SCHAEFFLER

Financial statements 2018

Schaeffler AG

Mobility for tomorrow

Staying in motion

Contents

Navigation aid

Further details in the report

Further details online

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, Schaeffler Value Added, and ROCE 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

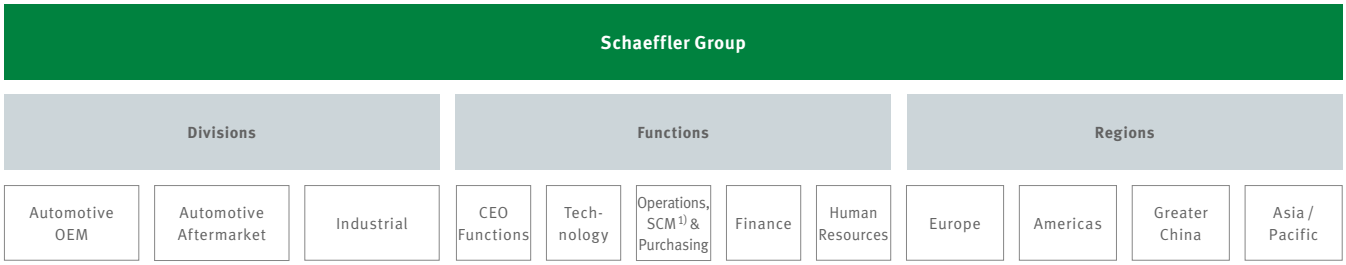
1.1 Overview of the Schaeffler Group

The Schaeffler Group (also referred to as "Schaeffler" below) is a globally leading, integrated automotive and industrial supplier. High quality, outstanding technology, and exceptionally innovative spirit form the basis for the continued success of the company. With more than 92,000 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 cutting-edge products for the automotive and industrial sector, the Schaeffler Group is shaping "Mobility for tomorrow" to a significant degree. These include products both for vehicles with only an internal combustion engine and for hybrid and electric vehicles, as well as components and systems for rotary and linear movements, and services, maintenance products, and monitoring systems for a large number of industrial applications. Additionally, the global business with spare parts provides repair solutions in original-equipment quality for the automotive spare parts market.

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 program for the future, the **"Agenda 4 plus One",** was developed to ensure implementation of the strategy. Two of the 20 strategic initiatives comprising this program for the future will be successfully completed in early 2019.

Schaeffler AG's common non-voting shares are listed on the Frankfurt Stock Exchange and are included in Deutsche Börse's MDAX 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 approximately 24.9% of Schaeffler AG's total common and common non-voting share capital. Schaeffler AG intends to pay a dividend of 30 to 40% of consolidated net income before special items to its shareholders.

Schaeffler Group organizational structure **No. 001**
since January 1, 2019



Simplified presentation for illustration purposes.
1) Supply Chain Management

Organizational structure

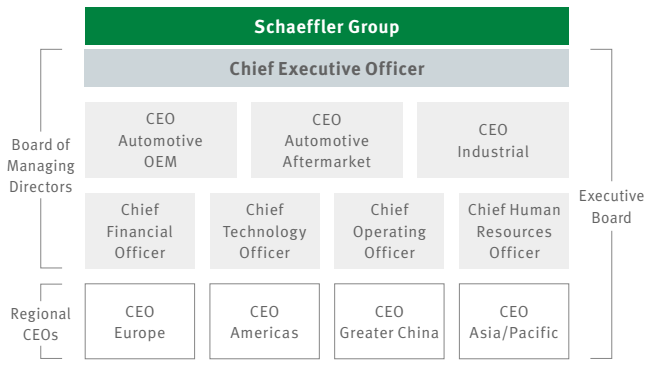
The Schaeffler Group is characterized by a three-dimensional organizational and leadership structure which differentiates between **divisions**, **functions**, and **regions**. Thus, the Schaeffler Group's business is managed based on the three divisions – Automotive OEM, Automotive Aftermarket, and Industrial – which also represent the reportable segments. The Automotive OEM division organizes its business in the Engine Systems, Transmission Systems, E-Mobility, and Chassis Systems business divisions. The Automotive Aftermarket and Industrial divisions are managed based on the regions Europe, Americas, Greater China, and Asia/Pacific.

In addition to the divisions, the Schaeffler Group's organizational model includes five functional areas: (1) CEO Functions, (2) Technology, (3) Operations, Supply Chain Management & Purchasing, (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. Along with the Chairman of the Board of Managing Directors (Chief Executive Officer – CEO), the Board of Managing Directors comprises the CEOs of the Automotive OEM (CEO Automotive OEM), Automotive Aftermarket (CEO Automotive Aftermarket), 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).

Schaeffler Group leadership structure **No. 002**



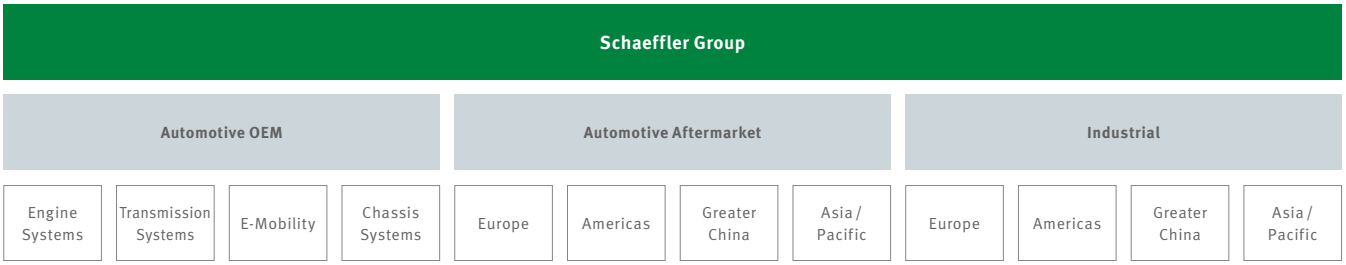
The Board of Managing Directors is directly responsible for managing the company, setting objectives and strategic direction, and managing the implementation of the growth strategy taking into account the interests of shareholders, employees and other stakeholders of the company in order to add long-term 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 2018. 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 315d HGB including the declaration of conformity pursuant to section 161 AktG at: www.schaeffler.com/ir

Schaeffler Group divisions and business divisions **No. 003**



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 approximately 170 locations in over 50 countries. The production system is the cornerstone of the Schaeffler Group's operations. In 2018, the company decided to integrate its "Bearing & Components Technologies" (BCT) unit, which had previously acted as an internal supplier, into the Automotive OEM and Industrial divisions. Under this reorganization, the plants previously assigned to BCT were transferred to the Automotive OEM and Industrial divisions. As a result, the production system comprised 73 manufacturing locations in 22 countries as at December 31, 2018. Furthermore, the Schaeffler Group is actively helping to shape technological progress for "Mobility for tomorrow" with 20 R&D centers and additional R&D locations in a total of 24 countries. As a global development partner and supplier, the Schaeffler Group 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 152 (prior year: 151) domestic and foreign subsidiaries as at December 31, 2018. As at December 31, 2018, 104 (prior year: 103) of these subsidiaries are domiciled in the Europe region, 25 (prior year: 25) in the Americas region, 10 (prior year: 10) in the Greater China region, and 13 (prior year: 13) in the Asia/Pacific region.

In 2018, the Schaeffler Group signed a master agreement with Roland Arnold, Arnold Verwaltungs GmbH, and Paravan GmbH for the formation of a joint venture. The joint venture is named Schaeffler Paravan Technologie GmbH & Co. KG and has commenced operations on October 1, 2018. Schaeffler Technologies AG & Co. KG has a 90% stake in the new company which is included in the Schaeffler Group's consolidated statement of financial position under investments in equity-accounted investees. The Schaeffler Group's share of the net income of the joint venture is presented in the consolidated income statement under income (loss) from equity-accounted investees. The scope of consolidation underwent only minor changes overall during the year.

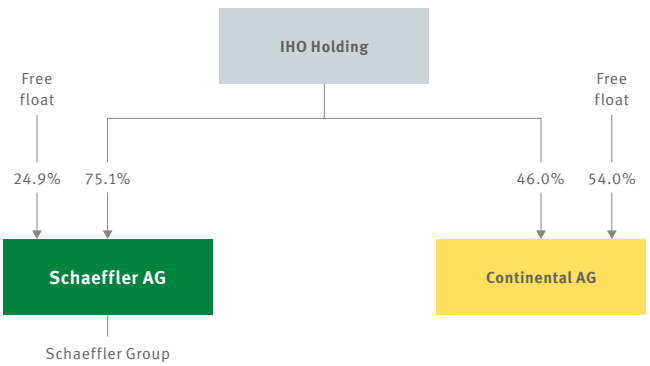
See the notes to the consolidated financial statements beginning on page 130 for further details

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.

All 500 million of the common bearer shares are held by IHO Verwaltungs GmbH, which is part of IHO Holding. This represents an approximately 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 approximately 24.9% as at December 31, 2018. IHO Holding also holds approximately 46.0% of the shares in Continental AG.

Legal group structure **No. 004**
as at December 31, 2018



1.2 Business activities

Divisions

The Schaeffler Group is a leading global integrated automotive and industrial supplier. The Schaeffler Group's business is managed based on the three operating divisions, which have global responsibility and also represent the reportable segments in accordance with IFRS 8.

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

Up to December 31, 2017, the Schaeffler Group divided its business into the two divisions Automotive and Industrial. In order to make the company even more customer-oriented in a fast-changing market and competitive environment, the Automotive Aftermarket was separated from the Automotive division of Schaeffler AG and set up as a stand-alone division with its own CEO as of January 1, 2018. As a consequence, the Schaeffler Group has been dividing its business into three divisions – **Automotive OEM**, **Automotive Aftermarket**, and **Industrial** – since January 1, 2018. The Automotive OEM division business is organized into the four **business divisions (BD) Engine Systems, Transmission Systems, E-Mobility,** and **Chassis Systems**. The Automotive Aftermarket and Industrial divisions are managed regionally, based on the **regions Europe**, **Americas**, **Greater China**, and **Asia/Pacific**.

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

The Board of Managing Directors of Schaeffler AG has decided, with the approval of the Supervisory Board's executive committee, to further improve and realign the Schaeffler Group's organizational and leadership structure. Following the realignment of the Industrial division effective January 1, 2017 (step 1), and the set-up of the Automotive Aftermarket as the Schaeffler Group's third division as at January 1, 2018 (step 2), the company decided to integrate its "Bearing & Components Technologies" (BCT) unit, which had previously acted as an internal supplier, into the divisions. Under this reorganization, the plants previously assigned to BCT were transferred to the Automotive OEM and Industrial divisions. The Automotive Aftermarket division will continue to be supplied largely from the Automotive OEM division's manufacturing locations as before. This realignment aims to bring the plants closer to the business and to establish consistent responsibilities for the business and earnings worldwide in order to even better meet its customer's needs. The change also streamlined work flows and processes, eliminated duplicate structures, and leveraged additional efficiencies. The previous function of the BCT unit as a technological bracket around development, design, and production of rolling bearings will continue to represent a core element of the "One Schaeffler" approach. This bracketing function was transferred to the Technology and Operations, Supply Chain Management & Purchasing functions and strengthened by combining it with these functions' pre-existing expertise.

Automotive OEM division

- Acquisition of Elmotec Statomat expands manufacturing expertise in the field of electric motors and opens up further potential for growth
- Joint venture Schaeffler Paravan Technologie GmbH & Co. KG established by Schaeffler advances and markets the Space Drive "Drive-by-Wire"-Technology
- EUR 60 m investment in new Automotive OEM headquarters in Buehl planned: providing a boost for electric mobility activities – 350 new jobs expected to be created

Customers and products

The Automotive OEM division partners with all major automobile manufacturers in developing and manufacturing system solutions for the complex challenges of the automotive future. Its global key account management function and development collaborations ensure that the Automotive OEM division remains close to its customers. It is working on numerous technologies to make cars cleaner and more fuel-efficient. The division's innovative ideas, creative engineering, and comprehensive manufacturing expertise enable it to develop solutions for drive trains based on an internal combustion engine as well as for hybrid and all-electric designs. In 2018, the division presented these solutions on various occasions including to a total of 1,500 customers at the 11th Schaeffler Symposium held in Baden-Baden, Detroit, Tokyo, and Shanghai.

Since January 1, 2018, all products and system solutions for hybrid and all-electric vehicles are managed centrally through the new E-Mobility business division. As a result, the Automotive OEM division is subdivided into the following four business divi-

sions (BD), which in turn comprise several business units and product lines:

- The **Engine Systems BD** develops and provides components and systems for engines. These precision products are key to helping engines consume less fuel and comply with increasingly stringent emissions standards while also increasing driving comfort and driving dynamics and extending maintenance intervals and service life. The portfolio includes products such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems, and the thermal management module.
- The **Transmission Systems BD** develops and provides innovative components and systems for transmissions. More and more, the emphasis in this business division is shifting toward automatic transmissions which are replacing the conventional manual transmission. Applications for electrified drive concepts round out the range of transmissions for the future. The BD also possesses extensive expertise in the field of torsional vibration dampers.
- The **E-Mobility BD** offers its customers solutions for the entire spectrum of electrification options – from 48-volt mild hybrids and plug-in hybrids through to all-electric vehicles. Its wide-ranging know-how makes the Automotive OEM division an expert partner to its customers. The product portfolio includes hybrid modules, electric axle drives, electromechanical actuators, and in the future electric motors and electric solutions for the entire drive train, as well.
- The **Chassis Systems BD** develops and provides components and systems for chassis. Its wide variety of products ranges from wheel bearings through to mechatronic systems for active chassis and will also include steering systems in the future.

Sales markets

The Automotive OEM division acts as a global supplier to the automotive sector. Demand for the Automotive OEM division's products is primarily influenced by, along with global economic conditions, the increasing demands placed on the automobile industry, for instance to reduce fuel consumption and emissions. These economic factors subject global automobile production, a key indicator of trends in the Automotive OEM division's relevant market, to a certain degree of short-term and regional volatility. In the long-term, research institute IHS Markit anticipates annual market growth of 1 to 2%. It is currently expected that a market for all-electric vehicles will emerge mainly in China and Europe as well as generally in urban areas, with China increasingly setting global market trends in electric mobility.

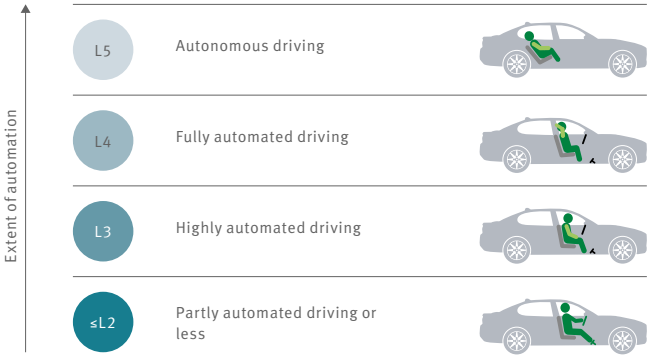
Key growth drivers

The automotive sector is currently at a turning point. Increasing demands on automobile manufacturers to reduce fuel consumption and emissions as well as new forms of mobility make new drive concepts and innovative business models essential. In the coming years, the sector will change more extensively than in the 130 years since the automobile was invented. Efficient internal combustion engines, automated transmissions, diversity in E-Mobility, autonomous driving, interconnectedness and new mobility solutions will be the main drivers of future growth. The need to lower harmful emissions results primarily from legal requirements: More realistic emissions test procedures such as the WLTP cycle introduced in September 2018 have implicitly further increased CO_2 reduction targets. In addition, the European Union is planning to reduce the fleet limit of 95 grams of CO_2 per kilometer that will come into effect in 2021 by a further 37.5% by 2030. Many vehicle manufacturers are adding models with electric drives to their product range in order to reduce their fleet average to the required CO_2 target.

However, given the current primary energy structure, restricted ranges of current electric cars, and limited charging infrastructure, demand for internal combustion engines is expected to remain high in the medium term. Therefore, further advancing the drive train based on an internal combustion engine is essential to meeting future CO_2 targets. Furthermore, the conventional internal combustion engine continues to play a significant role. By 2030, 70% of all newly registered cars will still be equipped with an internal combustion engine, according to a scenario entitled "Schaeffler Vision Powertrain" that was developed based on market analyses. This includes 30% driven exclusively by an internal combustion engine and 40% hybrid vehicles powered by an electric motor combined with an internal combustion engine. The remaining 30% of all cars are forecasted to use all-electric drive systems.

A further important automotive sector market will be autonomous driving, which, along with increased driving comfort, will also improve road safety. Experts refer to five levels of vehicle automation: Starting with level 0 with "driver only" – the driver steers and drives completely without support from driver assistance systems – through to level 5, in which the vehicle is completely driverless, i.e. moves autonomously. While the application of level 4 "fully automated driving", and level 5 "autonomous driving", remains in the future, driver assistance systems representing levels 1 "assisted driving", 2 "partly automated driving", and 3 "highly automated driving", are increasingly entering the market already today. A scenario developed by Schaeffler and entitled "Schaeffler Vision Chassis" indicates that by 2035, approximately 14% of passenger cars and light commercial vehicles will drive in a highly automated manner, 18% in a fully automated manner, and 9% autonomously.

Levels of automation **No. 006**



Drive systems with reduced fuel consumption and emissions and electrification: A comprehensive perspective on the drive train and the interaction of the electric machine, the internal combustion engine, the transmission, and the related infrastructure is essential to developing commercially successful solutions for a wide range of mobility requirements. Based on the degree of electrification – "micro", "mild", "plug-in hybrid", or all-electric vehicles – the Automotive OEM division develops new solutions in the engine, transmission, and electric drive subsystems within what is known as a "Powertrain Matrix". These solutions include electromechanical actuators as well as 48-volt hybrid technologies and efficient electric drives.

The need to meet legal targets renders it necessary to make the entire drive train system as well as its modules and components more efficient and to reduce the emissions they produce. This also includes adding "mild" 48-volt electrification to the drive train based on an internal combustion engine. The Automotive OEM division expects particularly strong market growth for mild-hybrid vehicles that use a 48-volt on-board electric subsystem. P0 drives – in which the electric motor is connected to the crankshaft of the internal combustion engine via a belt – alone are expected to represent a market volume of approximately 20 million units in 2030.

Advancing the internal combustion engine and the related transmission will continue to be essential to meeting the CO_2 targets. With its switchable roller finger follower for cylinder deactivation in three-cylinder engines, electric clutch systems, the electric camshaft phasing unit, the fully variable valve control system UniAir, and the second-generation thermal management module, the Automotive OEM division offers a number of products ready for volume production that are geared to making the conventional drive train as eco-friendly as possible.

Double-clutch transmissions have become established in recent years since they meet the high requirements regarding efficiency and comfort while providing additional driving pleasure. Its important transmission components such as the wet and dry double clutches and a wide range of actuators have ensured the Automotive OEM division's top market position in years past.

Double-clutch transmissions offer significant potential for increasing content per vehicle in the field of electrification as well.

The Automotive OEM division is expanding its product portfolio with a view toward future electric and hybrid drives. These especially include compact hybrid modules with an integrated triple clutch as well as a new generation of electric axle drives, wheel hub motors, and entire transmissions optimized specifically for use in hybrids. The electric and electronic components for the various drive trains are based on a shared platform. Furthermore, for the position between the motor and the transmission (P2 arrangement) alone, hybrid modules are offered in combination with torque converters, continuously variable transmissions (CVT), and double clutches, for example.

The acquisition of Elmotec Statomat Holding GmbH ("Elmotec Statomat" below) represents a further step in the implementation of the electric mobility strategy. Elmotec Statomat is one of the world's leading manufacturers of production machinery for the high-volume construction of electric motors and possesses unique expertise in the field of winding technology. This acquisition will mainly expand the Automotive OEM division's manufacturing expertise and thus open up further potential for growth in the production of electric motors and stator production facilities. Schaeffler had previously acquired Compact Dynamics GmbH, a development specialist in the field of innovative electric drive concepts, at the end of 2016. The acquisition of Elmotec Statomat, which closed on January 31, 2019, has expanded this expertise by adding further know-how regarding high-volume production of stators for electric motors.

Autonomous driving, **shared mobility**, and **interconnectedness:** For the Automotive OEM division, developing intelligent components and systems for interconnectedness and autonomous driving is a key growth driver. The division has established the joint venture Schaeffler Paravan Technologie GmbH & Co KG, giving it access to a key technology for "autonomous driving" – a high-growth market of the future. Schaeffler Technologies AG & Co. KG has a 90% stake in the new company, which has acquired the Space Drive "Drive-by-Wire"-Technology from Paravan GmbH. Licensed use of this technology will enable the division to develop its Chassis Systems business division into a chassis systems integrator. Space Drive is the only system of its kind to be licensed for on-road use in multiple countries worldwide, while at the same time having the potential for technical and commercial viability in large-series automobile production.

Efficiency program “RACE”

In late 2018, the Automotive OEM division launched a program named “RACE” aimed at improving the division’s business portfolio. The program is designed to help increase the division’s earnings quality and efficiency and to safeguard them for the longterm.

Automotive Aftermarket division

- Automotive Aftermarket set up as third stand-alone division
- Cornerstone laying ceremony for the integrated European assembly and packaging center “AKO”: more flexibility, speed, and delivery performance to customers
- Close to approximately 2,200 customers via more than 70 sales offices and branches worldwide

Customers and products

The Automotive Aftermarket division is responsible for the Schaeffler Group’s global business with spare vehicle parts. Customers include almost all major international and national trading companies which in turn supply the Schaeffler Group’s products to other distribution levels all the way down to the repair shop. The Automotive Aftermarket division is largely supplied from the Automotive OEM division’s manufacturing locations. In addition, the Automotive Aftermarket division successfully cooperates with all relevant trade cooperatives around the world in which a large number of its customers are organized.

The management model of the Automotive Aftermarket division follows a regional approach based on the **regions Europe**, **Americas**, **Greater China**, and **Asia/Pacific**. Within each region, products and services are sold via two distribution channels: the Original Equipment Service (OES) and the open (independent) spare parts market, known as the Independent Aftermarket (IAM). The OES comprises the automobile manufacturers’ spare parts business, that is, supplying original spare parts 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 repair solutions and services via the various trade levels. IAM differentiates between two types of business. In addition to the traditional component business consisting of replacing parts, the Automotive Aftermarket division develops and distributes repair sets and kits custom-assembled to help make vehicle repairs simple, efficient, and professional.

Like the Automotive OEM and Industrial divisions, the Automotive Aftermarket division operates under the Schaeffler corporate brand but distributes its products under the three product brands LuK, INA, and FAG. It provides innovative repair solutions in original-equipment quality for clutch and clutch release systems as well as engine, transmission, and chassis applications. All components are optimally tuned to work together and allow for fast and professional replacement.

In addition, the service brand REPXPERT focuses especially on comprehensive services for repair shops.

Whether for clutches, vibration damping, or transmission components – being a specialist for the drive train, the Automotive Aftermarket division offers intelligent repair solutions to the spare parts market under the LuK brand. Thanks to comprehensive systems expertise, these solutions enable repair shops to perform maintenance efficiently.

The repair solutions Schaeffler offers under the INA brand represent a spectrum of products for the key engine systems that is unprecedented in width. Whether for the valve train, timing drive, front end auxiliary drive, or cooling system – INA products are based on the expertise gained from the development and volume production of original equipment.

The FAG brand products make the Automotive Aftermarket division the specialist for chassis technology in the spare parts market for every aspect of the wheel drive, axle and wheel suspension, stabilizers, steering systems, and engine and transmission mounts. Top material and manufacturing quality ensure well-thought-out repair solutions that are tailored to exactly suit repair shop needs.

Increasingly complex vehicle applications and the large number of new vehicle models are constantly confronting repair shop staff with challenging repair situations. The Automotive Aftermarket division’s REPXPERT offers numerous services covering every aspect of its products and repair solutions. By utilizing service hotlines, training seminars as well as installation guides or videos, and tools tailor-made for professional repairs – repair shops benefit from the Schaeffler Group’s over 40 years of experience in the Automotive Aftermarket.

Sales markets

The spare parts business benefits from the vehicle population growing each year as well as from the rising average age and growing complexity of vehicles. In its forecast, research institution IHS Markit expects the worldwide population of passenger cars and light commercial vehicles to grow from approximately 1.4 billion in 2018 to approximately 1.6 billion in 2023 and the average vehicle age to increase from approximately 9.7 years to approximately 10.0 years. As the most significant increase for both parameters is expected in China, the division considers the Greater China region to hold the highest potential for growth.

The Automotive Aftermarket division considers itself very well positioned within the market. At the same time, it is preparing for future challenges, especially those arising from the move toward new drive technologies. Networking with the Automotive OEM division within the Schaeffler Group is key to this preparation.

Key growth drivers

In the years ahead, the Automotive Aftermarket division's significant growth drivers include globalization, expanding the portfolio, and cross-selling. Digitalization and the continual increase in operational excellence represent a strong foundation for securing opportunities for growth.

Continuing to increase operational excellence includes increasing the speed and reliability of the division's deliveries to customers around the world in order to further raise the level of customer satisfaction and loyalty. To this end, the Automotive Aftermarket division is investing extensively in expanding its logistics infrastructure. The creation of highly automated logistics locations whose capacity can be adjusted flexibly is aimed at further improving processes and securing continued revenue growth. The focus here is on efficiently supplying customers with intelligent repair solutions. Construction of the European Aftermarket Kitting Operation (AKO) in Halle (Saale) is currently under way, with capital expenditures totaling approximately EUR 180 m. The AKO will commence operations in the first half of 2020.

Digitalization, too, is moving to the center of attention when it comes to securing opportunities for growth. The emphasis here is on efficiencies gained from improving internal processes, advancing and improving existing business models, as well as developing new ones in order to meet current and future customer needs. For instance, the Automotive Aftermarket division utilizes tools such as a global product and service platform and a returns portal. It is also continuing to develop its e-commerce activities and relies on the close integration of marketing, distribution, and services. 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 digitally. These initiatives include TecAlliance, a company providing solutions for electronic catalog data, inventory management, and digitalization. In addition, the Automotive Aftermarket is working to promote the issue of vehicle interconnectedness by supporting the telematics platform CARUSO.

Globalization and expanding the portfolio: The Automotive Aftermarket division considers the Greater China region to provide the most significant potential for growth. The vehicle population in the Chinese market will increase enormously in the coming years as a result of strong growth expected in new vehicle registrations: While vehicles in China represented about one sixth of the worldwide vehicle population in 2018, this proportion is expected to increase to one fifth in 2023. In contrast to the largely constant average vehicle age of the other regions, the Chinese fleet is expected to be approximately one year older on average in 2023 than in 2018 (2018: 5.4 years old; 2023: 6.5 years old).

Therefore, the Automotive Aftermarket division is strengthening its global footprint especially in the Greater China as well as the Asia/Pacific growth regions, following the motto "as regional as possible, as centralized as necessary". Regional structures are established or strengthened on the basis of a global infrastructure in order to get closer to the customer. Significant activities include establishing local sales teams, technological customer support, and dedicated development and logistics centers.

The extensive product portfolio of intelligently packaged repair solutions is also slated for global expansion. The Automotive Aftermarket division is consistently following the strategy of being a full-range supplier, offering product coverage of approximately 95%, with a particular focus on the high-volume markets Greater China and Asia/Pacific here, as well. The main theme is creating and expanding a portfolio of products and services that is tailored to the specific needs of each of the markets.

Cross-selling: The Automotive Aftermarket is currently generating more and more additional opportunities from cross-selling activities, i.e. by expanding the product portfolio with existing customers. This approach is based on the solid partnerships with the largest trading customers worldwide, as strongly evidenced by the large number of awards the Automotive Aftermarket division regularly receives from its customers. In addition, the results of the customer satisfaction surveys conducted every two years are above-average, including those for the Net Promoter Score (NPS).

One example of this strategic approach is the expansion of the business in North America. A partnership in the clutch field established in 2011 between Schaeffler and a large parts dealer chain has since led to a dedicated product line of wheel bearings and gaskets. The portfolio comprises over 9,000 separate items and promises further growth for this product group in this region.

Industrial division

- Components and systems for rotary and linear movements as well as services for OEMs and operators in eight sector clusters worldwide
- Expansion of the business by Industry 4.0 solutions in progress; workforce expanded to approximately 300 in 2018
- Program "CORE" completed as at the end of 2018 in light of the favorable earnings trend; remaining tasks transferred to the line functions

Customers and products

The Industrial division distributes components and systems for rotary and linear movements as well as services for a wide range of industrial 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 of these products and services 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 cus-

tomers 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, the business with distributors is managed by the Industrial Distribution unit.

Managing the business on a regional basis allows the division to closely target its response to local customer needs 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 with the same level of quality 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.

The Industrial division's product portfolio includes a wide range of rolling and plain bearings, linear and direct drive technologies as well as services such as maintenance products and monitoring systems. The focus is increasingly on smart products and on connecting components, thus increasing machine and plant efficiency.

In the field of Industry 4.0, the Industrial division offers several platform designs for comprehensively improving systems. Whether in the drive train, in machine tools, predictive maintenance for wind power, or condition monitoring for trains – the Industrial division's solution packages make Industry 4.0 very concrete. Using system integration via cloud-to-cloud communication, autonomous monitoring and lubrication of pumps, and electric motors that report their condition to the cloud, the Industrial division covers the broad range of possibilities for jointly making intelligent maintenance a reality. These solutions were impressively presented at last year's Hanover Fair.

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 approximately 3% at constant prices in the next five years. The growing number of competitors, especially from Asia, will further intensify competition.

Key growth drivers

The Industrial division's success will continue to be based on its strong product portfolio for rotary and linear applications in the future. Gained in many 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 products and services. Customers need intelligent solutions and cost reductions throughout the lifecycle of their systems, which opens up new growth areas for the Industrial division.

Components and mechanical systems: The cornerstone of the Industrial division's successful growth is constantly advancing and improving components. Successful examples of newly developed products are bearings of X-life quality – a seal of quality for particularly high-performance products – or the innovative material known as Vacrodur. 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. Competitive components and an understanding of how they interact within the system are prerequisites for success in the systems business. The Industrial division has established these prerequisites in many years of cooperating with its customers and providing advice to them.

Industry 4.0: The key task of the Industry 4.0 unit of the Industrial division is developing mechatronic products, digital services, sector-specific solution packages, as well as new data-based business models. Examples of smart components include the axle box generators introduced at the InnoTrans trade show and the rolling bearings equipped with sensors ("VarioSense") presented at the Hannover Messe. Numerous Industry 4.0 products and solution packages in various project stages are already in use by customers today. These include, for instance, cloud-based monitoring of accessory units such as electric motors jointly with a service provider, a complete solution for monitoring and lubricating machines that are critical to the operations of a drinking water supply association, as well as an all-digital service for predicting the service life of rolling bearings in wind power transmissions. The next step will be using this experience to further expand the range of platform-based products on offer, allowing the division to respond to customer needs quickly and flexibly.

Along with condition monitoring systems that can detect initial damage early on and predictive maintenance systems designed to precisely predict a likely failure, the division is also pursuing other approaches. For instance, the division relies on more efficient operation of machines via increased productivity or performance as well as longer up times. The skills at the core of all Industry 4.0 solutions are the division's mechanical expertise and systems know-how that are used to develop models and interpret operating data in order to generate essential added value for the customer.

The Industrial division aims to generate 10% of its revenue from Industry 4.0 products by 2022. In the future, all Industry 4.0 products and solutions will be offered under the Schaeffler brand, with a dedicated sales team ensuring close contact with customers.

Schaeffler Group functions **No. 007**
since January 1, 2019

Schaeffler Group

CEO Functions	Technology	Operations, Supply Chain Management & Purchasing	Finance	Human Resources
– Quality – Schaeffler Consulting – Communications & Branding – Investor Relations – Legal – Internal Audit – Corporate Development & Strategy – Compliance & Corporate Security – Corporate Real Estate	– Corporate R&D Management – Innovation & Central Technology – R&D Processes, Methods & Tools – Intellectual Property Rights – R&D Bearing – Information Technology – Strategic IT – Coordination Office Digitalization	– Schaeffler Production System, Strategy & Processes – Digitalization & Operations IT – Advanced Production Technology – Production Technology – Special Machinery – Supply Chain Management & Logistics – Purchasing & Supplier Management – Quality Operations, SCM & Purchasing	– Finance Strategy, Processes & Infrastructure – Corporate Accounting – Corporate Controlling – Corporate Treasury – Corporate Tax & Customs – Corporate Insurance – Shared Services – Divisional Controlling Automotive OEM – Divisional Controlling AAM – Divisional Controlling Industrial	– HR Strategy – HR Policies & Standards – Leadership, Recruiting & Talent Management – Schaeffler Academy – HR Systems, Processes & Reporting – Sustainability, Environment, Health & Safety – HR Functions – HR Automotive OEM – HR AAM – HR Industrial

Simplified presentation for illustration purposes.

Program “CORE” completed and “FIT” established

The program “CORE” started by Schaeffler AG’s Board of Managing Directors in 2015 to revitalize the Industrial division progressed on schedule. With the agreed-upon staff reduction targets reached and the full earnings impact achieved, the first wave was completed successfully. The division also worked hard on further implementing the second wave in 2018. Given the progress of the program “CORE” and the improved earnings trend, it was completed as at the end of 2018. In order to secure the results of the program “CORE” and to leverage efficiencies, the division launched a program named “FIT” in late 2018.

Functions

The multi-dimensional structure of the Schaeffler Group includes the functional management level with five functions: (1) CEO Functions, (2) Technology, (3) Operations, Supply Chain Management & Purchasing, (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, Supply Chain Management & Purchasing are discussed in more detail below.

Following the realignment of the Industrial division effective January 1, 2017, and the set-up of the Automotive Aftermarket division as the Schaeffler Group’s third division as at January 1, 2018, the company decided to disband its “Bearing & Components Technologies” (BCT) unit, which had previously acted as an internal supplier. Under this reorganization, the plants previously assigned to BCT were integrated into the Automotive OEM and Industrial divisions. The reorganization has eliminated duplicate structures, has brought the plants closer to the markets, and has established consistent responsibilities for the business and earnings worldwide. On this basis, it was also agreed that large plants currently producing for both divisions will be divided up and aggregated in “campus locations”. A key feature of these campus locations will be the existence of several plants at one location with shared use of support functions such as human resources, logistics, or location planning functions.

As a first step toward implementing the change, the BCT organization was transferred to a starting organization effective July 1, 2018, that has been replaced by the target organization implemented effective January 1, 2019.

Along with integrating BCT into the divisions, the Executive Board has decided to create new “Operations & Supply Chain Management” departments in the four regions Europe, Americas, Greater China, and Asia/Pacific, each managed by a Regional COO, similar to the approach taken by the three divisions. For this purpose, the “Operations” and “Logistics” units in the regions, which were previously managed separately, were combined effective July 1, 2018. This will further harmonize and align the organizational and leadership structure at the group’s top level of management.

Quality

The Schaeffler Group's benchmark is consistently ensuring top quality and product safety across all applications. The approach is derived from the strategy "Mobility for tomorrow" and a related package of measures, the "Quality for Tomorrow" initiative that is part of the "Agenda 4 plus One". Aiming for products as well as processes that are free of defects and errors, three priorities were set:

- Continuous improvement of the core business
- Constant improvement of the management system and of the processes
- The preventative quality assurance measures in product development

The initiative is expected to be successfully completed and insight gained from the pilot projects rolled out by the end of 2020.

However, the "Quality for Tomorrow" initiative is not the only way Schaeffler is setting quality trends. In 2018, quality was again a topic of discussion at the annual Technology Dialog, which included presentations on aspects of quality within the context of key themes. One example is additive manufacturing, which is increasingly finding its way into the Schaeffler Group, and the related quality management. New types of quality assurance measures for this modern technology are currently being developed.

As part of the Schaeffler Group's consistent divisionalization, tracking quality parameter targets has now been standardized in the Automotive Aftermarket as well, in a similar manner as in the Automotive OEM and Industrial divisions, in order to be able to run the usual improvement processes with similar efficiency.

