the release of its last declaration of conformity in December 2016, Schaeffler AG complies with the recommendations of the "Governmental Commission German Corporate Governance Code" as amended on May 5, 2015 and on February 7, 2017, respectively ("Code") with the exception described below and will also comply with the recommendations in the future with the exception described below:

> 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 2017

For the Supervisory Board	For the Board of Managing Directors
Georg F. W. Schaeffler Chairman of the Supervisory Board	Klaus Rosenfeld Chief Executive Officer

1.2 Corporate governance principles

The Schaeffler Group's manner of conducting business is based on integrity, fairness, and mutual respect. 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 Schaeffler Group **Code of Conduct** provides guidance in this area. The principles set out in the Schaeffler Group Code of Conduct apply equally to everyone – the Board of Managing Directors, management, and all employees.

Compliance is part of the company's culture. It is centered around customer relationships and acting with integrity.

Similarly, thinking long-term and acting responsibly have always characterized the Schaeffler Group's corporate culture as a listed family business. It is very important to the Schaeffler Group to combine economic success with acting responsibly toward the environment, people, and society. The corporate values, "Sustainable", "Innovative", "Excellent", and "Passionate", form the basis for sustainable profitable growth for the benefit and in the interest of the group's customers and business partners, employees and managers, as well as its shareholders and family shareholders. Based on this, the Board of Managing Directors has issued and published a **sustainability strategy** covering the following fields of action: (1) Sustainable management, (2) Customers and products, (3) Environment and energy, (4) Employees and society.

More on the company's corporate governance principles at:
www.schaeffler.com/sustainability

1.3 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. 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 Board of Managing Directors 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 legal requirements and internal guidelines are complied with and promotes such compliance by group companies and their employees. It puts in place appropriate measures that are tailored to the company's risk situation (compliance management system) and discloses their main features. A whistleblowing system gives employees the opportunity, including appropriate protection, to report violations of the law within the company; this opportunity is also provided to third parties.

More on compliance on pp. 93 et seq.

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 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.

Membership of 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. At its meeting on May 10, 2017, the Supervisory Board established that the Board of Managing Directors of Schaeffler AG has to have at least one female member.
The deadline for meeting this target is June 30, 2022, and the Board of Managing Directors already met this target since Corinna Schittenhelm was appointed to the Board of Managing Directors on January 01, 2016.

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 within Schaeffler AG at the two levels of management immediately below the Board of Managing Directors in accordance with sections 76 (4) and 111 (5) AktG. The targeted proportion of women of 5% at the first level of management immediately below the Board of Managing Directors was met as at June 30, 2017. The 12% target for the second level of management immediately below the Board of Managing Directors was not met. As at June 30, 2017, the proportion of women at the second level of management amounted to 6%. The main reason for the failure to meet this target was an organizational transfer within the Schaeffler Group that significantly increased Schaeffler AG’s number of employees in 2016. The positions at the second level of management in the newly-added areas were largely filled with men, which resulted in a deterioration of the proportion of women. Although the number of employees remained constant, the proportion of women at the second level of management has already improved to 9% as at December 31, 2017, since the company specifically strived to fill vacant positions with women provided they had the appropriate qualifications. Moreover, at its meeting on June 19, 2017, the Board of Managing Directors set new targets for the proportion of women of 8% at the first level of management and 12% at the second level of management immediately below the Board of Managing Directors, to be met by June 30, 2022.

In addition to considering the relevant technical qualifications, the Supervisory Board also strives for diversity when making appointments to the Board of Managing Directors, and adopted a diversity scheme in accordance with section 289f (2) (6) HGB for the Board of Managing Directors of Schaeffler AG at its meeting on December 15, 2017. The diversity criteria selected were gender, age, professional experience, and internationality:

- **Gender:** The Board of Managing Directors should have at least one female member. This target was met in 2017. In the long term, the Supervisory Board should strive to increase the number of female members on the Board of Managing Directors beyond the established target. The targets set by the Board of Managing Directors for the two levels of management immediately below the Board of Managing Directors should be met.
- **Age:** The Board of Managing Directors should have an appropriate age distribution. Along with several younger members, this Board should also have members with a greater amount of professional and life experience. The average age of all members of the Board of Managing Directors should be approx. 55 years. Members may serve on the Board of Managing Directors until their 68th birthday. In making appointments to the Board of Managing Directors, consideration should be given to ensuring a balanced age distribution and promoting a greater number of younger executives. The targets established were met in 2017.
- **Professional experience:** The members of the Board of Managing Directors should bring diverse professional experience to the Board. Along with sufficient professional background in the fields of engineering and business, they should also have additional professional experience, especially in fields relevant to the Schaeffler Group’s future business, such as mechatronics, electrical engineering, digitalization, and IT. In making appointments to the Board of Managing Directors, consideration should be given to their education and training, professional career, and their current responsibilities. The targets established were met in 2017.
- **Internationality:** Sufficient international experience should be represented on the Board of Managing Directors to appropriately reflect the international nature of the Schaeffler Group’s business. The members of the Board of Managing Directors should have different nationalities. The objective should be that all members of the Board of Managing Directors have experience working abroad and/or are experienced in international business. Having at least one member with a non-German nationality, ideally from a market relevant to Schaeffler, on the Board of Managing Directors in the long-term is considered desirable. To be appointed to the Board of Managing Directors, a candidate must have international experience. At the first and second level of management immediately below the Board of Managing Directors, the majority of employees should have experience working abroad and be experienced in international business. The targets established were met in 2017.

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.

More on the members of the Board of Managing Directors, their areas of responsibility, and any positions they hold on supervisory boards of other companies on pp. 112 et seq.

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. Specifically, 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 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.

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

More on the remuneration of the Board of Managing Directors on pp. 97 et seq.

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. For reasons of effectiveness, resolutions are at times passed in writing or by telephone.

Membership of the Supervisory Board

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.

Since Schaeffler AG is a publicly listed company subject to codetermination based on parity, its Supervisory Board consists of at least 30% female and at least 30% male members in accordance with section 96 (2) AktG. Section 25 EGAktG stipulates that the legal gender quota is effective for new elections held on or after January 01, 2016; current positions can be held until the end of their regular term. The minimum quota applies to the Supervisory Board as a whole (joint compliance). However, 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 shareholder representative's quota is currently at 10%.

In accordance with item 5.4.1 of the German Corporate Governance Code, the Supervisory Board has set the following concrete targets for its membership, considering the company's specific situation and appropriately 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: The Supervisory Board has stated the following objectives for its membership:

- 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.

In addition to the objectives set out above, the Supervisory Board developed a profile of expertise for the Board as a whole at its meeting on December 15, 2017. According to this profile, the Supervisory Board should collectively cover the following areas of technical expertise. Having at least one member of the Supervisory Board cover an area of expertise is considered sufficient. The profile of expertise assumes that every member of the Supervisory Board has the personal qualifications required to successfully carry out the responsibilities of a member of the Supervisory Board, i.e. integrity, sufficient time, commitment, and discretion.

- **Sector knowledge:** The Supervisory Board should have knowledge of and experience with the automotive sector and with the sectors in which the Industrial division operates.
- **Law/compliance:** The Supervisory Board should have members with basic knowledge of stock corporation and corporate law and of the compliance field.
- **Finance:** The Supervisory Board should be knowledgeable about and experienced in finance, financial reporting, auditing, risk management, and systems of internal controls.
- **Leadership:** The Supervisory Board should have members experienced in leadership. This includes experience in managing and supervising companies.
- **Research and development:** The Supervisory Board should also be knowledgeable about and experienced in research and development, preferably in future-oriented fields such as E-Mobility and Digitalization.

The current Supervisory Board meets these objectives and covers the areas of expertise set out above. Proposals by the Supervisory Board to the annual general meeting for the election of shareholder representatives to the Supervisory Board will reflect these objectives and strive to cover the fields of expertise listed above.

Along with the objectives and the profile of expertise, the Supervisory Board also adopted a diversity scheme in accordance with section 289f (2) (6) HGB for the Supervisory Board of Schaeffler AG on December 15, 2017. The diversity criteria selected were gender, professional experience, and internationality. These criteria are designed to ensure, in combination with the other criteria for the membership of the Supervisory Board, that the opinions and knowledge represented on the Supervisory Board are sufficiently diverse for the proper performance of its duties.

- **Gender:** Section 96 (2) AktG stipulates that the Supervisory Board has to consist of at least 30% female and at least 30% male members. 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%. Nominees for replacement appointments and for the regular election of shareholder representatives in 2019 are limited to candidates whose election will ensure that the legal requirements are met.
- **Professional experience:** The members of the Supervisory Board should bring diverse professional experience to the Board. The Supervisory Board should have members with professional experience in fields that are relevant to the Schaeffler Group's business, especially to the group's future business in the fields of E-Mobility and Digitalization. Candidates' professional experience is to be taken into account when selecting the Supervisory Board's nominees for election to the Supervisory Board by the annual general meeting.
- **Internationality:** The Supervisory Board should have an appropriate number of members with an international background (descent, professional education, or work). This being the case for at least four of its members is considered adequate by the Supervisory Board. In addition, further members of the Supervisory Board should be experienced in international business. Internationality is to be taken into account when selecting the Supervisory Board's nominees for election by the annual general meeting.

Members of the Supervisory Board and their curricula vitae at: www.schaeffler.com/supervisory-board

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, and it has the professional experience and internationality required under the diversity scheme. 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 2017. 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.

More on avoiding conflicts of interest on page 90

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.

The Supervisory Board considers all shareholder representatives except for Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler to be independent. These are: Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Dr. Siegfried Luther, Robin Stalker, Dr. Otto Wiesheu, Prof. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang.

The Chairman of the Supervisory Board is elected by the Supervisory Board from among its members. He coordinates the activities of the Supervisory Board, chairs its meetings, and represents the Supervisory Board externally. As recommended in item 5.2 (2) of the German Corporate Governance Code, the Chairman of the Supervisory Board is available for discussions with investors, in close coordination with the Board of Managing Directors and focusing on Supervisory Board-related issues.

Membership 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 chairs the committee.

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) AktG.

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, the group management report and the combined 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 the non-financial report as well as for preparing the Supervisory Board's nomination of the auditors to be appointed by the annual general meeting.

The audit committee makes a recommendation to the Supervisory Board regarding auditors to be appointed, together with its reasons for the recommendation; where the audit has been put out to tender, the recommendation includes at least two candidates. The audit committee engages the auditors, determines the areas of focus for the audit, and agrees 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 advises and oversees the Board of Managing Directors regarding financial reporting, the financial reporting process, the effectiveness of the internal control system, the risk management system, Internal Audit, the financial statement audit, and compliance.

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 shall be independent and can be neither a former member of the Board of Managing Directors nor the Chairman of the Supervisory Board; he shall 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 committee includes another financial expert, Robin Stalker. The other committee members are Dr. Reinold Mittag, Georg F. W. Schaeffler, Salvatore Vicari, and Jürgen Worrich.

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. 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, 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 2017.

1.4 Other information on corporate governance

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

The main source of information for shareholders and third parties are the consolidated financial statements and the group management report as well as interim financial information.

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 and the group management report are prepared by the Board of Managing Directors in accordance with the principles set out in International Financial Reporting Standards (IFRS) as adopted by the EU and are audited by the auditors and reviewed by the Supervisory Board. Before any interim financial information is made public, the Board of Managing Directors discusses such information with the Supervisory Board or the audit committee. The consolidated financial statements and the group management report are made publicly available within 90 days after the end of the year, mandatory interim financial information within 45 days after the end of the reporting period.

In addition, the consolidated financial statements include a discussion of transactions with shareholders considered related parties under applicable financial reporting standards.

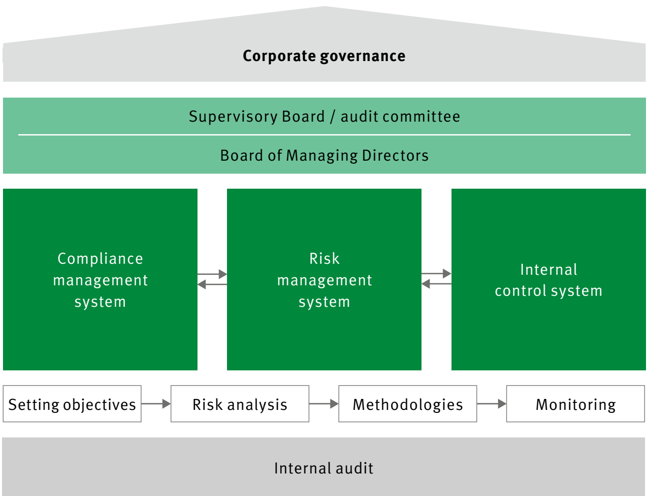
It was agreed with Schaeffler AG's auditors that the Chairman of the Supervisory Board and the chairman of the audit committee would be informed promptly of any grounds for disqualification or indications of bias arising during the audit to the extent they are not remedied immediately. It was also agreed that the auditors would report on all findings and events coming to their attention 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 02, 2017, the auditors have issued a binding independence letter for the year ended December 31, 2017.

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. In doing so, 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. The governance structure promotes transparency and supports the values "Sustainable", "Innovative", "Excellent", and "Passionate".

The components of the **governance structure** support the operating business units in effectively identifying and managing risk.

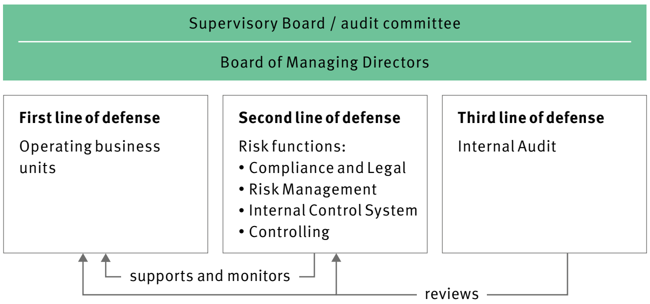
Schaeffler Group governance structure No. 069



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 Group Chief Compliance Officer. It consists of the heads of the relevant governance functions (including Compliance, Legal, Internal Control System, and Controlling). 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.

Three lines of defense model No. 070



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.

First line of defense: 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. 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. If needed, they can use an anonymous whistleblowing system for reporting severe violations of the Schaeffler Code of Conduct, especially regarding illegal business practices, that is available for this purpose.

Second line of defense: At the second tier, risk functions (including Internal Control System, Controlling, Risk Management, Compliance, and Legal) define global standards and controls, regularly monitor compliance with them, and report on their effectiveness. The Risk Management function is also responsible for regular and independent risk assessment.

Third line of defense: 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.

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. 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 AsS 980 by an independent audit firm, an independent audit firm has started to review the implementation of the CMS. The review is scheduled to be completed by mid-2018.

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 information that is required to estimate the probability of occurrence and the size of the potential amount of damage and that is 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, through to issues regarding the location-specific design of Schaeffler's business model.

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 that 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. In addition to requirements relating to general conduct, the principles and practices described in the Schaeffler Code of Conduct 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 corruption in any way. The same applies to conduct violating competition or antitrust laws. The Schaeffler Group stays away from any transactions that cannot be effected or continued without unacceptable conduct.

Training sessions are continually refined and updated and adapted to the employees' areas of responsibility. In 2017, the compliance training program included training on risk awareness, the Schaeffler Code of Conduct, security of information including classification of information, protection against cybercrime, and CEO fraud. 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 2017. The company continued to expand its register of contacts with competitors. The register was introduced at a number of pilot locations worldwide. It contributes to transparency and supports the process for approving contacts with competitors in advance. The company also developed a new business partner due diligence process that can in future be used to further minimize any business partner-related risks groupwide using an IT tool integrated into the business processes as much as possible. Both underline the standard the Schaeffler Group expects of its business partners with respect to acting with integrity and abiding by rules.

The company maintains an insider list in order to comply with capital markets regulations. As soon as an individual is added to the insider list (whether event-driven or as a permanent insider), the individual is notified and separately informed of the legal obligations and sanctions related to his or her access to insider information. In addition, there is an insider committee whose activities include deciding on how to deal with potential insider information and ensuring compliance with the requirements of capital markets laws.

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.

More on the company's risk management system on pp. 71 et seq.

2.3 Internal control system

The second line of defense also comprises the Schaeffler Group's internal control system (ICS). The ICS 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.

More on the company's internal control system on pp. 73 et seq.

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. The head of Internal Audit reports directly to the Chief Executive Officer of Schaeffler AG and also reports to the chairman of the audit committee on a regular basis.

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 Chief Executive Officer/Board of Managing Directors/audit committee
- The Board of Managing Directors has to approve and appropriately document the approval of the audit planning and significant changes therein.

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 Schaeffler Group's 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

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, identifies the individuals responsible for implementation, and agrees remediation measures, including a time frame for their implementation. In a monitoring and follow-up process, Internal Audit monitors implementation of the remediation measures addressing 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.

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

As stipulated in the German Corporate Governance Code (GCGC) and section 87 AktG, the Supervisory Board sets the total remuneration and regularly reviews the remuneration scheme. 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).

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. 071

Components	Performance metric	Range of remuneration	Conditions for payment	Payment cycle
Non-performance-based components				
Fixed remuneration	Function and responsibility	None	Contractually agreed	Monthly
Fringe benefits	Function and responsibility	None	Contractually agreed	Payment not applicable
Performance-based components				
Short-term bonus	For the CEO and the Chief Officers of the functions: Free cash flow (FCF Group) and Schaeffler Value Added (SVA Group) at group level (weighted equally). For the divisional CEOs: Free cash flow (FCF Group) and Schaeffler Value Added (SVA Group) at group level as well as Schaeffler Value Added (SVA Division) and cash flow (CF Division) at division level (weighted equally)	0% –150%	Meeting annual performance targets	Annually
Long-term bonus	Share price trend of Schaeffler common non-voting shares 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

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 2017.

Performance-based components

Short-term variable component – short-term bonus

All members of the Board of Managing Directors 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 including the minimum and maximum targets on an annual basis. The performance 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 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 of the Schaeffler Group (FCF Group) and Schaeffler Value Added of the Schaeffler Group (SVA Group) and of Schaeffler Value Added of the division (SVA Division) as well as cash flow of the division (CF Division), again weighted equally.

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 CF Division performance target is calculated as the sum of EBIT plus depreciation, amortization, and impairment losses plus change in working capital less additions to property, plant and equipment and intangible assets.

The Supervisory Board can set other strategic targets in addition to the FCF, SVA, and CF performance targets. Furthermore, the Supervisory Board can establish a multiplier ranging from 0.8 to 1.2 to reflect a Managing Director's individual performance. The short-term bonus may lapse in its entirety if the minimum targets are not met. In the event that maximum targets are exceeded, 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.

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 target amounts 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 granted at any one date as part of a tranche remains constant.

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.[3]
- 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.

[3] Taking into account the rules applicable to leavers.

The 2015, 2016, and 2017 tranches of PSUs subject to FCF- and TSR-based performance targets vest based on the following target tiers.

PSUP performance targets (1) No. 072

Cumulative FCF for the performance period	Number of FCF 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 (2) No. 073

TSR outperformance over the performance period	Number of TSR 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.

The underlying share price of the 2017 tranche is EUR 13.18. The PSUs granted to each individual and the related fair values in 2017 are as follows:

PSUs granted in 2017 [1)] No. 074

	Target amount (in € thousands)	Number of PSUs outstanding on December 31, 2017 [1)]	Grant date fair value per PSU (in €)	Grant date fair value (in € thousands)
Klaus Rosenfeld (CEO)	1,300			
Base number of PSUs		49,316	11.84	584
FCF PSUs		24,659	11.84	292
TSR PSUs		24,659	6.99	172
Prof. Dr. Peter Gutzmer	950			
Base number of PSUs		36,039	11.84	427
FCF PSUs		18,020	11.84	213
TSR PSUs		18,020	6.99	126
Dietmar Heinrich [2)]	271			
Base number of PSUs		10,275	10.67	110
FCF PSUs		5,137	10.67	55
TSR PSUs		5,137	4.58	24
Oliver Jung	950			
Base number of PSUs		36,039	11.84	427
FCF PSUs		18,020	11.84	213
TSR PSUs		18,020	6.99	126
Prof. Dr. Peter Pleus	950			
Base number of PSUs		36,039	11.84	427
FCF PSUs		18,020	11.84	213
TSR PSUs		18,020	6.99	126
Corinna Schittenhelm	650			
Base number of PSUs		24,659	11.84	292
FCF PSUs		12,329	11.84	146
TSR PSUs		12,329	6.99	86
Dr. Stefan Spindler	800			
Base number of PSUs		30,348	11.84	359
FCF PSUs		15,175	11.84	180
TSR PSUs		15,175	6.99	106
Matthias Zink	650			
Base number of PSUs		24,659	11.84	292
FCF PSUs		12,329	11.84	146
TSR PSUs		12,329	6.99	86
Managing Directors who left the company in 2017				
Dr. Ulrich Hauck [3)]	800			
Base number of PSUs		30,348	11.84	359
FCF PSUs		15,175	11.84	180
TSR PSUs		15,175	6.99	106
Total	**7,321**	**555,450**	**-**	**5,873**

[1)] Equals the number of PSUs granted on January 01, 2017 (on July 17, 2017 for Dietmar Heinrich).
[2)] Dietmar Heinrich has been a member of the Board of Managing Directors of Schaeffler AG since August 01, 2017.
[3)] Dr. Ulrich Hauck left the Board of Managing Directors of Schaeffler AG as at July 31, 2017. His employment agreement remains in effect until March 31, 2018.