In addition, quality management was strengthened further in 2018. Global Key Account Management (Automotive OEM) was expanded to include the function of quality officer (GKAM-Q). As a result, every major customer has a designated contact person for quality issues dealing with the customer's concerns in accordance with the "one face to the customer" principle.

The GKAM-Q organization (Automotive OEM) has been centrally managed by the Global Key Account Manager Quality since the beginning of 2018, with one priority being the specific quality strategy for each individual GKAM. Furthermore, the company is defining overarching standards for Schaeffler quality at the interface with the customer. The company has established a new GKAM-Q steering committee that meets on a regular basis to guide these activities.

Similar to the approach taken by the Automotive OEM division as described above, the Industrial division has begun to establish or expand specific structures and processes related to quality vis-à-vis its key customers during the year. Additionally, in accordance with the strategic direction, establishing and integrating an Industry 4.0 quality organization was part of establishing the new Industry 4.0 business field in 2018.

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. Now, the focus is on changing it from being solely a quality improvement program to representing a comprehensive quality culture. The guiding principles (Fit for Quality Axioms) follow the standards of quality-oriented leadership, systematic planning and training, the consistent use of methodologies and procedures, error detection, review of processes and measures, as well as the transfer of good solutions to other areas. The Axioms are communicated under the "FIT for Quality Academy" training scheme which is available to plants in all regions. The training scheme has been implemented within the divisions and regions at all locations worldwide and has also been rolled out to indirect areas.

Outstanding quality is a key feature differentiating the Schaeffler Group from its competitors 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.

At this year's GPF (Global Production Forum), Schaeffler quality awards were granted in the following categories:

- Outstanding quality performance in a product line
- Outstanding quality performance over many years
- Outstanding customer satisfaction

The Schaeffler Group received a total of 65 quality awards in 2018 (prior year: 58). This demonstrates that the Schaeffler Group's initiatives have paid off in the Asia/Pacific region, primarily in Japan and South Korea, and in the activities related to the "Fit for Quality" program. The awards received from customer Honda Motor Co. Ltd. in the "Best Quality Award" category, the "Achievement Award" from Toyota Motor Europe, and Mazda Motor Corporation's "Trade Performance Excellence Award" were evidence of this for the Automotive divisions, and the Industrial division achieved similar results. The "LG-BIQS Certificate" recognized Schaeffler as a successful quality supplier.

All of the Schaeffler Group's manufacturing locations are certified under globally recognized quality norms, standards, and regulations. Following up on its activities in 2017, the

Schaeffler Group has successfully completed the rollout and implementation 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 Group plants worldwide in 2018. Compliance with these standards is reviewed and confirmed using regular internal and external audits at the relevant locations.

Technology

Globalization, urbanization, digitalization, and changing environmental awareness are resulting in changing market requirements. Balancing the desire for individual mobility in times of a surging population with the infrastructure and the environment represents a fundamental challenge. This challenge creates enormous potential for businesses developing and offering mobility solutions. New EcoSystems open up growth areas in many places, but also require the development of comprehensive expertise ranging from energy generation through to energy supply and energy consumption. Given the current high rate of change in the drive sector, accessing future potential requires a mindset and perspective that reflects these profound and very rapid changes.

In light of this, the Schaeffler Group sees its role in actively shaping innovative and sustainable technologies. In line with the concept of ambidexterity, Schaeffler relies on both advancing the proven and exploring the new. Protecting existing business fields and exploring new ones in this manner is aimed at profitable growth in areas with a promising future. In this context, the Schaeffler Group relies on innovative urban mobility concepts and solutions for eco-friendly drive systems while consistently advancing drive and transmission solutions based on an internal combustion engine as well as smart and sustainable bearing technology solutions.

More on the group strategy on pp. 26 et seq.

In order to position the organization of the Technology function for current and future challenges, the structure of the Technology department was realigned effective January 1, 2019. The changes included integrating Materials Technology and Surface Technology into the Central Technology department. In addition, R&D Bearing was instituted within the Technology function in order to combine, at the corporate level, the basic development activities covering all aspects of rolling bearing technology. As a result, starting January 1, 2019, the Technology function includes Corporate R&D Management, Innovation & Central Technology, R&D Processes, Methods & Tools, Intellectual Property Rights, R&D Bearing, Information Technology, Strategic IT, Coordination Office Digitalization, as well as Special Projects Motor Sports.

Schaeffler Group R&D

An average of 7,956 R&D staff (prior year: 7,634) at 20 R&D centers (prior year: 18) and additional R&D locations in a total of 24 countries represent the basis for the company's long-term innovative ability, which was further strengthened by evolving the R&D locations Erlangen and Nuremberg into F&E centers. Its 2,383 patent registrations filed with the German Patent and Trademark Office, which made the Schaeffler Group the second most innovative company for the fifth consecutive year in 2017, are evidence of the company's innovative ability. In addition, more than 3,452 inventions were reported internally in 2018 (prior year: 3,294). The Schaeffler Group relies on continuous innovation and, based on that, expects to once again rank highly among the most innovative companies in Germany in 2018.

Research and development expenses **No. 008**

	2014	2015	2016	2017	2018 [1]
Research and development expenses (in € millions)	622	673	751	846	847
Research and development expenses (in % of revenue)	5.1%	5.1%	5.6%	6.0%	5.9%
Number of research and development staff [2]	6,387	6,651	7,121	7,634	7,956

[1] The Schaeffler Group has initially applied the new standard IFRS 15 effective January 1, 2018, which requires certain development services to be included in gross profit, among other things. The company has used the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
[2] Averages.

Corporate research and development: The company's corporate technology, which is incremental to that of the divisions, develops long-term sustainable customer- and market-specific technical solutions and promotes interdisciplinary knowledge transfer, following a systematic process that is aligned along the product lifecycle and speeds up development. The technical knowledge required to explore technologies is gathered, collected, and combined in the Schaeffler Group's competence centers, ensuring significant 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. The global remodeling of the energy chain in the coming decades will be characterized by the pervasiveness of renewable energy sources in energy generation. The extent to which their natural fluctuations can be compensated by conventional regulation and by expanding existing power grids is limited. Therefore, energy storage will play an increasingly important role. There will be a particular need for scalable energy storage facilities that are financially viable and eco-friendly.

In light of this, the Schaeffler Group has entered into a development cooperation with CMBlu Projekt AG to develop organic redox flow batteries to marketability and manufacture them. This new and unique technology is largely based on renewable resources and can be scaled to nearly any size. Hence, the technology has the potential to play an essential role in shaping the charging infrastructure in the field of electric mobility as well as in establishing a sustainable energy infrastructure.

Along with the energy chain, a further focus of the corporate development activities is on urban mobility concepts. Increasing urbanization and the resulting infrastructural challenges, such as traffic jams and limited availability of parking, as well as a changed legal environment for pollutant and exhaust emissions are changing the way people move about the city and the way they are supplied with everyday consumer goods. In this context, autonomous and electrified mobility concepts are going to take on an essential role in the future.

The Schaeffler Mover – the technological demonstrator for future autonomous vehicles – presented by the Schaeffler Group during the year is the technological basis for one of these urban mobility concepts. The drive and chassis components are installed in a compact assembly unit, the Schaeffler Intelligent Corner Module. The system is installed in all four wheels and includes, along with the wheel hub motor, the suspension (including springs) as well as the actuator for the electromechanical steering. The wheel module is steered by an electromechanical "Steer-by-Wire"-System that facilitates vehicle steering by electronic means – a key technology for autonomous driving, since autonomous vehicles do not have a mechanical steering column. In order to further develop the Mover concepts, the Schaeffler Group established the Schaeffler Paravan Technologie GmbH & Co. KG joint venture, whose objectives include further expanding the company's systems expertise in this rapidly developing market segment. In addition, in January 2019, the company announced a technology partnership with TRE Vehicle Dynamics GmbH aimed at advancing the "rolling chassis" of the Schaeffler Mover.

Schaeffler Mover **No. 009**

Intermodal traffic in areas where space is at a premium and the ability to change smoothly from one means of transport to another is increasingly gaining importance for dealing with the growing volume of traffic in urban centers. Schaeffler offers an innovative solution in the field of micro-mobility, the Bio-Hybrid concept, which is a four-wheel roofed pedelec somewhere between a pedelec and a small electric vehicle in range that offers nearly emission-free mobility. In addition to the passenger version, Schaeffler presented the first cargo version of the "Bio-Hybrid" for use in urban deliveries during the year. These activities have been spun-off and concentrated in Bio-Hybrid GmbH with the aim of industrializing the Bio-Hybrid.

Collaborations: The corporate R&D activities are founded on a global innovation network that contributes significantly to the Schaeffler Group's technological leadership. Collaborations with universities in the form of the "Schaeffler Hub for Advanced Research" (SHARE) initiative under the unique "Company on Campus" concept ensure the consistent development of future-oriented technologies. SHARE at KIT (Karlsruhe Institute for Technology), which was founded in 2013, concentrates on electric mobility with a special focus on automated driving. In the publicly subsidized "Omnisteer" and "SmartLoad" projects, research teams are working on new steering concepts for autonomous vehicles and on the resilience of actuators. SHARE at FAU (Friedrich-Alexander University of Erlangen-Nuremberg) focuses its research on Digitalization along the entire value chain, while SHARE at NTU (Nanyang Technological University, Singapore) prioritizes personal urban mobility, and SHARE at SWJTU (Southwest Jiatong University, Chengdu) (chassis) solutions for high-speed trains. Along with numerous other collaborations with universities, the Schaeffler Group also has a strategic partnership with Fraunhofer-Gesellschaft that has been in place since 2017.

Interconnection with start-up companies adds to this innovation network. The innovative strength, rapid speed, and flexibility of start-ups are combined with Schaeffler's experience in order to efficiently develop ideas to the point of marketability. The annual Schaeffler Venture Forum, where selected start-ups present and discuss new ideas, is a key element of Schaeffler's start-up concept. Schaeffler extensively exchanges ideas with start-ups via its office in Silicon Valley and collaborations with the Munich Network, Plug-and-Play, as well as the start-up campus Factory Berlin and the tech incubator ZOLLHOF in Nuremberg.

R&D in the Automotive OEM division

The Schaeffler Group estimates that in 2030, 30% of all newly produced cars will be powered by an all-electric drive train, while a further 40% of all new vehicles will be equipped with a hybrid drive and another 30% with an internal combustion engine. The many different types of energy storage and the current diversity in drive units requires a high level of drive train and vehicle expertise in order to develop technologically and commercially efficient solutions. In order to live up to this challenge, 350 new jobs are expected to be created at the Automotive OEM division's headquarters in Buehl, mainly in the field of E-Mobility.

The degree of vertical integration is continually being increased and the product portfolio expanded in order to establish Schaeffler as an E-Mobility systems supplier in the long run. One priority of these activities are electric motors. The acquisition of Compact Dynamics GmbH brought the integration of development expertise regarding highly innovative electric drives. Combining it with the expertise in high-volume, top-quality manufacturing further boosts the development of electric motors. The acquisition of Elmotec Statomat, a manufacturer of production machinery for the construction of electric motors, which closed on January 31, 2019, is another consistent step in this direction.

In the field of all-electric vehicles, the Schaeffler Group can tap into the know-how gained from the FIA Formula E-Championship. Winning the team title in 2018 crowned four successful years in Formula E and is evidence of outstanding expertise regarding the electricdrive train. The technology transfer from motor racing to drive concepts was also accelerated by the "Schaeffler 4ePerformance" concept vehicle. The four integrated Formula E motors of this all-electric vehicle deliver a total power output of 880 kW (1,200 hp).

Schaeffler 4ePerformance **No. 010**

Schaeffler's experience with motor sports contributes to current developments such as electric axle systems, which entered volume production during the year. A package customized in terms of weight, space requirements, and cost to meet customer-specific requirements for function, maximum speed, and driving dynamics can be developed using a flexible electric axle configurator. The restricted design envelope of coaxial drive architectures places high demands on packaging. The highly integrated stepped planetary gear set combined with an innovative spur gear differential developed by Schaeffler offers a solution to this issue. The planetary gear design concept can also be applied to parallel axis drives, lowering development times and cost. Schaeffler also presented a particularly compact and lightweight single-speed transmission concept with a parallel axis design. The modular systems for coaxial and parallel axis designs both enable a wide range of space requirements and transmission ratios to be covered while utilizing a high number of identical parts.

One example of how transmission actuators are used in electric vehicles is the electric axle actuator (EAA) that entered volume production during the year. As a systems partner, Schaeffler not only provides the hardware but also develops the software to ensure optimum performance within the entire system. Schaeffler's integrated parking lock actuator (PLA) was developed as an efficient actuation module for the parking lock function in electric vehicles. Since this actuator is light-weight and requires little installation space, it can be integrated into electric axle systems or dedicated hybrid transmissions in an optimum manner.

A large share of the vehicle population is assumed to be hybrid-driven in the future. Schaeffler expects particularly strong market growth for mild-hybrid vehicles that use a 48-volt on-board electric subsystem. P0 drives – in which the electric motor is connected to the crankshaft of the internal combustion

engine via a belt – make it possible to recuperate much of the kinetic energy that is otherwise lost when braking. The arrangement of the 48-volt electric motor on the crankshaft as a P1 hybrid module provides a direct link to the internal combustion engine speed.

Recuperation and fuel-saving driving strategies are even more efficient with a P2 hybrid module on a 48-volt basis that is fitted between the internal combustion engine and the transmission. For front-transverse drives with a small axial design envelope, Schaeffler has developed a version with an arrangement parallel to the axle that acts on the transmission input shaft via a belt or chain drive. In addition to recuperating braking energy, this system permits electric driving at low speeds, such as in traffic jams and while parking and maneuvering. Furthermore, Schaeffler's 48-volt hybrid module assists in accelerating as well as in fuel-saving sailing, which means that the vehicle rolls freely with the internal combustion engine switched off and decoupled from the drive train. An integrated automated clutch provides a high level of comfort when restarting the engine by helping the engine rev up immediately upon starting.

Along with electrified drives, the Schaeffler Group continues to work on increasing the efficiency of internal combustion engines in order to further reduce harmful emissions. For instance, Schaeffler has developed switchable roller finger followers for cylinder deactivation in three-cylinder engines, which will be integrated into volume-production vehicles. Furthermore, Schaeffler has carried out tests on a test engine with rolling cylinder activation. This design allows the specific fuel consumption at low engine speeds and engine loads to be reduced without adversely affecting the engine's emission behavior. Technologies for increased efficiency in transmission systems also play an important role. To reduce torsional vibrations in the drive train during active sailing, Schaeffler has developed a new couple pendulum, in which the dampers support each other via springs in a circumferential direction. In addition, the company developed a new design for transmission bearings with particularly low friction, that is called "angular roller units" (ARU) and facilitates particularly low friction, thereby further increasing the efficiency of conventional drive trains.

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 global replacement parts business. Thanks to the many years of experience with original equipment, the Automotive Aftermarket division possesses comprehensive systems know-how. Based on that, product specialists consisting of engineers and master mechanics develop intelligent and high-quality repair solutions allowing repair shops to perform professional repairs.

Repair solutions presented during the year included the LuK RepSet CVT, a comprehensive repair solution for the CVT chain. The related dampers and dual-mass flywheels complete this new portfolio for continuously-variable transmissions. In addition, Schaeffler presented the concept of the "repair shop of tomorrow" at the major trade fair Automechanika in Frankfurt. Visitors used mixed and augmented reality applications to take a look at the digitized future of the Automotive Aftermarket. Experts demonstrated how, for instance, a dual-mass flywheel and a timing chain can be replaced in real time using interactive support, facilitating even more efficient repair processes.

R&D in the Industrial division

The megatrend digitalization is a key driver of development in the Industrial division. Within the organizational unit "Industry 4.0", the division presses ahead with intelligent networks connecting product development, production, logistics, customers, and suppliers. Its technological basis are smart, interconnected systems that will maximize the possibilities for largely autonomous production and optimum plant operation in the future. Going forward, the company will advance this expertise using internal processes, use it for the benefit of these processes, and offer it to its customers while maintaining its "classic" components business.

In this context, the Schaeffler Group offers specialized solution packages that increase machine and equipment availability and improve processes. Schaeffler's Smart EcoSystem forms the basis for integrating smart components and systems, proven visualization and analysis tools, and digital services. The company presented several digital solutions for selected industry sectors at this year's Hanover Fair.

As an example, a connection to the Schaeffler cloud and the "Condition Analyzer" digital service helps improve plant monitoring. The Schaeffler Group's many years of bearing and vibration analysis expertise has been incorporated directly into the underlying algorithms. Mechanical failures – of electric motors for instance – are reliably prevented by using pattern detection. For the service provider, the transition to the digital service means fewer on-site visits to the customer, planning of maintenance work well in advance, and, therefore, increased machine efficiency and availability to the customer.

The condition monitoring system also has applications in other places along the energy chain. For instance, Schaeffler is helping to ensure reliable, fault-free operation at waterworks using a complete solution that comprises both monitoring and lubrication of the machines that are critical to ensuring a secure supply. One example of this is a water supply association employing a complete solution that consists of a SmartQB condition monitoring system and a Concept8 lubricator to prevent pump system failure. The preconfigured SmartQB detects irregularities in the

machines' vibration behavior, identifies potential causes, and then reports on the findings. The Concept8 ensures requirements-based lubrication of the pumps' bearings. This complete Schaeffler solution permits maintenance work to be scheduled well in advance and maintenance processes to be improved.

Condition monitoring railway **No. 011**

The Condition Analyzer System, which was designed to be universal, can also be applied in the railway environment. The digitized monitoring of motorized and trailer bogies based on solid-borne vibrations and other sensors holds immense potential for making the operation of passenger trains even safer and more cost-effective. Schaeffler can offer a great deal of added value here thanks to its knowledge of the application-specific behavior of rolling bearings combined with decades of expertise in the field of vibration analysis gathered from a range of different industries. This expertise enables Schaeffler to generate data analyses that provide high-quality information and can be delivered via a range of digital interfaces. As a result, the operator no longer needs to have specific knowledge of vibration or perform manual evaluations.

The systems are also used and advanced internally. One example of this is the intelligent maintenance system for the operationally critical machinery the Schaeffler Group has implemented at its "European Distribution Center" (EDC) Central in Kitzingen. SmartCheck systems continuously monitor the lift and travel drives in the storage and retrieval systems, lifting stations, and spiral conveyors. Concept8 devices provide autonomous and requirements-based lubrication to the pallet conveyor and in-floor conveyor systems. Autonomous subsystems reduce costly manual maintenance tasks and the risk of maintenance measures being carried out incorrectly. This predictive maintenance scheme was elected winner of this year's "LOGISTRA best practice: Innovation" vote by logistics magazine LOGISTRA.

In addition to the activities around the development focus Industry 4.0, the Industrial division's R&D activities also concentrate on advancing its portfolio of high-performance components. During the year, this involved, among other things, developing the asymmetric FAG spherical roller bearings for main rotor bearing supports into a complete range that meets the X-life standard. Improved load distribution corresponding to the load profile typical for rotor bearing supports allows the width of the bearing to be reduced. Thanks to this bearing design, the equipment manufacturer can thus downsize the drive train while maintaining the same performance capability. Further performance enhancements can be achieved through the use of coating systems like Durotect B, which increases robustness, and Triondur, which provides special wear protection.

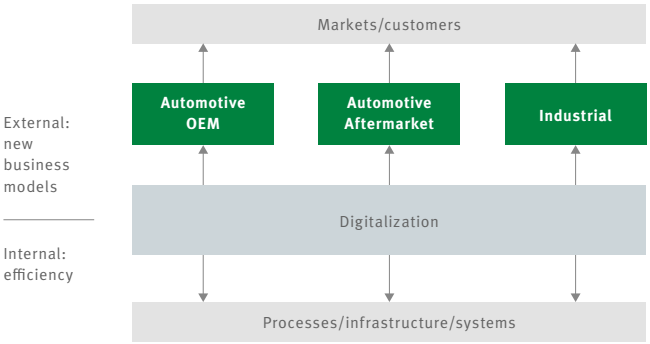
For machine tool spindles, Schaeffler has developed bearings made from a high-performance material named Vacrodur and advanced them to application in volume production. The material, which is manufactured using powder-metallurgic methods, is extremely hard and tough, increasing wear resistance many times over. This enables the spindle manufacturer or the machine operator to significantly extend the application's maintenance intervals, thus reducing its lifecycle costs. The higher fatigue strength of this material further increases rolling bearing strength. Bearings made from this material are ideally suited especially to high-performance aluminum machining required in applications like manufacturing aerospace components.

Digitalization and IT

The digitalization megatrend poses new challenges, but also offers enormous opportunities. Digitalization is changing existing processes: in research and development, purchasing, manufacturing, logistics, distribution, as well as in the human resources and finance functions. Therefore, the Schaeffler Group has implemented the "Digital Agenda" as one of the 20 initiatives of its program for the future, the "Agenda 4 plus One". The groupwide and cross-functional implementation of the group's Digitalization projects are centrally managed by the "Coordination Office Digitalization".

An actual application of this is the digitalization of the group's supply chain management. For Schaeffler, digitalizing the supply chain means constantly increasing transparency of Schaeffler's value chains. This transparency ranges from tracking products through to warning messages regarding imminent delays in the supply chain and data-driven support for decision-makers. For instance, Schaeffler has aggregated and analyzed global value chain data in order to gain a global view of relationships and dependencies within end-to-end value streams. This approach provides transparency regarding product dwell time, cost, and interrelationships of value streams based on Big Data analytics. It has already been piloted successfully and will be rolled out gradually along the global value chains.

Digital Agenda of the Schaeffler Group **No. 012**



The Digital Agenda is oriented toward the benefit of its users – both internal partners and external customers. To improve internal processes and generate additional benefits 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. This data will be used in data analytics and machine learning to generate performance improvements throughout the company. For instance, artificially intelligent models are using sensor data to learn patterns that indicate the amount of tool wear. These models not only recognize known patterns, but also apply what they have learned to new behaviors and machines, making them very versatile.

The technological basis for these data analytics and machine learning methods is the cloud-based Schaeffler Data & Analytics Platform that can be used worldwide. It both contains the central Schaeffler Data Lake that facilitates efficient storage and highly parallel processing of nearly unlimited amounts of data and provides the newest state-of-the-art tools for company-wide data integration. This connects data silos distributed around the world within the Schaeffler Group and external business partners' data sources, creating a uniform, harmonized information repository. Thus, the Schaeffler Big Data & Analytics Platform provides the basis for data-intensive analyses, artificially intelligent solutions involving extensive calculations, and for new data-driven products such as the Digital Twin in the Industry 4.0 environment. During the year, the platform started operating initial pilot applications and will go live for business applications in 2019. The platform is also available to Schaeffler's regions worldwide. Where necessary for regulatory or technological reasons, regional data and analytics platforms can be set up using the same architecture and technology designs and integrated into the global Schaeffler Big Data & Analytics Platform.

The technological basis for these types of applications is provided by Schaeffler's IT department. The Big Data & Analytics components are part of a hybrid multi-cloud solution. Modern and differentiating IT applications are created using it as a basis; they can be efficiently linked with other internal and external systems via an ecosystem of interfaces and offer a better user experience. Implementation of Schaeffler's IT strategy is the objective of the "IT 2020" initiative. It is designed to help actively shape the Schaeffler Group's transformation into a digitized company using the relevant IT technologies. Along with advancing the Schaeffler Cloud Platform, proven technologies and IT products from the market are being integrated into Schaeffler's IT landscape, starting with cloud solutions and dedicated data processing centers through to edge computing close to the physical world in factories and distribution centers. In the coming years, one of the primary projects will be the introduction of SAP S/4 HANA as the company's future ERP system. It will involve gradually and sustainably enhancing the way Schaeffler's business processes are mapped to the IT systems and accelerating process execution. Cloud-based applications will be used for certain processes, complementing SAP S/4 HANA.

The transformation of the entire company – essential to being well-positioned for digital change – is performed using the "Agenda 4 plus One". Restructuring the process and IT landscape represents one of the drivers of this transformation. This has involved considerably expanding the use of agile methods and integrating these methods into the underlying IT processes, which are currently being updated and oriented toward the future as part of the "Process Excellence" initiative. A key cornerstone of these activities is establishing an agile IT organization that designs, implements, and operates the IT of tomorrow in close collaboration with the divisions, functions, and regions.

Operations, Supply Chain Management & Purchasing

Production

As a global automotive and industrial supplier, the Schaeffler Group currently has a global production system consisting of 73 plants in 22 countries. The plants, which employ approximately 67,000 staff, 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.

In order to further strengthen the production system, all plants were assigned to the Automotive OEM and Industrial divisions during the year. This realignment brings the plants closer to the markets and establishes consistent responsibilities for the business and earnings worldwide. In order to comprehensively implement the realignment, the "Bearing & Components Technologies" (BCT) unit, which had previously acted as an internal supplier, was integrated into the divisions and each of its plants assigned to one of the divisions. As a result, 20 plants are producing for the Industrial division and 53 plants for the Automotive OEM division. The Automotive Aftermarket division will continue to be supplied from the Automotive OEM division's manufacturing locations as before.

Along with these reassignments, key functions within plants located at one production location will be combined at campus level. This results in a high level of transparency and standardization and generates synergies. Overall, the global production system makes it possible to maintain consistent high levels of quality and efficiency across all of the Schaeffler Group's plants. Schaeffler process management is part of the group strategy and, as such, represents the basis for the continuous improvement of quality, cost efficiency, and delivery performance. Among other things, it facilitates very rapid transfer of innovative methods and processes within the entire network of plants. Standardization accelerates production start-ups, enabling the company to rapidly and flexibly respond to regional market fluctuations.

Schaeffler's technology network drives new production technologies, enhancements and improvements designed to expand the company's technological leadership, as well as the development of uniform standards. The technology network is tasked with developing volume production technologies. The technology network enables the company to uniformly advance its production and manufacturing technologies, realize synergies, and benefit from standardization across all divisions.

In addition, digitalization provides significant opportunities for the global production system, and the company has developed a comprehensive approach to digitizing Schaeffler's production. Its objective is to improve performance and efficiency of the sensor-based, interconnected, data-based enhancement of processes, supported by artificial intelligence as applicable, beyond what previous approaches have achieved. Another objective is to reduce and simplify manual interfaces by providing individual information to staff, tailored to their specific task. Following the development of the required fundamentals and their implementation in the form of suitable pilot projects, the company intends to, along with improving individual technologies, comprehensively enhance the value stream – in planning as well as in operation.

Collaborative assembly robot **No. 013**

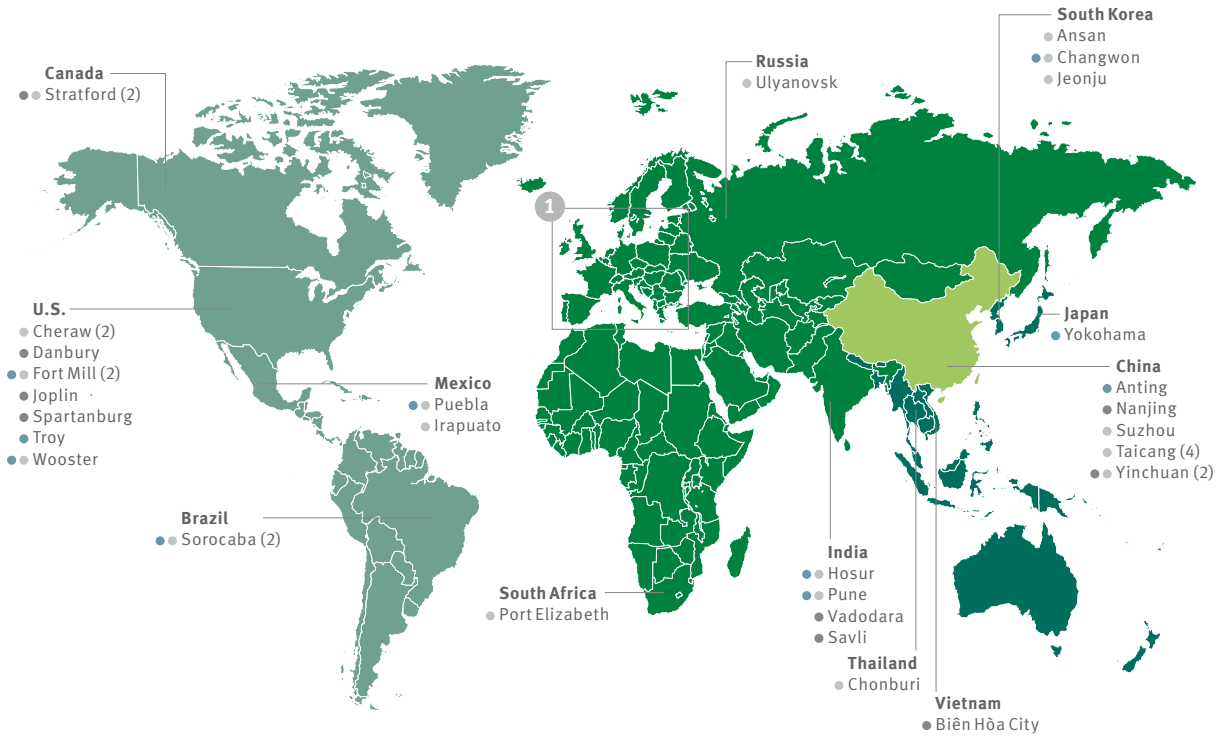
A tangible example of this is the improved utilization of capital tied up in machinery. For this purpose, Schaeffler has developed a system that helps prepare for investment decisions by providing an overview of the spare capacity of all significant machines of the Schaeffler Group. The data base consists of machine-specific planning data as well as data from the Manufacturing Execution System, categorized into technology classes. All relevant machines of the Schaeffler Group have been assigned to one of these technology classes, which are based on the various manufacturing methodologies of a specific processing step. This increases transparency regarding utilization, which forms the starting point for determining appropriate measures for improvement, thus supporting capital expenditure planning and increasing overall equipment effectiveness.

Additively manufactured ball bearing with cooling channels **No. 014**

Another example of digitalization in manufacturing is additive manufacturing (AM). The manufacturing technique colloquially called 3D printing refers to numerous technologies that involve directly manufacturing components starting from a digital 3D product model, without the need for drawings, manufacturing programs, or tools. As a result, AM provides the basis required to successfully implement a fully digital process chain from the product model through to the finished component. The Schaeffler Group had already created the basis for successfully implementing AM in the manufacturing system in previous years. In the future, the company will focus on applying AM in volume production, starting with small-series production due to the technological limitations AM techniques are still subject to. However, this initial application will already involve the integration of AM into existing process chains and the development of new hybrid process chains. An internal AM competence center is already working on this in an interdisciplinary manner with numerous departments as well as externally with a network of selected partners. These measures are designed to make the Schaeffler Group a reliable and flexible supplier of additively manufactured products.

Schaeffler Group plants and R&D centers **No. 015**

World



1 Europe

(enlarged section)

Regions [1]	Europe	Americas	Greater China	Asia/ Pacific
R&D centers	12	5	1	2
Plants	46	14	8	5
Automotive	33	10	6	4
Industrial	13	4	2	1

Number of plants in brackets
[1] Regions reflect the regional structure of the Schaeffler Group.

*) 2 plants Automotive, 1 plant Industrial

Plants in the regions: A total of 46 plants represent the Schaeffler Group in its **Europe region**. In addition to manufacturing locations in Germany, Western and Southern Europe, the group also maintains significant production plants in Central and Eastern Europe. The main plants of the Automotive OEM division in Buehl and the Industrial division in Schweinfurt as well as the plant at the corporate head office in Herzogenaurach with their approximately 9,100 production employees form the basis of the Schaeffler production network. Together with the R&D centers and corporate functions, they guarantee the development and industrialization of new systems under the "Mobility for tomorrow" strategy and the advancement of the Schaeffler production system.

In Buehl and Herzogenaurach, several projects for electric and hybrid vehicles for international automobile manufacturers have entered volume production and a large number of other systems are under development. For example, gears will play an important role in electric mobility and represent one of the remaining mechanical core components of the drive train. Special noise emission requirements apply to transmissions. In order to be able to directly influence the running smoothness by better coordinating the interaction of gears, Schaeffler is building a pilot plant for gear production in Herzogenaurach. Volume production of the first mechatronic systems for Industrial customers is up and running in Schweinfurt. Meanwhile, additional space for production, development, prototyping, and construction of special machinery has already been generated at these locations or is still partly in the planning stage.

Production capacity is continually being expanded in the Europe region due to increasing demand for Schaeffler products. For instance, the plants in Debrecen, Hungary, Kysucké Nové Mesto, Slovakia, and Pune, India, were expanded in 2018, further strengthening the Schaeffler Group's network of plants in Eastern Europe, which is already quite strong, and building capacity for the Indian growth market. The Debrecen plant manufactures tapered roller and ball bearings for transmission applications. Products manufactured in Kysucké Nové Mesto include wheel bearings and electronic steering and brake systems. In Pune, an expansion of manufacturing capacity for engine components and transmission applications is under way.

The Schaeffler Group operates a total of 14 plants in the **Americas region**, including 8 plants in the U.S. and 2 each in Canada, Mexico, and Brazil. In Wooster in the U.S., production has been expanded and initial electric mobility projects have started up in 2018. In Mexico, the Schaeffler Group operates 2 plants with a total of approximately 2,600 employees. In 2018, these plants were expanded once more, further increasing capacity for clutches, double-clutch transmission systems, and wheel bearings. The company has also established an assembly facility for thermal management modules for the region. The location in Joplin is being expanded further as well in order to increase manufacturing capacity for bearings for industrial applications.

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 a result, the location in Nanjing, China, was expanded in 2018 in order to meet increasing demand for rolling bearings for industrial applications as well as for engine components for the Engine Systems business division. Additionally, the groundbreaking ceremony was held at the new production location in Xiangtan, China, that follows the "Factory for Tomorrow" concept. Schaeffler is constructing a plant for automotive parts and precision bearings approximately 200,000 square meters in size. The "Factory for Tomorrow" concept, an initiative under the company's program for the future, the "Agenda 4 plus One", is aimed, in particular, at increasing flexibility, modularity, and productivity while also raising employer attractiveness and workplace quality. Recruiting and training for the new location commenced in 2018, and initial machines will be installed as early as in 2019.

The Schaeffler Group has 5 plants in its **Asia/Pacific region**. By building a new plant in Biên Hòa City, Vietnam, that was completed in late 2018, the Schaeffler Group has considerably expanded its production capacity for rolling bearings in this region. In this context, the existing manufacturing facility in Vietnam will move to the new production building that meets future requirements. Biên Hòa City mainly manufactures plummer blocks and needle roller bearings with an international design with a high degree of vertical integration.

Supply chain management

The supply chain management function is responsible for designing, operating, and continually improving the Schaeffler Group's entire supply chain. The primary goal of supply chain management is to increase customer satisfaction by way of timely, accurate, and efficient supply to all customers and plants worldwide.

In 2018, Schaeffler started its "Global Supply Chain" initiative – part of the "Agenda 4 plus One" – to more closely align its logistics processes along its three divisions, Automotive OEM, Automotive Aftermarket, and Industrial. The initiative focuses the process-related and structural alignment of the three division's supply chains on customer satisfaction and efficiency as well as on the comprehensive nature of efficient logistics value chains. Along with a supply chain design that optimizes supply chain inventory levels, thus helping to reduce working capital, the initiative involves creating a platform for integrating suppliers and for efficiently supplying customers. The objective of the initiative is an increase in delivery performance and agility. The initiative is cross-functional and cross-divisional in nature.

In 2018, the supply chain management function was responsible for managing approximately 210 warehousing locations with more than 400,000 square meters in storage space and for moving approximately 300,000 tonnes in freight between the most significant destinations within the Schaeffler Group.

More than 120 shipping warehouses ensure deliveries to customers. Logistics activities were expanded compared to the prior year.