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 [1)] No. 075

	Target amount (in € thousands)	Number of PSUs outstanding on December 31, 2016 [1)]	Grant date fair value per PSU (in €)	Grant date fair value (in € thousands)
Klaus Rosenfeld (CEO)	1,300			
Base number of PSUs		44,581	13.82	616
FCF PSUs		22,291	13.82	308
TSR PSUs		22,291	9.13	204
Prof. Dr. Peter Gutzmer	950			
Base number of PSUs		32,578	13.82	450
FCF PSUs		16,290	13.82	225
TSR PSUs		16,290	9.13	149
Dr. Ulrich Hauck	800			
Base number of PSUs		27,434	13.82	379
FCF PSUs		13,718	13.82	190
TSR PSUs		13,718	9.13	125
Oliver Jung	950			
Base number of PSUs		32,578	13.82	450
FCF PSUs		16,290	13.82	225
TSR PSUs		16,290	9.13	149
Prof. Dr. Peter Pleus	950			
Base number of PSUs		32,578	13.82	450
FCF PSUs		16,290	13.82	225
TSR PSUs		16,290	9.13	149
Corinna Schittenhelm	650			
Base number of PSUs		22,290	13.82	308
FCF PSUs		11,146	13.82	154
TSR PSUs		11,146	9.13	102
Dr. Stefan Spindler	800			
Base number of PSUs		27,434	13.82	379
FCF PSUs		13,718	13.82	190
TSR PSUs		13,718	9.13	125
Managing Directors who left the company in 2016				
Norbert Indlekofer [2)]	950			
Base number of PSUs		32,578	13.82	450
FCF PSUs		16,290	13.82	225
TSR PSUs		16,290	9.13	149
Total	**7,350**	**504,117**	**-**	**6,376**

[1)] Equals the number of PSUs granted on January 01, 2016.
[2)] 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 2017 tranche (prior year: 2016 tranche) reflects the following input parameters:

- risk-free interest rate for the remaining performance period of -0.16% (prior year: 0.15%) for a January 01, 2017 grant date, -0.04% for a July 17, 2017 grant date;
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 2.49% (prior year: 2.15%) for a January 01, 2017 grant date, 4.01% for a July 17, 2017 grant date,
- expected volatility of Schaeffler AG common non-voting shares of 34.27% (prior year: 33.02%) for a January 01, 2017 grant date, 28.78% for a July 17, 2017 grant date,
- expected volatility of the benchmark index of 18.75% (prior year: 19.56%) for a January 01, 2017 grant date, 10.62% for a July 17, 2017 grant date,
- expected correlation coefficient between the benchmark index and Schaeffler AG common non-voting shares of 0.61 (prior year: 0.43) for a January 01, 2017 grant date, 0.48 for a July 17, 2017 grant date.

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, 2017, calculated in accordance with IAS 19 and based on the beneficiary's current age and years of service.

Service cost for 2017 and defined benefit obligations as at December 31, 2017 in accordance with IAS 19 No. 076

in € thousands	Year	Service cost	Defined benefit obligation
Klaus Rosenfeld (CEO)	2017	1,331	10,952
Prof. Dr. Peter Gutzmer	2017	0	4,569
Dietmar Heinrich [1]	2017	114	546
Oliver Jung	2017	307	2,891
Prof. Dr. Peter Pleus	2017	383	6,097
Corinna Schittenhelm	2017	326	651
Dr. Stefan Spindler	2017	308	680
Matthias Zink	2017	317	799
Managing Directors who left the company in 2017			
Dr. Ulrich Hauck [2]	2017	-949	0
Total		**2,137**	**27,185**

[1] Dietmar Heinrich has been a member of the Board of Managing Directors of Schaeffler AG since August 01, 2017.
[2] Dr. Ulrich Hauck left the Board of Managing Directors of Schaeffler AG as at July 31, 2017. His employment agreement remains in effect until March 31, 2018.

Service cost for 2016 and defined benefit obligations as at December 31, 2016 in accordance with IAS 19 No. 077

in Tsd. EUR	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
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
Managing Directors who left the company in 2016			
Norbert Indlekofer [1]	2016	194	5,049
Total		**3,295**	**30,910**

[1] Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

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 advances of EUR 300 thousand each for 2017 and payments of 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 payment of the long-term bonuses granted in 2017, 2018, and 2019.

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 non-competition clause for a period of 2 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 12 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 Dietmar Heinrich and Matthias Zink, who were appointed to the Board of Managing Directors in 2017, and Corinna Schittenhelm, appointed to the Board of Managing Directors in 2016, include post-contract non-competition clauses calling for corresponding compensation.

Dr. Ulrich Hauck left Schaeffler AG's Board of Managing Directors early effective July 31, 2017. His employment agreement remains in effect until March 31, 2018. The post-contract non-competition clause was waived. The fixed remuneration including fringe benefits he will continue to receive amounts to a total of EUR 403 thousand and his proportionate short-term bonus for 2017 is EUR 291 thousand. In addition, the company agreed to pay Dr. Hauck the proportionate short-term bonus for 2018 (target bonus EUR 188 thousand) and a proportionate long-term bonus for 2018 (target bonus EUR 200 thousand). In connection with the waiver of the post-contract non-competition clause, the company will make payments for the period of approx. 4 months, in the amount of 50% of the average monthly contractual remuneration granted for the last 12 months before the end of Dr. Hauck's employment.

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 engaged Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to review the appropriateness of the Managing Directors' remuneration, most recently in 2016. Ernst & Young concluded that the total remuneration of the members of the Board of Managing Directors is customary and appropriate in comparison to that of other companies of comparable size within the same industry and country in terms of the amount, structure, and features of remuneration instruments.

3.2 Amounts of remuneration of the Board of Managing Directors

The fixed and variable components of remuneration are disclosed below. The following tables show the benefits granted and received for 2017 and 2016.

Benefits granted for 2017

	Klaus Rosenfeld				Prof. Dr. Peter Gutzmer				Dietmar Heinrich			
	Chief Executive Officer				Deputy Chief Executive Officer and Chief Technology Officer				Chief Financial Officer			
	since October 24, 2014				since October 24, 2014				since August 01, 2017			
in € thousands	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)
Fixed remuneration	1,200	1,200	1,200	1,200	600	600	600	600	-	250	250	250
Fringe benefits	27	28	28	28	28	29	29	29	-	9	9	9
Total	**1,227**	**1,228**	**1,228**	**1,228**	**628**	**629**	**629**	**629**	**-**	**259**	**259**	**259**
One-year variable remuneration	1,200	1,200	0	1,800	900	900	0	1,350	-	250	0	375
Multi-year variable remuneration												
• Long-term bonus: PSUP (4 years) - 2015 tranche	-	-	-	-	-	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2016 tranche	1,128	-	-	-	824	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2017 tranche	-	1,048	0	2,600	-	766	0	1,900	-	189	0	542
Total	**3,555**	**3,476**	**1,228**	**5,628**	**2,352**	**2,295**	**629**	**3,879**	**-**	**698**	**259**	**1,176**
Pension expense	1,158	1,331	1,331	1,331	287	0	0	0	-	114	114	114
Total remuneration	**4,713**	**4,807**	**2,559**	**6,959**	**2,639**	**2,295**	**629**	**3,879**	**-**	**812**	**373**	**1,290**

Benefits received for 2017

	Klaus Rosenfeld		Prof. Dr. Peter Gutzmer		Dietmar Heinrich	
	Chief Executive Officer		Deputy Chief Executive Officer and Chief Technology Officer		Chief Financial Officer	
	since October 24, 2014		since October 24, 2014		since August 01, 2017	
in € thousands	2017	2016	2017	2016	2017	2016
Fixed remuneration	1,200	1,200	600	600	250	-
Sign-on bonus	-	600	-	300	-	-
Fringe benefits	28	27	29	28	9	-
Total	**1,228**	**1,827**	**629**	**928**	**259**	**-**
One-year variable remuneration	1,116	1,199	837	899	233	-
Multi-year variable remuneration						
• Long-term bonus: PSUP (4 years) - 2015 tranche	0	0	0	0	0	-
• Long-term bonus: PSUP (4 years) - 2016 tranche	0	0	0	0	0	-
• Long-term bonus: PSUP (4 years) - 2017 tranche	0	0	0	0	0	-
Total	**2,344**	**3,026**	**1,466**	**1,827**	**492**	**-**
Pension expense	1,331	1,158	0	287	114	-
Total remuneration	**3,675**	**4,184**	**1,466**	**2,114**	**606**	**-**

No. 078

Oliver Jung				Prof. Dr. Peter Pleus				Corinna Schittenhelm				Dr. Stefan Spindler				Matthias Zink			
Chief Operating Officer				CEO Automotive				Chief Human Resources Officer				CEO Industrial				CEO Automotive			
since October 24, 2014				since October 24, 2014				since January 01, 2016				since May 01, 2015				since January 01, 2017			
2016	**2017**	**2017 (Min)**	**2017 (Max)**	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**
600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	-	600	600	600
28	28	28	28	41	42	42	42	23	25	25	25	23	24	24	24	-	24	24	24
628	**628**	**628**	**628**	**641**	**642**	**642**	**642**	**623**	**625**	**625**	**625**	**623**	**624**	**624**	**624**	**-**	**624**	**624**	**624**
900	900	0	1,350	900	900	0	1,350	600	600	0	900	750	750	0	1,125	-	600	0	900
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
824	-	-	-	824	-	-	-	564	-	-	-	694	-	-	-	-	-	-	-
-	766	0	1,900	-	766	0	1,900	-	524	0	1,300	-	645	0	1,600	-	524	0	1,300
2,352	**2,294**	**628**	**3,878**	**2,365**	**2,308**	**642**	**3,892**	**1,787**	**1,749**	**625**	**2,825**	**2,067**	**2,019**	**624**	**3,349**	**-**	**1,748**	**624**	**2,824**
272	307	307	307	357	383	383	383	319	326	326	326	250	308	308	308	-	317	317	317
2,624	**2,601**	**935**	**4,185**	**2,722**	**2,691**	**1,025**	**4,275**	**2,106**	**2,075**	**951**	**3,151**	**2,317**	**2,327**	**932**	**3,657**	**-**	**2,065**	**941**	**3,141**

No. 079

Oliver Jung		Prof. Dr. Peter Pleus		Corinna Schittenhelm		Dr. Stefan Spindler		Matthias Zink	
Chief Operating Officer		CEO Automotive		Chief Human Resources Officer		CEO Industrial		CEO Automotive	
since October 24, 2014		since October 24, 2014		since January 01, 2016		since May 01, 2015		since January 01, 2017	
2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
600	600	600	600	600	600	600	600	600	-
-	300	-	300	-	-	-	300	-	-
28	28	42	41	25	23	24	23	24	-
628	**928**	**642**	**941**	**625**	**623**	**624**	**923**	**624**	**-**
837	899	778	862	558	599	608	522	518	-
0	0	0	0	0	0	0	0	0	-
0	0	0	0	0	0	0	0	0	-
0	0	0	0	0	0	0	0	0	-
1,465	**1,827**	**1,420**	**1,803**	**1,183**	**1,222**	**1,232**	**1,445**	**1,142**	**-**
307	272	383	357	326	319	308	250	317	-
1,772	**2,099**	**1,803**	**2,160**	**1,509**	**1,541**	**1,540**	**1,695**	**1,459**	**-**

**Benefits granted for 2017 –
Managing Directors who left the company**

No. 080

	Dr. Ulrich Hauck Chief Financial Officer from April 01, 2015 to July 31, 2017			
in € thousands	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**
Fixed remuneration	600	350	350	350
Fringe benefits	28	16	16	16
Total	**628**	**366**	**366**	**366**
One-year variable remuneration	750	438	0	656
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) - 2015 tranche	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2016 tranche	694	-	-	-
• Long-term bonus: PSUP (4 years) - 2017 tranche	-	645	0	1,600
Total	**2,072**	**1,449**	**366**	**2,622**
Pension expense	458	-949	-949	-949
Total remuneration	**2,530**	**500**	**-583**	**1,673**

**Benefits received for 2017 –
Managing Directors who left the company**

No. 081

	Dr. Ulrich Hauck Chief Financial Officer from April 01, 2015 to July 31, 2017	
in € thousands	**2017**	**2016**
Fixed remuneration	350	600
Sign-on bonus	-	300
Fringe benefits	16	28
Total	**366**	**928**
One-year variable remuneration	407	749
Multi-year variable remuneration		
• Long-term bonus: PSUP (4 years) - 2015 tranche	0	0
• Long-term bonus: PSUP (4 years) - 2016 tranche	0	0
• Long-term bonus: PSUP (4 years) - 2017 tranche	0	0
Total	**773**	**1,677**
Pension expense	-949	458
Total remuneration	**- 176**	**2,135**

The total remuneration for 2017 and 2016 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 2017 by individual No. 082

	Remuneration components			
in € thousands	fixed	variable, short-term	variable, long-term [1]	Total remuneration
Klaus Rosenfeld (CEO)	1,228	1,116	1,048	3,392
Prof. Dr. Peter Gutzmer	629	837	766	2,232
Dietmar Heinrich [2]	259	233	189	681
Oliver Jung	628	837	766	2,231
Prof. Dr. Peter Pleus	642	778	766	2,186
Corinna Schittenhelm	625	558	524	1,707
Dr. Stefan Spindler	624	608	645	1,877
Matthias Zink	624	518	524	1,666
Managing Directors who left the company in 2017				
Dr. Ulrich Hauck [3]	366	407	645	1,418
Total	**5,625**	**5,892**	**5,873**	**17,390**

[1] Share-based payment in the form of the PSUP.
[2] Dietmar Heinrich has been a member of the Board of Managing Directors of Schaeffler AG since August 01, 2017.
[3] Dr. Ulrich Hauck left the Board of Managing Directors of Schaeffler AG as at July 31, 2017. His employment agreement remains in effect until March 31, 2018.

Total remuneration (HGB) for 2016 by individual No. 083

	Remuneration components			
in € thousands	fixed	variable, short-term	variable, long-term [1]	Total remuneration
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
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
Managing Directors who left the company in 2016				
Norbert Indlekofer [2]	625	862	824	2,311
Total	**5,623**	**6,591**	**6,376**	**18,590**

[1] Share-based payment in the form of the PSUP.
[2] Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

The total expenses resulting from the PSUP for 2017 are broken down by individual in accordance with section 314 (1) (6a) (8) HGB in connection with IFRS 2.51a below.

PSUP expenses in 2017 No. 084

in € thousands	Expenses (IFRS)
Klaus Rosenfeld (CEO)	669
Prof. Dr. Peter Gutzmer	489
Dietmar Heinrich [1]	21
Oliver Jung	837
Prof. Dr. Peter Pleus	489
Corinna Schittenhelm	196
Dr. Stefan Spindler	355
Matthias Zink	101
Managing Directors who left the company	
Dr. Ulrich Hauck [2]	1,090
Total	**4,247**

[1] Dietmar Heinrich has been a member of the Board of Managing Directors of Schaeffler AG since August 01, 2017.
[2] Dr. Ulrich Hauck left the Board of Managing Directors of Schaeffler AG as at July 31, 2017. His employment agreement remains in effect until March 31, 2018.

The total expenses resulting from the PSUP for 2017 are broken down by individual in accordance with section 314 (1) (6a) (8) HGB in connection with IFRS 2.51a below.

PSUP expenses in 2016 No. 085

in € thousands	Aufwendungen (IFRS)
Klaus Rosenfeld (CEO)	402
Prof. Dr. Peter Gutzmer	293
Dr. Ulrich Hauck	213
Oliver Jung	293
Prof. Dr. Peter Pleus	184
Corinna Schittenhelm	88
Dr. Stefan Spindler	201
Managing Directors who left the company	
Norbert Indlekofer [1]	948
Total	**2,622**

[1] Norbert Indlekofer left the Board of Managing Directors of Schaeffler AG as at December 31, 2016.

3.3 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. Where the term of office of a member of the Supervisory Board or the position entitling the Supervisory Board member to increased remuneration begins or ends during the year, the remuneration or increased remuneration paid to the Supervisory Board member is prorated.

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. No attendance fees are paid where meetings of the Supervisory Board or its committees are attended via telephone.

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 and expenses.

The company has obtained director's and officers' liability insurance (D&O insurance) for all members of the Supervisory Board; the features of the policy's deductible provision are in accordance with section 93 (3) (3) AktG.

No advances or loans were granted to members of the Supervisory Board in 2017 or 2016. The following tables summarize the amount of remuneration of each member of the Supervisory Board.

Supervisory Board remuneration for 2017 [1] No. 086

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees [2]	Total remuneration
Bullinger, Prof. Dr. Hans-Jörg	50		8	58
Engelmann, Dr. Holger	50		6	56
Gottschalk, Prof. Dr. Bernd	50		6	56
Grimm, Andrea (since April 08, 2017) [3]	36		6	42
Lenhard, Norbert [3]	50	20	12	82
Luther, Dr. Siegfried	50	40	14	104
Mittag, Dr. Reinold [3]	50	20	14	84
Münch, Yvonne (until March 07, 2017) [3]	9		2	11
Resch, Barbara [3]	50	20	12	82
Schaeffler, Georg F. W.	100	40	15	155
Schaeffler-Thumann, Maria-Elisabeth	75	20	3	98
Schmidt, Stefanie [3]	50		8	58
Spindler, Dirk	50		8	58
Stalker, Robin	50	20	14	84
Stolz, Jürgen [3]	50		8	58
Vicari, Salvatore [3]	50	20	14	84
Wechsler, Jürgen [3]	75	20	11	106
Wiesheu, Dr. Otto	50		8	58
Wolf, Prof. KR Ing. Siegfried	50	20	11	81
Worrich, Jürgen [3]	50	20	14	84
Zhang, Prof. Dr.-Ing. Tong	50		6	56
Total	**1,095**	**260**	**200**	**1,555**

[1] All amounts shown exclude any value-added tax applicable on remuneration. The positions held by the Supervisory Board members are listed in section 5 "Governing bodies of the company".
[2] No attendance fees are paid where meetings of the Supervisory Board or its committees are attended via telephone.
[3] 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 2016 1) No. 087

in € thousands	Fixed remune-ration	Remune-ration for committee member-ship	Attendance fees 2)	Total remune-ration
Bullinger, Prof. Dr. Hans-Jörg	50		6	56
Engelmann, Dr. Holger	50		6	56
Gottschalk, Prof. Dr. Bernd	50		6	56
Lenhard, Norbert 3)	50	20	11	81
Luther, Dr. Siegfried	50	40	14	104
Mittag, Dr. Reinold 3)	50	20	14	84
Münch, Yvonne 3)	50		8	58
Resch, Barbara 3)	50	20	12	82
Schaeffler, Georg F. W.	100	40	12	152
Schaeffler-Thumann, Maria-Elisabeth	75	20	6	101
Schmidt, Stefanie 3)	50		6	56
Spindler, Dirk	50		8	58
Stalker, Robin	50	20	12	82
Stolz, Jürgen 3)	50		8	58
Vicari, Salvatore 3)	50	20	12	82
Wechsler, Jürgen 3)	75	20	11	106
Wiesheu, Dr. Otto	50		6	56
Wolf, Prof. KR Ing. Siegfried	50	20	8	78
Worrich, Jürgen 3)	50	20	14	84
Zhang, Prof. Dr.-Ing. Tong	50		8	58
Total	**1,100**	**260**	**188**	**1,548**

1) All amounts shown exclude any value-added tax applicable on remuneration. The positions held by the Supervisory Board members are listed in section 5 “Governing bodies of the company”.
2) No attendance fees are paid where meetings of the Supervisory Board or its committees are attended via telephone.
3) 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.

Members of the Supervisory Board have not received any compensation for personal services, especially consulting and agency services, in 2017 or 2016.

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 TÜVSÜD AG, Munich; deputy chairman of the supervisory board of WILO SE, Dortmund; member of the board of directors of Kärcher GmbH & Co. KG, Winnenden

Dr. Holger Engelmann

Chairman of the Management Board of Webasto SE

Appointed: December 01, 2014
Committee memberships: member of the nomination committee
Seats on supervisory and similar boards: chairman of the supervisory board of Webasto Thermo & Comfort SE, Gilching

* Employee representative on the Supervisory Board.