A significant element of the strategic alignment of the Schaeffler Group's supply chain management is the "European Distribution Center" (EDC) project. This project is designed to establish a high-performance logistics network for the Industrial division. In 2018, commissioning of the "EDC Central" in Kitzingen was celebrated in an opening ceremony and initial orders were delivered to customers. The company plans to connect all plants to the EDC and to supply all Industrial customers in Europe exclusively from the EDC by 2020.

European Distribution Center (EDC) Central **No. 016**

For the Automotive Aftermarket, an assembly and packaging center known as Aftermarket Kitting Operation (AKO) is currently under construction in Saxony-Anhalt near Halle (Saale). The AKO, an initiative under the "Agenda 4 plus One", will be the main supply hub for all of the Automotive Aftermarket division's other regional warehouses. In addition, customers in Central Europe will be supplied directly from the AKO. Its construction started with a cornerstone laying ceremony during the year. The AKO will commence operations in the first half of 2020.

In this manner, the investments in the EDC Central and in the AKO will directly help improve the Schaeffler Group's delivery performance and secure its competitiveness.

Purchasing

The Schaeffler Group's purchasing function ensures the supply of goods and services to the plants taking into account quality, cost, and delivery performance. 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 are to improve the quality provided by suppliers by cooperating extensively with suppliers, secure competitive procurement costs, and to optimize the supply chain in order to increase the reliability of supply by utilizing better logistical connections.

The purchasing function consists of the departments for production and non-production materials, with procurement of production material managed both at the corporate and at the divisional level. To strengthen the divisional purchasing functions, the purchasing volume under divisional responsibility was increased significantly in 2018 in order to deepen the connection between the purchasing function and the divisions and to more firmly embed the responsibility for earnings in the divisions. In addition, purchasing is divided into the Europe, Americas, Greater China, and Asia/Pacific regions, which incorporate the purchasing function for the respetive plants.

In 2018, the Schaeffler Group reported an operational increase in the total volume of purchases compared to the prior year. The purchasing volume of production material (raw materials and components) included here rose, as did the purchasing volume of non-production materials (primarily intangible assets, property, plant and equipment, tools, supplies, and services). The Schaeffler Group was able to ensure supply to its plants around the world at all times in 2018. Purchases related primarily to the Europe (65%) and Americas (15%) regions. 13% and 7% of purchasing volumes related to the Greater China and Asia/Pacific regions, respectively.

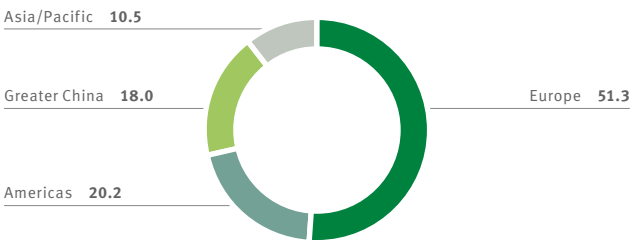
The Schaeffler Group uses various raw materials such as steel (flat steel or steel bar), iron and aluminum casting, as well as non-ferrous metals in manufacturing its products. The production materials Schaeffler uses primarily depend, directly or indirectly, on the trend in the price of scrap steel,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

Under the strategy "Mobility for tomorrow", the purchasing function is developing purchasing capabilities for new materials, especially for E-Mobility and Industry 4.0. Additionally, the purchasing function is helping to harmonize and standardize processes while reducing costs by implementing a multi-function shared service center organization. Furthermore, the "Working Capital" initiative, which is part of the "Agenda 4 plus One", has harmonized purchasing terms.

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. 017**
in percent by market view



With approximately 170 locations worldwide, 73 production facilities, 20 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.

Schaeffler continues to consistently work on changing its corporate image to the "Schaeffler" corporate brand. The LuK, INA, and FAG brand emblems have already been replaced with SCHAEFFLER at many locations and plants in the Europe, Americas, and Asia/Pacific regions. The new corporate design is an important element of the "Global Branding" project, one of the initiatives under the program for the future, the "Agenda 4 plus One". The initiative is designed to help the company continue to press ahead with its strategy "Mobility for tomorrow". Hence, the group is harmonizing its worldwide brand identity and corporate image – in line with "One Schaeffler. One Team. One voice". For the Greater China region, the initiative was kicked off in September 2018 at the Anting location.

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 expanding and creating regional research and development expertise, improving 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 improved cooperation with local customers and suppliers, the Schaeffler Group's growing localization increases efficiencies in purchasing and logistics and generates 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 sales [1] to sales volume manufactured in that region.

The **Europe region** combines the subregions Germany; Western Europe, Central and Eastern Europe & Middle East and Africa (CEEMEA), as well as India. The Germany subregion represents the Schaeffler Group's largest sales market. The Europe region contributed 51.3% (prior year: 51.2%) of consolidated revenue in 2018. The degree of localization amounted to approximately 96% (prior year: 96%) in 2018. The Europe region employed a total of 63,165 employees in 2018, 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 46 plants and 12 R&D centers. Its regional head office is located in Schweinfurt.

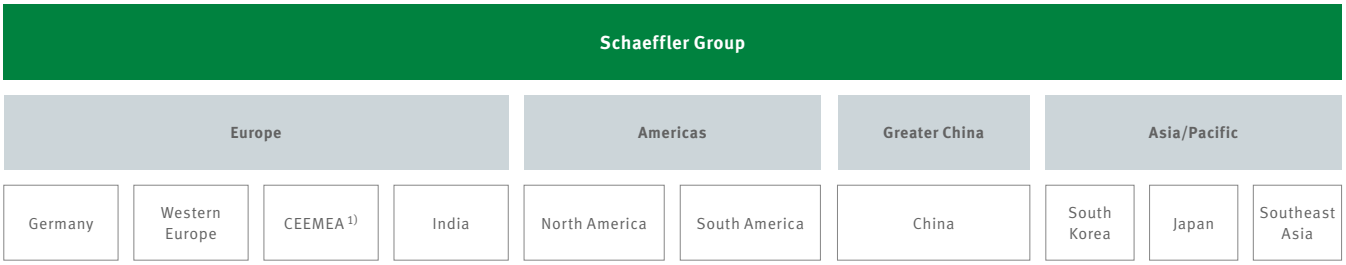
In 2018, the Schaeffler Group decided to expand the mechatronics development and manufacturing facility into a digital training factory. The decision is part of the "Focus" initiative, which forms part of the "Agenda 4 plus One". Construction and the move to the new premises, including appropriately refurbishing as well as combining them with those of Industry 4.0 and the vocational training facility, will be completed by the end of 2019.

As part of its program for the future, the "Agenda 4 plus One", the Schaeffler Group is also strengthening the Buehl location in the Europe region by constructing a state-of-the-art development building and new headquarters for the company's Automotive OEM division. This will also boost the company's activities in the field of electric mobility worldwide. 350 new jobs, primarily in the field of electric mobility, are expected to be created over the next few years. The company will invest a total of approximately EUR 60 m in this location.

As part of the initiative described above, the Schaeffler Group decided to reorganize its UK business activities. The reorganization calls for the consolidation of the logistics centers in Sutton Coldfield and Hereford and the closure of the production locations Plymouth and Llanelli. These locations' production will be moved to existing locations in other countries. The Sheffield location will be retained. The proposals are designed to generate synergies and increase efficiency.

[1] Sales by market view.

Schaeffler Group regions and subregions **No. 018**



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

Following completion of the merger of INA Bearings India Private Limited and LuK India Private Limited with listed company Schaeffler India Limited during the year, the Schaeffler Group now has only one subsidiary in India, the listed company Schaeffler India Limited. The transaction increased Schaeffler AG's indirect interest in Schaeffler India Limited from approximately 51% to approximately 74%. This transaction has simplified the previous structure, reduced complexity, and created a strong Schaeffler entity in India in order to better realize the potential for growth in India.

The **Americas region** consists of the two subregions North America and South America. This region contributed 20.2% (prior year: 20.8%) of revenue in 2018. The degree of localization amounted to approximately 70% (prior year: 71%) in the Americas region. A total of 13,138 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 Brazil, Schaeffler has been represented for 60 years now. Today, over 3,500 employees work at the almost 170,000 square meter site in Sorocaba. Schaeffler manufactures products for chassis, transmission, and engine systems for commercial vehicles, motorcycles, agricultural machinery, and many other industrial and automotive applications at this plant.

As China is a strategically important sales market for the Schaeffler Group, China and, among others, Taiwan and Hong Kong are managed together 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 18.0% (prior year: 17.5%) of group revenue in 2018. The degree of localization amounted to approximately 70% (prior year: 73%). A total of 12,976 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.

The **Asia/Pacific region** comprises the subregions 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 2018. The degree of localization amounted to approximately 37% (prior year: 38%) in 2018. The Asia/Pacific region had 3,199 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. During the year, the company established a research and development center for the megatrend 21st century urban mobility in order to identify both the needs as well as the opportunities that come with urbanization. The "E-Mobility" initiative, which is part of the "Agenda 4 plus One", opens up completely new opportunities and business fields for the company. The Schaeffler Group develops eco-friendly vehicle designs and urban mobility solutions for people in the megacities and reflects on the sustainable generation and storage of energy.

Schaeffler Group mission and vision **No. 019**

Mission

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

Vision

"As a leader in technology, we combine a passion for innovation with the highest standards of quality to shape the future of mobility – for a world that will be cleaner, safer, and smarter".

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 year 2018 was all about implementing this strategy. As an example, the Automotive OEM division established its new "E-Mobility" business division effective January 1, 2018. It combines all components and system solutions for hybrid and all-electric vehicles. The Industrial division established the Industry 4.0 strategic business field aggregating the entire industry-specific business with mechatronic systems and digital services. The comprehensive program for the future, the "Agenda 4 plus One", was expanded from 16 to 20 initiatives in early 2018 in order to also address issues the company has more recently put a sharper focus on. All 20 initiatives under the "Agenda 4 plus One" are in the implementation phase. Implementation of the program is currently 55% complete. 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.

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.

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 all-electric vehicles. Key components such as variable valve train 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 mod-

Mobility for tomorrow – 4 focus areas **No. 020**

ules and transmissions, the electric axle drive, or the wheel hub motor "E-Wheel Drive", play an increasingly important role in achieving lower CO_2 emission targets. The same logic can be applied to modern industrial drive systems, where the Schaeffler Group benefits from its wealth of knowledge in the automotive field, enabling it to utilize synergies.

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 conventionally-driven cars from their downtown areas. This trend calls for new mobility solutions, whether in micro-mobility or by designing more efficient public transit. In order to identify both the needs and the opportunities that come with 21st century urban mobility, Schaeffler has established a research and development center for urbanization in Singapore. The densely populated island state is regarded as a living lab for urban mobility. The acquisition of the Space Drive-Technology by the joint venture Schaeffler Paravan Technologie GmbH & Co. KG provided a significant technological stimulus designed to help press ahead with the development of innovative mechatronic chassis systems through to the "rolling chassis". The "Bio-Hybrid" micro mobile and the "E-Board" nano mobile are further evidence of the Schaeffler Group's strong innovative ability in this area.

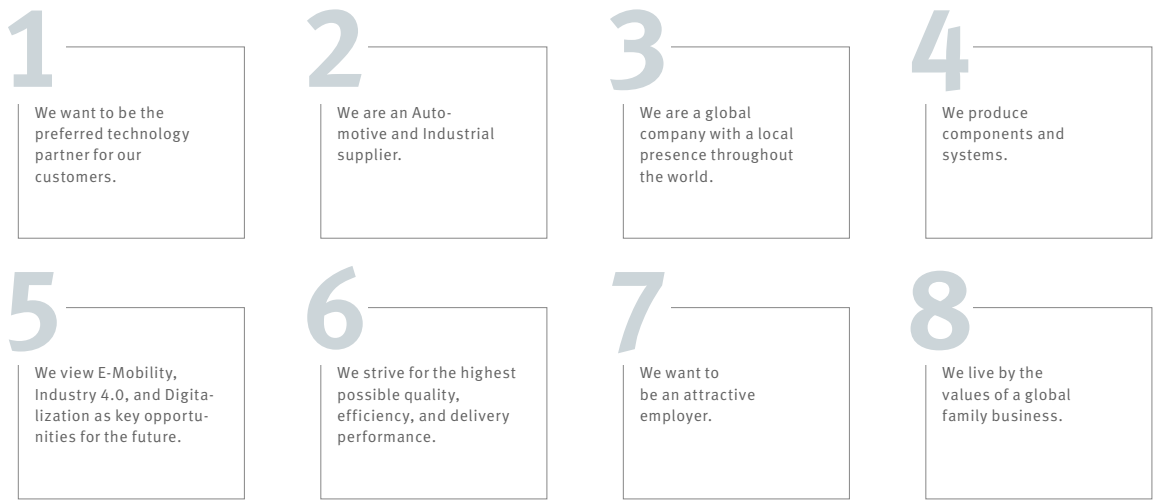
Interurban mobility

The term interurban mobility means interconnecting global centers. As globalization progresses, traffic will increase significantly worldwide over the years to come, rail traffic in particular, but air traffic as well, and require a large degree of flexibility. Providing modern and efficient mobility solutions presents a key challenge to both industries. The Schaeffler Group is developing new product and service concepts such as online condition monitoring solutions for the railway sector and innovative business models for the use of rolling bearing solutions.

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 there is both potential and a need for improvements in all segments of the energy chain – from its production to its transport and conversion through to energy consumption. Hence, the Schaeffler Group 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 – as well as technological and systems expertise for a variety of drive types, including even fuel cells and synthetic fuels.

8 Strategic pillars **No. 021**



8 Strategic pillars

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

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

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

2 We are an Automotive and Industrial supplier.

The Schaeffler Group is an automotive and an industrial supplier. The two divisions are united by the Schaeffler Group's worldwide manufacturing excellence and global platform of production facilities combined with economies of scale in purchasing materials and commodities. In addition, the Schaeffler Group'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 approximately 170 locations worldwide, 73 production facilities, 20 research and development centers and a tight-knit sales and service network, the Schaeffler Group ensures that the customer always finds it close at hand. For only those who recognize and understand the challenges confronting their customers can develop tailored solutions. And only those who maintain a local presence are able to respond quickly.

4 We produce components and systems.

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

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

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

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

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

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

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

Four corporate values **No. 022**

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

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

SCHAEFFLER

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

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

20 Strategic initiatives

To execute the strategy "Mobility for tomorrow", the company launched its program for the future, the "Agenda 4 plus One", with the Schaeffler Group's 16 most significant strategic initiatives in 2016. The program was expanded to include four additional initiatives, increasing the number of initiatives to 20 effective January 1, 2018. 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 and to ensure that their impact is sustainable by transferring them to business units or line functions. Each initiative is the responsibility of a member of the Board of Managing Directors 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".

The program is proceeding on schedule, with all 20 initiatives currently in the implementation phase. Selected initiatives have already progressed to the point of being transferred to line functions as at the beginning of 2019. This applies to the "Program CORE" initiative and, based on current plans, to the "Working Capital" initiative as well. As a result, the "Agenda 4 plus One" program will shortly be reduced to 18 initiatives. Over the course of 2019, other initiatives are expected to follow, having matured sufficiently to be transferred to line functions.

In addition, particular progress has been made in several initiatives:

First and foremost, there are the E-Mobility and Industry 4.0 initiatives. Due to the growing number of customer projects and the increasing significance of the activities in these two areas, dedicated business units were set up effective January 1, 2018. The E-Mobility business division brings together all products and system solutions for hybrid and all-electric vehicles. In addition, a second competence center for electric mobility has been set up in China due to the significance of the Chinese market.

The Industry 4.0 business field focuses on developing rotary and linear mechatronic products, digital services, as well as new data-based business models. The Industrial division aims to generate 10% of its revenue from Industry 4.0 products by 2022. In the future, all of these products and solutions will be offered under the Schaeffler brand. Numerous product and solution packages in various project stages are already in use by customers today: These include, for instance, cloud-based monitoring of accessory units such as electric motors jointly with a service provider, a complete solution for monitoring and lubricating machines that are critical to the operations of a drinking water supply association, as well as an all-digital service for predicting the service life of rolling bearings in wind power transmissions.

The Schaeffler Group's Aftermarket Kitting Operation (AKO) breaks new ground in logistics in Europe. Occupying an area of more than 40,000 square meters, the new facility will assemble and package automotive aftermarket spare parts and repair solutions. The new assembly and packaging center will further improve the Schaeffler Group's Automotive Aftermarket processes and generate sustained increases in quality of delivery. The new center is the main supply hub for all of the division's other regional warehouses. More than 40,000 different items for cars, light and heavy commercial vehicles, and tractors will be picked, packaged, and shipped at the new assembly and packaging center. In 2018, the cornerstone of this project was laid in the city of Halle (Saale), and the center is scheduled to be commissioned in 2020.

The “Agenda 4 plus One” also includes the “Global Footprint” initiative that is examining the strategic and economic competitiveness and long-term sustainability of all of the company’s locations worldwide. Being a global business, the Schaeffler Group needs to regularly review market conditions and strive to optimize its footprint across different regions. In late 2018, the Schaeffler Group decided as part of this initiative to reorganize its UK business activities. Following the proposed reorganization, the company will retain a meaningful presence in the UK but will reduce its overall footprint and relocate some of its UK production to other existing sites outside the country. It is anticipated that the reorganization plans will take up to two years to implement.

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 creates a global infrastructure of sales expertise and closeness to the customer in order to continually advance customer communications and customer relationship management. As part of the initiative, Schaeffler relies on modern customer relationship management (CRM) software. The company also evaluates its customer relationships using periodic customer surveys. A new survey introduced under the “Customer Excellence” initiative in 2018 covers all divisions and regions of the Schaeffler Group.

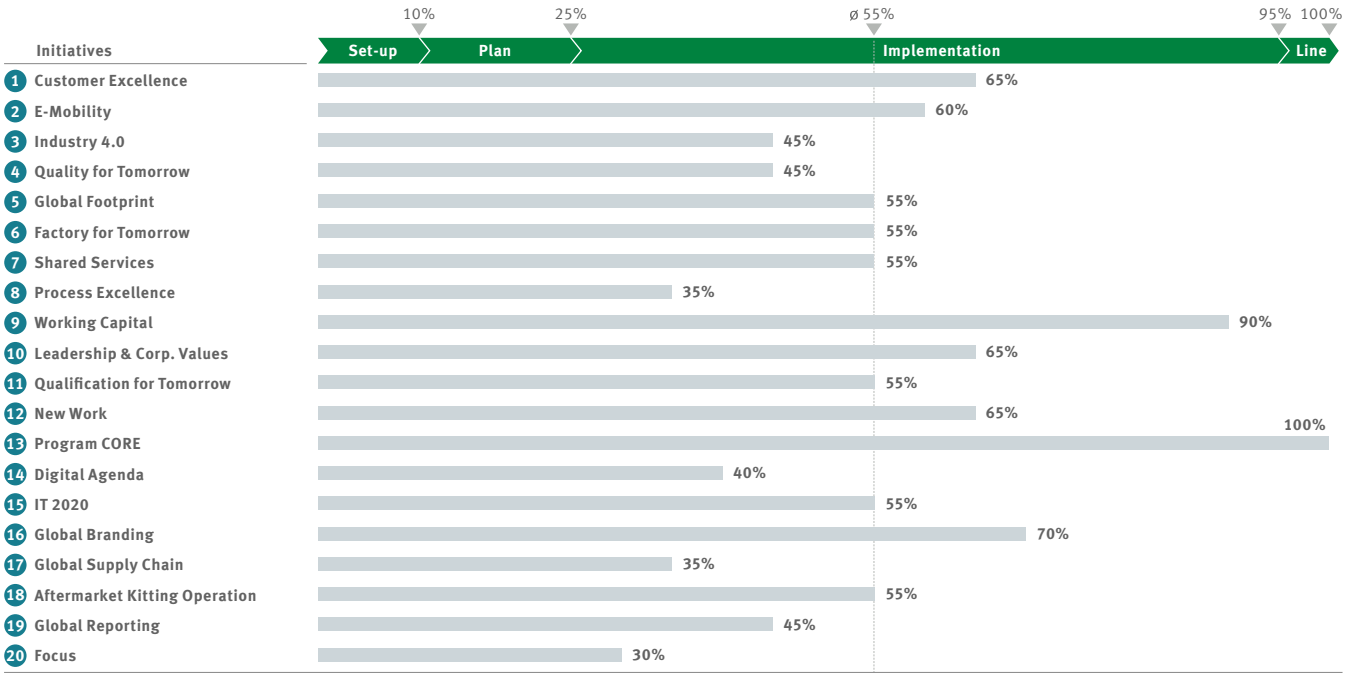
An appropriate, customer-oriented structure is essential for the indirect functions as well. The objective of the “Shared Services” initiative is to set up a powerful, cross-functional shared services organization. Preparations were completed in the third quarter of 2018. Schaeffler has completed an important step toward setting up the location by founding the company “Schaeffler Global Services Europe Sp. z.o.o”. in the Polish city of Wroclaw and moving the first employees into the offices there. Furthermore, the implementation of initial pilot processes was kicked-off in the fourth quarter of 2018. Among these are processing of invoices received for the Finance function, checking freight invoices for supply chain management, and providing internal services for IT.

Prerequisites for the success of the shared service organization include the 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 “Global Reporting” initiative is aimed at improving the Schaeffler Group’s consolidation and reporting systems as well as management information.

The “Leadership & Corporate Values” initiative focuses on bringing the corporate values, leadership principles, and Leadership

Agenda 4 plus One – progress **No. 023**



Essentials to life in order to strengthen the Schaeffler Group's leadership culture. The Leadership Essentials having been communicated worldwide, in 2018, the focus was on implementation. Various measures were taken worldwide in order to embed a common understanding of leadership – including "leadership road shows" across all regions, moderated by human resources staff and held at all levels of the company, starting with the Executive Board. A further phase of implementation was aligning all human resources tools with the Leadership Essentials – this has largely been completed in 2018 as well.

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. 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 2018, the corporate image was changed at all major locations, including the head offices in Herzogenaurach, Schweinfurt, and Buehl. 70% of all Schaeffler employees are now working at locations that have been converted to the new branding concept and thus exhibit the uniform global appearance. The Schaeffler Group plans to have all of its locations worldwide converted by the end of 2019.

The "New Work" initiative, which has also made considerable progress, will contribute to a uniform appearance as well. "New Work" will create the office of the future. It will be more innovative, attractive, and also more flexible than conventional offices. The objective of this initiative is to improve communication as well as to increase employee satisfaction and make the Schaeffler Group more attractive as an employer. Productivity per area increases in the new working environment as well. Employees have started moving into the new premises in Erlangen as well as at the other pilot locations Nuremberg and Schweinfurt. In addition, a comprehensive global strategy has been approved by the Executive Board – a further step toward standardizing New Work at the global level, as well, which will help with managing a systematic roll-out in the regions.

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 in the nine figure range intended to complement and strengthen the technology spectrum, thus adding long-term value.

As part of this strategy, the Schaeffler Group founded the joint venture Paravan Technologie GmbH & Co. KG in the summer of 2018 that has acquired Paravan GmbH's Space Drive-Technology, one of the leading "Drive-by-Wire"-Technologies. This technology makes the "Steer-by-Wire"-Functionality possible which enables safe and reliable vehicle steering by purely electronic means. This acquisition not only provides Schaeffler with access to a key technology for autonomous driving, but also enables the company to develop its Chassis Systems business division into a chassis systems integrator in order to further diversify its drive train and chassis activities.

Additionally, the acquisition of Elmotec Statomat has expanded the company's manufacturing expertise in the field of electric motors and thus opened up further potential for growth by producing electric motors and stator production facilities. Elmotec Statomat is one of the world's leading manufacturers of production machinery for the high-volume construction of electric motors and possesses unique expertise in the field of winding technology. Schaeffler had previously acquired Compact Dynamics GmbH – a development specialist in the field of innovative electric drive concepts – at the end of 2016. The acquisition of Elmotec Statomat on January 31, 2019, has expanded this expertise by adding further know-how regarding high-volume production of stators for electric motors.

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.

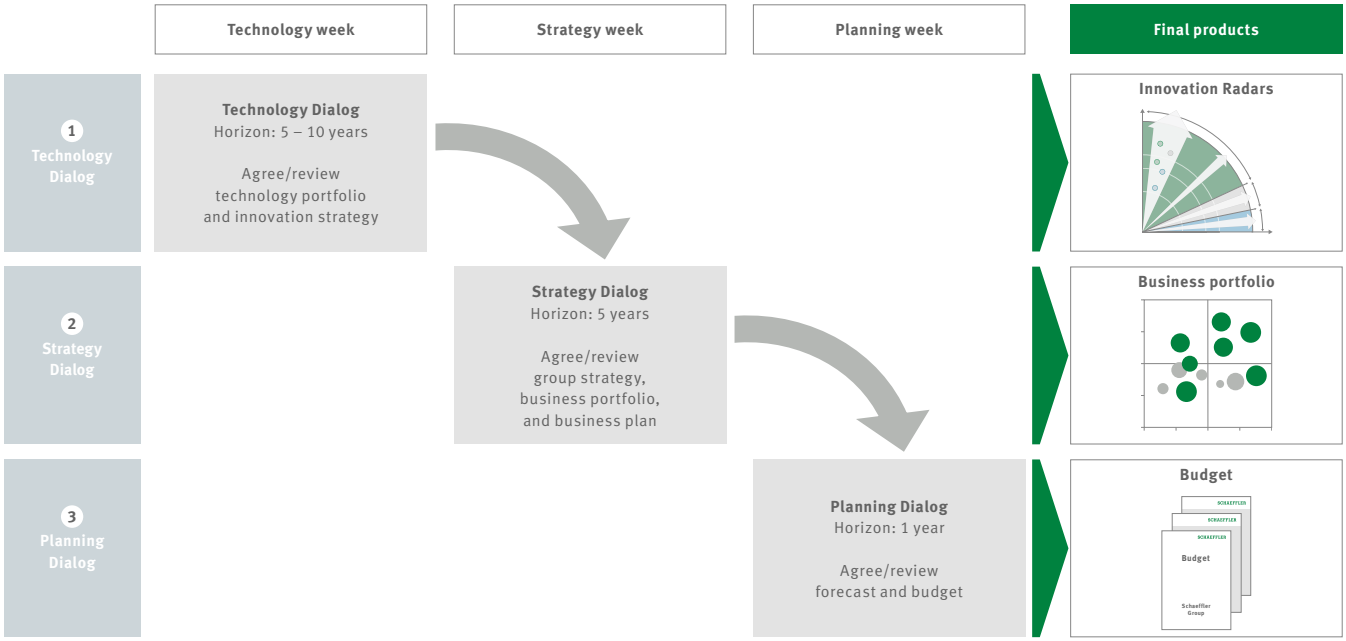
The starting point is the Technology Dialog that primarily deals with the megatrends and the resulting impact on technology and innovation. The time frame considered is 5 to 10 years into the future. Based on the information developed, an "Innovation Radar" is approved containing and prioritizing the 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 an 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.

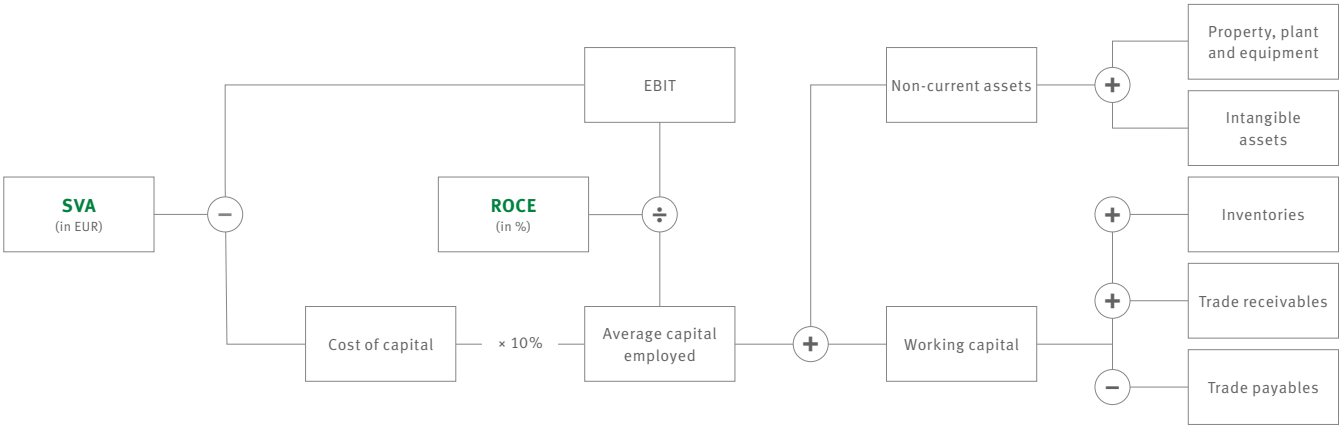
Strategic initiatives are uniformly evaluated and prioritized based on business cases showing their impact on key indicators. In this manner, each business case is presented consistently and uniformly, including the funds and investments it requires. This serves as the basis for the strategic allocation of capital and resources, which is the focus of the Strategy Dialog. Additionally, numerous initiatives are identified within the divisions, regions, and functions, and are implemented and followed up on within the relevant units as well.

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. 024**



Strategic financial performance indicators **No. 025**



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 2018, the Schaeffler Group's management utilized a three-dimensional matrix organization consisting of three divisions, five functions, and four regions to manage the group's business activities. 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.

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 requires 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. The Schaeffler Group'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 **Schaeffler Value Added (SVA)** as well as **return on capital employed (ROCE)**, which is closely linked to SVA. 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. 56 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, income (loss) from equity-accounted investees, 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.

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 provides information about 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

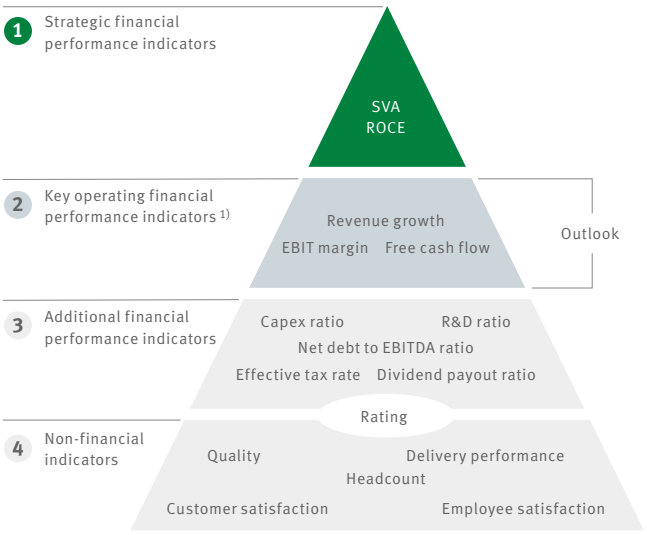
The two indicators SVA and ROCE serve as indicators of the amount of shareholder value added in 2018. However, their high level of aggregation makes using them as a basis for targeted operational management difficult. Therefore, these indicators are mainly used for reporting purposes.

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 before cash in- and outflows for M&A activities**

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.

Management system **No. 026**



1) Revenue growth (at constant currency), EBIT margin (before special items), free cash flow before cash in- and outflows for M&A activities.

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 make the evaluation of the company's results of operations as transparent as possible and 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 before cash in- and outflows for M&A activities: 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 make the evaluation of the company's results of operations as transparent as possible and improve comparability over time, the Schaeffler Group reports free cash flow, one of its key operating financial performance indicators, before cash in- and outflows for M&A activities.

As a result of the application of IFRS 16, all principal repayments on lease liabilities will be presented as financing activities in the statement of cash flows. In order to continue to present a measure of the Schaeffler Group's ability to convert operating performance to cash inflows, free cash flow before cash in- and outflows for M&A activities will be determined net of any principal repayments on lease liabilities starting in 2019.

More on trends in the indicators discussed above under "course of business" on pp. 49 et seq. and on special items on pp. 56 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 approximately 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. In order to facilitate a more precise evaluation of the company's labor capacity, the number of employees will be determined in terms of full time equivalents (FTE) for internal management purposes starting in 2019.

More on sustainability management on pp. 43 et seq.

Further non-financial measures 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. 88 et seq.

Presentation of strategic financial and key operating financial performance indicators in the group management report **No. 027**

	2018	2017	Course of business	Earnings	Performance indicators	Financial position and finance management	Overall assessment	Report on expected developments
SVA (before special items, in € millions)	556	787	✓		✓		✓	
ROCE (before special items, in %)	16.7	19.9	✓		✓		✓	
Revenue growth (at constant currency, in %)	3.9	5.9	✓	✓	✓		✓	✓
EBIT margin (before special items, in %)	9.7	11.3	✓	✓	✓		✓	✓
Free cash flow before cash in- and outflows for M&A activities (in € millions)	384	515	✓			✓	✓	✓

Remuneration model

A company's success depends to a considerable extent on the performance of its employees. In order to appropriately acknowledge this performance 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. A significant change introduced in this amendment was the addition of a long-term variable component, known as the long-term bonus, complementing the variable short-term component, known as the short-term bonus. The short-term bonus references a one-year period while the long-term bonus covers a four-year period, with the share price trend acting as one of its key performance criteria.

More in the remuneration report on pp. 101 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 for variable short-term remuneration and the increase in the share price for the variable long-term remuneration.

In a subsequent step, the company adjusted the remuneration system for its top executives in 2016, applying the same considerations as those underlying the remuneration system for the Board of Managing Directors.

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, for instance 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

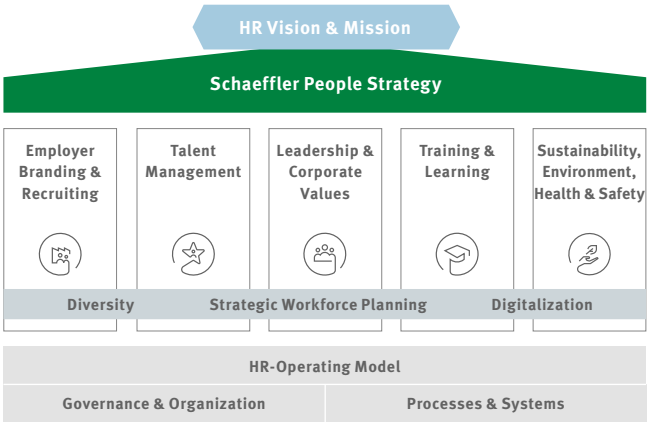
Its employees represent one of the key pillars of the Schaeffler Group's success. Their technical knowledge, skills, commitment, and passion for innovation secure the continuous progress of the company and are essential to the Schaeffler Group's current and future success. The objective of the company's human resources activities is to recruit, support, and retain the best employees for the longterm 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 and the related Roadmap 2020 with a set of strategic initiatives of Human Resources (HR).

The decision to incorporate the sustainability department into the Human Resources function resulted in a realignment and prioritization of the HR strategy in 2018. As a result, sustainability management, comprising environmental protection, health management, and occupational safety, now represents one of the pillars of the company's strategic human resources activities and includes demographic aspects. The previous pillar "strategic workforce planning", which influences all significant fields of action of the company's HR activities, has been defined as a cross-sectional issue along with digitalization and diversity.

HR strategy house **No. 028**



Starting in 2018, the HR strategy house consists of the following five pillars, which represent the key fields of action of HR:

- Employer branding & recruiting
- Talent management
- Leadership & corporate values
- Training & learning
- Sustainability, environment, health & safety

The company has created specific initiatives and projects for each of these pillars. These projects reflect the demands of demographic change, diversity, and digitalization by assessing and appropriately taking into account their current and future impact. Underlying the Schaeffler Group'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.

Employer branding & recruiting

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

The human resources strategy is driven by the commitment to making employment with the Schaeffler Group fit for the future – for external candidates as much as for employees that have been with the company for many years. Effectively positioning the company as an attractive employer worldwide is fundamental to continuing to successfully compete for the brightest talents in the future. The Schaeffler Group ranked highly in recognized employer rankings in 2018. Research institution "trendence" listed the company as one of the five most popular employers among young professionals in the automotive supplier sector and among the 30 employers most attractive to engineering students in Germany in 2018. Placing 23rd in the Universum employer ranking, the company ranked among the top 30 employers for engineers in Germany for the first time in 2018. The group was also successful internationally. In China, the Schaeffler Group was again named "Top Employer China 2018" by the Top Employers Institute.

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 2018 as well. As part of its university marketing activities, the Schaeffler Group held more than 25 events in Germany alone during the year. Additionally, the Schaeffler Group's technical departments helped run realistic case studies at universities and assisted students in various practical projects.

More on cooperation with universities on page 43

Having successfully established its global employer branding and recruiting activities in 2017, the Schaeffler Group started implementing roadmaps in 2018, focusing on standards, processes, and systems.

In 2018, activities aimed at recruiting new employees were characterized especially by the increasing need for staff and by the further specification of job descriptions, including those in the fields of E-Mobility, Digitalization, and technology.

The market for internal candidates represents a key source for filling open positions as well. In Germany, more than 40% of vacancies were successfully filled with internal talents in 2018. In addition, the company considers it crucial to also fill management positions from within the company whenever possible.

Talent management

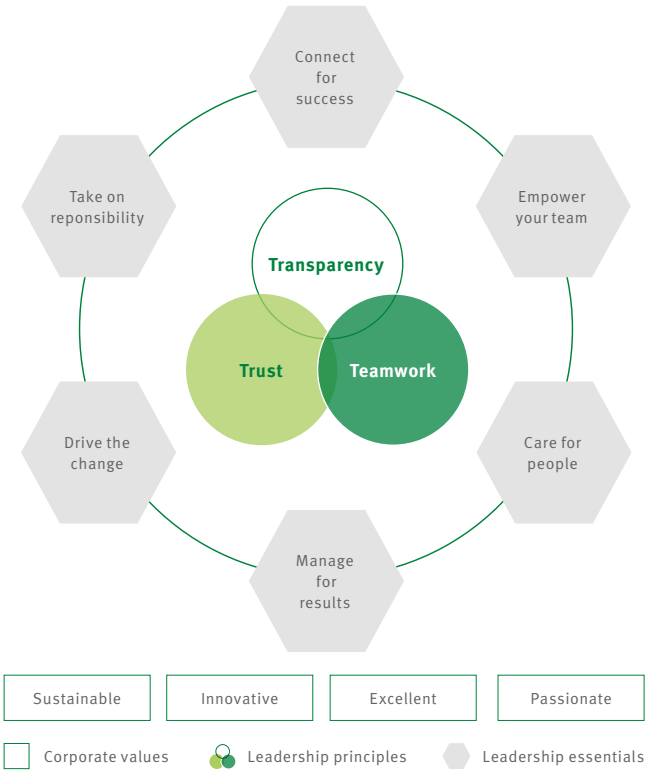
To the Schaeffler Group, talent management is a uniform and standardized global approach to identifying, supporting, and retaining talents for the Schaeffler Group in the long term. It helps managers to select appropriate actions to promote employees' individual development. Personnel development actions are based on the 70:20:10 model for learning and development: 70% experience on the job, 20% learning from others, and 10% off-the-job training. For purposes of strategic succession management, high-potential staff are identified and their suitability for possible key positions discussed early on. This takes place as part of a uniform global talent management process which includes the dialog between managers and employees. Its objective is to provide feedback to the employee on their performance and behavior and to agree possible next steps in their development as well as specific development actions. Managers at each level discuss all high-potentials during the subsequent talent review. Succession candidates for critical key positions are identified and individual development actions designed for them and then implemented.

Leadership & corporate values

The "Leadership & Corporate Values" initiative that is part of the "Agenda 4 plus One" addresses the question of how the Schaeffler Group wants to "live" leadership and corporate values in the future. In 2017, the Schaeffler Group implemented a new leadership model with six Leadership Essentials designed to provide managers with support and guidance in dealing with internal and external challenges. During the year, the company focused on broad and global communication as well as on integrating these Leadership Essentials into the relevant human resources tools. In cascading workshops held globally in all functions and at all levels – from the Board of Managing Directors to team leaders – managers had the opportunity to obtain an initial understanding of the Leadership Essentials. In addition, the Board of Managing Directors had committed to explaining the company's new understanding of leadership and to discussing various views in "leadership road shows" worldwide. The six Leadership Essentials and their underlying leadership behavior have been the basis for the evaluation of all managers in the annual Employment Development Dialog as well starting in 2018. Additionally, a short, global, representative employee survey offers the opportunity to capture the mood regarding leadership at Schaeffler for the first time.

Another area of focus this year was the topic of feedback. The company introduced an upward feedback mechanism. This mechanism consists of a moderated feedback meeting in which a manager receives feedback on his or her leadership behavior from employees reporting directly to him or her, giving the manager the chance to further improve in this area. This, too, helps embed the Leadership Essentials in managers' behavior.

Leadership essentials **No. 029**



Training & learning

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

The Schaeffler Academy's "Qualification for Tomorrow" initiative contributes to the achievement of strategic objectives, promotes the culture of lifelong learning, and prepares employees for the challenges of the future. In light of increasingly complex value chains, shorter and shorter development cycles, and rising information density, global networks and acting flexibly in digital work environments are becoming more and more important. Lifelong learning is the key to success in a dynamic working world. Schaeffler Academy is a reliable and capable partner creating the basis for modern learning to help employees achieve their personal and professional goals. Collaborating with various departments of the Schaeffler Group, the Schaeffler Academy addresses the future-oriented focus issues related to the issue of learning.

The introduction of a new learning management system was an important initial milestone toward a modern world of learning. The cloud-based system is easy to use and is gradually being rolled out worldwide. Following its successful implementation in Germany, France, and China in 2017, employees in Slovakia, the U.S., and Canada also started enjoying its benefits in 2018.

The Schaeffler Academy supports individual competency-based learning by providing tailored qualification programs with content oriented toward the needs of the business. Trends like digitalization and Industry 4.0 are transforming products and organizational processes, resulting in new employee qualification requirements. To meet these requirements, the Schaeffler Academy is continuously expanding its training portfolio to include target group-specific programs on trending issues and new methodologies such as agile project management. Modern learning formats and state-of-the-art methodologies are combined in modular offerings in order to ensure successful long-term learning outcomes. Especially digital course offerings such as how-to videos or online courses with a gamification approach provide an attractive learning experience.

The challenges of the future are also changing vocational education program requirements. Advancing curriculum content and methods results in attractive training offerings worldwide to ensure trainees are well-prepared for changing job profiles. At the same time, a new qualification program comprehensively promotes the further development of vocational trainers and vocational training officers. The issues it focuses on include raising the awareness of digitalization, Generation Y & Z, diversity, and migration. The qualification program was created in 2017 and is gradually being rolled out.

Sustainability, environment, health & safety

An inseparable link between commercial success, a decidedly long-term focus, and awareness of the social and ecological aspects of the company's operations is a long-standing Schaeffler tradition. 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.

Please refer to the "Sustainability" chapter on page 43 and the Schaeffler Group's sustainability report for a detailed discussion and background information on sustainability.

Especially the demographic trend is profoundly changing the structure of the group's workforce. The future success of the company depends on the employee's 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 (Energy Environment Health and Safety) management system, 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 target group-specific information days, training sessions, and continuing education seminars on occupational safety at all levels and worldwide. A reduction in the accident rate by more than 10% for the second time in a row demonstrates the sustained effectiveness of the company's approach to accident prevention. The accident rate (AccR) declined from 7.1 to 6.2 (AccR = lost time incidents per 1 million labor hours) during the reporting period.

Diversity

Demographic, social, and political trends and developments as well as the international nature of the Schaeffler Group's business relations make the diversity of its workforce essential for recognizing and meeting the demands of modern markets.

In order to gradually embed this issue throughout the company further, the conceptual diversity plan issued by the Board of Managing Directors in 2017 has been given a more strategic direction. Diversity management 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 conceptual diversity plan focuses on the issues of gender, internationality, demographics, and people with disabilities.

Schaeffler actively promotes diversity within the company: As early as in 2008, the group signed the "Charta der Vielfalt" (diversity charter) and integrated diversity and the principle of equal opportunity into the Schaeffler Code of Conduct, thus committing to advancing these concepts within the company. This commitment was confirmed when Schaeffler AG joined the "Charta der Vielfalt" association in 2018.

The company is continually working on measures designed to implement a comprehensive diversity management strategy. The Schaeffler Group has also started to specifically establish the issue in the various HR processes such as employer branding, recruiting, onboarding, and talent management. The following measures were initiated for the four focus issues in 2018:

Gender

The standard mentoring system is being expanded to include a gender dimension. The aim is to identify high-potential female staff and to explicitly nominate them for mentoring. The specifics of this concept will be developed in 2019. The issue is being actively addressed within the recruiting process as well: During clarification of the terms of reference of a recruiting assignment, HR staff generate awareness of diversity management by posing targeted questions and analyzing the existing composition of the department. An information brochure on the subject and a standardized assignment clarification form aid in this process. The rollout of this approach and the related documents was started during the year 2018.

Internationality

The intercultural network established in 2017 was actively supported in 2018 and is growing steadily. Its objective is connecting employees around the world using the opportunities for interaction and teamwork provided by Schaeffler CONNECT, the company's social collaboration intranet. The company also launched an international volunteering program in cooperation with international student organization AIESEC. The organization arranges internships at foreign non-governmental organizations. The Schaeffler Group funded the placement fees for co-op students with the objective of promoting the students' intercultural expertise and exchange as well as to position itself as an attractive employer. Schaeffler also supports intercultural exchange and the transfer of technical knowledge between the Schaeffler Group's multinational locations by means of expats. Expats are highly-qualified specialists on secondment to foreign branches for a limited period of time. 331 expats were seconded within the Schaeffler Group in 2018.

Demographics

The Reverse Mentoring Program was piloted in 2018. This program helps young and old share experiences with each other and is designed to promote intergenerational exchange, particularly in light of digitalization and ongoing debates. The program is being further expanded and will be rolled out globally as part of the Standard Mentoring Program.

People with disabilities

In Germany, companies with more than 60 employees are legally required to fill a minimum of 5% of jobs with people with disabilities. At 5.5%, the Schaeffler Group meets this requirement. At the Herzogenaurach location, the quota was 6.4%. In 2018, the company intensified the contact between its Diversity Management department and the body representing its disabled employees in order to strengthen the connection between them and to move forward with joint projects.

Strategic workforce planning

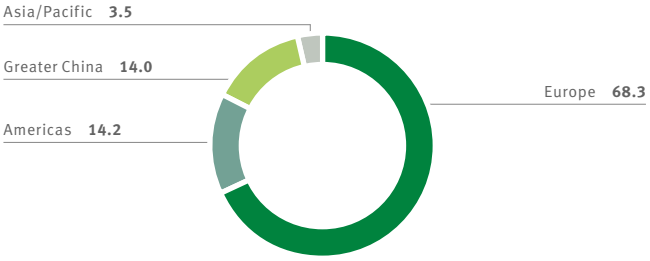
Strategic workforce planning integrates the Schaeffler Group's strategic human resources activities into its Technology and Strategy Dialog.

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 workforce 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

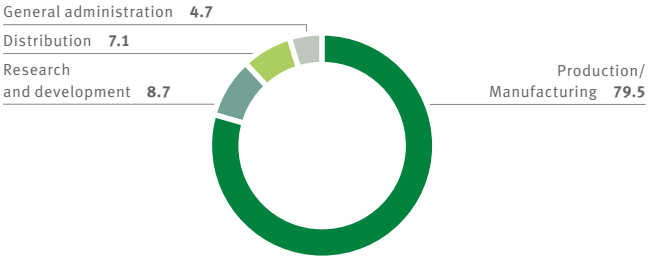
Schaeffler Group employees by region **No. 030**

in percent, as at December 31, 2018



Schaeffler Group employees by function **No. 031**

in percent, as at December 31, 2018



mitigate the risk of excess personnel or a shortage of staff in due time. In late 2017, the company initiated a project to investigate the need for future technical and commercial vocational training as well as cooperative degree programs in Germany. The results have been available since early 2018 and serve as input to the annual requirements-based plan.

Digitalization

The rollout of Schaeffler CONNECT, the company's new social collaboration intranet, was completed in 2018, replacing the previous intranet. Schaeffler CONNECT is the global platform for information, communication, and collaboration within the Schaeffler Group. It allows employees at all divisions, regions, and functions to obtain information about the company, collaborate effectively, contact each other, and exchange knowledge. In addition, the intranet represents a modern medium enabling the Board of Managing Directors and managers to communicate with employees in a targeted manner and to obtain feedback. Transparency, an open exchange, and a healthy feedback culture are pivotal here.

Furthermore, the company introduced the HR Dashboard as a modern reporting tool for the Schaeffler Group's managers during the year. The user-friendly HR Dashboard digitally provides supervisors and managers with insight into key staff-related ratios and indicators within their responsibility. The new HR Dashboard allows its 8,000 end users worldwide to obtain, on a self-serve basis, reports on employee-related data such as data on the structure of the workforce and time management data.

Employee structure and development

Workforce – structural data **No. 032**

	12/31/2018	12/31/2017		Change in
Average age (years)	39.9	39.7	0.5	%
Average tenure (years)	11.2	11.0	1.8	%
Labor turnover rate (%) [1]	4.8	3.9	0.9	%-pts.
Proportion of female employees (%)	22.0	21.7	0.3	%-pts.
Proportion of female managers (%) [2]	13.2	12.4	0.8	%-pts.

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

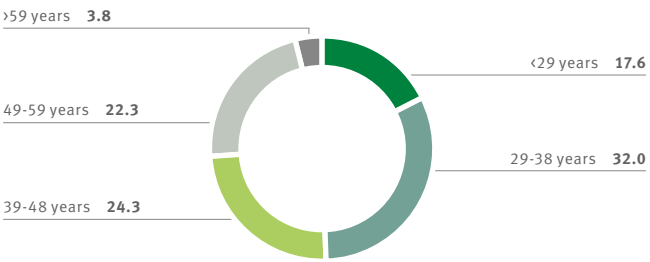
The Schaeffler Group employed an average of 92,232 employees (prior year: 88,697) in 2018. The number of employees as at December 31, 2018, was 92,478 (prior year: 90,151), 2.6% above the prior year level.

Compared to December 31, 2017, the company primarily recruited new personnel in production and production-related areas – mainly in the Greater China and Europe regions, especially in Eastern Europe.

The average period employees have been with the Schaeffler Group (tenure) amounted to 11.2 years in 2018 (prior year: 11.0). The average age of the Schaeffler Group's workforce was 39.9 years (prior year: 39.7).

Schaeffler Group employees by age group **No. 033**

in percent, as at December 31, 2018



Number of employees **No. 034**

	2014	%	2015	%	2016	%	2017	%	2018	%
Europe [1]	57,607	70.0	58,600	69.6	60,127	69.4	61,554	68.3	63,165	68.3
Americas	12,229	14.9	12,625	15.0	12,480	14.4	13,056	14.5	13,138	14.2
Greater China	9,741	11.8	10,216	12.1	11,255	13.0	12,537	13.9	12,976	14.0
Asia/Pacific	2,717	3.3	2,757	3.3	2,800	3.2	3,004	3.3	3,199	3.5
Schaeffler Group	**82,294**	**100**	**84,198**	**100**	**86,662**	**100**	**90,151**	**100**	**92,478**	**100**

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

As strategic workforce 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.

3,648 classroom training sessions (prior year: 3,514) with a participation of 31,874 (prior year: 30,646) were held in Germany in 2018.

Employee qualification and continuing education **No. 035**

Number in Germany	2018	2017	Change in %
Classroom training sessions	3,648	3,514	3.8
• Participations – classroom training sessions	31,874	30,646	4.0
E-learning courses	95	97	-2.1
• Participations – e-learning courses	65,580	15,593	› 100

In addition, 95 different e-learning courses were offered to staff with worldwide participation of 65,580 (prior year: 97 e-learning courses offered; 15,593 enrolled). As in the prior year, these courses included mandatory e-learning courses on specific new issues.

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 2018, a new training landscape was laid out for managers to support the changes in the leadership culture based on the Leadership Essentials. This program landscape is structured sequentially and offers a global framework for all regions. A significant offering in 2018 was the “Leadership reflections” training session designed to offer managers worldwide the option of addressing how the Leadership Essentials are applied on a day-to-day basis. It is currently being rolled out especially extensively in the Europe and Greater China regions. Another important component is an e-learning program that was developed and will be available worldwide starting in 2019.

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. 3,275 trainees (or 3.5% of the Schaeffler Group’s workforce) were pursuing an apprenticeship at the Schaeffler Group (prior year: 3,185 or 3.5% of the workforce) as at the end of 2018. 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 the Schaeffler Group is aimed at teaching young employees to think and act independently, promoting their creativity, and strengthening their environmental awareness and sense of responsibility. Since 2016, all full-time vocational trainers have received extensive continuing education, ranging from developing their personal skills through to using modern media and methods, in order to ensure that the company’s vocational training is up to future challenges such as Digitalization and Industry 4.0.

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 182 students were enrolled in the "Duales Studium" and 159 in "Two-in-One" bachelor programs in 2018. The company also offers support to high-performing students earning a master's degree beyond that.

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 by doing rotations over a period of 12 to 24 months. The accompanying development measures and a mentor ideally prepare these trainees to take on positions carrying responsibility after they have completed the program. 51 young talents participated in trainee programs in Germany during the year.

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. The Schaeffler Group has strong values: "sustainable" as well as "innovative", "excellent" and "passionate" – these four corporate values provide orientation within the Schaeffler Group on how to work with colleagues and fellow employees as well as with customers and business partners. 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".

Sustainability strategy and management

The sustainability strategy "Responsibility for tomorrow" is based on the Schaeffler Group's vision and mission and supports the objective of adding long-term shareholder value. It complements the strategy "Mobility for tomorrow" by adding, inter alia, social and ecological aspects of the business based on a long-term focus.

The 17 Sustainable Development Goals (SDGs) issued by the United Nations as part of its "Agenda 2030" guide the company's sustainability focus. For the first time, the Sustainable Development Goals reflect all three dimensions of sustainability: social issues, the environment, and the economy. 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.

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

1. Field of action: "Sustainable management"
2. Field of action: "Customers and products"
3. Field of action: "Environment and energy"
4. Field of action: "Employees and society"

The company's sustainability strategy centers around the Schaeffler Group's significance analysis, which also provides the basis for selecting information to be included in the sustainability report. The significance analysis was developed together with key stakeholders in 2016 and updated in 2018. The approach follows the G4 framework for non-financial reporting of the GRI (Global Reporting Initiative), and therefore complies with the current GRI standards.

A "sustainability program" that is updated annually sets out specific objectives and measures within the four fields of action for the non-financial issues identified in the significance analysis; these objectives and measures are then used in the operating and strategic measurement and management of Schaeffler's sustainability performance. The sustainability program represents the medium-term, dynamic element of the sustainability strategy.

In accordance with section 315b (3) HGB, Schaeffler AG has prepared a combined separate group 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/nfr2018

Additional detailed discussion, key indicators, and background information on sustainability as well as the Schaeffler Group's sustainability program are published in the Schaeffler Group's sustainability report 2018.

2. Report on the economic position

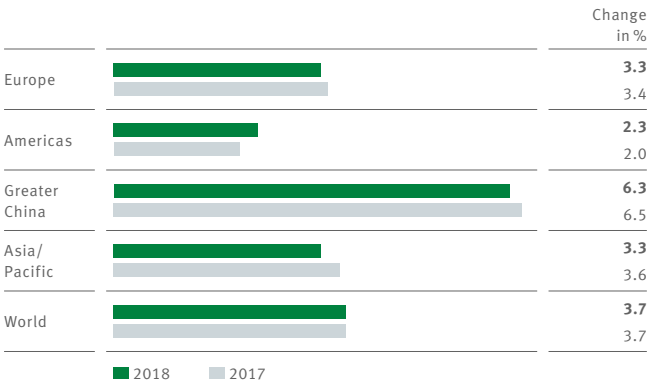
2.1 Economic environment

Macroeconomic environment

The **global economy** remained robust overall in 2018, despite escalating international trade disputes. Initial estimates indicate that global gross domestic product increased by 3.7% compared to the prior year (Oxford Economics; February 2019). However, toward the end of the year, economic momentum declined significantly across the board, reflected, among other things, in markedly slower global trade.

In the euro region, economic growth weakened perceptibly; economic output fell significantly short of expectations, especially in the second half of the year. The economic slowdown was primarily attributable to weak foreign demand. Growth was also affected by a number of temporary factors, including disruptions in production as a result of the introduction of the new emissions testing methodology WLTP. The European Central Bank kept its benchmark interest rate at 0%, but terminated its bond-buying program in December. The German economy lost momentum over the course of the year, growing perceptibly more slowly overall than in the prior year. Along with the WLTP-related loss of production in the automotive sector, slower growth in exports also hampered economic expansion. The Brexit process held back economic growth in the United Kingdom, which once again fell short of growth in the euro region. The economic upturn in the U.S. continued, mainly driven by the country's tax reform and other fiscal stimuli. The Fed raised its benchmark interest rate an additional four times in light of the positive economic development. GDP growth in Japan did not maintain its 2017 level since a number of heavy rainstorms and natural disasters affected the country's economic activity.

Growth in gross domestic product **No. 036**

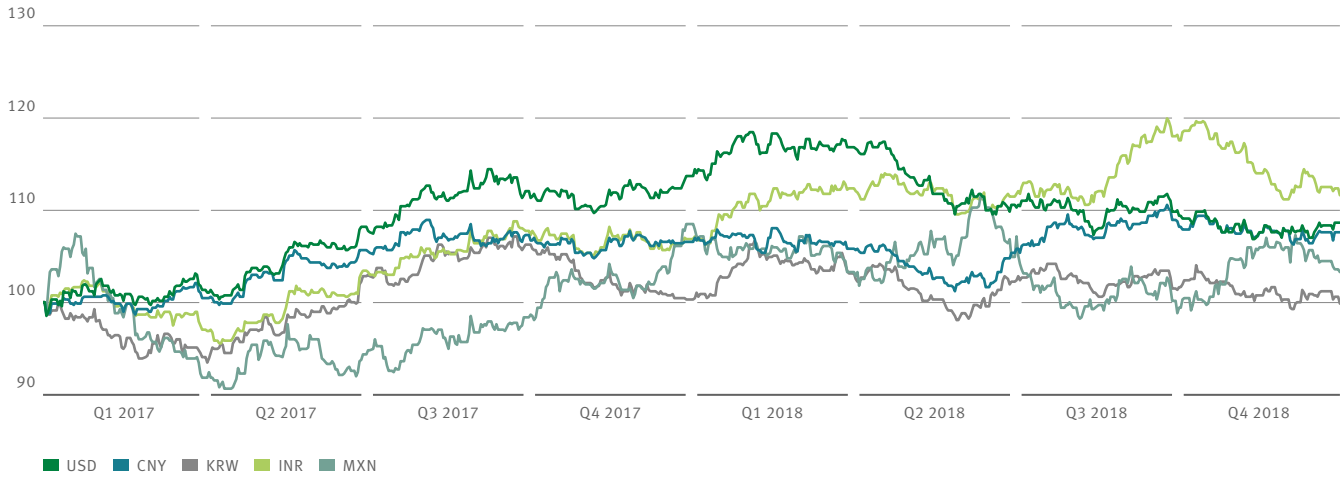


Source: Oxford Economics (February 2019).
Regions reflect the regional structure of the Schaeffler Group.

Following stronger-than-expected growth in the first quarter, economic momentum in China slowed increasingly over the course of the remainder of the year. However, the increase in GDP for the year still met the Chinese government's growth target, mainly buoyed by a number of measures the government took to support the economy that counteracted the adverse consequences of the trade conflict with the U.S. In India, economic growth accelerated as a result of increased private consumption and investment. The Russian economy continued to recover overall, bolstered by both domestic demand and exports. In Brazil, on the other hand, economic growth remained restrained in 2018, as political uncertainty and a temporary truck drivers' strike held back economic activity there. The economies of

Currency market trends **No. 037**

EUR against selected currencies in percent (12/31/2016 = 100)



Source: Bloomberg.

certain other emerging countries clearly deteriorated, especially those of Argentina and Turkey.

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%, largely driven by the 7.4% growth rate in India, which is also part of the Europe region. Economic output in the Americas region increased by 2.3%, while the Greater China region reported growth of 6.3%. Gross domestic product in the Asia/Pacific region rose by 3.3%.

Following significant increases in 2017, the global **capital markets** declined during the year, with the Dow Jones Industrial Average (DJIA), the Deutsche Aktienindex (DAX), and the Mid-Cap-Dax (MDAX), among others, dropping in value.

In the **currency markets**, the euro declined against the U.S. dollar over the course of the year. Having initially fallen against the Chinese Renminbi as well, it then rose again over time, closing higher at year-end than at the beginning of the year. Comparing annual averages to the prior year, the euro rose against all of the foreign currencies most significant to the Schaeffler Group.

See the notes to the consolidated financial statements beginning on page 133 for further details on foreign currency translation

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

Preliminary estimates put global automobile production, measured as the number of passenger cars and light commercial vehicles produced, at just under 94.1 million, 1.1% less than in the prior year (IHS Markit, February 2019). While automobile pro-

Automobile production **No. 038**

		Change in %	million units
Europe	2018	**-0.5**	**28.6**
	2017	4.1	28.8
Americas	2018	**-0.1**	**20.1**
	2017	-1.2	20.2
Greater China	2018	**-3.8**	**27.2**
	2017	2.8	28.2
Asia/ Pacific	2018	**1.0**	**18.2**
	2017	2.3	18.0
World	2018	**-1.1**	**94.1**
	2017	2.2	95.2

Source: IHS Markit (February 2019).
Regions reflect the regional structure of the Schaeffler Group.

duction grew noticeably in the second quarter, it declined in each of the remaining periods, especially so in the fourth quarter.

Automobile production in the Europe region was 0.5% below the prior year level, with growth in the first half of the year more than offset by a decrease in the second half of the year. The weak development in this region was largely driven by the considerable contraction in Germany, which, in turn, was primarily attributable to production delays in the third quarter as a result of the introduction of the new emissions testing methodology WLTP. The United Kingdom, Turkey, and Italy – all countries with significant production in the region as well – reported declines as well. Production in India and Russia, on the other hand, grew significantly. Automobile production in the Americas region was 0.1% below the prior year level since growth in the second half of the year followed a contraction during the first half of the year. Brazil reported the region's highest growth rate although that rate fell noticeably short of the prior year level. The U.S. and Mexico, on the other hand, experienced little growth, while production in Canada even declined considerably. Automobile production in the Greater China region fell 3.8% short of the level seen in the prior year. While automobile production grew noticeably in the second quarter – mainly due to the low prior level – it declined in each of the other quarters, especially in the second half of the year. The decline for the year is mostly due to two factors hampering domestic demand: deteriorating consumer sentiment given the trade conflict with the U.S. and stricter lending practices. Automobile production in the Asia/Pacific region rose by 1.0%, with the decline in the first three quarters more than offset by strong growth in the fourth quarter. Temporary impacts contributed to a lower growth in both Japan (production stoppages due to natural disasters) as well as South Korea (strikes). In Thailand, on the other hand, production increased considerably.

Vehicle population and average vehicle age

Based on preliminary estimates, the global vehicle population, measured as the number of passenger cars and light commercial vehicles up to 3.5 tons in weight, rose by 3.6% to just under 1.4 billion units in 2018 (IHS Markit, February 2019), and the average vehicle age[2] remained unchanged at 9.7 years.

In the Schaeffler Group's Europe region, the vehicle population expanded by 3.0% to just under 547 million units; the mean vehicle age rose slightly to 11.6 years. India once more experienced an above-average increase in vehicle population levels. The vehicle population in the Americas region increased by 1.5% to just over 426 million units, with the average age unchanged at 10.2 years. In the U.S., the vehicle population growth rate amounted to 1.5% as well, above the prior year level. Growth in the Greater China region fell short of the prior year level but remained high. The vehicle population grew by 10.8% to just under 222 million units, while the average age rose to 5.4 years. The vehicle population in the Asia/Pacific region was up 2.2% at just under 180 million units, once more mainly driven by growth in Southeast Asia. In Japan, on the other hand, the population grew by less than 1.0% once again. The region's mean vehicle age increased slightly to 8.6 years.

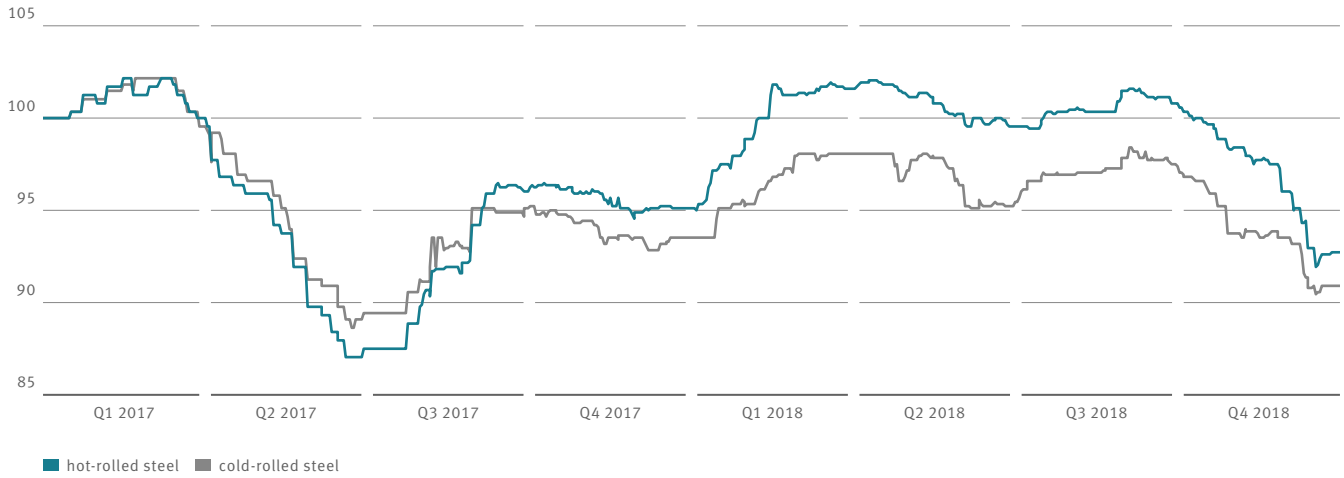
Vehicle population **No. 039**

		Change in %	million units
Europe		**3.0**	**547.0**
		3.1	531.3
Americas		**1.5**	**426.4**
		1.3	420.2
Greater China		**10.8**	**222.0**
		12.3	200.3
Asia/ Pacific		**2.2**	**179.7**
		2.8	175.9
World		**3.6**	**1,375.1**
		3.8	1,327.7

Source: IHS Markit (February 2019).
Regions reflect the regional structure of the Schaeffler Group.

[2] Average vehicle age, worldwide and for the Schaeffler Group's various regions, was calculated based on approx. 96% of the global vehicle population (IHS, February 2019).

Prices of selected steels **No. 040**
in percent (12/31/2016 = 100)



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

Industrial production

Based on preliminary estimates, global industrial production, measured as gross value added based on constant prices and exchange rates, expanded by 3.4% in 2018 (Oxford Economics, December 2018). Except for Americas, all of the Schaeffler Group's regions reported slower growth in the second half of the year.

The Europe region saw a 2.3% increase in industrial production, with India reporting a very positive development. In contrast, the development in the euro region fell short of expectations; increased momentum in 2017 was followed by a noticeable reduction in activity in 2018. Reasons for the weakening of in industrial production in the euro region include subdued foreign demand, especially from Asia. Growth was also affected by a number of economic one-time impacts, particularly the production delays in the German automotive sector which also affected other industrial sectors via the supply chain. In the Americas region, industrial production rose by 2.9%. This growth was primarily driven by the development in the U.S., which reported the highest growth rate in industrial production since 2006. This was mainly attributable to significant growth in production in the oil sector, which also had positive knock-on effects on the related supplier sectors. In addition, the newly introduced tax reform helped increase investments in the manufacturing sector across all industries. In both Canada and Brazil, industrial production grew less than in the prior year, while Mexico reported a slight recovery following its previous stagnation. In the Greater China region, industrial production once again expanded considerably, growing by 6.0%. Activity was stronger than expected in the first six months of the year, primarily as a result of massive government investment in infrastructure projects, which also benefited the related supplier sectors. However, the economy lost momentum in the second half of the year, especially in the fourth quarter. In the Asia/Pacific region, growth in industrial production amounted to 2.5%. While some countries in Southeast Asia reported higher growth rates for their industrial production than in the prior year, South Korea and especially Japan reported declines. The slower momentum in Japan, compared to the prior year, was mainly due to reduced demand for imports from China; adverse weather conditions also factored in holding back growth in industrial production.

Industrial production **No. 041**

	Change in %
Europe	**2.3**
	2.8
Americas	**2.9**
	1.7
Greater China	**6.0**
	6.2
Asia/Pacific	**2.5**
	3.3
World	**3.4**
	3.5

2018 2017

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

Prices of aluminum, and copper **No. 042**
in percent (12/31/2016 = 100)

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

Procurement markets

The Schaeffler Group uses various materials, especially different types of steel, aluminum, copper, 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.

Comparing annual averages to the prior year shows rising prices for all of the Schaeffler Group's main input materials. At the same time, most prices declined over the course of the year – price reductions especially during the second half of the year resulted in the prices of some input materials closing lower at year-end than at the beginning of the year.

Steel is used to manufacture rolling bearings and automotive components. Depending on the source region, annual averages of prices for cold- and hot-rolled steel increased by between just under 1 to just over 34% compared to the prior year, with the highest price increase occurring in the U.S. as a result of the newly-introduced punitive tariffs on steel imports.

Aluminum is primarily used for pressure die castings, while copper is mainly required for use in electric motors and mechatronic components. Prices for aluminum and copper reached their highest level in several years during the initial months of the year, but dropped again during the remainder of the year. Annual price averages were above the prior year level throughout the year: The price of aluminum rose by just over 7%, copper by just under 6%.

The Schaeffler Group uses plastics, for instance to produce cages for rolling bearings, and lubricants serve to reduce friction in components and as preservatives. Plastics and lubricants are often made based on crude oil. The price of Brent crude oil rose to more than USD 86 in October 2018, its highest level in four years, but dropped again considerably by year-end, partly because a number of oil-producing countries significantly increased production. The annual price average was more than 30% higher than the prior year level. Based on the ICIS Global Petrochemical Index (IPEX), annual price averages of processed petrochemical products, including the plastics used by the Schaeffler Group, rose by over 6% compared to the prior year level.

2.2 Course of business

Overview of results of operations 2018

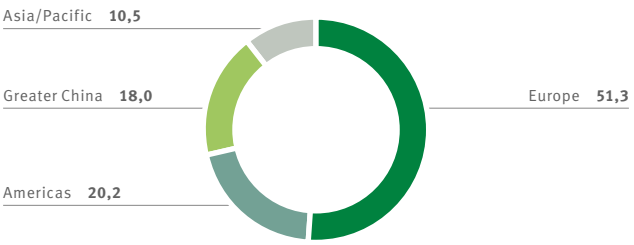
The Schaeffler Group increased its **revenue** by 1.6% to EUR 14,241 m during the reporting period (prior year: EUR 14,021 m). The impact of currency translation had an unfavorable effect on the revenue trend. Excluding the impact of currency translation, revenue was up 3.9%. The divisional trends were mixed in 2018, in line with the relevant market conditions. With global industrial production increasing, the Industrial division expanded its revenue by 10.1%, primarily due to higher volumes in the Greater China region. Thus, the division continued its upward prior year trend with added momentum. The Automotive OEM division, on the other hand, was operating in a persistently highly volatile market environment in the global automotive business in 2018. Having met expectations for the first six months, the Automotive OEM division was unable to meet its targets in the second half of the year. The division reported a decline in revenue for the second half of the year compared to the prior year, excluding the impact of currency translation. This was mainly attributable to the weak market trends in the Europe (partly due to the new emissions testing methodology WLTP) and Greater China (partly due to continuing trade conflicts) regions. Compared to the prior year, the Automotive OEM division reported weaker overall revenue growth of 2.1%, excluding the impact of currency translation. This growth, generated under adverse market conditions, still exceeded average growth in global production volumes for passenger cars and light commercial vehicles, which declined by 1.1% during the reporting period. The Automotive Aftermarket division fell short of original expectations in 2018 as well. Following an overall solid first six months, the Automotive Aftermarket division reported a drop in revenue in the second half of 2018 compared to the prior year. This trend was primarily influenced by lower demand from a few major customers in the Europe and Americas regions. This division's revenue growth for the full year 2018 amounted to 2.2%, excluding the impact of currency translation.