Prof. Dr. Bernd Gottschalk
Owner and Managing Partner of AutoValue GmbH

Appointed: December 01, 2014
Committee memberships: member of the nomination committee
Seats on supervisory and similar boards: deputy chairman 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

Andrea Grimm* (since April 08, 2017)
Controller

Appointed: April 08, 2017

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: chairman of the audit committee of Evonik Industries AG, Essen; member of the board of directors of Sparkasse Gütersloh-Riethberg, Gütersloh

Dr. Reinold Mittag*
Trade Union Secretary of IG Metall

Appointed: November 19, 2015
Committee memberships: member of the audit committee

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&D Processes, Methods and Tools of Schaeffler AG

Appointed: November 19, 2015

Robin Stalker
Chartered Accountant

Appointed: December 01, 2014
Committee memberships: member of the audit committee
Seats on supervisory and similar boards: deputy chairman of the supervisory board of Schmitz Cargobull AG, Horstmar (since November 30, 2017)

Jürgen Stolz*
Deputy Chairman of the Group Works Council;
member of the Works Council at the Buehl plant

Appointed: November 19, 2015

Salvatore Vicari*
Chairman of the Works Council at the Homburg/Saar plant

Appointed: November 19, 2015
Committee memberships: member of the audit committee
Seats on supervisory and similar boards: member of the supervisory board of GEW-Management GmbH, Homburg (since June 01, 2017)

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: member 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

* Employee representative on the Supervisory Board.

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

The following member left the Supervisory Board in 2017

Yvonne Münch* (until March 07, 2017)

Manager Plant Purchase and Logistics

Appointed: November 19, 2015
Term of office ended: March 07, 2017

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 nine members: the Chief Executive Officer (CEO), the CEOs of the Automotive OEM, Automotive Aftermarket, and Industrial divisions, 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; Schaeffler Consulting; Communications & Branding; Investor Relations; Legal; Internal Audit; Business 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 board of directors of Schaeffler Holding (China) Co. Ltd., Shanghai, China; member of the board of directors of Schaeffler India Ltd., Vadodara, India; member of the board of directors of Siemens Gamesa Renewable Energy S.A., Zamudio, Spain (since April 03, 2017)

Prof. Dr.-Ing. Peter Gutzmer

Deputy CEO and Chief Technology Officer

Responsible for: Corporate R&D Management; Technology Strategy & Innovation; R&D Processes, Methods & Tools; R&D Competence & Services; Intellectual Property Rights; Surface Technology; Information Technology; Strategic IT; 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

* Employee representative on the Supervisory Board.

Dietmar Heinrich (since August 01, 2017)
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Taxes; Corporate Insurance; Divisional Controlling Automotive OEM, AAM, and Industrial divisions;
Appointed: August 01, 2017
Term of office ends: July 31, 2020
Seats on supervisory and similar boards: member of the supervisory board of FAG Magyarorszag Ipari Kft., Debrecen, Hungary (until November 30, 2017); member of the supervisory board of LuK Savaria Kft., Szombathely, Hungary (until January 08, 2018); member of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria; member of the board of directors of Schaeffler India Ltd., Vadodara, India; member of the supervisory board of Schaeffler Kysuce, spol. s r.o., Kysucké Nové Mesto, Slovakia (until December 12, 2017); member of the supervisory board of Schaeffler Skalica, spol. s r.o., Skalica, Slovakia (until December 12, 2017))

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
Appointed: October 24, 2014
Term of office ends: September 30, 2018
Seats on supervisory and similar boards: member of the supervisory board of FAG Magyarorszag Ipari Kft., Debrecen, Hungary; member of the supervisory board of Heidelberger Druckmaschinen AG, Heidelberg (since May 23, 2017); chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria; member of the supervisory board of SupplyOn AG, Munich

Prof. Dr. Peter Pleus
CEO Automotive OEM

Responsible for: Strategy & Business Development Automotive OEM; Global Key Account Management Automotive OEM; Engine Systems and Chassis Systems business divisions
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; Human Resources Functions; Human Resources Automotive OEM; Human Resources AAM; Human Resources Industrial
Appointed: January 01, 2016
Term of office ends: December 31, 2018

Michael Söding (since January 01, 2018)
CEO Automotive Aftermarket

Responsible for: Strategy & Business Development AAM; Sales & Marketing AAM; Product Management/R&D AAM; Operations & Supply Chain Management AAM
Appointed: January 01, 2018
Term of office ends: December 31, 2020

Dr. Stefan Spindler
CEO Industrial

Responsible for: Strategy & Business Development Industrial; Global Key Account Management Industrial; Sales & Marketing Industrial; Industry 4.0; R&D Industrial; Operations and Supply Chain Management Industrial
Appointed: May 01, 2015
Term of office ends: April 30, 2023
Seats on supervisory and similar boards: deputy chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria

Matthias Zink
CEO Automotive OEM

Responsible for: Transmission Systems and E-Mobility business divisions; R&D Automotive OEM; Operations & Supply Chain Management Automotive OEM
Appointed: January 01, 2017
Term of office ends: December 31, 2019
Seats on supervisory and similar boards: member of the supervisory board of LuK Savaria Kft., Szombathely, Hungary (since March 30, 2017); member of the board of directors of Schaeffler (China) Co. Ltd., Shanghai, China

The following member left the Board of Managing Directors in 2017

Dr. Ulrich Hauck (since July 31, 2017)
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Taxes; Divisional Controlling Automotive and Industrial divisions; Corporate Insurance
Appointed: April 01, 2015
Term of office ended: July 31, 2017
Seats on supervisory and similar boards: member of the supervisory board of mutares AG, Munich

Financial statements 2017

1. Balance sheet

Balance sheet of Schaeffler AG

No. 088

in €	12/31/2017	12/31/2016	Change in %
ASSETS			
Intangible assets	**1,781.00**	**4,016.00**	**-55.7**
Property, plant and equipment	**369,787.00**	**321,461.00**	**15.0**
Shares in affiliated companies	14,108,811,258.16	14,108,811,259.16	0.0
Loans receivable from affiliated companies	193,003,287.57	120,000,000.00	60.8
Long-term financial assets	**14,301,814,545.73**	**14,228,811,259.16**	**0.5**
Fixed assets	**14,302,186,113.73**	**14,229,136,736.16**	**0.5**
Trade receivables	17,888.94	0.00	-
Receivables from affiliated companies	8,402,230,883.87	11,505,345,290.98	-27.0
Receivables from entities to which the company is linked by equity ownership	0.00	1,021.02	- 100
Other assets	153,102,602.20	98,234,547.43	55.9
Receivables and other assets	**8,555,351,375.01**	**11,603,580,859.43**	**-26.3**
Cash at banks	**188,839,236.42**	**635,193,409.31**	**-70.3**
Current assets	**8,744,190,611.43**	**12,238,774,268.74**	**-28.6**
Prepaid expenses and deferred charges	**86,475.33**	**100,871.04**	**-14.3**
Excess of plan assets over post-employment benefit liability	**8,727,482.54**	**8,376,620.45**	**4.2**
Total assets	**23,055,190,683.03**	**26,476,388,496.39**	**-12.9**
SHAREHOLDERS' EQUITY AND LIABILITIES			
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	3,580,931,810.50	3,342,775,184.50	7.1
Retained earnings	453,323,996.31	566,156,626.00	-19.9
Shareholders' equity	**7,059,255,806.81**	**6,933,931,810.50**	**1.8**
Provisions for pensions and similar obligations	44,961,717.43	37,964,871.69	18.4
Tax provisions	140,774,149.54	101,770,939.00	38.3
Other provisions	128,114,474.64	128,386,105.09	-0.2
Provisions	**313,850,341.61**	**268,121,915.78**	**17.1**
Bank debt	1,092,564,770.62	1,000,000,255.44	9.3
Trade payables	8,117,563.71	3,434,613.72	> 100
Amounts payable to affiliated companies	14,564,909,705.15	18,203,582,140.14	-20.0
Other liabilities	10,192,682.13	58,917,947.81	-82.7
• including taxes of EUR 2,024,030.16 (prior year: EUR 9,802,843.83)			
Liabilities	**15,675,784,721.61**	**19,265,934,957.11**	**-18.6**
Deferred income	**6,299,813.00**	**8,399,813.00**	**-25.0**
Total shareholders' equity and liabilities	**23,055,190,683.03**	**26,476,388,496.39**	**-12.9**

2. Income statement

Income statement of Schaeffler AG No. 089

in €	2017	2016	Change in %
1. Revenue	100,154,924.52	87,643,064.28	14.3
2. Cost of sales	-94,364,369.55	-83,541,220.99	13.0
3. Gross profit	**5,790,554.97**	**4,101,843.29**	**41.2**
4. General and administrative expenses	-59,708,859.57	-70,595,659.77	-15.4
5. Other operating income	382,425,812.25	634,722,049.87	-39.7
6. Other operating expenses	-280,188,940.92	-516,506,210.41	-45.8
7. Income from equity investments	675,000,000.00	600,000,000.00	12.5
• affiliated companies EUR 675,000,000.00 (prior year: EUR 600,000,000.00)			
8. Income from other securities and long-term loans receivable	747,440.62	50,819,945.05	-98.5
• affiliated companies EUR 747,440.62 (prior year: EUR 50,819,945.05)			
9. Other interest and similar income	36,506,450.56	33,293,903.64	9.6
• affiliated companies EUR 35,472,235.53 (prior year: EUR 29,073,322.65)			
10. Interest and similar expenses	-209,003,378.87	-373,241,643.31	-44.0
• affiliated companies EUR 165,762,329.26 (prior year: EUR 305,261,493.83)			
11. Income taxes	-98,197,012.15	203,601,896.24	-
12. Earnings after income taxes	**453,372,066.89**	**566,196,124.60**	**-19.9**
13. Other taxes	-48,070.58	-39,498.60	21.7
14. Net income for the year	**453,323,996.31**	**566,156,626.00**	**-19.9**
15. Retained earnings brought forward	0.00	0.00	0.0
16. Retained earnings	**453,323,996.31**	**566,156,626.00**	**-19.9**

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:

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 presented as a special reserve on the liability side of the balance sheet.

Unlike in the prior year, this difference is presented as deferred income rather than as a special reserve. The presentation of prior year figures was adjusted accordingly. This deferred income balance is amortized to income over the remaining period of three years on a straight-line basis.

Amortization of EUR 2,100 thousand was recognized on deferred income in 2017.

3.2 Accounting policies

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

Intangible assets consist of purchased rights and licenses that 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. The key inputs to this model are 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 expenses and deferred charges are recognized at the amount that is reasonably attributable to periods subsequent to the balance sheet date.

Excess of plan assets over post-employment benefit liability is the net amount of retirement benefit obligations and assets that are protected from access by all other creditors and whose exclusive purpose is settling these liabilities and similar long-term obligations.

Deferred taxes are recognized on temporary differences between amounts recognized for financial reporting and for tax purposes for assets, liabilities, prepaid expenses, 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, 2017, amounts to 3.67%, 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"). Provisions for pension obligations with a remaining term of more than one year are discounted using the 10-year average discount rate.