The group's **EBIT margin before special items** declined to 9.7% (prior year: 11.3%), with the Automotive OEM division's margin falling to 7.7%, considerably below the prior year level (prior year: 10.8%). On the one hand, the decline was attributable to weaker growth in global automobile production, with production figures dropping considerably in the Europe and Greater China regions, especially in the second half of 2018. On the other hand, the company could not offset the impact of these lower volumes and increased pricing pressure as well as costs related to the realignment of the business portfolio with sufficient compensating measures and increased efficiency. The 17.0% margin of the Automotive Aftermarket division also fell short of its prior year level (prior year: 19.0%), mainly due to adverse pricing impacts and increased functional costs. The Industrial division, on the other hand, considerably improved its EBIT margin before special items by 3.0 percentage points to 11.0% (prior year: 8.0%). Along with the clear increase in volumes, progress in implementing the measures of the second wave and the – now full – potential of the measures of the first wave of the program "CORE" made an impact in 2018.

Net income decreased by 10.2% from EUR 997 m to EUR 895 m. Excluding net income attributable to non-controlling interests of EUR 14 m (prior year: EUR 17 m), net income attributable to shareholders of the parent company of EUR 881 m was 10.1% lower than in the prior year (prior year: EUR 980 m). Earnings per common share amounted to EUR 1.32 (prior year: EUR 1.47). Earnings per common non-voting share amounted to EUR 1.33 (prior year: EUR 1.48).

Schaeffler Group revenue by division **No. 043**
in percent

Schaeffler Group revenue by region **No. 044**
in percent by market view



The Schaeffler Group generated **free cash flow** before cash in- and outflows for M&A activities of EUR 384 m in 2018, EUR 131 m less than the prior year amount of EUR 515 m. The decrease was caused by cash flow from operating activities falling from EUR 1,778 m to EUR 1,606 m, hampered by the decline in earnings in 2018. The change in working capital, on the other hand, made a positive impact on the cash flow trend. The working capital ratio improved to 17.9% (prior year: 19.0%). Capital expenditures amounted to EUR 1,232 m or 8.7% of revenue, less than in the prior year (prior year: EUR 1,273 m or 9.1% of revenue).

Schaeffler Value Added before special items (SVA) declined to EUR 556 m during the reporting period (prior year: EUR 787 m), representing a return on capital employed (ROCE) before special items of 16.7% (prior year: 19.9%). The decline was attributable to lower earnings in the Automotive OEM and Automotive Aftermarket divisions combined with an increase in average capital employed.

Significant events 2018

Schaeffler presses ahead with transformation

Strategy Dialog

The Schaeffler Group's Strategy Dialog held from July 9 to 11, 2018, was dedicated entirely to the implementation of the Schaeffler Group's medium-term strategic objectives for the strategic challenges E-Mobility and Industry 4.0. Participants extensively discussed issues including positioning the Schaeffler Group in the chassis field, the direction of the company's IT infrastructure in view of the implementation of the Digital Agenda, and the implementation of the "Global Supply Chain" initiative.

Agenda 4 plus One

The comprehensive program for the future, the "Agenda 4 plus One", was expanded from 16 to 20 initiatives in early 2018 in order to also address issues the company has more recently put a sharper focus on. All 20 initiatives under the "Agenda 4 plus One" are in the implementation phase. Implementation of the program is currently 55% complete.

One example of this is the opening of the new European Distribution Center (EDC) celebrated in Kitzingen on June 4, 2018. The Schaeffler Group invested approximately EUR 110 m in the construction of this new location, which will distribute the Industrial division's products to the European market. In addition, the Automotive Aftermarket division started construction of its Aftermarket Kitting Operation (AKO) in Halle (Saale) on June 15, 2018, another milestone of the implementation of the "Agenda 4 plus One". With capital expenditures totaling approximately EUR 180 m, the construction of this state-of-the-art assembly and packaging center represents the Schaeffler Group's Automotive Aftermarket division's largest single capital investment project to date. The AKO will commence operations in the first half of 2020. Both of these initiatives will directly help improve the Schaeffler Group's delivery performance and secure its competitiveness.

Two of the 20 strategic initiatives comprising this program for the future will be successfully completed in early 2019.

Schaeffler AG and IG Metall sign future accord

On April 16, 2018, the company's Board of Managing Directors, Works Council, and the IG Metall trade union signed a Future Accord. The parties' intention in signing the Accord was to jointly and collaboratively manage and drive the ongoing development and transformation of the Schaeffler Group – with particular regard to the three key future trends of E-Mobility, Industry 4.0, and Digitalization – in the interests of the company and of its employees. Under the Future Accord, the Schaeffler Group will make available a EUR 50 m innovation fund over a period of five years. The purpose of the fund is to foster innovations and thereby to actively harness the great innovative capacity of Schaeffler's employees and to achieve sustainable value creation.

Leadership roadshows

"Leadership road shows" were held across all regions in 2018 in order to embed a common understanding of leadership. Starting with the Executive Board, these roadshows were moderated by human resources staff and held throughout all levels of the company. During the last four months of 2018, the focus was on the four major locations in Germany: Herzogenaurach, Buehl, Langen, and Schweinfurt.

Schaeffler simplifies structures

Schaeffler streamlines its structures and strengthens its plants

On May 7, 2018, the company announced that the Board of Managing Directors of Schaeffler AG has decided, with the approval of the Supervisory Board's executive committee, to integrate the company's "Bearing & Components Technologies" (BCT) unit, which had previously acted as an internal supplier, into the divisions. Under this reorganization, the plants previously assigned to BCT were transferred to the Automotive OEM and Industrial divisions. The reorganization has eliminated duplicate structures, established clear responsibilities, and brought Schaeffler closer to the customer. As a first step toward implementing the change, the BCT organization was transferred to a starting organization effective July 1, 2018, that has been replaced by the target organization implemented effective January 1, 2019.

Schaeffler reorganizes UK business

On October 29, 2018, Schaeffler AG's Board of Managing Directors decided to reorganize its UK business activities as part of the "Global Footprint" initiative of the company's program for the future, the "Agenda 4 plus One". The reorganization calls for the consolidation of the logistics centers in Sutton Coldfield and Hereford and the closure of the production locations in Plymouth and Llanelli. These locations' production will be moved to existing locations in other countries. The Sheffield location – the Schaeffler Group's largest location in the United Kingdom in terms of revenue and number of employees – will be retained. The proposals are designed to generate synergies and increase efficiency. Appropriate restructuring provisions were recognized for the reorganization of the company's UK business activities.

Schaeffler successfully completes merger of Indian entities

On March 20, 2018, the shareholders and creditors of Schaeffler India Limited consented to the merger of the two unlisted entities, INA Bearings India Private Limited and LuK India Private Limited, with listed company Schaeffler India Limited. The merger was effective October 22, 2018. The completion of the merger has resulted in the Schaeffler Group having only one subsidiary in India, the listed company Schaeffler India Limited. The transaction increased Schaeffler AG's indirect interest in Schaeffler India Limited from approximately 51% to approximately 74%. This transaction has simplified the previous structure, reduced complexity, and created a strong Schaeffler entity in India in order to better realize the potential for growth in India.

Schaeffler continues to execute M&A strategy

Based on the group-wide M&A radar, which defines seven focus areas for the acquisition of expertise both within the various divisions and across divisions, the Schaeffler Group has established the Schaeffler Paravan Technologie GmbH & Co. KG joint venture and acquired Elmotec Statomat Holding GmbH as part of its M&A strategy in 2018.

Schaeffler acquires "Drive-by-Wire"-Technology

On August 6, 2018, the Schaeffler Group signed a master agreement with Roland Arnold, Arnold Verwaltungs GmbH, and Paravan GmbH for the formation of a joint venture. The objective of the joint venture, which is named Schaeffler Paravan Technologie GmbH & Co. KG and has commenced operations on October 1, 2018, is the further development of the Space Drive "Drive-by-Wire"-Technology and the development and sale of mobility systems. As part of the transaction, the joint venture has acquired Paravan GmbH's Space Drive-Technology. Schaeffler Technologies AG & Co. KG has a 90% stake in the new company.

Schaeffler acquires Elmotec Statomat

On November 28, 2018, the Schaeffler Group entered into a contract to acquire Elmotec Statomat Holding GmbH (referred to as "Elmotec Statomat" below) based in Karben near Frankfurt/Main, Germany. Elmotec Statomat is one of the world's leading manufacturers of production machinery for the high-volume construction of electric motors and possesses unique expertise in the field of winding technology. With this acquisition, Schaeffler is expanding its expertise in the construction of electric motors and thereby driving forward the implementation of its electric mobility strategy. The acquisition of Elmotec Statomat, which closed on January 31, 2019, has expanded this expertise by adding further know-how regarding high-volume production of stators for electric motors.

Schaeffler strengthens team

At its meeting on March 2, 2018, the Supervisory Board of Schaeffler AG appointed Andreas Schick (previously Regional CEO Asia/Pacific) to become member of the Board of Managing Directors of Schaeffler AG as of April 1, 2018. Andreas Schick has taken over the role as Chief Operating Officer of Schaeffler AG from Oliver Jung, who left Schaeffler AG as of March 31, 2018. Congruently, the contract of Corinna Schittenhelm, Chief Human Resources Officer, was extended for a term of five years ending on December 31, 2023. Helmut Bode has replaced Andreas Schick as Regional CEO Asia/Pacific and was appointed to the Executive Board effective April 1, 2018.

At its meeting on October 5, 2018, the Supervisory Board of Schaeffler AG decided to extend the contract with Klaus Rosenfeld, the Chief Executive Officer of Schaeffler AG, for a further five years to June 30, 2024.

Results of operations compared to outlook 2018

On February 19, 2018, the Board of Managing Directors of Schaeffler AG approved guidance on the development of key operating financial performance indicators for the Schaeffler Group and its Automotive OEM, Automotive Aftermarket, and Industrial divisions for 2018. On October 30, 2018, Schaeffler AG decided to reduce the 2018 guidance for the Automotive OEM and Automotive Aftermarket divisions and, as a result, for the Schaeffler Group. Rather than revenue growth of 5 to 6% excluding the impact of currency translation, an EBIT margin of 10.5 to 11.5%, and free cash flow before cash in- and outflows for M&A activities of approximately EUR 450 m, the Schaeffler Group was expecting to generate revenue growth of 4 to 5% excluding the impact of currency translation, an EBIT margin of 9.5 to 10.5%, and free cash flow before cash in- and outflows for M&A activities of approximately EUR 300 m. The Schaeffler Group achieved revenue growth of 3.9% excluding the impact of currency translation, falling just short of the adjusted revenue guidance for the year. Its EBIT margin before special items amounted to 9.7% and free cash flow before cash in- and outflows for M&A activities was EUR 384 m. Thus, the adjusted guidance for these two performance indicators was met.

With markets in the global automotive business highly volatile (WLTP, trade conflicts), the adjustment of the full year 2018 group guidance was mainly triggered by deteriorating market conditions for the Automotive OEM division in China. Instead of

Comparison to outlook 2018 – group **No. 045**

	Actual 2017	Outlook 2018		Actual 2018
		issued 02/19/2018	issued 10/30/2018	
Schaeffler Group				
Revenue growth [1]	5.9%	5–6%	4–5%	3.9%
EBIT margin before special items [2]	11.3%	10.5–11.5%	9.5–10.5%	9.7%
Free cash flow [3]	EUR 515 m [4]	EUR ~ 450 m	EUR ~ 300 m	EUR 384 m

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 56 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.

revenue growth of 6 to 7% excluding the impact of currency translation and an EBIT margin of 9.5 to 10.5%, the Automotive OEM division was anticipating revenue growth of 3.5 to 4.5% excluding the impact of currency translation with an EBIT margin before special items of 8 to 8.5%. Revenue growth excluding the impact of currency translation amounted to 2.1% in 2018, and the EBIT margin before special items to 7.7%. Thus, the adjusted guidance was not met for both performance indicators.

Furthermore, a weaker-than-expected revenue trend in the third quarter of 2018 resulted in an adjustment for the Automotive Aftermarket division. Instead of revenue growth of 3 to 4% excluding the impact of currency translation and an EBIT margin of 16.5 to 17.5%, the Automotive Aftermarket division was expecting revenue growth of 1.5 to 2.5% excluding the impact of currency translation with an EBIT margin before special items of 17 to 17.5%. The division's revenue growth of 2.2% before the impact of currency translation and EBIT margin before special items of 17.0% were within the adjusted guidance for both performance indicators.

In contrast, the Industrial division had raised its guidance dated February 19, 2018, in light of the encouraging trend in the industrial business. Instead of revenue growth of 3 to 4% excluding the impact of currency translation and an EBIT margin of 9 to 10%, the division was anticipating revenue growth of 8 to 9% excluding the impact of currency translation and an EBIT margin before special items of 10.5 to 11%. The division generated 10.1% in additional revenue excluding the impact of currency translation, exceeding the adjusted 2018 guidance. The division's EBIT margin before special items amounted to 11.0%, at the upper end of the adjusted guidance.

Comparison to outlook 2018 – divisions **No. 046**

	Actual 2017	Outlook 2018		Actual 2018
		issued 02/19/2018	issued 10/30/2018	
Automotive OEM				
Revenue growth [1]	6.5%	6–7%	3.5–4.5%	2.1%
EBIT margin before special items [2]	10.8% [3]	9.5–10.5%	8–8.5%	7.7%
Automotive Aftermarket				
Revenue growth [1]	3.2%	3–4%	1.5–2.5%	2.2%
EBIT margin before special items [2]	19.0% [3]	16.5–17.5%	17–17.5%	17.0%
Industrial				
Revenue growth [1]	5.7%	3–4%	8–9%	10.1%
EBIT margin before special items [2]	8.0% [3]	9–10%	10.5–11%	11.0%

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 56 et seq. for the definition of special items.
[3] Comparative amount presented based on 2018 segment structure.

Schaeffler Group

Revenue **EUR 14,241 m**

EBIT margin before special items **9.7%**

Revenue increased by 3.9% at constant currency in a challenging environment // Automotive business EBIT margin declines, Industrial significantly improved // Earnings per common non-voting share at EUR 1.33 (prior year: EUR 1.48) // Adjusted earnings target met

Schaeffler Group earnings **No. 047**

in € millions	2018	2017	Change in %
Revenue	**14,241**	**14,021**	**1.6**
• at constant currency			3.9
Revenue by division [1]			
Automotive OEM	8,997	8,991	0.1
• at constant currency			2.1
Automotive Aftermarket	1,859	1,880	-1.1
• at constant currency			2.2
Industrial	3,385	3,150	7.5
• at constant currency			10.1
Revenue by region [2]			
Europe	7,313	7,183	1.8
• at constant currency			2.9
Americas	2,874	2,910	-1.2
• at constant currency			4.9
Greater China	2,561	2,456	4.3
• at constant currency			6.7
Asia/Pacific	1,493	1,472	1.4
• at constant currency			3.3
Cost of sales	-10,558	-10,175	3.8
Gross profit	**3,683**	**3,846**	**-4.2**
• in % of revenue	25.9	27.4	-
Research and development expenses	-847	-846	0.1
Selling and administrative expenses	-1,492	-1,413	5.6
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)	**1,354**	**1,528**	**-11.4**
• in % of revenue	9.5	10.9	-
Special items [3]	27	56	-51.8
EBIT before special items	**1,381**	**1,584**	**-12.8**
• in % of revenue	9.7	11.3	-
Financial result	-155	-192	-19.3
Income (loss) from equity-accounted investees	-4	0	-
Income taxes	-300	-339	-11.5
Net income [4]	881	980	-10.1
Earnings per common non-voting share (basic/diluted, in €)	1.33	1.48	-10.1

[1] Prior year information presented based on 2018 segment structure.
[2] Based on market (customer location).
[3] Please refer to pp. 56 et seq. for the definition of special items.
[4] Attributable to shareholders of the parent company.

2.3 Earnings

Schaeffler Group earnings

Effective January 1, 2018, the former Automotive Aftermarket business division was set up as the company's third division with its own CEO. Since then, the Schaeffler Group has been dividing its business into three divisions: Automotive OEM, Automotive Aftermarket, and Industrial.

The Schaeffler Group's revenue for 2018 amounted to EUR 14,241 m (prior year: EUR 14,021 m), representing an increase of 1.6%. Excluding the impact of currency translation, revenue grew by 3.9%. While the Industrial division grew even more dynamically than in the prior year, generating revenue growth of 10.1% excluding the impact of currency translation, the Automotive OEM and Automotive Aftermarket divisions reported weaker revenue growth compared to prior year. In the Automotive OEM division, this was attributable, in particular, to weak market trends in the Europe and Greater China regions during the latter half of 2018. Subsequent to the encouraging revenue trend in the first half of 2018, this resulted in revenue decreasing from prior year over the remaining course of the year, excluding the impact of currency translation. Overall, the Automotive OEM division raised its revenue by 2.1% in 2018, excluding the impact of currency translation. Following a solid first six months overall, the Automotive Aftermarket division reported an unexpectedly weak revenue trend in the third quarter, resulting in the division missing its original full-year guidance. The slump was specifically attributable to decreased requirements in the Europe and Americas regions. The Automotive Aftermarket division's revenue growth for the reporting period amounted to 2.2%, excluding the impact of currency translation.

Revenue in the Europe region was up 1.8% (+2.9% at constant currency). In the Americas region, revenue declined by 1.2% due to the adverse impact of currency translation (+4.9% at constant currency). The Greater China region grew its revenue by 4.3%, once again reporting the highest growth rate (+6.7% at constant currency). Revenue in the Asia/Pacific region was up only slightly due to the adverse impact of currency translation, rising by 1.4%. Excluding the impact of currency translation, revenue rose by 3.3%.

Cost of sales increased by EUR 383 m or 3.8% to EUR 10,558 m during the year (prior year: EUR 10,175 m), driven by volume in particular. Gross profit declined by EUR 163 m or 4.2% to EUR 3,683 m (prior year: EUR 3,846 m) with a corresponding drop in gross margin by 1.5 percentage points to 25.9% (prior year: 27.4%). The decline was mainly due to the decrease in earnings at the two Automotive divisions. The Automotive OEM division's gross margin fell to 22.5% (prior year: 25.4%). The decline was partly due to sales falling short of plan and the resulting decrease in utilization of production capacity on hand, combined with compensating measures that were not yet sufficiently extensive for the rapid decline in sales. The margin of the Automotive Aftermarket division dropped to 34.5% (prior year: 35.9%), mainly driven by the adverse impact of pricing and currency translation. The Industrial division, however, increased its EBIT margin to 30.1% in 2018 (prior year: 28.3%), buoyed especially by economies of scale. In addition, the initial application of the new financial reporting standard, IFRS 15, during the reporting period has resulted in a change in the presentation of certain development services, among other things, as the new standard requires them to be classified within gross margin (see Note 1.5 to the consolidated financial statements). This change in presentation had an adverse effect on the gross margin trend compared to the prior year, but decreased research and development expenses in return.

Functional costs rose by EUR 80 m or 3.5% to EUR 2,339 m (prior year: EUR 2,259 m), growing to 16.4% of revenue (prior year: 16.1%). Research and development expenses of EUR 847 m were flat with prior year (prior year: EUR 846 m), representing an R&D ratio of 5.9% (prior year: 6.0%) of revenue. Selling and administrative expenses, on the other hand, rose by EUR 79 m or 5.6% to EUR 1,492 m (prior year: EUR 1,413 m), mainly due to higher logistics expenses and increased administrative expenses in connection with the program for the future, the "Agenda 4 plus One".

EBIT decreased by EUR 174 m or 11.4% to EUR 1,354 m (prior year: EUR 1,528 m) during the reporting period. The Schaeffler Group's EBIT margin was 9.5% (prior year: 10.9%). EBIT for the year was adversely affected by special items of EUR 27 m (prior year: EUR 56 m). This included EUR 48 m in restructuring expenses related to the integration of the internal supplier, "Bearing & Components Technologies", and to the reorganization of the company's UK business activities. Income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities had an offsetting effect on EBIT of EUR 21 m. The prior year included 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. Based on that, EBIT before special items declined to EUR 1,381 m (prior year: EUR 1,584 m) in 2018, and the EBIT margin before special items decreased to 9.7% (prior year: 11.3%). The decline in gross margin described

Schaeffler Group financial result **No. 048**

in € millions	2018	2017
Interest expense on financial debt [1]	-99	-123
Gains and losses on derivatives and foreign exchange	-1	-17
Fair value changes on embedded derivatives	-43	-14
Interest income and expense on pensions and partial retirement obligations	-40	-38
Other	28	0
Total	**-155**	**-192**

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

above – partly due to the adverse impact of currency translation – and higher functional costs were partially offset by gains on transactions denominated in foreign currency.

The Schaeffler Group's financial result improved by EUR 37 m to EUR -155 m (prior year: EUR -192 m) in 2018.

Interest expense on financial debt amounted to EUR 99 m in 2018 (prior year: EUR 123 m). The improvement in interest expense is largely the result of the prior year's expenses for the prepayment penalty of EUR 13 m and EUR 5 m in deferred transaction costs derecognized not being incurred in 2018.

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to EUR 1 m (prior year: EUR 17 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 43 m (prior year: EUR 14 m).

Income tax expense amounted to EUR 300 m in 2018 (prior year: EUR 339 m), resulting in an effective tax rate of 25.1% (prior year: 25.4%).

Net income attributable to shareholders of the parent company for 2018 was EUR 881 m (prior year: EUR 980 m). Net income before special items amounted to EUR 901 m (prior year: EUR 1,022 m). The Board of Managing Directors and the Supervisory Board will propose a dividend for 2018 of EUR 0.54 (prior year: EUR 0.54) per common share and EUR 0.55 (prior year: EUR 0.55) per common non-voting share to the annual general meeting. This represents a dividend of 40.1% (prior year: 35.4%) of net income attributable to shareholders before special items.

Basic and diluted earnings per common share decreased to EUR 1.32 (prior year: EUR 1.47) in 2018. Basic and diluted earnings per common non-voting share amounted to EUR 1.33 (prior year: EUR 1.48). 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.

Performance indicators and special items

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, SVA, and ROCE. The key indicators used in evaluating the company's operations are EBIT and the EBIT margin. **EBIT** is defined as earnings before financial result, income (loss) from equity-accounted investees, 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 **SVA** as well as **ROCE**, which is closely linked to SVA.

More on SVA and ROCE on pp. 33 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 that 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. The company also reports

free cash flow (FCF) before cash in- and outflows for M&A activities. M&A activities consist of acquisitions and disposals of companies and business units. To facilitate evaluation of the cash conversion cycle, the company determines the FCF conversion ratio, which represents the ratio of FCF before cash in- and outflows for M&A activities to EBITDA before special items.

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

Reconciliation **No. 049**

	2018	2017	2018	2017	2018	2017	2018	2017
Income statement (in € millions)		Total		Automotive OEM		Automotive Aftermarket		Industrial
EBIT	**1,354**	**1,528**	**682**	**951**	**319**	**333**	**353**	**244**
• in % of revenue	9.5	10.9	7.6	10.6	17.2	17.7	10.4	7.7
Special items	**27**	**56**	**11**	**22**	**-3**	**25**	**19**	**9**
• Legal cases	-21	17	-13	-3	-3	20	-5	0
• Restructuring	48	39	24	25	0	5	24	9
• Other	0	0	0	0	0	0	0	0
EBIT before special items	**1,381**	**1,584**	**693**	**973**	**316**	**358**	**372**	**253**
• in % of revenue	9.7	11.3	7.7	10.8	17.0	19.0	11.0	8.0
Net income [1]	**881**	**980**						
Special items	**27**	**56**						
• Legal cases	-21	17						
• Restructuring	48	39						
• Other	0	0						
– Tax effect [2]	-7	-14						
Net income before special items [1]	**901**	**1,022**						
Statement of financial position (in € millions)	**12/31/2018**	**12/31/2017**						
Net financial debt	2,547	2,370						
/ EBITDA	2,175	2,295						
Net financial debt to EBITDA ratio	**1.2**	**1.0**						
Net financial debt	2,547	2,370						
/ EBITDA before special items	2,202	2,351						
Net financial debt to EBITDA ratio before special items	**1.2**	**1.0**						
Value-based management (in € millions)	**2018**	**2017**						
EBITDA	**2,175**	**2,295**						
Special items	**27**	**56**						
• Legal cases	-21	17						
• Restructuring	48	39						
• Other	0	0						
EBITDA before special items	**2,202**	**2,351**						
Free cash flow (FCF)	**222**	**488**						
-/+ Cash in- and outflows for M&A activities	162	27						
(FCF) before cash in- and outflows for M&A activities	**384**	**515**						
(FCF) before cash in- and outflows for M&A activities	384	515						
/ EBITDA before special items	2,202	2,351						
FCF conversion ratio (in %)	**17.4**	**21.9**						
Value-based management (in € millions)								
EBIT	1,354	1,528						
– Average capital employed	825	797						
Schaeffler Value Added (SVA)	**529**	**731**						
EBIT before special items	1,381	1,584						
– Average capital employed	825	797						
SVA before special items	**556**	**787**						
EBIT	1,354	1,528						
/ Cost of capitall	8,246	7,966						
ROCE (in %)	**16.4**	**19.2**						
EBIT before special items	1,381	1,584						
/ Cost of capital	8,246	7,966						
ROCE before special items (in %)	**16.7**	**19.9**						

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

Automotive OEM division

Revenue **EUR 8,997 m**

EBIT margin before special items **7.7%**

63.2%
Automotive OEM

Growth less dynamic than prior year: revenue up 2.1% at constant currency // Lower revenue growth mainly attributable to market-driven decrease in demand in the Europe and Greater China regions in H2 // Decline in EBIT margin, primarily due to significantly less dynamic markets in H2 and insufficient compensating measures to date // Adjusted revenue and earnings guidance for the division not met // Order intake and book-to-bill ratio up from prior year

Automotive OEM division earnings **No. 050**

in € millions	2018	2017	Change in %
Revenue	**8,997**	**8,991**	**0.1**
• at constant currency			2.1
Revenue by business division			
Engine Systems BD	2,783	2,786	-0.1
• at constant currency			2.1
Transmission Systems BD	4,170	4,204	-0.8
• at constant currency			1.4
E-Mobility BD	486	416	16.8
• at constant currency			18.1
Chassis Systems BD	1,558	1,585	-1.7
• at constant currency			0.1
Revenue by region [1]			
Europe	4,014	4,004	0.2
• at constant currency			0.9
Americas	1,938	1,932	0.3
• at constant currency			5.6
Greater China	1,910	1,927	-0.9
• at constant currency			1.2
Asia/Pacific	1,135	1,128	0.6
• at constant currency			2.3
Cost of sales	-6,975	-6,711	3.9
Gross profit	**2,022**	**2,280**	**-11.3**
• in % of revenue	22.5	25.4	-
Research and development expenses	-679	-685	-0.9
Selling and administrative expenses	-667	-623	7.1
EBIT	**682**	**951**	**-28.3**
• in % of revenue	7.6	10.6	-
Special items [2]	11	22	-50.0
EBIT before special items	**693**	**973**	**-28.8**
• in % of revenue	7.7	10.8	-

Prior year information presented based on 2018 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 56 et seq. for the definition of special items.

Automotive OEM division earnings

The previous Automotive Aftermarket BD started operating as the third division Automotive Aftermarket on January 1, 2018. In addition, the new E-Mobility BD was created within the Automotive OEM division effective January 1, 2018. As a result, the new Automotive OEM division is subdivided into the four BDs Engine Systems, Transmission Systems, E-Mobility, and Chassis Systems.

2018 held significant challenges for the Automotive OEM division. The market environment was marked by numerous uncertainties. The trade conflict between the U.S. and China, the changeover to the new emissions testing methodology WLTP, and a decrease in demand in the Chinese market had considerably adverse effect on the automotive sector, particularly during the second half of the year. The Automotive OEM division did not escape this challenging environment; as a result, it did not meet its revenue targets in the second half of the year. The division reported a 0.6% decline in revenue for the second half of the year compared to the prior year, excluding the impact of currency translation. Automotive OEM division revenue of EUR 8,997 m for the year was slightly above the prior year level (+0.1%; prior year: EUR 8,991 m). Excluding the impact of currency translation, revenue rose by 2.1%. Generating this growth under adverse market conditions, the division still outperformed global production volumes for passenger cars and light commercial vehicles for 2018, which declined by 1.1% during the reporting period.

Revenue trends varied widely across market regions in 2018. Revenue in the Europe region was merely flat with prior year due to the impact of currency translation (+0.2%). Excluding the impact of currency translation revenue increased slightly by 0.9%. The low rate of revenue growth was primarily attributable to production delays resulting from the changeover to the new emissions testing methodology WLTP in the second half of 2018. Regional automobile production volumes declined by an average of 0.5% in 2018. Americas region revenue was flat with prior year due to the adverse impact of currency translation (+0.3%). Excluding the impact of currency translation, the region generated 5.6% in additional revenue. This growth rate put the division significantly ahead of regional automobile production, which declined by 0.1%, and made it the Automotive OEM division's main growth driver in 2018. The Greater China region reported a currency-related decrease in revenue by 0.9% (+1.2 % at constant currency). The weaker revenue growth was due, in particular, to lower demand in the second half of 2018 as a result of consumers being cautious given the trade conflict with the U.S. and stricter lending practices. Regional vehicle production dropped 3.8% during the reporting period. The Asia/Pacific region reported revenue growth of 0.6% (+2.3% at constant currency) while vehicle production there rose by 1.0%.

Engine Systems BD revenue was merely flat with prior year due to the impact of currency translation (-0.1%). Excluding the impact of currency translation, the business division generated 2.1% in additional revenue, primarily driven by the thermal management module.

Transmission Systems BD revenue declined by 0.8% due to the impact of currency translation. Excluding the impact of currency translation, revenue increased by 1.4%, which was mainly attributable to the torque converters product group.

The new **E-Mobility BD** combines all components and system solutions for hybrid and purely battery-electric vehicles. The product portfolio includes hybrid modules, primary components for continuously variable transmissions (CVTs), electric axles, hydrostatic clutch actuators, and electric wheel hub motors. The E-Mobility BD increased its revenue for the reporting period by a total of 16.8% (+18.1% at constant currency). All of the BD's product lines contributed to this strong growth rate.

Revenue in the **Chassis Systems BD** declined by 1.7% (+0.1% at constant currency) as a result of lower demand in the Greater China region. Significant revenue growth was generated by the chassis actuators product group.

Cost of sales increased by EUR 264 m or 3.9% to EUR 6,975 m during the year (prior year: EUR 6,711 m). Gross profit declined by 11.3% to EUR 2,022 m (prior year: EUR 2,280 m). The division's gross margin fell by 2.9 percentage points to 22.5% (prior year: 25.4%), due especially to a disproportionately high increase in production cost. The decline was partly due to revenue falling short of plan and the resulting decrease in utilization of production capacity on hand, combined with compensating measures that were not yet extensive enough given the rapid decline in sales. In addition, the division could not increase production efficiency sufficiently to offset the adverse impact of pricing and costs. Furthermore, the delayed ramp-up of a few major projects resulted in project-related fixed costs adversely affecting the margin. Earnings were also affected by an adverse impact of currency translation. Additionally, the initial application of the new financial reporting standard, IFRS 15, during the reporting period has resulted in a change in the presentation of certain development services, among other things, as the new standard requires them to be classified within gross margin. This change in presentation had an adverse effect on the gross margin trend compared to the prior year, but decreased research and development expenses in return.

Functional costs increased by EUR 38 m or 2.9% to EUR 1,346 m (prior year: EUR 1,308 m), rising to 15.0% of revenue (prior year: 14.5%). During the reporting period, the change in presentation resulted in a decline in research and development expenses by 0.9% to EUR 679 m (prior year: EUR 685 m), representing 7.5% of revenue (prior year: 7.6%). Selling and administrative expenses rose considerably by 7.1% to EUR 667 m (prior year: EUR 623 m), partly due to higher logistics expenses and increased administrative expenses in connection with the program for the future, the "Agenda 4 plus One".

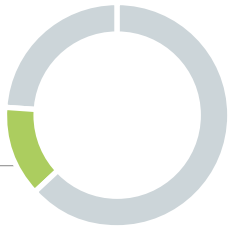
EBIT amounted to EUR 682 m during the year (prior year: EUR 951 m), and the EBIT margin was 7.6% (prior year: 10.6%). The share of special items recognized by the Automotive OEM division in 2018 decreased EBIT by a total of EUR 11 m. This included EUR 24 m in restructuring expenses related to the integration of the internal supplier, "Bearing & Components Technologies", and to the reorganization of the company's UK business activities. Income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities had an offsetting effect on EBIT of EUR 13 m. In the prior year, the Automotive OEM division recognized its share of restructuring expenses incurred to set up a shared service center in Europe amounting to EUR 25 m. These expenses were partially offset by EUR 3 m in special items for legal cases which increased EBIT in the prior year. Based on that, EBIT before special items decreased to EUR 693 m (prior year: EUR 973 m), and the EBIT margin before special items fell considerably to 7.7% (prior year: 10.8%). The decrease in EBIT was primarily due to the disproportionately high increase in production cost. The adverse impact of currency translation on gross profit was partially offset by gains on transactions denominated in foreign currency.

Automotive Aftermarket division

Revenue **EUR 1,859 m**

EBIT margin before special items **17.0%**

13.0%
Automotive Aftermarket



Growth less dynamic than prior year: revenue up 2.2% at constant currency // Slower growth in the Europe region; declining revenue in the Americas region // Earnings quality below prior year: adverse impact of pricing and currency translation as well as increased selling expenses, partly due to expansion of business outside Europe // Adjusted revenue and earnings guidance met

Automotive Aftermarket division earnings **No. 051**

in € millions	2018	2017	Change in %
Revenue	**1,859**	**1,880**	**-1.1**
• at constant currency			2.2
Revenue by region [1]			
Europe	1,393	1,375	1.3
• at constant currency			2.5
Americas	340	403	-15.6
• at constant currency			-5.2
Greater China	76	57	33.3
• at constant currency			36.5
Asia/Pacific	50	45	11.1
• at constant currency			12.5
Cost of sales	-1,217	-1,206	0.9
Gross profit	**642**	**674**	**-4.7**
• in % of revenue	34.5	35.9	-
Research and development expenses	-28	-28	0.0
Selling and administrative expenses	-310	-285	8.8
EBIT	**319**	**333**	**-4.2**
• in % of revenue	17.2	17.7	-
Special items [2]	-3	25	-112.0
EBIT before special items	**316**	**358**	**-11.7**
• in % of revenue	17.0	19.0	-

Prior year information presented based on 2018 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 56 et seq. for the definition of special items.

Automotive Aftermarket division earnings

Effective January 1, 2018, the former Automotive Aftermarket business division was set up as a third stand-alone division of the Schaeffler Group with its own CEO. This step reflects the increased significance of the Automotive Aftermarket business to the Schaeffler Group. The management model of the new division follows a regional approach. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Automotive Aftermarket business in their respective markets. Within each region and the related subregions, 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.

Automotive Aftermarket division revenue fell by 1.1% to EUR 1,859 m during the reporting period (prior year: EUR 1,880 m). Revenue growth excluding the impact of currency translation amounted to 2.2%, less than originally anticipated. Following a solid first six months overall, the third quarter saw an unexpectedly weak revenue trend, mainly as a result of lower demand from a few major customers in the Europe and Americas regions compared to the prior year.

Revenue in the **Europe region** expanded by 1.3% (2.5% at constant currency) during the reporting period. Following the encouraging revenue trend in the first half of 2018, revenue declined in the second half of 2018, excluding the impact of currency translation. The decline was primarily due to the unexpectedly weak revenue trend in the third quarter of 2018 resulting from lower revenue from a few major customers, partly driven by increasing consolidation in the European vehicle aftermarket.

The **Americas region** reported considerably lower revenue for the reporting period, 15.6% less than the high prior year level – a revenue trend that was affected by a substantial adverse impact of currency translation. Excluding the impact of currency translation, revenue fell by 5.2%, due especially to the high prior year level resulting from non-recurring additional requirements of an OES customer.

The division continued to make good headway in developing its Chinese market. The **Greater China region** generated revenue growth of 33.3% (36.5% at constant currency), partly as a result of higher OES customers' requirements.

Revenue in the **Asia/Pacific region** rose by 11.1%. Excluding the impact of currency translation, the region reported 12.5% in additional revenue, with a positive impact coming from growth in Independent Aftermarket revenue in the Southeast Asia subregion as well as from increased requirements of OES customers.

Automotive Aftermarket division cost of sales increased by EUR 11 m or 0.9% to EUR 1,217 m (prior year: EUR 1,206 m) driven by volume. Gross profit of EUR 642 m fell short of the prior year level (prior year: EUR 674 m). The gross margin declined by 1.4 percentage points to 34.5% (prior year: 35.9%). The favorable impact of economies of scale and the revenue mix did not fully offset the adverse impact of pricing and currency translation.

Functional costs increased by EUR 25 m or 8.0% to EUR 338 m (prior year: EUR 313 m), rising considerably to 18.2% of revenue (prior year: 16.6%). Along with the unexpectedly weak revenue trend in 2018, the relative functional cost structure was adversely affected by the increase in selling expenses, which rose faster than revenue, partly due to the commissioning of several distribution centers.

EBIT amounted to EUR 319 m in 2018 (prior year: EUR 333 m), and the EBIT margin was 17.2% (prior year: 17.7%). EBIT for the reporting period was increased by EUR 3 m in special items. These included income from the reversal of the division's share of a provision following the completion of an investigation of a compliance case by the relevant authorities. This income was partially offset by the Automotive Aftermarket division's share of restructuring expenses recognized for the reorganization of the company's UK business activities. In the prior year, the division recognized EUR 5 m in restructuring expenses incurred to set up a shared service center in Europe. The prior year also included EUR 20 m in special items for legal cases resulting from provisions for claims for damages. Based on that, EBIT before special items decreased to EUR 316 m (prior year: EUR 358 m), and the EBIT margin before special items fell to 17.0% (prior year: 19.0%). The decrease in margin is attributable to the decline in gross profit as well as to increased functional costs. The adverse impact of currency translation on gross profit was partially offset by gains on transactions denominated in foreign currency and non-operating one-time items.

Industrial division

Revenue **EUR 3,385 m**

EBIT margin before special items **11.0%**

Growth more dynamic than prior year: revenue up 10.1% at constant currency // Revenue growth in all regions – Greater China maintains highly dynamic growth // Considerably higher volumes with Industrial Distribution – double-digit growth rates in the raw materials, railway, power transmission, and offroad sector clusters // EBIT margin increased over prior year due to favorable impact of pricing and economies of scale as well as program "CORE" cost reduction measures // Raised guidance for revenue exceeded, earnings at the upper end of adjusted guidance

Industrial division earnings **No. 052**

in € millions	2018	2017	Change in %
Revenue	**3,385**	**3,150**	**7.5**
• at constant currency			10.1
Revenue by region [1]			
Europe	1,906	1,804	5.7
• at constant currency			7.3
Americas	596	575	3.7
• at constant currency			9.7
Greater China	575	472	21.8
• at constant currency			25.4
Asia/Pacific	308	299	3.0
• at constant currency			5.6
Cost of sales	-2,366	-2,258	4.8
Gross profit	**1,019**	**892**	**14.2**
• in % of revenue	30.1	28.3	-
Research and development expenses	-140	-133	5.3
Selling and administrative expenses	-515	-505	2.0
EBIT	**353**	**244**	**44.7**
• in % of revenue	10.4	7.7	-
Special items [2]	19	9	111.1
EBIT before special items	**372**	**253**	**47.0**
• in % of revenue	11.0	8.0	-

Prior year information presented based on 2018 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 56 et seq. for the definition of special items.

Industrial division earnings

With global industrial production increasing, the Industrial division expanded its revenue by 7.5% to EUR 3,385 m (prior year: EUR 3,150 m), continuing its upward prior year trend with added momentum. Excluding the impact of currency translation, revenue for the reporting period was up 10.1%, following 5.7% in 2017. The increase was primarily driven by Industrial Distribution. The raw materials, railway, power transmission, and offroad sector clusters generated double-digit revenue growth and also contributed to the considerable increase in revenue.

The Industrial business is 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. All regions grew their revenue in 2018, with the Greater China region once again reporting the highest growth rate.

Revenue in the Europe region expanded by 5.7% (+7.3% at constant currency) during the reporting period. This growth was primarily due to higher sales in Industrial Distribution. Railway sector cluster revenue grew at double-digit rates. Revenue also rose, excluding the impact of currency translation, in the power transmission, offroad, industrial automation, two-wheelers, and raw materials sector clusters, while the aerospace sector cluster reported revenue flat with prior year. Wind sector cluster revenue dropped.

Americas region revenue rose by 3.7% during the reporting period. Excluding the impact of currency translation, the region's revenue grew by 9.7%. This growth was largely driven by Industrial Distribution as well as the power transmission, raw materials, and aerospace sector clusters. The offroad, industrial automation, two-wheelers, and railway sector clusters generated revenue growth as well, excluding the impact of currency translation, while the wind sector cluster experienced a considerable decline in demand.

In the Greater China region, revenue rose by 21.8% (+25.4% at constant currency). Except for two-wheelers, all sector clusters as well as Industrial Distribution generated double-digit revenue growth, excluding the impact of currency translation. Especially the considerable increase in volumes in the wind, raw materials, railway, and power transmission sector clusters contributed to this region's growth.

In the Asia/Pacific region, revenue increased by 3.0%. Excluding the impact of currency translation, the region generated 5.6% in additional revenue due to higher volumes. Industrial Distribution as well as all sector clusters except for aerospace and raw materials grew their revenue, with Industrial Distribution and the offroad sector cluster acting as the main drivers of the region's revenue growth.

Industrial division cost of sales rose by EUR 108 m or 4.8% to EUR 2,366 m (prior year: EUR 2,258 m) driven by volume. Gross profit increased by EUR 127 m or 14.2% to EUR 1,019 m (prior year: EUR 892 m). The division's gross margin improved by 1.8 percentage points to 30.1% (prior year: 28.3%), primarily since the favorable impact of pricing, revenue mix, and economies of scale outweighed the adverse impact of currency translation, higher raw materials prices, and inflation-related cost increases.

Functional costs for the reporting period of EUR 655 m were EUR 17 m or 2.7% above the prior year level (prior year: EUR 638 m). The cost reduction measures under the program "CORE" almost fully offset cost increases, particularly in personnel expenses, which, among other things, had a favorable effect on the relative functional cost structure. As a result, functional costs as a percentage of revenue fell to 19.4% (prior year: 20.3%). Research and development expenses amounted to EUR 140 m (prior year: EUR 133 m), and selling and administrative expenses were EUR 515 m (prior year: EUR 505 m).

EBIT improved to EUR 353 m in 2018 (prior year: EUR 244 m) and the EBIT margin to 10.4% (prior year: 7.7%). EBIT for the reporting period was affected by special items totaling EUR 19 m. This included EUR 24 m representing the share of restructuring expenses related to the integration of the internal supplier, "Bearing & Components Technologies", and the reorganization of the company's UK business activities that was recognized by the Industrial division. Income from the reversal of the Industrial division's share of a provision following the completion of an investigation of a compliance case by the relevant authorities had an offsetting effect on EBIT of EUR 5 m. In the prior year, the Industrial division recognized its share of restructuring expenses incurred to set up a shared service center in Europe amounting to EUR 9 m. Based on that, EBIT before special items increased by EUR 119 m or 47.0% to EUR 372 m (prior year: EUR 253 m). The division's EBIT margin before special items improved by 3.0 percentage points to 11.0% (prior year: 8.0%). Along with the higher gross profit, the improved margin was mainly attributable to the improvements in the functional cost structure as a result of the program "CORE". Progress in implementing the measures of the second wave and the – now full – potential of the measures of the first wave of the program "CORE" made an impact in 2018. In addition, gains on transactions denominated in foreign currency had a compensating effect on the adverse impact of currency translation on gross profit.

2.4 Financial position and finance management

Cash flow and liquidity

The Schaeffler Group generated free cash flow of EUR 222 m (prior year: EUR 488 m) in 2018.

Cash flow **No. 053**

in € millions	2018	2017	Change in %
Cash flows from operating activities	1,606	1,778	-9.7
Cash used in investing activities	-1,384	-1,290	7.3
Free cash flow	**222**	**488**	**-54.5**
Cash used in financing activities	-111	-830	-86.6
Net increase (decrease) in cash and cash equivalents	**111**	**-342**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents	-8	-31	-74.2
Cash and cash equivalents as at beginning of period	698	1,071	-34.8
Cash and cash equivalents	**801**	**698**	**14.8**

Cash flows from operating activities declined by EUR 172 m to EUR 1,606 m (prior year: EUR 1,778 m) in 2018, primarily due to weaker earnings during the reporting period. Changes in working capital had a favorable impact totaling EUR 32 m (prior year: adverse impact of EUR 31 m), a trend primarily attributable to both the reduction in trade receivables and the increase in trade payables, which, in combination, more than offset the increase in inventory levels. Sales of receivables resulted in a cash inflow of EUR 54 m (prior year: EUR 150 m). The working capital ratio, defined as working capital as a percentage of revenue, was 17.9% as at December 31, 2018 (prior year: 19.0%).

Capital expenditures on property, plant and equipment and intangible assets (capex) amounted to EUR 1,232 m (prior year: EUR 1,273 m) in 2018.

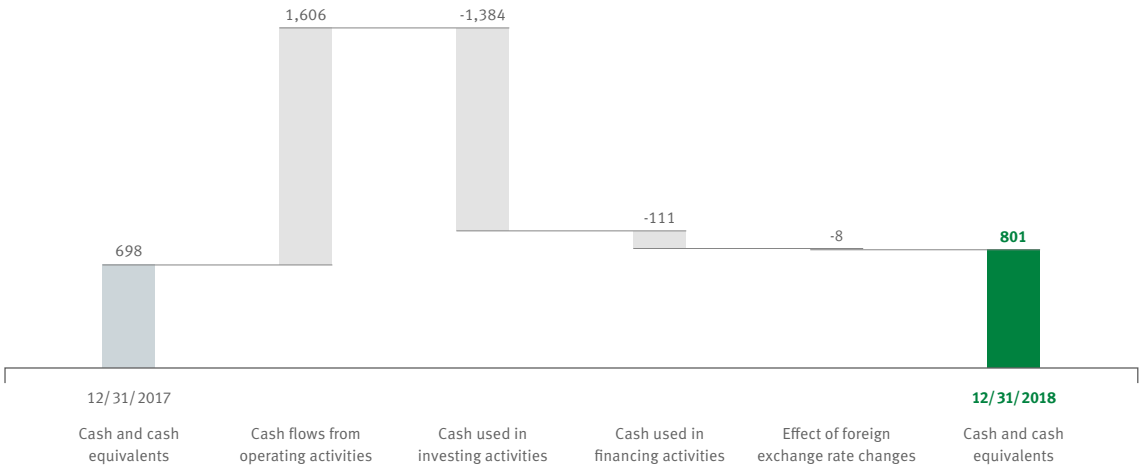
Net cash outflow for M&A activities in 2018 was EUR 162 m, with outflows of EUR 161 m relating to the establishment of the joint venture Schaeffler Paravan Technologie GmbH & Co. KG. Other M&A activities included the payment of the second tranche of the purchase price for the acquisition of autinity systems GmbH and the proceeds received on the disposal of PStec Automation and Service GmbH.

These developments resulted in **free cash flow** for 2018 of EUR 222 m (prior year: EUR 488 m). Free cash flow before cash in- and outflows for M&A activities amounted to EUR 384 m (prior year: EUR 515 m).

EUR 111 m in cash was used in **financing activities** (prior year: EUR 830 m) during the year. EUR 361 m of the EUR 363 m in dividends paid during the year represented the dividends paid to Schaeffler AG's shareholders. Cash of EUR 310 m was provided by utilizing the Revolving Credit Facility and obtaining a bilateral loan. EUR 150 m of this amount was repaid in 2018. In 2018, an additional EUR 94 m (prior year: EUR 90 m) was drawn under the capital investment loan obtained to finance the long-term logistics projects.

Cash and cash equivalents increased by EUR 103 m to EUR 801 m as at December 31, 2018 (prior year: EUR 698 m).

Change in cash and cash equivalents **No. 054**
in € millions



As at December 31, 2018, cash and cash equivalents consisted primarily of bank balances. EUR 379 m (prior year: EUR 255 m) of this amount related to countries with foreign exchange restrictions and other legal and contractual restrictions. In addition, the Schaeffler Group has a Revolving Credit Facility of EUR 1.3 bn (prior year: EUR 1.3 bn), of which EUR 160 m was drawn as at December 31, 2018. In addition, EUR 13 m of the Revolving Credit Facility was utilized (prior year: EUR 12 m), primarily in the form of letters of credit.

Capital expenditures

The Schaeffler Group's growth strategy is mainly based 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. At the same time, the Schaeffler Group is putting a stronger focus on the efficient allocating and using its capital.

Capital expenditures on property, plant and equipment and intangible assets (capex) declined by EUR 41 m or 3.2% to EUR 1,232 m in 2018 (prior year: EUR 1,273 m). Capital expenditures amounted to 8.7% (prior year: 9.1%) of revenue (capex ratio). By far the largest share of total capital expenditures related to the Europe and Greater China regions.

Total additions to intangible assets and property, plant and equipment amounted to EUR 1,275 m (prior year: EUR 1,287 m). Approximately 76% of these additions related to the Automotive OEM division, approximately 5% to the Automotive Aftermarket division, and approximately 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.

Capital expenditures by region (capex) **No. 055**

	in € millions	Change in € millions
Europe	**707** / 772	-65
Americas	**159** / 172	-13
Greater China	**305** / 277	+28
Asia/ Pacific	**61** / 52	+9
Schaeffler Group	**1,232** / 1,273	-41

2018 2017

Regions reflect the regional structure of the Schaeffler Group.

In the **Europe region**, the Schaeffler Group once again invested extensively in strategically aligning its logistics activities. The completion of the "European Distribution Center" (EDC) project in the second quarter of 2018 provided the Industrial division with a logistics center that makes the entire global supply chain – from suppliers to the production network through to the customer – more cost efficient, quicker, and more flexible. A further significant step in the strategic alignment of Schaeffler Group logistics is the start on construction of a state-of-the-art assembly and packaging center of the Automotive Aftermarket division known as "Aftermarket Kitting Operation" (AKO) in the second quarter of 2018. At this central logistics hub, automotive parts the Automotive Aftermarket division sells as separate products as well as in the form of repair solutions will be picked, assembled into kits, packaged, and shipped throughout Europe starting in 2020.

More on AKO and EDC on page 23

In addition, significant funds were invested in expanding capacity in the Engine and Transmission Systems business divisions and in the standard rolling bearing business. The Schaeffler Group is also preparing for electric mobility. Significant investments in this field related to equipment and machinery for product start-ups of electric axles in Herzogenaurach and hybrid transmissions in Buehl.

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 permits the Automotive OEM division to continue to meet the high demand for components for torque converters and torque converter lockup clutches.

In the **Greater China region,** the company continued to make targeted investments in expanding capacity and to realize new product start-ups in the Automotive OEM division in 2018. Significant investments related to engine and transmission systems, 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 meet the continuing high demand in the high-volume business.

In the **Asia/Pacific region**, the Schaeffler Group invested primarily in the production location in Vietnam in 2018. By building a new plant in Biên Hòa City that was completed in late 2018, the Industrial division has considerably expanded its production capacity for rolling bearings in this region. Biên Hòa City mainly manufactures standing and needle roller bearings with a high degree of vertical integration. Apart from that, the Industrial division invested primarily in its standard rolling bearing business in South Korea.

Financial debt

The group's net financial debt increased by EUR 177 m to EUR 2,547 m (prior year: EUR 2,370 m) in 2018.

Net financial debt **No. 056**

in € millions	12/31/2018	12/31/2017	Change in %
Bonds	2,019	1,994	1.3
Facilities Agreement	1,146	983	16.6
Capital investment loan	183	89	› 100
Other financial debt	0	2	-100
Total financial debt	**3,348**	**3,068**	**9.1**
Cash and cash equivalents	801	698	14.8
Net financial debt	**2,547**	**2,370**	**7.5**

The net debt to EBITDA ratio, defined as the ratio of net financial debt to earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation, amortization, and impairment losses (EBITDA), amounted to 1.2 as at December 31, 2018 (prior year: 1.0). The net debt to EBITDA ratio before special items was 1.2 (prior year: 1.0) as well.

The gearing ratio, defined as the ratio of net financial debt to shareholders' equity including non-controlling interests, decreased to 83.2% as at December 31, 2018 (prior year: 91.8%).

On August 30, 2018, the rating agency Standard & Poor's raised its company rating for the Schaeffler Group from BB+ (outlook: positive) to BBB- (outlook: stable). As a result of this upgrade, the Schaeffler Group is now rated investment grade by all three major rating agencies – Standard & Poor's, Moody's, and Fitch. Standard & Poor's upgraded the rating for the outstanding bonds issued by Schaeffler Finance B.V. to BBB- as well.

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. 057**
as at December 31

	2018	2017	2018	2017
	Company		Bonds	
Rating agency	Rating/Outlook		Rating	
Fitch	BBB-/stable	BBB-/stable	BBB-	BBB-
Moody's	Baa3/stable	Baa3/stable	Baa3	Baa3
Standard & Poor's	BBB-/stable	BB+/positiv	BBB-	BB+

On August 31, 2018, the Schaeffler Group signed an amendment to its EUR 2.3 bn Facilities Agreement (consisting of a EUR 1 bn term loan and a EUR 1.3 bn Revolving Credit Facility). The amendment initially does not change the facilities or terms and conditions but extends the maturity by two years to September 30, 2023. Meeting certain conditions will automatically trigger a further amendment resulting in improved terms and conditions, enhanced operational and financial flexibility, as well as an increase in the Revolving Credit Facility from EUR 1.3 bn to EUR 1.5 bn. The conditions required to be met for this amendment to become effective include a reduction in the term loan from EUR 1 bn to EUR 500 m.

In addition, an amendment to the EUR 250 m capital investment loan was signed on August 31, 2018, as well. Meeting the same conditions as under the EUR 2.3 bn Facilities Agreement will enhance the operational and financial flexibility to the same extent.

As a result of the rating upgrade by Standard & Poor's, the Schaeffler Group was able to have the remaining in rem security under both the EUR 2.3 bn Facilities Agreement and the outstanding bonds issued by Schaeffler Finance B.V. released on September 15, 2018.

On September 28, 2018, Schaeffler AG established a EUR 5 bn debt issuance program. The corresponding base prospectus was approved by the Luxembourg regulator, Commission de Surveillance du Secteur Financier (CSSF). The debt issuance program provides Schaeffler with a flexible platform for obtaining funding from the debt capital markets in the future.

In 2018, Schaeffler AG drew down an additional EUR 94 m under the capital investment loan obtained to finance the long-term logistics projects. As a result, a total of EUR 184 m of the credit facility was utilized as at December 31, 2018 (December 31, 2017: EUR 90 m).

The total amount drawn under the Revolving Credit Facility as at December 31, 2018, was EUR 160 m (December 31, 2017: EUR 0 m).

The Schaeffler Group had the following syndicated loans outstanding as at December 31, 2018:

Schaeffler Group loans **No. 058**

		12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	
Tranche	Currency	Principal in millions		Carrying amount in € millions			Coupon	Maturity
Term Loan	EUR	1,000	1,000	993	991	Euribor[1] + 1.20%	Euribor[1] + 1.20%	09/30/2023
Revolving Credit Facility[2]	EUR	1,300	1,300	153	-8	Euribor[1] + 0.80%	Euribor[1] + 0.80%	09/30/2023
Capital investment loan[3]	EUR	250	250	183	89	Euribor[1] + 1.00%	Euribor[1] + 1.00%	12/15/2022
Total				**1,329**	**1,072**			

[1] Euribor floor of 0.00%.
[2] EUR 173 m (December 31, 2017: EUR 12 m) were drawn down as at December 31, 2018, including EUR 13 m in the form of ancillary facilities such as letters of credit.
[3] EUR 184 m (December 31, 2017: EUR 90 m) were drawn down as at December 31, 2018.

In addition, the Schaeffler Group had further lines of credit in the equivalent of approximately EUR 134 m (December 31, 2017: approximately EUR 154 m), primarily in the U.S. and China. Approximately EUR 118 m of these facilities were unutilized as at December 31, 2018 (prior year: approximately EUR 111 m).

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at December 31, 2018. All bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange. The bonds have a contractual call date after which they can be called by the issuer at any time. As at December 31, 2018, three of the four bond series have reached this date and can be redeemed by the issuer at a set price with notice at any time.

Schaeffler Group bonds **No. 059**

		12/31/2018	12/31/2017	12/31/2018	12/31/2017		
ISIN	Currency	Principal in millions		Carrying amount in € millions		Coupon	Maturity
XS1212469966[1]	EUR	400	400	399	398	2.50%	05/15/2020
XS1067864022[1]	EUR	500	500	499	498	3.50%	05/15/2022
US806261AM57[1]	USD	600	600	525	502	4.75%	05/15/2023
XS1212470972	EUR	600	600	596	596	3.25%	05/15/2025
Total				**2,019**	**1,994**		

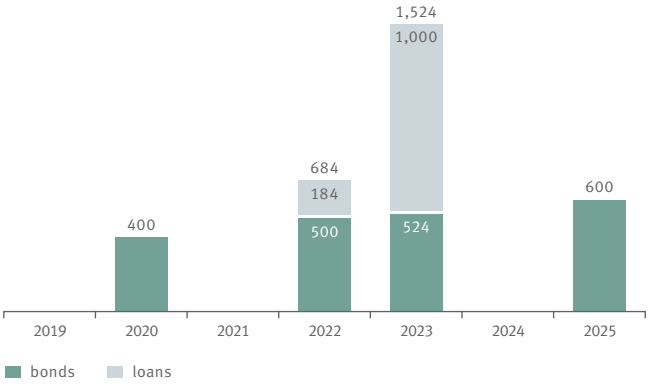
[1] Bond has reached its contractual call date and can be redeemed at any time at the issuer's discretion.

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 2018 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, 2018:

Maturity profile **No. 060**

Principal outstanding as at December 31, 2018, 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 1.3 bn 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 200 m (prior year: EUR 150 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 12,362 m in **total assets** as at December 31, 2018 (prior year: EUR 11,537 m).

Consolidated statement of financial position (abbreviated) **No. 061**

in € millions	12/31/2018	12/31/2017	Change in %
ASSETS			
Total non-current assets	6,828	6,178	10.5
Total current assets	5,534	5,359	3.3
Total assets	**12,362**	**11,537**	**7.2**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Total shareholders' equity	3,060	2,581	18.6
Total non-current liabilities	5,780	5,644	2.4
Total current liabilities	3,522	3,312	6.3
Total shareholders' equity and liabilities	**12,362**	**11,537**	**7.2**

Non-current assets rose by EUR 650 m to EUR 6,828 m as at December 31, 2018 (prior year: EUR 6,178 m), primarily due to property, plant and equipment increasing by EUR 453 m and investments in equity-accounted investees by EUR 157 m. The increase in equity-accounted investees was largely due to the newly established joint venture Schaeffler Paravan Technologie GmbH & Co. KG. In addition, deferred tax assets were up EUR 28 m. Furthermore, the initial application of IFRS 9 has increased other investments by EUR 24 m. Negative changes in the fair value of non-current derivatives had an offsetting effect.

Current assets increased by EUR 175 m to EUR 5,534 m (prior year: EUR 5,359 m) in 2018. The increase was largely attributable to an increase in inventories and higher cash and cash equivalents (see "Cash flow and liquidity", pp. 64 et seq.). Furthermore, the initial application of IFRS 15 resulted in the recognition of EUR 45 m in contract assets (prior year: EUR 0 m). Other assets and other financial assets increased as well. These increases were partially offset by a reduction in trade receivables. As at December 31, 2018, trade receivables with a carrying amount of EUR 166 m (prior year: EUR 123 m) net of retained credit risk had been sold under the ABCP program (asset-backed commercial paper).

Shareholders' equity including non-controlling interests rose by EUR 479 m to EUR 3.060 m as at December 31, 2018 (prior year: EUR 2,581 m). Net income of EUR 895 m increased shareholders' equity. The increase was partially offset by EUR 361 m in dividends paid to Schaeffler AG's shareholders. IFRS 9 and IFRS 15, the new financial reporting standards applicable effective in 2018, increased other reserves by EUR 34 m. Reductions in accumulated other comprehensive income and, therefore, shareholders' equity were largely due to the impact of cash flow hedges and of adjustments to pensions and similar obligations. The equity ratio was 24.8% as at December 31, 2018 (December 31, 2017: 22.4%).

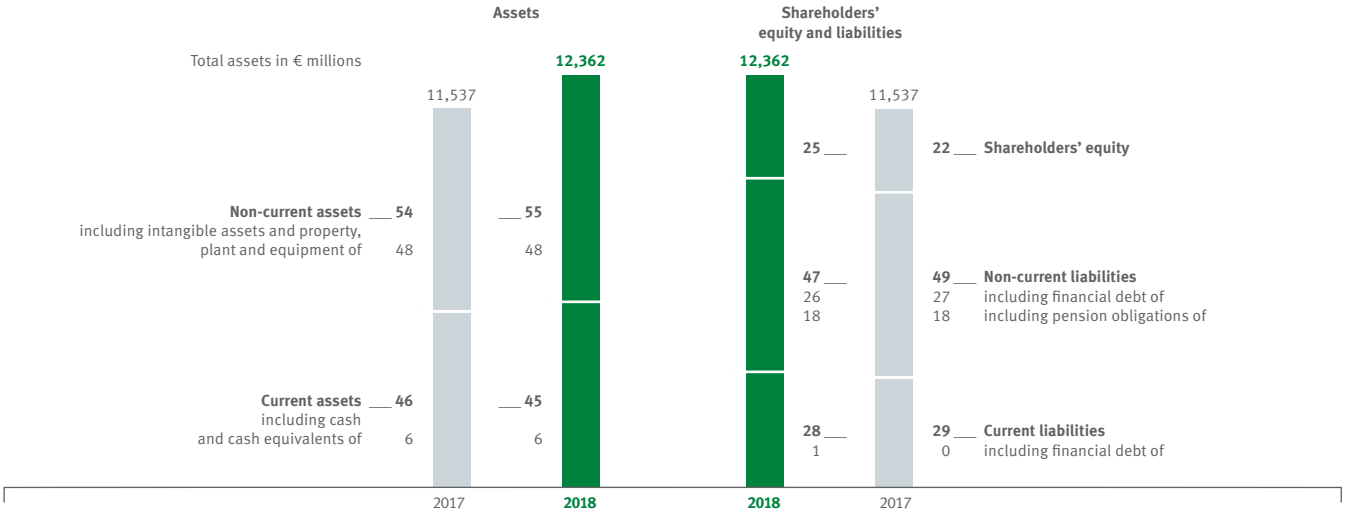
Non-current liabilities rose by EUR 136 m to EUR 5,780 m as at December 31, 2018 (prior year: EUR 5,644 m). The increase was mainly attributable to the utilization of an additional EUR 94 m of the capital investment loan and an increase in pensions and similar obligations by EUR 49 m.

Current liabilities increased by EUR 210 m to EUR 3,522 m (prior year: EUR 3,312 m) as at December 31, 2018. The increase was primarily caused by EUR 160 m in drawings under the Revolving Credit Facility and higher trade payables. The initial recognition of EUR 45 m (prior year: EUR 0 m) in contract liabilities in accordance with IFRS 15 increased current liabilities as well, as did a higher balance of other financial liabilities resulting from changes in the fair value of derivatives. These increases were partially offset by a reduction in income tax payables and other liabilities.

The Schaeffler Group's significant off-balance sheet commitments include obligations under operating rental and lease agreements and contingent liabilities. The Schaeffler Group's obligations under non-cancelable operating rental and lease agreements totaled EUR 141 m as at at December 31, 2018 (prior year: EUR 133 m); obligations under finance leases were insignificant.

Structure of the consolidated statement of financial position **No. 062**

in %



2.6 Overall assessment of the 2018 business year

The Board of Managing Directors looks back on a mixed year that brought great challenges. While earnings came under pressure in the context of the challenging automotive sector environment, the Schaeffler Group successfully pressed ahead with its transformation.

The Industrial division did very well, growing profitably with revenue growth – excluding the impact of currency translation – of 10.1% and an EBIT margin before special items of 11.0%. These results are partly attributable to the consistent implementation of the program "CORE". The Automotive OEM division's revenue growth (+2.2% at constant currency) and earnings (EBIT margin before special items 7.7%) fell short of expectations in a challenging market and competitive environment. This performance was attributable, on the one hand, to a noticeable decline in automobile production in the Greater China and Europe regions, especially in the second half of 2018. On the other hand, the division could not offset the impact of these lower volumes, increased pricing pressure, and costs related to the realignment of the business portfolio with sufficient compensating measures and increased efficiency. Operating in a highly competitive environment, the Automotive Aftermarket division grew less than originally expected as well. In order to strengthen its market position, the division has commissioned several new distribution centers, which has put a strain on earnings in 2018. In light of the heterogeneous performance of the divisions, this past year has once more demonstrated the importance of the Schaeffler Group being both an automotive as well as an industrial supplier.

Integrating the "Bearing & Components Technologies" (BCT) unit, which had previously acted as an internal supplier, into the Automotive OEM and Industrial divisions in 2018 represented an important step toward increasing the Schaeffler Group's efficiency. In addition, the Schaeffler Group successfully completed the merger of the Indian Schaeffler companies and decided to reorganize its UK business activities in order to streamline the group.

The Schaeffler Group continued to execute its M&A strategy in 2018 by establishing the Schaeffler Paravan Technologie GmbH & Co. KG joint venture, which then acquired the "Drive-by-Wire"-Technology, and by acquiring Elmotec Statomat – both transactions that position the group for the "Mobility for tomorrow".

The Board of Managing Directors expects the environment to remain challenging in 2019 as well, and it has launched the efficiency programs "RACE" for the Automotive OEM division and "FIT" for the Industrial division in response. These programs will help improve and safeguard the two divisions' earnings quality and efficiency for the long term. As well, the program for the future, the "Agenda 4 plus One", which was 55% complete at year-end 2018, will be consistently executed in 2019.

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 Industriestr. 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).

Earnings Schaeffler AG

Income statement of Schaeffler AG (abbreviated) **No. 063**

in € millions	2018	2017	Change in %
Revenue	35	100	-65.0
Cost of sales	-31	-94	-67.0
Gross profit	**4**	**6**	**-33.3**
General and administrative expenses	-116	-60	93.3
Net other operating income	55	101	-45.5
Income from equity investments	800	675	18.5
Interest result	-142	-171	-17.0
Income taxes	-102	-98	4.1
Earnings after income taxes	**499**	**453**	**10.2**
Net income for the year	**499**	**453**	**10.2**
Retained earnings brought forward	0	0	0.0
Retained earnings	**499**	**453**	**10.2**

Being the ultimate parent company of the Schaeffler Group, Schaeffler AG exclusively performs the management functions of a corporate center. For this reason, employees fulfilling other functions were transferred to other subsidiaries during the year. As a result, Schaeffler AG has been earning only minor amounts of revenue from services for subsidiaries since the second quarter of 2018. In light of this, the system for recharging services within the group has been revised as well. Therefore, the structure of revenue, cost of sales, and administrative expenses for the year has changed from that of the prior year. This structure will stabilize further in 2019, the first full year of reporting under the new organizational structure.

In performing its function as management holding company of the Schaeffler Group, Schaeffler AG incurred EUR 116 m (prior year: EUR 60 m) in general and administrative expenses.

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

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

Interest expense included interest paid and accrued on the company's institutional loans of EUR 18 m (prior year: EUR 16 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 73 m (prior year: EUR 84 m).

Income tax expense for 2018 amounted to EUR 102 m (prior year: EUR 98 m) and consisted entirely of current tax expense of EUR 102 m (prior year: EUR 98 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, just as in the prior year, the company did not have any deferred tax expense or benefit in 2018.

Net income for the year amounted to EUR 499 m (prior year: EUR 453 m) in 2018 and equaled retained earnings for 2018.

The Board of Managing Directors and the Supervisory Board will propose a dividend for 2018 of EUR 0.54 (prior year: EUR 0.54) per common share and EUR 0.55 (prior year: EUR 0.35) per common non-voting share to the annual general meeting.

Schaeffler AG financial position and net assets

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 800 m (prior year: EUR 675 m) that had not yet been paid out to Schaeffler AG as at December 31, 2018. Schaeffler Technologies AG & Co. KG paid EUR 675 m in respect of the prior year's net income to Schaeffler AG in 2018. 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 191 m (prior year: EUR 189 m) at the end of the reporting period.

On April 20, 2018, Schaeffler AG's annual general meeting passed a resolution to pay a dividend of EUR 361 m to Schaeffler AG's shareholders and to add the remaining retained earnings of EUR 92 m to revenue reserves.

Balance sheet of Schaeffler AG (abbreviated) **No. 064**

in € millions	12/31/2018	12/31/2017	Change in %
ASSETS			
Fixed assets	14,282	14,302	-0.1
Current assets	8,920	8,744	2.0
Prepaid expenses and deferred charges	1	0	-
Excess of plan assets over postemployment benefit liability	5	9	-44.4
Total assets	**23,208**	**23,055**	**0.7**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	7,197	7,059	2.0
Provisions	294	314	-6.4
Liabilities	15,713	15,676	0.2
Deferred income	4	6	-33.3
Total shareholders' equity and liabilities	**23,208**	**23,055**	**0.7**

Provisions declined by EUR 20 m to EUR 294 m (prior year: EUR 314 m), primarily due to lower income tax provisions for expected income tax payments and the reversal of a provision recognized for a compliance case in the past that was included in other provisions. These decreases were partially offset by an increase in provisions for pending losses on financial derivatives by EUR 19 m to EUR 93 m compared to December 31, 2017.

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 2,106 m (prior year: EUR 2,104 m) largely relating to the transfer of the proceeds from the bond issuances by Schaeffler Finance B.V.

The company's bank debt increased by EUR 251 m to EUR 1,344 m (prior year: EUR 1,093 m), mainly as a result of drawings under the credit facility of a capital investment loan and under the Revolving Credit Facility.

More on financial debt on pp. 66 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” beginning on page 89,
- “Governance structure” beginning on page 97,
- “Remuneration report” beginning on page 101, and
- “Governing bodies of the company” beginning on page 114.

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

Corporate governance report including corporate governance declaration, 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/sustainability/nfr2018

3. Supplementary report

The agreement to acquire a 100% interest in Elmotec Statomat Holding GmbH entered into on November 28, 2018, closed on January 31, 2019, once all agreed-upon closing conditions were met. Elmotec Statomat Holding GmbH is a manufacturer of production machinery for the high-volume construction of electric motors. The acquisition represents a step toward expanding the Schaeffler Group's manufacturing expertise in the field of construction of electric motors and implementing its electric mobility strategy.

No other 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, 2018.