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 of PSUs with a TSR-based performance target is determined using a binomial model. The valuation model used takes into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target range for the TSR-based performance target, dividends expected to be paid on Schaeffler AG common non-voting shares, as well as the volatility of Schaeffler AG common nonvoting shares and the benchmark index MDAX). 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 date.

3.3 Notes to the balance sheet

Fixed assets

Long-term loans receivable from affiliated companies classified as fixed assets consist of EUR 120,000 thousand due from LuK Savaria Kft. and a loan of EUR 73,003 thousand granted to FAG Magyarorszag Ipari Kft. during the year.

Fixed assets of Schaeffler AG (HGB) No. 090

in € thousands	Licenses	Intangible assets	Furniture and fixtures	Property, plant and equipment	Shares in affiliated companies	Other loans receivable	Long-term financial assets	Total
Historical cost								
Balance as at January 01, 2017	**110**	**110**	**679**	**679**	**14,108,811**	**120,000**	**14,228,811**	**14,229,600**
Additions	0	0	182	182	0	73,003	73,003	73,185
Disposals	0	0	-91	-91	0	0	0	-91
Transfers	0	0	0	0	0	0	0	0
Balance as at December 31, 2017	**110**	**110**	**770**	**770**	**14,108,811**	**193,003**	**14,301,814**	**14,302,694**
Accumulated amortization, depreciation, and write-downs								
Balance as at January 01, 2017	**106**	**106**	**357**	**357**	**0**	**0**	**0**	**463**
Additions	2	2	133	133	0	0	0	135
Disposals	0	0	-90	-90	0	0	0	-90
Transfers	0	0	0	0	0	0	0	0
Balance as at December 31, 2017	**108**	**108**	**400**	**400**	**0**	**0**	**0**	**508**
Net book values								
as at January 01, 2017	**4**	**4**	**322**	**322**	**14,108,811**	**120,000**	**14,228,811**	**14,229,137**
as at December 31, 2017	**2**	**2**	**370**	**370**	**14,108,811**	**193,003**	**14,301,814**	**14,302,186**

Receivables and other assets

Receivables and other assets No. 091

in € thousands	12/31/2017 Due in up to one year	12/31/2017 Due in 1 to 5 years	12/31/2017 Due in more than 5 years	12/31/2016 Due in up to one year	12/31/2016 Due in 1 to 5 years	12/31/2016 Due in more than 5 years
Trade receivables	18	0	0	0	0	0
Receivables from affiliated companies	8,402,231	0	0	11,505,345	0	0
• including short-term loans of	7,513,380	0	0	7,647,533	0	0
• including other financial receivables of	174,261	0	0	172,924	0	0
• including trade receivables of	37,554	0	0	82,266	0	0
• including other receivables of	677,036	0	0	3,602,622	0	0
Receivables from entities to which the company is linked by equity ownership	0	0	0	1	0	0
Other assets	89,858	0	63,245	34,990	0	63,245

Other receivables largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 675,000 thousand (prior year: EUR 3,599,784 thousand), which has not yet been paid. Schaeffler Technologies AG & Co. KG paid EUR 3.6 bn in respect of net income for prior years to Schaeffler AG in 2017. Schaeffler AG in turn used these funds entirely to pay off existing liabilities due to Schaeffler Technologies AG & Co. KG.

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 this proportional nominal amount of EUR 305,460 thousand (prior year: EUR 305,460 thousand) is EUR 13,176 thousand (prior year: EUR 56,868 thousand).

Due to the imparity principle, the company has not capitalized forward exchange contracts with positive market values of EUR 108,558 thousand (prior year: EUR 105,735 thousand) used to hedge currency risk from operations. The nominal amount of these contracts is EUR 3,394,864 thousand (prior year: EUR 3,210,703 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 2017 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. 092

in € thousands	12/31/2017	12/31/2016
Settlement amount of pensions and similar obligations	26,854	23,938
Fair value of plan assets offset	35,581	32,315
Net amount of pensions and similar obligations	**8,727**	**8,377**
Acquisition cost of plan assets offset	**35,544**	**32,260**

in € thousands	2017	2016
Interest income on plan assets offset	1,552	740
Interest expense on pensions and similar obligations	-6,160	-701
Net interest income (expense)	**-4,608**	**39**

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 nonvoting shares. The common nonvoting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common nonvoting share.

The common shares are held by IHO Verwaltungs GmbH. The common nonvoting 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, 2017.

Capital reserves

Capital reserves of EUR 2,359 m as at the reporting date are unchanged from prior year.

Retained earnings

In 2017, a dividend of EUR 328 m was paid to the shareholders from retained earnings, and the remaining EUR 238 m was added to other revenue reserves. The company's net income for the year of EUR 453 m was added to retained earnings.

For 2017, the Board of Managing Directors will propose to the Schaeffler AG annual general meeting a resolution to pay a dividend of EUR 361 m and to add the remaining retained earnings to revenue reserves.

Other provisions

Other provisions No. 093

in € thousands	12/31/2017	12/31/2016
Provisions for pending losses on open transactions	74,612	100,537
Provisions for profit sharing, other bonuses, and share-based payments	20,967	14,874
Miscellaneous other provisions	32,535	12,975
Total other provisions	**128,114**	**128,386**

The company has recognized EUR 74,612 thousand (prior year: EUR 100,537 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 3,256,024 thousand (prior year: EUR 3,236,146 thousand).

Liabilities

Liabilities No. 094

in € thousands	12/31/2017			12/31/2016		
	Due in up to one year	Due in 1 to 5 years	Due in more than 5 years	Due in up to one year	Due in 1 to 5 years	Due in more than 5 years
Bank debt	2,565	1,090,000	0	0	1,000,000	0
Trade payables	8,118	0	0	3,435	0	0
Amounts payable to affiliated companies	12,496,297	900,000	1,168,613	15,470,833	1,062,760	1,669,989
• including loans of	7,449,365	900,000	1,168,613	14,246,064	1,062,760	1,669,989
• including other financial debt of	4,914,269	0	0	1,164,224	0	0
• including trade payables of	4,807	0	0	1,835	0	0
• including other liabilities of	127,856	0	0	58,710	0	0
Other liabilities	10,192	0	0	58,918	0	0
• including taxes of	2,024	0	0	9,803	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 2,104,357 thousand (prior year: EUR 2,772,382 thousand) payable to Schaeffler Finance B.V., largely relating to the transfer of the proceeds from the bond issuance by Schaeffler Finance B.V. The redemption of a USD bond with a principal of USD 700,000 thousand during the year has further 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.

Bank debt secured by liens or similar rights (primarily long-term financial assets) amounts to EUR 1,090,000 thousand (prior year: EUR 1,000,000 thousand).

Hedge accounting

Cross-currency swaps with a nominal amount of EUR 305,460 thousand (prior year: EUR 305,460 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 13,176 thousand (prior year: EUR 56,868 thousand).

The hedged items are intragroup liabilities denominated in foreign currency with a book value of EUR 379,075 thousand (prior year: EUR 379,075 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 114,017 thousand). The hedging instrument has a positive fair value of EUR 5,176 thousand (prior year: EUR 295 thousand), the hedged item has a negative fair value of EUR 5,176 thousand (prior year: 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 40,242 thousand (prior year: EUR -136 thousand) in changes in the value of hedged items and EUR -52,654 thousand (prior year: EUR -10,207 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 noncurrent 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. 095

in € thousands	2017	2016
Domestic	96,438	85,892
Foreign	3,717	1,751
Total revenue	**100,155**	**87,643**

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.

Disclosures required for the cost of sales format

Disclosures required for the cost of sales format No. 096

in € thousands	2017	2016
Wages and salaries	88,701	78,435
Social security, post-employment, and other employee benefit costs	10,983	14,104
Personnel expense	**99,684**	**92,539**

Income and expenses from discounting/compounding provisions and foreign exchange gains and losses

Other operating income includes foreign exchange gains of EUR 374,140 thousand (prior year: EUR 580,228 thousand). Other operating expenses include foreign exchange losses of EUR 257,535 thousand (prior year: EUR 516,605 thousand).

Other interest and similar income includes EUR 5 thousand (prior year: EUR 0 thousand) in income from discounting provisions. Other interest and similar expenses includes EUR 11,151 thousand (prior year: EUR 8,225 thousand) in expenses from compounding provisions.

Expenses and income related to prior years

Expenses and income related to prior years No. 097

in € thousands	2017	2016
Tax expense and benefits related to prior years	12,977	-347
Gains on reversal of provisions	2,079	486
Income related to prior years	**15,056**	**139**

3.5 Other disclosures

Contingent liabilities

The company has the following contingent liabilities, largely arising from bond issuances of Schaeffler Finance B.V.:

Contingent liabilities No. 098

in € thousands	12/31/2017	12/31/2016	Change in %
From granting security for third-party liabilities	2,022,649	2,760,599	-26.7
• including amounts secured by liens of	2,022,649	2,760,599	-26.7
• including security granted for liabilities of affiliated companies of	2,022,649	2,760,599	-26.7

The company had guarantees outstanding of EUR 125,149 thousand (prior year: EUR 144,790 thousand) at December 31, 2017.

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. 099

in € thousands	2017	2016	Change in %
Off-balance sheet payment obligations	2,679	2,662	0.6
• including obligations under multi-year leases of	1,961	1,974	-0.7
• including obligations to affiliated companies of	718	688	4.4

Average number of employees for the year

Average number of employees No. 100

	2017	2016	Change in %
Salaried employees	627	596	5.2
Temporary staff	20	16	25.0
Total	**647**	**612**	**5.7**

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; Schaeffler Consulting; Communications & Branding; Investor Relations; Legal; Internal Audit; Business 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 board of directors of Schaeffler Holding (China) Co. Ltd., Shanghai, China; member of the board of directors of Schaeffler India Ltd., Vadodara, India; member of the board of directors of Siemens Gamesa Renewable Energy S.A., Zamudio, Spain (since April 03, 2017)

Prof. Dr.-Ing. Peter Gutzmer
Deputy CEO and Chief Technology Officer

Responsible for: Corporate R&D Management; Technology Strategy & Innovation; R&D Processes, Methods & Tools; R&D Competence & Services; Intellectual Property Rights; Surface Technology; Information Technology; Strategic IT; 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

Dietmar Heinrich (since August 01, 2017)
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Taxes; Corporate Insurance; Divisional Controlling Automotive OEM, AAM, and Industrial divisions;
Appointed: August 01, 2017
Term of office ends: July 31, 2020
Seats on supervisory and similar boards: member of the supervisory board of FAG Magyarorszag Ipari Kft., Debrecen, Hungary (until November 30, 2017); member of the supervisory board of LuK Savaria Kft., Szombathely, Hungary (until January 08, 2018); member of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria; member of the board of directors of Schaeffler India Ltd., Vadodara, India; member of the supervisory board of Schaeffler Kysuce, spol. s r.o., Kysucké Nové Mesto, Slovakia (until December 12, 2017); member of the supervisory board of Schaeffler Skalica, spol. s r.o., Skalica, Slovakia (until December 12, 2017)

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
Appointed: October 24, 2014
Term of office ends: September 30, 2018
Seats on supervisory and similar boards: member of the supervisory board of FAG Magyarorszag Ipari Kft., Debrecen, Hungary; member of the supervisory board of Heidelberger Druckmaschinen AG, Heidelberg (since May 23, 2017); chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria; member of the supervisory board of SupplyOn AG, Munich

Prof. Dr. Peter Pleus
CEO Automotive OEM

Responsible for: Strategy & Business Development Automotive OEM; Global Key Account Management Automotive OEM; Engine Systems and Chassis Systems business divisions
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; Human Resources Functions; Human Resources Automotive OEM; Human Resources AAM; Human Resources Industrial
Appointed: January 01, 2016
Term of office ends: December 31, 2018

Michael Söding (since January 01, 2018)
CEO Automotive Aftermarket

Responsible for: Strategy & Business Development AAM; Sales & Marketing AAM; Product Management/R&D AAM; Operations & Supply Chain Management AAM
Appointed: January 01, 2018
Term of office ends: December 31, 2020

Dr. Stefan Spindler
CEO Industrial

Responsible for: Strategy & Business Development Industrial; Global Key Account Management Industrial; Sales & Marketing Industrial; Industry 4.0; R&D Industrial; Operations and Supply Chain Management Industrial
Appointed: May 01, 2015
Term of office ends: April 30, 2023
Seats on supervisory and similar boards: deputy chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria

Matthias Zink
CEO Automotive OEM

Responsible for: Transmission Systems and E-Mobility business divisions; R&D Automotive OEM; Operations & Supply Chain Management Automotive OEM
Appointed: January 01, 2017
Term of office ends: December 31, 2019
Seats on supervisory and similar boards: member of the supervisory board of LuK Savaria Kft., Szombathely, Hungary (since March 30, 2017); member of the board of directors of Schaeffler (China) Co. Ltd., Shanghai, China

The following member left the Board of Managing Directors in 2017:

Dr. Ulrich Hauck (until July 31, 2017)
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Taxes; Divisional Controlling Automotive and Industrial divisions; Corporate Insurance
Appointed: April 01, 2015
Term of office ended: July 31, 2017
Seats on supervisory and similar boards: member of the supervisory board of mutares AG, Munich

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

* Employee representative on the Supervisory Board.

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; member of the board of directors of Kärcher GmbH & Co. KG, Winnenden; 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: 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: deputy chairman 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

Andrea Grimm* (since April 08, 2017)
Controller

Appointed: April 08, 2017

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: chairman of the audit committee of Evonik Industries AG, Essen; member of the board of directors of Sparkasse Gütersloh-Riethberg, Gütersloh

Dr. Reinold Mittag*
Trade Union Secretary of IG Metall

Appointed: November 19, 2015
Committee memberships: member of the audit committee

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&D Processes, Methods and Tools of Schaeffler AG

Appointed: November 19, 2015

Robin Stalker
Chartered Accountant

Appointed: December 01, 2014
Committee memberships: member of the audit committee
Seats on supervisory and similar boards: deputy chairman of the supervisory board of Schmitz Cargobull AG, Horstmar (since November 30, 2017)

Jürgen Stolz*
Deputy Chairman of the Group Works Council;
member of the Works Council at the Buehl plant

Appointed: November 19, 2015

Salvatore Vicari*
Chairman of the Works Council at the Homburg/Saar plant

Appointed: November 19, 2015
Committee memberships: member of the audit committee
Seats on supervisory and similar boards: member of the supervisory board of GEW-Management GmbH, Homburg (since June 01, 2017)

Dr. Otto Wiesheu
Lawyer

Appointed: December 01, 2014

* Employee representative on the Supervisory Board.

Prof. KR Ing. Siegfried Wolf
Chairman of the Board of Directors of Russian Machines LLC

Appointed: December 01, 2014
Committee memberships: member 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

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

The following member left the Supervisory Board in 2017

Yvonne Münch* (until March 07, 2017)
Manager Plant Purchase and Logistics

Appointed: November 19, 2015
Term of office ended: March 07, 2017

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 17 m (prior year: EUR 19 m) in 2017.

In addition, the following share-based remuneration was granted to members of the Board of Managing Directors in 2017 under the Performance Share Unit Plan (PSUP) implemented in 2015: 277,722 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 11.84 and EUR 10.67, respectively), 138,864 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 11.84 and EUR 10.67, respectively) and 138,864 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 6.99 and EUR 4.58, respectively). Please refer to the remuneration report for a detailed discussion of the PSUP.

In addition, the company has committed to pay two Managing Directors advances of EUR 300 thousand each for 2017 and payments of 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 payment of the long-term bonuses granted in 2017, 2018, and 2019.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board amounted to EUR 1.6 m (prior year: EUR 1.6 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 4 m in 2017 (prior year: EUR 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 13 m at December 31, 2017.

Information about the excess of plan assets over the post-employment benefit liability and about amounts not available for distribution

The difference between the amount recognized under section 253 (6) HGB 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 10,740 thousand (prior year: EUR 8,169 thousand).

Under section 268 (8) HGB, EUR 1,205 thousand (prior year: EUR 472 thousand) are not available for distribution as they relate to assets recognized at fair value.

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 pursuant to section 161 AktG in December 2017 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

* Employee representative on the Supervisory Board.

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, 2017.

List of shareholdings

List of shareholdings of Schaeffler AG as at December 31, 2017 No. 101

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income in € thousands
A. Affiliated companies **I. Germany**					
afr-consulting GmbH [1]	Chemnitz	DE	100.00	103	91
autinity systems GmbH [1] [3]	Chemnitz	DE	33.34	79	73
AS Auslandsholding GmbH [2]	Buehl	DE	100.00	20,369	0
CBF Europe GmbH	Wuppertal	DE	100.00	-3,865	999
Compact Dynamics GmbH	Starnberg	DE	100.00	3,595	797
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00	47	2
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00	1,636	22
Dürkopp Maschinenbau GmbH [2]	Schweinfurt	DE	100.00	4,289	0
Egon von Ruville GmbH [2]	Hamburg	DE	100.00	59,835	0
FAG Aerospace GmbH	Schweinfurt	DE	100.00	45	2
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00	70,814	11,477
FAG Industrial Services GmbH	Herzogenrath	DE	100.00	816	56
FAG Kugelfischer GmbH [2]	Schweinfurt	DE	100.00	726,565	0
Gesellschaft für Arbeitsmedizin und Umweltschutz mbH - AMUS [2]	Homburg	DE	100.00	26	0
IAB Grundstücksverwaltungsgesellschaft mbH	Buehl	DE	100.00	256	-7
IAB Holding GmbH [2]	Herzogenaurach	DE	100.00	4,567,977	0
IAB Verwaltungs GmbH [2]	Herzogenaurach	DE	100.00	1,322,860	0
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00	27	0
INA - Drives & Mechatronics AG & Co. KG	Suhl	DE	100.00	3,719	1,023
INA Automotive GmbH [2]	Herzogenaurach	DE	100.00	25	0
INA Beteiligungsverwaltungs GmbH [2]	Herzogenaurach	DE	100.00	1,248,248	0
Industrieaufbaugesellschaft Bühl mbH [2]	Buehl	DE	100.00	56,928	0
Industriewerk Schaeffler INA-Ingenieurdienst GmbH [2]	Herzogenaurach	DE	100.00	558,435	0
KWK Verwaltungs GmbH	Langen	DE	100.00	30	-1
LuK Auslandsholding GmbH [2]	Buehl	DE	100.00	59,029	0
LuK Beteiligungsgesellschaft mbH [2]	Buehl	DE	100.00	34,342	0
LuK GmbH & Co. KG	Buehl	DE	100.00	846,576	271,702
LuK Management GmbH	Buehl	DE	100.00	95	-1
LuK Truckparts GmbH & Co. KG	Kaltennord-heim	DE	100.00	36,732	767
LuK Unna GmbH & Co. KG	Unna	DE	100.00	19,217	873
LuK Vermögensverwaltungsgesellschaft mbH [2]	Buehl	DE	100.00	1,809,970	0
MEDUSA Beteiligungsverwaltungs- Gesellschaft Nr. 64 mbH	Buehl	DE	100.00	54,652	8,571
PD Qualifizierung und Beschäftigung GmbH [2]	Schweinfurt	DE	100.00	122	0
Raytech Composites Europe GmbH [2]	Morbach	DE	100.00	15,781	0
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00	449,076	201,213
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	425	-10
Schaeffler Beteiligungsverwaltungs GmbH [2]	Herzogenaurach	DE	100.00	40,841	0
Schaeffler Bio-Hybrid GmbH	Herzogenaurach	DE	100.00	25	0
Schaeffler Consulting GmbH [2]	Herzogenaurach	DE	100.00	25	0
Schaeffler Elfershausen AG & Co. KG	Herzogenaurach	DE	100.00	12,255	7,644
Schaeffler Engineering GmbH [2]	Werdohl	DE	100.00	5,348	0
Schaeffler Europa Logistik GmbH [2]	Herzogenaurach	DE	100.00	25	0
Schaeffler Friction Products GmbH [2]	Morbach	DE	100.00	5,131	0
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00	8,890	3,595
Schaeffler Immobilien AG & Co. KG	Herzogenaurach	DE	100.00	124,885	10,547
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00	14,106,876	583,104
Schaeffler Versicherungs-Vermittlungs GmbH [2]	Herzogenaurach	DE	100.00	8,282	0