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

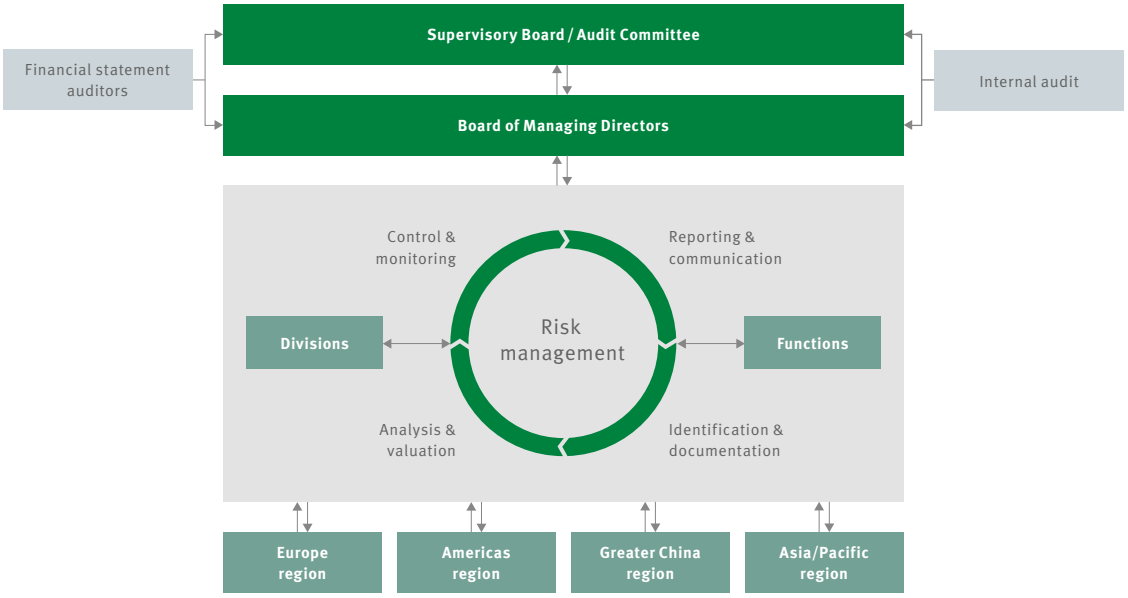
The Schaeffler Group intentionally takes risks in order to meet its corporate objectives. The objective of the risk management system is to identify these risks on a timely basis and to manage them in accordance with the company's risk appetite. This applies particularly to risks to the company's continued 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.

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

Structure of risk management system **No. 065**



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.

Systematic identification of risks related to the issues in the non-financial report is performed separately and is not part of the risk management system described herein.

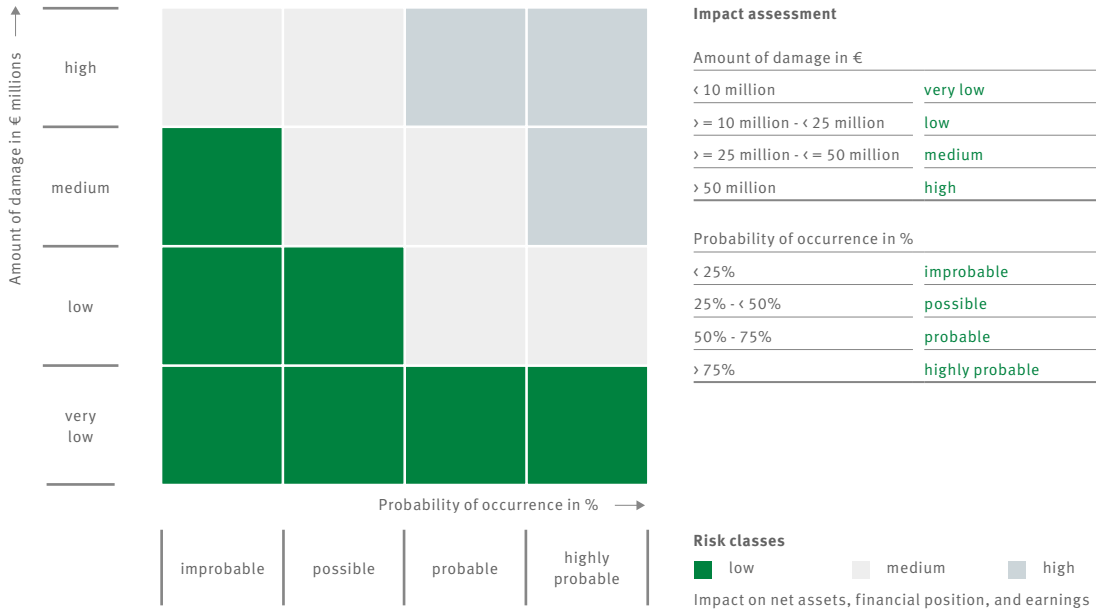
The guideline also defines a groupwide catalog of risk categories to ensure that all risks along the value chain are identified. Identified risks have to be assigned to predefined risk categories. This catalog must be completely reviewed by all those responsible for risk in order to ensure uniform and 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 (EBIT) as well as risk factors specific to the business. This selection process ensures that all Schaeffler Group subsidiaries that are relevant from a materiality perspective are included in the risk management system.
In 2018, 42 of 153 Schaeffler Group entities were included, representing 94% of revenue and 93% of the Schaeffler Group's EBIT. The remaining 111 entities are subject to an abbreviated risk survey process ensuring that all risks to the existence of the company as a going concern are identified.

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. 066**



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 his or her area of responsibility, each member of 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 ensures 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 services 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 is itself 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 2018. In addition, the audit committee monitors the effectiveness of the internal control system as well.

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 all three of the Schaeffler Group's divisions.

Strategic risks

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

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 persistent heightened political uncertainty within 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 impacts. Depending on potential reactions to likely 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.

Growing trade protectionism outside of the EU and changes in the political and regulatory environment of markets in which the Schaeffler Group does business could have a medium impact on the net assets, financial position, and earnings of the Schaeffler Group. In certain countries, import and export control regulations, customs regulations, and other trade barriers could bring sales to a complete halt. Environments are continually monitored and modeled using scenarios in order to initiate specific actions.

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

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.

This trend requires 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.

Electric mobility

Electrification of automobiles is progressing, and as a result, the further development of conventional drive trains is coming under pressure. Firstly, further increases in the efficiency of 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 and profitability 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. Initiating cost reduction measures can reduce the amount of damage.

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.

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 Schaeffler Group depends considerably on the overall economic trend. In addition, demand is subject to cyclical fluctuations.

In the Automotive OEM 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. Especially the persistent uncertainty regarding the future development of the Chinese market and the political environment in Europe could continue to jeopardize market growth. 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.

The increasing consolidation of the customer base as well as the availability of new technological alternatives to core products represent critical factors that could considerably affect pricing at the Automotive Aftermarket division.

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. However, the division's demand is subject to general and, partly, shorter market cycles, and currently no significant risks have been identified in these market cycles.

A change in forecasted market trends could have a high impact on the net assets, financial position, and earnings of both Automotive divisions. Markets are analyzed on an ongoing basis in order to detect changes in market structure or regulations early on. The company uses managed cost efficiency programs to flexibly and dynamically reduce the amount of damage from unexpected market slow-downs. Should prices deteriorate unexpectedly, the amount of damage arising from this risk is reduced by renegotiating with suppliers.

Delivery performance

The ability to deliver and delivery performance represent a key competitive factor for a long-term relationship of trust with customers; this competitive factor is being constantly 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.

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.

Information technology risks

The importance of the IT systems utilized throughout the Schaeffler Group is growing. The operability of business processes and, therefore, the continuity of operations depend on the availability of the IT systems. Three protection targets – confidentiality, integrity, and availability – underlie the company's IT security management and protection of data and IT systems. Unauthorized access to IT systems, modification and misappropriation of sensitive business data, as well as non-functional processes or data could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings.

Production risk

As the Schaeffler Group's production is very capital-intensive, a large proportion of its costs are fixed. As a result, a decrease in utilization of plant capacity increases the company's costs and reduces its profitability. Being a global corporation, the Schaeffler Group regularly reviews market conditions and compares them to its footprint in the region. Several factors play a role in this process, including the economy, supply and demand, as well as decisions made by original equipment manufacturers. An optimum global footprint could require plants or parts of plants to be relocated, and this could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings.

The influence of force majeure could result in delays or interruptions in the supply chain. The period between failure at the plant, regardless of the cause, and when alternative means of production are set up is key. Where necessary, alternative means of production can either be realized by another Schaeffler Group plant with comparable production lines or provided by an alternative supplier. To minimize the probability of occurrence of unplanned interruptions, the company takes extensive fire precautions. Nevertheless, the consequences of force majeure could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings.

Loss of market share

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, delivery performance, and design, as well as on the ability to offer technological support and service worldwide. Should the company become no longer

able to compete on one of these factors, customers may decide to obtain products and services from competitors.

As a result of the intense competition in the automotive supply sector, Schaeffler considers the Automotive OEM division to be exposed to a risk of losing market share entailing a medium impact on the Schaeffler Group's earnings and financial position.

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

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 causes irritation in the trade as well as in end customers and frequently results in requests for price reductions. 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 combating 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.

Information security risks

A growing threat to the security of information and trade secrets can jeopardize shareholder value. The Schaeffler Group's information security management system is based on the ISO/IEC 27001 standard and reflects national and sector-specific regulations. Its objective is to protect the intellectual property and trade secrets of the Schaeffler Group and its business partners against theft, loss, unauthorized dissemination, illegal access, and misuse. Thus, Schaeffler is responding to the growing threat by taking specific action. Given the increasing number and professionality of criminal attacks, an information security risk with a medium impact on the Schaeffler Group's net assets, financial position, and earnings cannot be entirely ruled out.

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. 98 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.

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. 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 2018 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.

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. 067**

	Amount of damage in €	Probability of occurrence in %	Risk class	Change from prior year
Strategic risks				
• Country risks	high	possible	medium	→
• Strategic market and technology risks	medium	possible	medium	↘
• Electric mobility	medium	possible	medium	↘
• Digitalization	medium	possible	medium	→
Operating risks				
• Market development	high	highly probable	high	↗
• Delivery performance	medium	highly probable	high	↗
• Procurement risks	medium	highly probable	high	→
• Information technology risks	medium	probable	medium	new
• Production risk	low	highly probable	medium	↗
• Loss of market share	high	improbable	medium	→
• Warranty and liability risks	high	improbable	medium	→
• Product piracy risks	low	probable	medium	→
• Information security risks	low	probable	medium	new
Legal risks				
• Compliance risks	high	improbable	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. 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 mega-cities is making public transportation within cities, such as metros, rapid transit systems, and streetcars, as well as between cities, e.g. by high-speed train, more and more attractive and important. Especially rail vehicles represent an extremely interesting growing market for the Schaeffler Group. Reliable and innovative rolling bearing solutions for applications ranging from bogie to the drive train are key to modern rail vehicles – and also promise growth for mechatronic products in the age of digitalization in mobility. In addition, the high stresses and resulting wear and tear as well as safety regulations make this market a market of the future with respect not only to original equipment but also to the Aftermarket business.

Interurban 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 CO2 and weight as well as optimizing fuel consumption are increasingly gaining in importance. The Schaeffler Group is already actively participating in these developments.

Energy chain

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 who can supply standardized components worldwide. In return, they reduce the number of suppliers and concentrate on a few global suppliers. Suppliers such as the Schaeffler Group benefit from this trend due to their global presence and their ability to supply products to the same technological and quality standards worldwide.

Operational opportunities

Development of vehicle population

The absolute vehicle population is one of the key drivers of 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 the 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 all 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 and 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 automobile 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, benefitting primarily technology-oriented suppliers like the Schaeffler Group, since the requirements established by the market and the law make a strong development partnership between the automobile manufacturer and its suppliers a necessity.

Financial opportunities

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 and high 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 expand more slowly in 2019 (January 2019). The IMF expects global gross domestic product to grow by 3.5% (2018: 3.7%). Oxford Economics anticipates a growth rate of 3.3% (February 2019). In light of these forecasts, the Schaeffler Group expects global economic growth of just under 3.5% in 2019.

Risks to the global economy have increased noticeably recently. Especially if a number of adverse events occur simultaneously, significantly less global economic growth than currently expected could be the result.

Further escalation of the international trade conflict represents a key risk, especially with respect to globally integrated value chains. In addition, China remains susceptible to an unpredicted economic slump; both the current trade dispute with the U.S. and the still high level of debt in that country contribute to this risk. Further, a disorderly Brexit would result in significant economic disruption for the United Kingdom and would affect the remaining EU member states as well, albeit to a lesser extent.

Furthermore, global economic growth might be impaired by disruptions in the international financial markets. If global financing conditions tighten faster than currently expected or significant currency fluctuations occur, this could especially hamper the development of certain emerging countries. Additionally, should the international equities markets experience widespread and persistent price decreases, this would adversely affect the global economy. Furthermore, Italy's high national debt in combination with that country's fragile banking system harbors risks to the financial stability of the European Union.

In addition, global economic growth might also be impaired by an escalation of existing geopolitical conflicts.

Taking into account the forecasts of research institute IHS Markit (February 2019), the Schaeffler Group expects automobile production, measured in terms of the number of passenger cars and light commercial vehicles produced, to decrease by about 1% in 2019 (2018: -1.1%). The Schaeffler Group anticipates a decline by about 0.5% for the Europe region and zero growth for the Americas region. The Greater China region is expected to experience a decrease of about 2%, while automobile production in the Asia/Pacific region is forecasted to decline by about 0.5%.

In light of the IHS Markit forecasts (February 2019), the Schaeffler Group expects the global vehicle population, measured in terms of the number of passenger cars and light commercial vehicles up to 3.5 tons in weight, to grow at a lower rate in 2019 than in 2018, with the average vehicle age remaining nearly unchanged (2018: 3.6% and 9.7 years, respectively).

Based on the forecast by Oxford Economics (December 2018), the Schaeffler Group expects a slower global industrial production growth of about 2.6% in 2019 (2018: 3.4%).

5.2 Schaeffler Group outlook

Outlook 2019 – group **No. 068**

	Actual 2018	Actual 2018 adjusted comparative figure [4]	Outlook 2019
Schaeffler Group			
Revenue growth [1]	3.9%	3.9%	1 to 3%
EBIT margin before special items [2]	9.7%	9.7%	8 to 9%
Free cash flow [3]	EUR 384 m	EUR 384 m	~ EUR 400 m

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 56 et seq. for the definition of special items.
[3] Before cash in- and outflows for M&A activities.
[4] Comparative figure based on 2019 segment structure.

The Schaeffler Group expects its revenue to grow by 1 to 3% excluding the impact of currency translation in 2019.

In addition, the company expects to generate an EBIT margin before special items of 8 to 9% in 2019.

The Schaeffler Group also anticipates approximately EUR 400 m in free cash flow before cash in- and outflows for M&A activities for 2019.

More on the definition of free cash flow before cash in- and outflows for M&A activities on pp. 34 et seq.

The Schaeffler Group's outlook reflects the impact of the initial application of financial reporting standard IFRS 16 in 2019.

Outlook 2019 – divisions **No. 069**

	Actual 2018	Actual 2018 adjusted comparative figure [3]	Outlook 2019
Automotive OEM			
Revenue growth [1]	2.1%	2.1%	1 to 3%
EBIT margin before special items [2]	7.7%	7.5%	6 to 7%
Automotive Aftermarket			
Revenue growth [1]	2.2%	2.2%	1 to 3%
EBIT margin before special items [2]	17.0%	18.2%	15 to 16%
Industrial			
Revenue growth [1]	10.1%	10.1%	1 to 3%
EBIT margin before special items [2]	11.0%	10.9%	10 to 11%

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 56 et seq. for the definition of special items.
[3] Comparative figure based on 2019 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 decline by about 1%, in 2019. Based on this expected outperformance, the Schaeffler Group expects its Automotive OEM division to generate revenue growth excluding the impact of currency translation of 1 to 3% in 2019 (2018, adjusted comparative figure: 2.1%). The company also expects an EBIT margin before special items of between 6 and 7% for 2019 (2018, adjusted comparative figure: 7.5%) for the Automotive OEM division.

Given less growth in the global vehicle population than in 2018 and a nearly unchanged average vehicle age, the Aftermarket business will likely grow slightly 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 1 to 3% (2018, adjusted comparative figure: 2.2%) and an EBIT margin before special items of 15 to 16% in 2019 (2018, adjusted comparative figure: 18.2%).

In the Industrial division, the economic environment suggests slowing growth in global industrial production. Based on this indication, the company expects its Industrial division to generate 1 to 3% (2018, adjusted comparative figure: 10.1%) in revenue growth in 2019, excluding the impact of currency translation. In addition, the Industrial division anticipates generating an EBIT margin before special items of between 10 and 11% (2018, adjusted comparative figure: 10.9%) in 2019.

The integration of the "Bearing & Components Technologies" (BCT) unit, which had previously acted as an internal supplier, into the Automotive OEM and Industrial divisions has a significant impact on the outlook 2019 for the divisions. Under this reorganization, the functions and plants previously assigned to BCT were integrated directly into these two divisions. In this context, the risk of fluctuations in production cost during the year will be borne exclusively by the two producing divisions Automotive OEM and Industrial starting in 2019, a change designed to strengthen divisional management. The changed allocation of costs has been reflected in the adjusted comparative figures for 2018 presented above as well.

Herzogenaurach, February 19, 2019

The Board of Managing Directors

Corporate Governance

* Part of the group management report.

1. Corporate governance report including corporate governance declaration

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 includes the corporate governance declaration in accordance with section 289f HGB. The corporate governance declaration required by sections 289f, 315d HGB has been combined for Schaeffler AG and the group. Therefore, the following discussion applies to Schaeffler AG and the group unless noted otherwise below.

Corporate governance report including corporate governance declaration 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 2018, the Board of Managing Directors and the Supervisory Board issued the following declaration of conformity pursuant to section 161 AktG:

Declaration of Conformity by the Managing Board and the Supervisory Board of Schaeffler AG pursuant to section 161 of the German Stock Corporation Act (AktG)

Since the release of its last declaration of conformity in December 2017, Schaeffler AG complies with the recommendations of the German Corporate Governance Code in the version of February 7, 2017, ("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 section 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 2018

For the Supervisory Board

Georg F. W. Schaeffler
Chairman of the Supervisory Board

For the Board of Managing Directors

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** in 2018 that covers 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

The German Stock Corporations Act requires Schaeffler AG to have a two-tier board with strict separation between the executive body, the Board of Managing Directors, and the supervisory body, the Supervisory Board, in terms of personnel and functions. 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 interests 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.

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 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. 97 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

In accordance with the "Act on Equal Access for Men and Women to Leadership Positions in the Private and Public Sectors", Schaeffler AG's Supervisory Board has set a target for the proportion of women on the Board of Managing Directors and a deadline for meeting this target. 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 1, 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. At its meeting on June 19, 2017, the Board of Managing Directors set 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 for the period ending 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 2018. In the long term, it is sought 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 approximately 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 2018.
- **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 2018.
- **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 2018.

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. 114 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. 101 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

The Supervisory Board of Schaeffler AG, which is subject to co-determination on the basis of parity, consists of 20 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 1, 2016; current positions can be held until the end of their regular term.

The minimum target has to be met by the Supervisory Board as a whole. If either the shareholder representatives or the employee representatives object to such joint compliance by a simple majority vote, notifying the Chairman of the Supervisory Board of such objection before the election, the minimum target has to be met separately by the shareholder representatives as well as by the employee representatives. 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 quota on the shareholder representatives' side 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, integrity, sufficient time, commitment, and discretion required to successfully carry out the responsibilities of a member of the Supervisory Board.

- **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' side meets the legally required quota. The shareholder representatives' quota is currently at 10%. Nominees 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 2018. 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 pp. 94 et seq.

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 five 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 trans-

actions 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. The audit committee is responsible for awarding the audit engagement on the non-financial report. 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 Adidas AG, the chairman of the audit committee, Robin Stalker, meets these requirements. The committee includes another financial expert, Dr. Siegfried Luther. The other committee members are Dr. Reinold Mittag, Georg F. W. Schaeffler, Salvatore Vicari, and Jürgen Worrich.

The technology committee serves as a forum for the regular exchange of information between the Supervisory Board and the Board of Managing Directors regarding technological developments relevant to the Schaeffler Group and for jointly deliberating on technology projects. The technology committee consists of Prof. Dr. Hans-Jörg Bullinger, Norbert Lenhard, Georg F. W. Schaeffler, Salvatore Vicari, Jürgen Wechsler, Prof. KR Ing. Siegfried Wolf, Jürgen Worrich, and Prof. Dr.-Ing. Tong Zhang. Prof. Dr. Hans-Jörg Bullinger chairs the committee.

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 2018.

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.

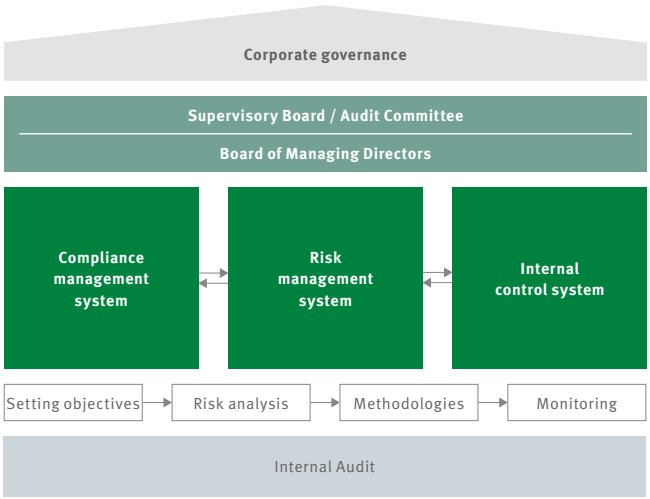
It was agreed with Schaeffler AG's auditors that the Chairman of the Supervisory Board and the chairman of the audit committee would be informed promptly of any grounds for disqualification or indications of bias arising during the audit to the extent they are not remedied immediately. It was also agreed 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. The auditors have issued a binding independence letter dated March 1, 2018, for the year ended December 31, 2018.

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. 070**



In 2018, 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 of the GCRC 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. 071**

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) of the Schaeffler Group 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 confirmed the appropriateness and implementation of the Schaeffler Group's compliance management system in 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. Its objective is to obtain 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 the Schaeffler Group'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 as well as on fighting corruption and protecting confidential information, web-based training 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 anti-trust 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 2018, the compliance training program included training on risk awareness, the Schaeffler Code of Conduct, compliance in sales, 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 2018. The company continued to expand its register of contacts with competitors. The register is already being used successfully at various pilot locations worldwide. It contributes to transparency and supports the process for approving contacts with competitors in advance. Digitalizing the process in 2018 has significantly accelerated its groupwide implementation, which has started. The company also established an IT-based business partner due diligence workflow that is integrated into the existing business processes. The workflow, which entered the pilot phase in 2018, simplifies and improves the handling of business partner due diligence. Both underline the standard the Schaeffler Group expects of its business partners with respect to acting with integrity and abiding by rules.

In order to comply with capital markets regulations, the company has established an insider committee that evaluates any (potential) insider information it receives or that otherwise comes to its attention and determines whether that information is required to be published. Additionally, the company maintains an insider list of individuals with access to insider information. As soon as an individual is added to the insider list (whether event-driven or as a permanent insider), the individual is notified and informed of the legal obligations and sanctions related to his or her access to insider information.

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. 75 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. 77 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, the Board of Managing Directors, and the audit committee
- the Board of Managing Directors has to approve and appropriately document the approval of the audit planning and significant changes therein

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 (such as 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 timeframe 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 pension commitments and the customary fringe benefits.

Remuneration of Board of Managing Directors – system and components **No. 072**

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 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 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 instalments 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 2018.

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 targets (individual target-based bonus).

The Supervisory Board determines the target tiers including the minimum and maximum targets on an annual basis. The targets underlying the remuneration reflect the strategic direction of the Schaeffler Group. The amount of the short-term bonus payable to the CEO and the Chief Officers of the functions 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 in euros 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.

The employment contracts of the members of the Board of Managing Directors set out a grant amount in euros that is based on each member's duties and responsibilities. To ensure the remuneration structure is largely oriented toward the long term, this grant amount exceeds the individual target bonus under the variable short-term remuneration. For all members of the Board of Managing Directors, including those appointed during the year, the grant amount is converted to PSUs at the average price of Schaeffler's common non-voting shares of the last 60 trading days before the beginning of the performance period (share price at grant date). PSUs are granted in annual tranches. Each tranche has a performance period of four years beginning on January 1 of the year it is granted.

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). Vesting is based on the extent to which the TSR for Schaeffler's common non-voting shares exceeds or falls short of the TSR of companies in the benchmark group (MDAX) over the performance 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, 2017, and 2018 tranches of PSUs subject to FCF- and TSR-based performance targets vest based on the following target tiers.

PSUP performance targets (1) **No. 073**

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. 074**

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%

Target amounts for the FCF-based performance target are derived from the Schaeffler Group's medium-term plan. PSUs earned are calculated at the end of the performance period at the average price of Schaeffler's common non-voting shares of the last 60 trading days before the end of the performance period. The payment under a PSU is capped at double the share price at the grant date.

The underlying share price of the 2018 tranche is EUR 14.02. The PSUs granted to each individual and the related fair values in 2018 are as follows:

PSUs granted in 2018 [1] **No. 075**

	Grant amount (in € thousands)	Number of PSUs outstanding on December 31, 2018 [1]	Grant date fair value per PSU (in €)	Grant date fair value (in € thousands)
Klaus Rosenfeld (CEO)	1,300			
Base number of PSUs		46,363	12.48	579
FCF PSUs		23,181	12.48	289
TSR PSUs		23,181	7.92	184
Prof. Dr. Peter Gutzmer	950			
Base number of PSUs		33,880	12.48	423
FCF PSUs		16,940	12.48	211
TSR PSUs		16,940	7.92	134
Dietmar Heinrich	650			
Base number of PSUs		23,180	12.48	289
FCF PSUs		11,591	12.48	145
TSR PSUs		11,591	7.92	92
Andreas Schick [2]	488			
Base number of PSUs		17,386	10.63	185
FCF PSUs		8,693	10.63	92
TSR PSUs		8,693	6.00	52
Corinna Schittenhelm	650			
Base number of PSUs		23,180	12.48	289
FCF PSUs		11,591	12.48	145
TSR PSUs		11,591	7.92	92
Michael Söding [3]	650			
Base number of PSUs		23,180	12.48	289
FCF PSUs		11,591	12.48	145
TSR PSUs		11,591	7.92	92
Dr. Stefan Spindler	800			
Base number of PSUs		28,531	12.48	356
FCF PSUs		14,265	12.48	178
TSR PSUs		14,265	7.92	113
Matthias Zink	650			
Base number of PSUs		23,180	12.48	289
FCF PSUs		11,591	12.48	145
TSR PSUs		11,591	7.92	92
Managing Directors who left the company in 2018				
Oliver Jung [4]	713			
Base number of PSUs		25,410	12.48	317
FCF PSUs		12,705	12.48	159
TSR PSUs		12,705	7.92	101
Prof. Dr. Peter Pleus [5]	950			
Base number of PSUs		33,880	12.48	423
FCF PSUs		16,940	12.48	211
TSR PSUs		16,940	7.92	134
Total	**7,801**	**556,346**	**-**	**6,245**

[1] Equals the number of PSUs granted on January 1, 2018 (on March 2, 2018 for Andreas Schick).
[2] Andreas Schick has been a member of the Board of Managing Directors of Schaeffler AG since April 1, 2018.
[3] Michael Söding has been a member of the Board of Managing Directors of Schaeffler AG since January 1, 2018.
[4] Oliver Jung left the Board of Managing Directors of Schaeffler AG as at March 31, 2018. His employment agreement remained in effect until September 30, 2018.
[5] Prof. Dr. Peter Pleus left the Board of Managing Directors of Schaeffler AG as at December 31, 2018.

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. 076**

	Grant 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 1, 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 1, 2017.
[3] Dr. Ulrich Hauck left the Board of Managing Directors of Schaeffler AG as at July 31, 2017. His employment agreement remained in effect until March 31, 2018.

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 2018 tranche (prior year: 2017 tranche) reflects the following input parameters:

- risk-free interest rate for the remaining performance period of -0.29% (prior year: -0.16%) for a January 1, 2018, grant date, -0.28% for a March 2, 2018, grant date (prior year: -0.04% for a July 17, 2017, grant date);
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 3.38% (prior year: 2.49%) for a January 1, 2018, grant date, 3.92% for a March 2, 2018, grant date (prior year: 4.01% for a July 17, 2017 grant date);
- expected volatility of Schaeffler AG common non-voting shares of 28.90% (prior year: 34.27%) for a January 1, 2018, grant date, 32.59% for a March 2, 2018, grant date (prior year: 28.78% for a July 17, 2017 grant date);
- expected volatility of the benchmark index of 10.32% (prior year: 18.75%) for a January 1, 2018, grant date, 12.03% for a March 2, 2018, grant date (prior year: 10.62% for a July 17, 2017 grant date);
- expected correlation coefficient between the benchmark index and Schaeffler AG common non-voting shares of 0.45 (prior year: 0.61) for a January 1, 2018, grant date, 0.50 for a March 2, 2018, grant date (prior year: 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.

Pension payments commence in the form of retirement benefits if employment ends before or upon 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, 2018, calculated in accordance with IAS 19 and based on the beneficiary's current age and years of service.

Service cost for 2018 and defined benefit obligations as at December 31, 2018 in accordance with IAS 19 **No. 077**

in € thousands	Year	Service cost	Defined benefit obligation
Klaus Rosenfeld (CEO)	2018	1,244	12,205
Prof. Dr. Peter Gutzmer	2018	0	4,498
Dietmar Heinrich	2018	279	404
Andreas Schick [1]	2018	242	246
Corinna Schittenhelm	2018	325	968
Michael Söding [2]	2018	278	289
Dr. Stefan Spindler	2018	252	942
Matthias Zink	2018	323	649
Managing Directors who left the company in 2018			
Oliver Jung [3]	2018	289	2,697
Prof. Dr. Peter Pleus [4]	2018	0	6,401
Total		**3,232**	**29,299**

[1] Andreas Schick has been a member of the Board of Managing Directors of Schaeffler AG since April 1, 2018.
[2] Michael Söding has been a member of the Board of Managing Directors of Schaeffler AG since January 1, 2018.
[3] Oliver Jung left the Board of Managing Directors of Schaeffler AG as at March 31, 2018. His employment agreement remained in effect until September 30, 2018.
[4] Prof. Dr. Peter Pleus left the Board of Managing Directors of Schaeffler AG as at December 31, 2018.

Service cost for 2017 and defined benefit obligations as at December 31, 2017 in accordance with IAS 19 **No. 078**

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	117
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	323
Managing Directors who left the company in 2017			
Dr. Ulrich Hauck [2]	2017	-949	0
Total		**2,137**	**26,280**

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

Change in remuneration system

When the remuneration system was changed in 2015, the company committed to pay two Managing Directors advances of EUR 300 thousand each for 2017 and advances of EUR 300 thousand and EUR 225 thousand, respectively, for 2018, and also committed to pay an advance of EUR 300 thousand to one of these Managing Directors for 2019; these advances will be offset against payment of the long-term bonuses granted in 2017, 2018, and 2019. In the tables required by the German Corporate Governance Code, advances are already shown as received, in accordance with the approach for tax purposes.

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 two years following termination of their employment agreement. In return, they are entitled to compensation in the amount of 50% of the average contractual remuneration granted to the member of the Board of Managing Directors for the last 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 of the member of the Board of Managing Directors is deducted from the compensation payment in accordance with section 74c HGB. Where employment ends on grounds of age, a non-competition clause for a period following termination of employment does not apply.

The employment agreements of Andreas Schick and Michael Söding, who were appointed to the Board of Managing Directors in 2018, and Dietmar Heinrich and Matthias Zink, appointed to the Board of Managing Directors in 2017, include post-contract non-competition clauses calling for corresponding compensation.

Oliver Jung left Schaeffler AG's Board of Managing Directors early effective March 31, 2018. His employment agreement remained in effect until September 30, 2018. The fixed remuneration including fringe benefits he will continue to receive amounts to a total of EUR 304 thousand and his proportionate short-term bonus for 2018 is EUR 321 thousand. Dr. Ulrich Hauck left Schaeffler AG's Board of Managing Directors early effective July 31, 2017. His employment agreement remained in effect until March 31, 2018. 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 and a proportionate long-term bonus for 2018. The post-contract non-competition clause was waived. In connection with the waiver of the post-contract non-competition clause, the company will make payments for the period of approximately four 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 2018.