Schaeffler Verwaltungsholding Drei GmbH [2)]	Herzogenaurach	DE	100.00	1,893,562	0
Schaeffler Verwaltungsholding Eins GmbH [2)]	Herzogenaurach	DE	100.00	5,910,725	0
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00	23	0
Schaeffler Verwaltungsholding Zwei GmbH [2)]	Herzogenaurach	DE	100.00	1,748,118	0
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00	7,516	-1,437
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	65	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00	64,937	3,961
II. Foreign					
Schaeffler Middle East FZE	Jebel Ali	AE	100.00	16,535	2,356
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00	1,653	-382
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00	65,528	11,038
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00	14,047	24
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00	45,737	937
Schaeffler Bulgaria OOD	Sofia	BG	100.00	2,490	169
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00	398	-108
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00	153,533	16,046
Schaeffler Belrus OOO	Minsk	BY	100.00	305	115
FAG Aerospace Inc.	Stratford	CA	100.00	101,599	18,114
Schaeffler Canada Inc.	Oakville	CA	100.00	52,917	13,008
Schaeffler Schweiz GmbH	Romanshorn	CH	100.00	20,524	7,195
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00	2,042	-188
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00	608,121	169,472
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00	103,597	10,718
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00	50,240	11,575
Schaeffler (Xiangtan) Co., Ltd.	Xiangtan	CN	100.00	5,399	-1,425
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00	641	-261
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00	82,284	8,883
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00	536,699	148,779
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00	223,090	97,762
Schaeffler Colombia Ltda.	Bogota	CO	100.00	433	-108
Schaeffler CZ s.r.o.	Prague	CZ	100.00	8,929	826
Schaeffler Production CZ s.r.o.	Lanskroun	CZ	100.00	29,661	5,570
Schaeffler Danmark ApS	Aarhus	DK	100.00	8,778	1,545
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00	88,606	4,140
Schaeffler Finland Oy	Espoo	FI	100.00	9,822	845
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00	9,008	-53
Schaeffler France SAS	Haguenau	FR	100.00	93,655	18,761
LuK (UK) Limited	Sheffield	GB	100.00	0	0
LuK Leamington Limited	Sheffield	GB	100.00	18,958	8
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00	2,017	21,917
Schaeffler Automotive Aftermarket (UK) Limited	Sheffield	GB	100.00	188	0
Stocklook Limited	Swansea	GB	100.00	715	1
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00	29,874	7,407
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	GR	100.00	80	10
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00	43,084	4,105
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00	378	165
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00	29,345	592
LUK Savaria Kft.	Szombathely	HU	100.00	71,667	46,108
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00	4,132	324
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00	2,324	75
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00	280	-15
INA Bearings India Private Limited	Pune	IN	100.00	35,705	10,111
LuK India Private Limited	Hosur	IN	100.00	46,487	10,516

Schaeffler India Ltd.	Mumbai	IN	51.33	221,507	32,283
INA Invest S.r.L.	Momo	IT	100.00	59,650	170
Schaeffler Italia S.r.l.	Momo	IT	100.00	208,227	5,984
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00	0	0
Schaeffler Water Pump Bearing Italia S.r.l.	Momo	IT	100.00	2,593	2,583
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00	43,651	6,663
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00	57,373	10,149
Schaeffler Korea Corporation	Changwon-si	KR	100.00	388,845	54,811
SIA "Schaeffler Baltic"	Riga	LV	100.00	450	82
LuK Puebla, S. de R.L. de C.V.	Puebla	MX	100.00	65,463	23,174
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00	723	33
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Puebla	MX	100.00	23,881	6,750
Schaeffler Mexico Holding, S. de R.L. de C.V.	Irapuato	MX	100.00	72,090	7
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00	4,048	946
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00	21,901	-29,371
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00	7,552	43
Radine B.V.	Barneveld	NL	100.00	1,336	478
Schaeffler Finance B.V.	Barneveld	NL	100.00	56,374	-10,714
Schaeffler Nederland B.V.	Barneveld	NL	100.00	9,251	1,336
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00	9,482	1,981
LuK Norge AS	Kongsberg	NO	100.00	15,442	6
Schaeffler Norge AS	Oslo	NO	100.00	4,855	590
Schaeffler Peru S.A.C.	Lima	PE	100.00	339	-359
Schaeffler Philippines Inc.	Makati City	PH	100.00	2,409	108
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00	8,277	7,361
Schaeffler Portugal, Unipessoal, Lda.	Caldas da Rainha	PT	100.00	22,872	-2,745
Schaeffler Romania S.R.L.	Brasov	RO	100.00	182,316	12,754
Schaeffler SR d.o.o.	Belgrade	RS	100.00	30	0
Schaeffler Manufacturing Rus ooo	Ulyanovsk	RU	100.00	10,460	-1,846
Schaeffler Russland GmbH	Moscow	RU	100.00	9,918	3,227
Schaeffler Sverige AB	Arlandastad	SE	100.00	9,465	1,350
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00	-1,962	-580
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00	30,209	2,013
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00	503	106
Schaeffler Kysuce, spol. s.r.o.	Kysucke Nove Mesto	SK	100.00	169,747	11,583
Schaeffler Skalica spol. s.r.o.	Skalica	SK	100.00	105,588	7,737
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00	2,493	81
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	100.00	1,429	2,664
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00	2,739	3,030
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00	1,944	-4,399
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.00	2,659	902
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00	2,467	-232
Schaeffler Ukraine GmbH	Kiev	UA	100.00	960	336
FAG Bearings LLC	Danbury	US	100.00	-714	-15,136
FAG Holding LLC	Danbury	US	100.00	0	0
FAG Interamericana A.G.	Miami	US	100.00	23,340	1,065
LMC Bridgeport, Inc.	Danbury	US	100.00	10,309	-263
LuK Clutch Systems, LLC	Wooster	US	100.00	118,561	1,290
LuK Transmission Systems LLC	Wooster	US	100.00	246,976	53,407
LuK USA LLC	Wooster	US	100.00	124,205	-1,685
LuK-Aftermarket Services, LLC	Valley City	US	100.00	3,143	0
Schaeffler Group USA, Inc.	Fort Mill	US	100.00	627,786	22,451
The Barden Corporation	Danbury	US	100.00	156,007	11,155
Schaeffler Venezuela, C.A.	Caracas	VE	100.00	409	509
Schaeffler Vietnam Co., Ltd.	Bien Hoa City	VN	100.00	9,851	-3,181

INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00	89,926	4,656
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00	34,916	12,442
B. Investments					
I. Germany					
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00	38	-5
Contitech-INA GmbH & Co. KG	Hanover	DE	50.00	207	-8
PStec Automation and Service GmbH [1)]	Niederwerrn	DE	40.00	583	106
II. Foreign					
Eurings Zrt. [1)]	Debrecen	HU	37.00	4,738	18
Colinx, LLC [1)]	Greenville	US	20.00	2,945	-83

1) Values from 2016.
2) There is a profit and loss transfer agreement.
3) The company holds 66.66% as treasury shares.

Preparation of financial statements

The Board of Managing Directors of Schaeffler AG prepared the financial statements on February 19, 2018 and released them for submission to the Supervisory Board of Schaeffler AG. The Supervisory Board of Schaeffler AG is responsible for examining and approving the financial statements.

Herzogenaurach, February 19, 2018

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dietmar Heinrich

Oliver Jung

Prof. Dr. Peter Pleus

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Matthias Zink

Independent auditors' Report

To Schaeffler AG; Herzogenaurach

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of Schaeffler AG, which comprise the balance sheet as at December 31, 2017, the statement of profit and loss for the financial year from January 1, 2017 to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Schaeffler AG for the financial year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement which are included in the Corporate Governance section of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2017 and of its financial performance for the financial year from January 1, 2017 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of Financial Assets

For information on the accounting and valuation methods used, please refer to Note 2.

The risk to the financial statements As of December 31, 2017, Schaeffler AG's financial statements include investments in affiliated companies in the amount of EUR 14.109 million. The Company's financial assets represent 61% of the total amount of assets, and therefore have a significant impact on the Company's financial position.

Financial assets are stated at the acquisition cost or, if impairment is expected to be permanent, the lower fair value. The fair value of shares in affiliated companies is determined by the Company using a valuation model based on a discounted cash flow method.

The cash flows used in the discounted cash flow method are based on individual forecasts for the three years following the reporting date, which are adjusted for company-specific growth rates. The respective discount rates are derived from the rate of return for an alternative investment of similar risk. If the fair value is lower than the book value, qualitative and quantitative criteria are used to determine whether the impairment is likely to be permanent.

The impairment test, including the calculation of the fair value using the discounted cash flow method, is complex and the assumptions used are highly dependent on estimates and judgments made by the Company. These assumptions and estimates include, but are not limited to, the estimation of future cash flows and the company-specific growth rates, the determination of the discount rates and the assessment of the permanence of the impairment.

Our audit approach We conducted our audit using a risk-based approach. We assessed whether there are any indications of a need for impairment of investments in affiliates based on evidence obtained throughout our audit. Our audit procedures included evaluating the forecast of future sales and earnings growth for each component. We discussed the individual components' forecasts with management. In addition, we assessed whether Schaeffler Group's expectations for market growth were reasonable as compared to peer-group industry metrics and other publicly available information, as well as whether the Company's budgeted amounts, underlying assumptions, and company-specific growth rates were reasonable. We assessed the appropriateness of the assumptions used in determining the discount rate, including the weighted average cost of capital, as well as whether the methodology used to determine them was appropriate. We consulted with KPMG Deal Advisory and Valuation specialists in order to assess the appropriateness of the Company's valuation method, the discount rate, and the Company's budget.

Our conclusions The assumptions and estimates used by the Company are appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

- the non-financial statement and the corporate governance statement, and
- the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on April 26, 2017. We were engaged by the supervisory board on June 22, 2017. We have been the auditor of the Schaeffler AG without interruption since the financial year 2015.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Company or its subsidiaries the following services that are not disclosed in the annual financial statements or in the management report:

In addition to the consolidated financial statements, we audited the annual financial statements of Schaeffler AG and conducted various annual financial statements audits at subsidiaries. We performed a review of interim financial statements, as well as audited parts of the internal control system (ICS). In addition, we audited the combined separate non-financial consolidated information of the Management Report of Schaeffler AG as well as performed statutory or contractual audits; for example: audits in accordance with the EEG, EMIR audits in accordance with section 20 WpHG and confirmations of compliance with contractual conditions. We also provided tax advice to certain employees of Schaeffler AG in connection with their relocation to foreign subsidiaries of Schaeffler AG.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Angelika Alt-Scherer.

Munich, February 20, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

gez. Alt-Scherer	gez. Koeplin
Wirtschaftsprüferin	Wirtschaftsprüfer

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 19, 2018

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dietmar Heinrich

Oliver Jung

Prof. Dr. Peter Pleus

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Matthias Zink

Contact details/imprint

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Investor Relations
Phone: +49 (0)9132 82 -4440
Fax: +49 (0)9132 82 -4444
E-Mail: ir@schaeffler.com

Schaeffler online
www.schaeffler.com

You can find up-to-date news about Schaeffler on our website at www.schaeffler.com/ir. You can also download all documents from this site.

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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 AG'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 AG does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

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 financial statements 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.

Schaeffler in Social Media

Schaeffler AG

Industriestr. 1-3
91074 Herzogenaurach
Germany

www.schaeffler.com

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