Benefits granted for 2018

	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	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed remuneration	1,200	1,200	1,200	1,200	600	600	600	600	250	600	600	600
Fringe benefits	28	28	28	28	29	29	29	29	9	20	20	20
Total	**1,228**	**1,228**	**1,228**	**1,228**	**629**	**629**	**629**	**629**	**259**	**620**	**620**	**620**
One-year variable remuneration	1,200	1,200	0	1,800	900	900	0	1,350	250	600	0	900
Multi-year variable remuneration												
• Long-term bonus: PSUP (4 years) - 2015 tranche	-	-	-	-	-	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2016 tranche	-	-	-	-	-	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2017 tranche	1,048	-	-	-	766	-	-	-	189	-	-	-
• Long-term bonus: PSUP (4 years) - 2018 tranche	-	1,052	0	2,600	-	768	0	1,900	-	526	0	1,300
Total	**3,476**	**3,480**	**1,228**	**5,628**	**2,295**	**2,297**	**629**	**3,879**	**698**	**1,746**	**620**	**2,820**
Pension expense	1,331	1,244	1,244	1,244	0	0	0	0	114	279	279	279
Total remuneration	**4,807**	**4,724**	**2,472**	**6,872**	**2,295**	**2,297**	**629**	**3,879**	**812**	**2,025**	**899**	**3,099**

Benefits received for 2018

	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	2018	2017	2018	2017	2018	2017
Fixed remuneration	1,200	1,200	600	600	600	250
Fringe benefits	28	28	29	29	20	9
Total	**1,228**	**1,228**	**629**	**629**	**620**	**259**
One-year variable remuneration	856	1,116	642	837	428	233
Multi-year variable remuneration						
• Long-term bonus: PSUP (4 years) - 2015 tranche	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2016 tranche	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2017 tranche	0	0	0	300	0	0
• Long-term bonus: PSUP (4 years) - 2018 tranche	0	0	300	0	0	0
Total	**2,084**	**2,344**	**1,571**	**1,766**	**1,048**	**492**
Pension expense	1,244	1,331	0	0	279	114
Total remuneration	**3,328**	**3,675**	**1,571**	**1,766**	**1,327**	**606**

No. 079

Andreas Schick				Corinna Schittenhelm				Michael Söding				Dr. Stefan Spindler				Matthias Zink			
Chief Operating Officer				Chief Human Resources Officer				CEO Automotive Aftermarket				CEO Industrial				CEO Automotive OEM			
since April 01, 2018				since January 01, 2016				since January 01, 2018				since May 01, 2015				since January 01, 2017			
2017	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**
-	450	450	450	600	600	600	600	-	600	600	600	600	600	600	600	600	600	600	600
-	19	19	19	25	25	25	25	-	30	30	30	24	24	24	24	24	26	26	26
-	**469**	**469**	**469**	**625**	**625**	**625**	**625**	**-**	**630**	**630**	**630**	**624**	**624**	**624**	**624**	**624**	**626**	**626**	**626**
-	450	0	675	600	600	0	900	-	600	0	900	750	750	0	1,125	600	600	0	900
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	524	-	-	-	-	-	-	-	645	-	-	-	524	-	-	-
-	329	0	975	-	526	0	1,300	-	526	0	1,300	-	647	0	1,600	-	526	0	1,300
-	**1,248**	**469**	**2,119**	**1,749**	**1,751**	**625**	**2,825**	**-**	**1,756**	**630**	**2,830**	**2,019**	**2,021**	**624**	**3,349**	**1,748**	**1,752**	**626**	**2,826**
-	242	242	242	326	325	325	325	-	278	278	278	308	252	252	252	317	323	323	323
-	**1,490**	**711**	**2,361**	**2,075**	**2,076**	**950**	**3,150**	**-**	**2,034**	**908**	**3,108**	**2,327**	**2,273**	**876**	**3,601**	**2,065**	**2,075**	**949**	**3,149**

No. 080

Andreas Schick		Corinna Schittenhelm		Michael Söding		Dr. Stefan Spindler		Matthias Zink	
Chief Operating Officer		Chief Human Resources Officer		CEO Automotive Aftermarket		CEO Industrial		CEO Automotive OEM	
since April 01, 2018		since January 01, 2016		since January 01, 2018		since May 01, 2015		since January 01, 2017	
2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
450	-	600	600	600	-	600	600	600	600
19	-	25	25	30	-	24	24	26	24
469	**-**	**625**	**625**	**630**	**-**	**624**	**624**	**626**	**624**
321	-	428	558	500	-	704	608	376	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	0	-	0	0	0	0
790	**-**	**1,053**	**1,183**	**1,130**	**-**	**1,328**	**1,232**	**1,002**	**1,142**
242	-	325	326	278	-	252	308	323	317
1,032	**-**	**1,378**	**1,509**	**1,408**	**-**	**1,580**	**1,540**	**1,325**	**1,459**

**Benefits granted for 2018 –
Managing Directors who left the company in 2018** **No. 081**

	Oliver Jung Chief Operating Officer from October 24, 2014 to March 31, 2018				Prof. Dr. Peter Pleus CEO Automotive OEM from October 24, 2014 to December 31, 2018			
in € thousands	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed remuneration	600	150	150	150	600	600	600	600
Fringe benefits	28	7	7	7	42	43	43	43
Total	**628**	**157**	**157**	**157**	**642**	**643**	**643**	**643**
One-year variable remuneration	900	225	0	338	900	900	0	1,350
Multi-year variable remuneration								
• Long-term bonus: PSUP (4 years) - 2015 tranche	-	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2016 tranche	-	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2017 tranche	766	-	-	-	766	-	-	-
• Long-term bonus: PSUP (4 years) - 2018 tranche	-	577	0	1,425	-	768	0	1,900
Total	**2,294**	**959**	**157**	**1,920**	**2,308**	**2,311**	**643**	**3,893**
Pension expense	307	289	289	289	383	0	0	0
Total remuneration	**2,601**	**1,248**	**446**	**2,209**	**2,691**	**2,311**	**643**	**3,893**

**Benefits received for 2018 –
Managing Directors who left the company in 2018** **No. 082**

	Oliver Jung Chief Operating Officer from October 24, 2014 to March 31, 2018		Prof. Dr. Peter Pleus CEO Automotive OEM from October 24, 2014 to December 31, 2018	
in € thousands	2018	2017	2018	2017
Fixed remuneration	150	600	600	600
Fringe benefits	7	28	43	42
Total	**157**	**628**	**643**	**642**
One-year variable remuneration	160	837	564	778
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) - 2015 tranche	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2016 tranche	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2017 tranche	0	300	0	0
• Long-term bonus: PSUP (4 years) - 2018 tranche	225	0	0	0
Total	**542**	**1,765**	**1,207**	**1,420**
Pension expense	289	307	0	383
Total remuneration	**831**	**2,072**	**1,207**	**1,803**

The total remuneration for 2018 and 2017 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 2018 by individual **No. 083**

	Remuneration components			
in € thousands	fixed	variable, short-term	variable, long-term [1]	Total remuneration
Klaus Rosenfeld (CEO)	1,228	856	1,052	3,136
Prof. Dr. Peter Gutzmer	629	642	768	2,039
Dietmar Heinrich	620	428	526	1,574
Andreas Schick [2]	469	321	329	1,119
Corinna Schittenhelm	625	428	526	1,579
Michael Söding [3]	630	500	526	1,656
Dr. Stefan Spindler	624	704	647	1,975
Matthias Zink	626	376	526	1,528
Managing Directors who left the company in 2018				
Oliver Jung [4]	157	160	577	894
Prof. Dr. Peter Pleus [5]	643	564	768	1,975
Total	**6,251**	**4,979**	**6,245**	**17,475**

[1] Share-based payment in the form of the PSUP.
[2] Andreas Schick has been a member of the Board of Managing Directors of Schaeffler AG since April 1, 2018.
[3] Michael Söding has been a member of the Board of Managing Directors of Schaeffler AG since January 1, 2018.
[4] Oliver Jung left the Board of Managing Directors of Schaeffler AG as at March 31, 2018. His employment agreement remained in effect until September 30, 2018.
[5] Prof. Dr. Peter Pleus left the Board of Managing Directors of Schaeffler AG as at December 31, 2018.

Total remuneration (HGB) for 2017 by individual **No. 084**

	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 1, 2017.
[3] Dr. Ulrich Hauck left the Board of Managing Directors of Schaeffler AG as at July 31, 2017. His employment agreement remained in effect until March 31, 2018.

The total expenses and income resulting from the PSUP for 2018 are broken down by individual in accordance with section 314 (1) (6a) (8) HGB in connection with IFRS 2.51a below.

PSUP expenses and income in 2018 **No. 085**

in € thousands	Expenses and income (IFRS)
Klaus Rosenfeld (CEO)	-288
Prof. Dr. Peter Gutzmer	-102
Dietmar Heinrich	55
Andreas Schick [1]	27
Corinna Schittenhelm	-32
Michael Söding [2]	45
Dr. Stefan Spindler	-131
Matthias Zink	32
Managing Directors who left the company in 2018	
Oliver Jung [3]	-241
Prof. Dr. Peter Pleus [4]	173
Total	**-462**

[1] Andreas Schick has been a member of the Board of Managing Directors of Schaeffler AG since April 1, 2018.
[2] Michael Söding has been a member of the Board of Managing Directors of Schaeffler AG since January 1, 2018.
[3] Oliver Jung left the Board of Managing Directors of Schaeffler AG as at March 31, 2018. His employment agreement remained in effect until September 30, 2018.
[4] Prof. Dr. Peter Pleus left the Board of Managing Directors of Schaeffler AG as at December 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 2017 **No. 086**

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 in 2017	
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 1, 2017.
[2] Dr. Ulrich Hauck left the Board of Managing Directors of Schaeffler AG as at July 31, 2017. His employment agreement remained in effect until March 31, 2018.

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 1, 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 remunerated as follows:

- Executive committee; committee remuneration of EUR 20,000 for each ordinary member, twice this amount for the chairman.
- Audit committee; committee remuneration of EUR 20,000 for each ordinary member, 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 directors' 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 (2) (3) AktG.

No advances or loans were granted to members of the Supervisory Board in 2018 or 2017. The following tables summarize the amount of remuneration of each member of the Supervisory Board.

Supervisory Board remuneration for 2018 [1] No. 087

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees [2]	Total remuneration
Bullinger, Prof. Dr. Hans-Jörg	50		6	56
Engelmann, Dr. Holger	50		6	56
Gottschalk, Prof. Dr. Bernd	50		5	55
Grimm, Andrea [3]	50		8	58
Lau, Susanne (since August 08, 2018) [3]	20		5	25
Lenhard, Norbert [3]	50	20	14	84
Luther, Dr. Siegfried	50	30	14	94
Mittag, Dr. Reinold [3]	50	20	14	84
Resch, Barbara [3]	50	20	11	81
Schaeffler, Georg F. W.	100	40	15	155
Schaeffler-Thumann, Maria-Elisabeth	75	20	0	95
Schmidt, Stefanie (until June 30, 2018) [3]	25		3	28
Spindler, Dirk	50		8	58
Stalker, Robin	50	30	12	92
Stolz, Jürgen [3]	50		6	56
Vicari, Salvatore [3]	50	20	14	84
Wechsler, Jürgen [3]	75	20	14	109
Wiesheu, Dr. Otto	50		6	56
Wolf, Prof. KR Ing. Siegfried	50	20	3	73
Worrich, Jürgen [3]	50	20	14	84
Zhang, Prof. Dr.-Ing. Tong	50		8	58
Total	**1,095**	**260**	**186**	**1,541**

[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 2017 [1)] **No. 088**

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.

Members of the Supervisory Board have not received any compensation for personal services, especially consulting and agency services, in 2018 or 2017.

4. Governing bodies of the company

4.1 Supervisory Board

The Supervisory Board consists of 20 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 1, 2014
Committee memberships: chairman of the mediation, executive, and nomination committees and member of the audit committee, member of the technology committee (since October 5, 2018)
Seats on supervisory and similar boards: member of the Supervisory Board of Continental AG, Hanover; chairman of the advisory board of Atesteo GmbH (April 20, 2018 to October 1, 2018); chairman of the advisory board of Atesteo Management GmbH (since September 27, 2018)

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

Appointed: December 1, 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*
Former 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, member of the technology committee (since October 5, 2018)
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, Erlangen

Prof. Dr. Hans-Jörg Bullinger
Senator of Fraunhofer-Gesellschaft zur Förderung angew. Forschung e.V.

Appointed: December 1, 2014
Committee memberships: chairman of the technology committee (since October 5, 2018)
Seats on supervisory and similar boards: chairman of the Supervisory Board of ARRI AG, Munich; member of the Supervisory Board of Bauerfeind AG, Zeulenroda-Triebes; chairman of the Supervisory Board of TÜV SÜD AG, Munich; deputy chairman of the Supervisory Board of WILO SE, Dortmund; 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 1, 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
Owner and Managing Partner of AutoValue GmbH

Appointed: December 1, 2014
Committee memberships: member of the nomination committee
Seats on supervisory and similar boards: deputy chairman of the Supervisory Board of JOST-Werke AG, Neu-Isenburg; member of the remuneration committee of the Supervisory Board of Plastic Omnium SA, Levallois-Perret, France; chairman of the advisory board of Woco Industrietechnik GmbH, Bad Soden-Salmuenster

Andrea Grimm*
Member of the Works Council

Appointed: April 8, 2017

Susanne Lau* (since August 8, 2018)
Industrial management assistant Chairperson of the IBR
Deputy Chairperson of the GDR Schaeffler AAM

Appointed: August 8, 2018

* Employee representative on the Supervisory Board.

Norbert Lenhard*
Chairman of the Group Works Council Schaeffler AG

Appointed: November 19, 2015
Committee memberships: member of the mediation and executive committees, member of the technology committee (since October 5, 2018)

Dr. Siegfried Luther
Management Consultant

Appointed: December 1, 2014
Committee memberships: chairman of the audit committee (until June 30, 2018), member of the audit committee (since July 1, 2018)
Seats on supervisory and similar boards: member of the Supervisory Board of Evonik Industries AG, Essen; member of the board of directors of Sparkasse Gütersloh-Riethberg, Guetersloh

Dr. Reinold Mittag*
Trade Union Secretary of IG Metall

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

Barbara Resch*
Wage secretary

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

Dirk Spindler*
Senior Vice President R&D Processes, Methods and Tools of Schaeffler AG

Appointed: November 19, 2015

Robin Stalker
Chartered Accountant

Appointed: December 1, 2014
Committee memberships: member of the audit committee (until June 30, 2018), chairman of the audit committee (since July 1, 2018)
Seats on supervisory and similar boards: deputy chairman of the Supervisory Board of Schmitz Cargobull AG, Horstmar; member of the audit and risk committee of the Supervisory Board of Commerzbank AG, Frankfurt (since May 8, 2018)

Jürgen Stolz*
Member of the Works Council at the Buehl plant
Member of the European Schaeffler Works Council

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, member of the technology committee (since October 5, 2018)
Seats on supervisory and similar boards: member of the Supervisory Board of GEW-Management GmbH, Homburg

Dr. Otto Wiesheu
Lawyer

Appointed: December 1, 2014

Prof. KR Ing. Siegfried Wolf
Chairman of the Supervisory Board of OJSC Gaz Group

Appointed: December 1, 2014
Committee memberships: member of the executive committee, member of the technology committee (since October 5, 2018)
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; member of the Supervisory Board of Miba AG, Mitterbauer Beteiligungs AG, Laakirchen, Austria; chairman of the board of directors of Russian Machines LLC (until April 30, 2018); chairman of the Supervisory Board of SBERBANK Europe AG, Vienna, Austria; member of the Supervisory Board of UC RUSAL Plc, Nicosia, Cyprus (until June 28, 2018)

Jürgen Worrich*
Chairman of the European Schaeffler Works Council
Member of the Works Council at Herzogenaurach plant

Appointed: November 19, 2015
Committee memberships: member of the audit committee, member of the technology committee (since October 5, 2018)

Prof. Dr.-Ing. Tong Zhang
Director of the Academic Committee of Automotive Studies at Tongji University in Shanghai, China

Appointed: December 1, 2014
Committee memberships: member of the technology committee (since October 5, 2018)

The following member left the Supervisory Board in 2018

Stefanie Schmidt* (until June 30, 2018)
Ergonomics specialist at the Wuppertal location

Appointed: November 19, 2015
Term of office ended: June 30, 2018

* Employee representative on the Supervisory Board.

4.2 Supervisory Board committees

Mediation committee

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

Executive committee

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

Audit committee

Audit committee: Robin Stalker (Chairman since July 1, 2018), Dr. Siegfried Luther (Chairman until June 30, 2018), Dr. Reinold Mittag, Georg F. W. Schaeffler, Salvatore Vicari, and Jürgen Worrich

Nomination committee

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

Technology committee (since October 5, 2018)

Prof. Dr. Hans-Jörg Bullinger (Chairman), Norbert Lenhard, Georg F. W. Schaeffler, Salvatore Vicari, Jürgen Wechsler, Prof. KR Ing. Siegfried Wolf, Jürgen Worrich, and Prof. Dr.-Ing. Tong Zhang.

4.3 Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors currently has eight members: the Chief Executive Officer (CEO), the CEOs of the Automotive OEM, Automotive Aftermarket, and Industrial divisions, and the Managing Directors responsible for the functions (1) Technology, (2) Operations, Supply Chain Management & Purchasing, (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; Corporate Development & Strategy; Compliance & Corporate Security; Corporate Real Estate
Appointed: October 24, 2014
Term of office ends: June 30, 2024
Seats on supervisory and similar boards: member of the Supervisory Board of Continental AG, Hanover; chairman of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (since January 18, 2018); member of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (since July 31, 2018); 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

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

Responsible for: Corporate R&D Management; Innovation & Central Technology; R&D Processes, Methods & Tools; Intellectual Property Rights; R&D Bearing; 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 advisory board of Compact Dynamics GmbH, Starnberg (since April 3, 2018); member of the supervisory board of Continental AG, Hanover; chairman of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (since July 31, 2018); chairman of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (since September 21, 2018)

Dietmar Heinrich
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax and Customs; Corporate Insurance; Shared Services; Divisional Controlling Automotive OEM, AAM, and Industrial divisions
Appointed: August 1, 2017
Term of office ends: July 31, 2020
Seats on supervisory and similar boards: member of the supervisory board of LuK Savaria Kft., Szombathely, Hungary (until January 8, 2018); member of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria (until March 21, 2018); member of the board of directors of Schaeffler India Ltd., Vadodara, India (until April 17, 2018); member of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (since July 31, 2018); member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (since February 6, 2018)

* Employee representative on the Supervisory Board.

Andreas Schick (since April 1, 2018)
Chief Operating Officer

Responsible for: Schaeffler Production System, Strategy & Processes; Digitalization & Operations IT; Advanced Production Technology; Production Technology; Special Machinery; Supply Chain Management & Logistics; Purchasing & Supplier Management; Quality Operations, SCM & Purchasing
Appointed: April 1, 2018
Term of office ends: March 31, 2021
Seats on supervisory and similar boards: member of the supervisory board of SupplyOn AG, Munich (May 15, 2018 to December 31, 2018)

Corinna Schittenhelm
Chief Human Resources Officer

Responsible for: HR Strategy; HR Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Sustainability, Environment, Health & Safety; Human Resources Functions; Human Resources Automotive OEM; Human Resources AAM; Human Resources Industrial
Appointed: January 1, 2016
Term of office ends: December 31, 2023
Seats on supervisory and similar boards: member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (since January 18, 2018)

Michael Söding (since January 1, 2018)
CEO Automotive Aftermarket

Responsible for: Business Development & Strategy AAM; Sales & Marketing AAM; Product Management/R&D AAM; Operations & Supply Chain Management AAM; Quality AAM
Appointed: January 1, 2018
Term of office ends: December 31, 2020

Dr. Stefan Spindler
CEO Industrial

Responsible for: Business Development & Strategy Industrial; Global Key Account Management Industrial; Sales & Marketing Industrial; Strategic Business Field Industry 4.0; R&D Industrial; Operations & Supply Chain Management Industrial; Quality Industrial
Appointed: May 1, 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 (until March 20, 2018)

Matthias Zink
CEO Automotive OEM

Responsible for: Business Development & Strategy Automotive OEM; Global Key Account Management Automotive OEM; Engine Systems, Transmission Systems, E-Mobility, and Chassis Systems business divisions; R&D Automotive OEM; Operations & Supply Chain Management Automotive OEM; Quality Automotive OEM
Appointed: January 1, 2017
Term of office ends: December 31, 2019
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg (since April 3, 2018); member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (since September 21, 2018); member of the Supervisory Board of Schaeffler Savaria Kft., Szombathely, Hungary; member of the board of directors of Schaeffler (China) Co. Ltd., Shanghai, China

The following members left the Board of Managing Directors in 2018

Oliver Jung (until March 31, 2018)
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 ended: March 31, 2018
Seats on supervisory and similar boards: member of the Supervisory Board of FAG Magyarorszag Ipari Kft., Debrecen, Hungary (until April 11, 2018); member of the Supervisory Board of Heidelberger Druckmaschinen AG, Heidelberg; chairman of the Supervisory Board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria (until March 31, 2018); member of the Supervisory Board of SupplyOn AG, Munich (until May 15, 2018); member of the Supervisory Board of Leistritz AG, Nuremberg (since July 27, 2018)

Prof. Dr. Peter Pleus (until December 31, 2018)
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 ended: December 31, 2018
Seats on supervisory and similar boards: member of the Supervisory Board of IAV GmbH, Berlin (until December 31, 2018)

Financial statements 2018

1. Balance sheet

Balance sheet of Schaeffler AG **No. 089**

in €	12/31/2018	12/31/2017	Change in %
ASSETS			
Intangible assets	**63,261.00**	**1,781.00**	**› 100**
Property, plant and equipment	**287,056.00**	**369,787.00**	**-22.4**
Shares in affiliated companies	14,108,811,258.16	14,108,811,258.16	0.0
Loans receivable from affiliated companies	172,988,197.93	193,003,287.57	-10.4
Long-term financial assets	**14,281,799,456.09**	**14,301,814,545.73**	**-0.1**
Fixed assets	**14,282,149,773.09**	**14,302,186,113.73**	**-0.1**
Trade receivables	0.00	17,888.94	- 100
Receivables from affiliated companies	8,559,563,794.71	8,402,230,883.87	1.9
Receivables from entities to which the company is linked by equity ownership	733.04	0.00	-
Other assets	168,776,090.22	153,102,602.20	10.2
Receivables and other assets	**8,728,340,617.97**	**8,555,351,375.01**	**2.0**
Cash at banks	**190,853,595.88**	**188,839,236.42**	**1.1**
Current assets	**8,919,194,213.85**	**8,744,190,611.43**	**2.0**
Prepaid expenses and deferred charges	**893,805.09**	**86,475.33**	**› 100**
Excess of plan assets over post-employment benefit liability	**5,470,791.47**	**8,727,482.54**	**-37.3**
Total assets	**23,207,708,583.50**	**23,055,190,683.03**	**0.7**
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	3,672,955,806.81	3,580,931,810.50	2.6
Retained earnings	499,458,949.24	453,323,996.31	10.2
Shareholders' equity	**7,197,414,756.05**	**7,059,255,806.81**	**2.0**
Provisions for pensions and similar obligations	47,972,117.25	44,961,717.43	6.7
Tax provisions	124,661,073.39	140,774,149.54	-11.4
Other provisions	120,983,159.36	128,114,474.64	-5.6
Provisions	**293,616,350.00**	**313,850,341.61**	**-6.4**
Bank debt	1,344,000,000.00	1,092,564,770.62	23.0
Trade payables	6,168,886.03	8,117,563.71	-24.0
Amounts payable to affiliated companies	14,352,253,321.64	14,564,909,705.15	-1.5
Other liabilities	10,055,456.78	10,192,682.13	-1.3
• including taxes of EUR 1,942,171.92 (prior year: EUR 2,024,030.16)			
Liabilities	**15,712,477,664.45**	**15,675,784,721.61**	**0.2**
Deferred income	**4,199,813.00**	**6,299,813.00**	**-33.3**
Total shareholders' equity and liabilities	**23,207,708,583.50**	**23,055,190,683.03**	**0.7**

2. Income statement

Income statement of Schaeffler AG **No. 090**

in €	2018	2017	Change in %
1. Revenue	35,484,285.44	100,154,924.52	-64.6
2. Cost of sales	-31,518,488.18	-94,364,369.55	-66.6
3. Gross profit	**3,965,797.26**	**5,790,554.97**	**-31.5**
4. General and administrative expenses	-115,673,190.26	-59,708,859.57	93.7
5. Other operating income	352,697,763.01	382,425,812.25	-7.8
6. Other operating expenses	-297,753,843.81	-280,188,940.92	6.3
7. Income from equity investments	800,000,000.00	675,000,000.00	18.5
• affiliated companies EUR 800,000,000.00 (prior year: EUR 675,000,000.00)			
8. Income from other securities and long-term loans receivable	1,283,203.75	747,440.62	71.7
• affiliated companies EUR 1,283,203.75 (prior year: EUR 747,440.62)			
9. Other interest and similar income	34,398,691.14	36,506,450.56	-5.8
• affiliated companies EUR 33,133,022.08 (prior year: EUR 35,472,235.53)			
10. Interest and similar expenses	-177,560,106.62	-209,003,378.87	-15.0
• affiliated companies EUR 135,069,820.83 (prior year: EUR 165,762,329.26)			
11. Income taxes	-101,855,730.30	-98,197,012.15	3.7
12. Earnings after income taxes	**499,502,584.17**	**453,372,066.89**	**10.2**
13. Other taxes	-43,634.93	-48,070.58	-9.2
14. Net income for the year	**499,458,949.24**	**453,323,996.31**	**10.2**
15. Retained earnings brought forward	0.00	0.00	0.0
16. Retained earnings	**499,458,949.24**	**453,323,996.31**	**10.2**

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 Industriestr. 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:

Being the ultimate parent company of the Schaeffler Group, Schaeffler AG exclusively performs the management functions of a corporate center. For this reason, employees fulfilling other functions were transferred to other subsidiaries during the year. As a result, Schaeffler AG has been earning only minor amounts of revenue from services for subsidiaries since the second quarter of 2018. In light of this, the system for recharging services within the group has been revised as well. Therefore, the structure of revenue, cost of sales, and administrative expenses for 2018 has changed from that of the prior year. This structure will stabilize further in 2019, the first full year of reporting under the new organizational structure.

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 2018 G" (prior year: "Heubeck-Richttafeln 2005 G") mortality tables. The valuation of pension provisions reflects future annual salary increases of 3.25%, pension increases of 1.0 to 1.75%, and an employee turnover rate of 2.1%. The forecasted interest rate used to discount pension obligations as at December 31, 2018, amounts to 3.21%, 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 ten-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, and dividends expected to be paid on Schaeffler AG common non-voting shares, as well as the volatility of Schaeffler AG common non-voting 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 90,000 thousand due from Schaeffler LuK Savaria Kft. and EUR 82,988 thousand due from FAG Magyarorszag Ipari Kft.

Fixed assets of Schaeffler AG (HGB) **No. 091**

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, 2018	**110**	**110**	**770**	**770**	**14,108,811**	**193,003**	**14,301,814**	**14,302,694**
Additions	74	74	203	203	0	39,985	39,985	40,262
Disposals	0	0	-108	-108	0	-60,000	-60,000	-60,108
Transfers	0	0	0	0	0	0	0	0
Balance as at December 31, 2018	**184**	**184**	**865**	**865**	**14,108,811**	**172,988**	**14,281,799**	**14,282,848**
Accumulated amortization, depreciation, and write-downs								
Balance as at January 01, 2018	**108**	**108**	**400**	**400**	**0**	**0**	**0**	**508**
Additions	13	13	275	275	0	0	0	288
Disposals	0	0	-97	-97	0	0	0	-97
Transfers	0	0	0	0	0	0	0	0
Balance as at December 31, 2018	**121**	**121**	**578**	**578**	**0**	**0**	**0**	**699**
Net book values								
as at January 01, 2018	**2**	**2**	**370**	**370**	**14,108,811**	**193,003**	**14,301,814**	**14,302,186**
as at December 31, 2018	**63**	**63**	**287**	**287**	**14,108,811**	**172,988**	**14,281,799**	**14,282,149**

Receivables and other assets

Receivables and other assets **No. 092**

	12/31/2018			12/31/2017		
in € thousands	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
Trade receivables	0	0	0	18	0	0
Receivables from affiliated companies	8,559,564	0	0	8,402,231	0	0
• including short-term loans of	7,722,217	0	0	7,513,380	0	0
• including other financial receivables of	12,966	0	0	174,261	0	0
• including trade receivables of	23,526	0	0	37,554	0	0
• including other receivables of	800,855	0	0	677,036	0	0
Receivables from entities to which the company is linked by equity ownership	1	0	0	0	0	0
Other assets	105,531	63,245	0	89,858	0	63,245

Other receivables from affiliated companies largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 800,000 thousand (prior year: EUR 675,000 thousand), which has not yet been paid. Schaeffler Technologies AG & Co. KG paid EUR 675,000 thousand in respect of net income for the prior year to Schaeffler AG in 2018. 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 notional amount of EUR 349,345 thousand (prior year: EUR 305,460 thousand) is EUR 28,555 thousand (prior year: EUR 13,176 thousand).

Due to the imparity principle, the company has not capitalized forward exchange contracts with positive market values of EUR 83,448 thousand (prior year: EUR 108,558 thousand) used to hedge currency risk from operations. The total notional amount of these contracts is EUR 3,528,694 thousand (prior year: EUR 3,394,864 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 2018 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. 093**

in € thousands	12/31/2018	12/31/2017
Settlement amount of pensions and similar obligations	26,317	26,854
Fair value of plan assets offset	31,788	35,581
Net amount of pensions and similar obligations	**5,471**	**8,727**
Acquisition cost of plan assets offset	**31,794**	**35,544**

in € thousands	2018	2017
Interest income on plan assets offset	484	1,552
Interest expense on pensions and similar obligations [1)]	-9,220	-6,160
Net interest income (expense)	**-8,736**	**-4,608**

[1)] Interest expense relates to all of the company's pensions and similar obligations.

Shareholders' equity

Share capital

Schaeffler AG's share capital of EUR 666 m remains unchanged.

It is divided into 666 million no-par-value bearer shares, each representing an interest in share capital of EUR 1.00. The no-par-value shares are divided into 500 million common shares and 166 million common non-voting shares. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.

The common shares are held by IHO Verwaltungs GmbH. The common non-voting shares are widely held. Share capital is fully paid up and Schaeffler AG had no authorized or contingent capital or any resolutions with respect to these types of capital as at December 31, 2018.

Capital reserves

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

Retained earnings

In 2018, a dividend of EUR 361 m was paid to the shareholders from retained earnings, and the remaining EUR 92 m was added to other revenue reserves. The company's net income for 2018 of EUR 499 m was added to retained earnings.

For 2018, 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. 094**

in € thousands	12/31/2018	12/31/2017
Provisions for pending losses on open transactions	93,259	74,612
Provisions for profit sharing, other bonuses, and share-based payments	14,897	20,967
Miscellaneous other provisions	12,827	32,535
Total other provisions	**120,983**	**128,114**

The company has recognized EUR 93,259 thousand (prior year: EUR 74,612 thousand) in provisions for pending losses for negative market values of forward exchange contracts used to hedge currency risk from operations. The total notional amount of these contracts is EUR 4,246,204 thousand (prior year: EUR 3,256,024 thousand).

On July 25, 2018, the relevant authorities completed their investigation of a compliance case for which Schaeffler AG has recognized a provision reported in other provisions. EUR 21,000 thousand of this provision has been reversed to profit or loss.

Liabilities

Liabilities **No. 095**

	12/31/2018			12/31/2017		
in € thousands	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	160,000	1,184,000	0	2,565	1,090,000	0
Trade payables	6,169	0	0	8,118	0	0
Amounts payable to affiliated companies	12,283,640	1,469,039	599,574	12,496,297	900,000	1,168,613
• including loans of	10,421,323	1,469,039	599,574	7,449,365	900,000	1,168,613
• including other financial debt of	1,754,206	0	0	4,914,269	0	0
• including trade payables of	3,594	0	0	4,807	0	0
• including other liabilities of	104,517	0	0	127,856	0	0
Other liabilities	10,055	0	0	10,192	0	0
• including taxes of	1,942	0	0	2,024	0	0

The increase in financial debt compared to December 31, 2017, is primarily attributable to EUR 160,000 thousand drawn under the Revolving Credit Facility and an additional EUR 94,000 thousand drawn under the capital investment loan.

Bank debt secured by liens or similar rights (primarily long-term financial assets) amounts to EUR 1,344,000 thousand (prior year: EUR 1,090,000 thousand).

Schaeffler Finance B.V., a direct subsidiary of Schaeffler AG, issued the Schaeffler Group's bonds. Amounts payable to affiliated companies include EUR 2,105,788 thousand (prior year: EUR 2,104,357 thousand) payable to Schaeffler Finance B.V., largely relating to the transfer of the proceeds from the bond issuance by 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.

Hedge accounting

Cross-currency swaps with a notional amount totaling EUR 349,345 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 28,555 thousand (prior year: EUR 13,176 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 notional amount of EUR 105,852 thousand (prior year: EUR 114,017 thousand). The hedging instrument has a positive fair value of EUR 1,991 thousand (prior year: EUR 5,176 thousand), the hedged item has a negative fair value of EUR 2,123 thousand (prior year: EUR 5,333 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 27,607 thousand (prior year: EUR 40,242 thousand) in changes in the value of hedged items and EUR -34,972 thousand (prior year: EUR -52,654 thousand) in changes in the value of hedging instruments have not been recognized in the balance sheet.

Deferred taxes

The deferred taxes of the entire income tax group are allocated to Schaeffler AG, the tax group's controlling company.

Deferred tax liabilities significant in amount result from differences between amounts recognized in accounting and tax balance sheets with respect to non-current assets. Deferred tax assets offset against these deferred tax liabilities also result from differences between amounts recognized in accounting and tax balance sheets with respect to non-current financial 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. 096**

in € thousands	2018	2017
Domestic	32,349	96,438
Foreign	3,135	3,717
Total revenue	**35,484**	**100,155**

As Schaeffler AG is the ultimate parent company of the Schaeffler Group and 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.

Schaeffler AG exclusively performs the management functions of a corporate center. For this reason, employees fulfilling other functions were transferred to other subsidiaries during the year. As a result, Schaeffler AG has been earning only minor amounts of revenue from services for subsidiaries since the second quarter of 2018. In light of this, the system for recharging services within the group has been revised as well. Therefore, the structure of revenue, cost of sales, and administrative expenses for 2018 has changed from that of the prior year. This structure will stabilize further in 2019, the first full year of reporting under the new organizational structure.

The company has recognized EUR 5,891 thousand in revenue related to the prior year in 2018 due to a one-month timing difference.

Disclosures required for the cost of sales format

Disclosures required for the cost of sales format **No. 097**

in € thousands	2018	2017
Wages and salaries	78,444	88,701
Social security, post-employment, and other employee benefit costs	10,358	10,983
• including post-employment benefits of	2,911	2,858
Personnel expense	**88,802**	**99,684**

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

Other operating income includes foreign exchange gains of EUR 321,989 thousand (prior year: EUR 374,140 thousand). Other operating expenses include foreign exchange losses of EUR 297,753 thousand (prior year: EUR 257,535 thousand).

Other interest and similar income includes EUR 674 thousand (prior year: EUR 5 thousand) in income from discounting provisions. Other interest and similar expenses includes EUR 12,572 thousand (prior year: EUR 11,151 thousand) in expenses from compounding provisions.

Expenses and income related to prior years

Expenses and income related to prior years **No. 098**

in € thousands	2018	2017
Tax expense and benefits related to prior years	-11,523	12,977
Gains on reversal of provisions	26,094	2,079
Income related to prior years	**14,571**	**15,056**

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. 099**

in € thousands	12/31/2018	12/31/2017	Change in %
From granting security for third-party liabilities	2,035,196	2,022,649	0.6
• including amounts secured by liens of	2,035,196	2,022,649	0.6
• including security granted for liabilities of affiliated companies of	2,035,196	2,022,649	0.6

The company had guarantees outstanding of EUR 136,295 thousand (prior year: EUR 125,149 thousand) at December 31, 2018, largely for the benefit of affiliated companies.

Given the earnings 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. 100**

in € thousands	2018	2017	Change in %
Off-balance-sheet payment obligations	2,839	2,679	6.0
• including obligations under multi-year leases of	2,121	1,961	8.2
• including obligations to affiliated companies of	718	718	0.0

Average number of employees for the year

Average number of employees **No. 101**

	2018	2017	Change in %
Salaried employees	560	627	-10.7
Temporary staff	24	20	20.0
Total	**584**	**647**	**-9.7**

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; Corporate Development & Strategy; Compliance & Corporate Security; Corporate Real Estate
Appointed: October 24, 2014
Term of office ends: June 30, 2024
Seats on supervisory and similar boards: member of the Supervisory Board of Continental AG, Hanover; chairman of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (since January 18, 2018); member of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (since July 31, 2018); 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

Prof. Dr.-Ing. Peter Gutzmer

Deputy CEO and Chief Technology Officer

Responsible for: Corporate R&D Management; Innovation & Central Technology; R&D Processes, Methods & Tools; Intellectual Property Rights; R&D Bearing; 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 advisory board of Compact Dynamics GmbH, Starnberg (since April 3, 2018); member of the supervisory board of Continental AG, Hanover; chairman of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (since July 31, 2018); chairman of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (since September 21, 2018)

Dietmar Heinrich
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax and Customs; Corporate Insurance; Shared Services; Divisional Controlling Automotive OEM, AAM, and Industrial divisions
Appointed: August 1, 2017
Term of office ends: July 31, 2020
Seats on supervisory and similar boards: member of the supervisory board of LuK Savaria Kft., Szombathely, Hungary (until January 8, 2018); member of the supervisory board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria (until March 21, 2018); member of the board of directors of Schaeffler India Ltd., Vadodara, India (until April 17, 2018); member of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (since July 31, 2018); member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (since February 6, 2018)

Andreas Schick (since April 1, 2018)
Chief Operating Officer

Responsible for: Schaeffler Production System, Strategy & Processes; Digitalization & Operations IT; Advanced Production Technology; Production Technology; Special Machinery; Supply Chain Management & Logistics; Purchasing & Supplier Management; Quality Operations, SCM & Purchasing
Appointed: April 1, 2018
Term of office ends: March 31, 2021
Seats on supervisory and similar boards: member of the supervisory board of SupplyOn AG, Munich (May 15, 2018 to December 31, 2018)

Corinna Schittenhelm
Chief Human Resources Officer

Responsible for: HR Strategy; HR Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Sustainability, Environment, Health & Safety; Human Resources Functions; Human Resources Automotive OEM; Human Resources AAM; Human Resources Industrial
Appointed: January 1, 2016
Term of office ends: December 31, 2023
Seats on supervisory and similar boards: member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (since January 18, 2018)

Michael Söding (since January 1, 2018)
CEO Automotive Aftermarket

Responsible for: Business Development & Strategy AAM; Sales & Marketing AAM; Product Management/R&D AAM; Operations & Supply Chain Management AAM
Appointed: January 1, 2018
Term of office ends: December 31, 2020

Dr. Stefan Spindler
CEO Industrial

Responsible for: Business Development & Strategy Industrial; Global Key Account Management Industrial; Sales & Marketing Industrial; Strategic Business Field Industry 4.0; R&D Industrial; Operations & Supply Chain Management Industrial, Quality Industrial
Appointed: May 1, 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 (until March 20, 2018)

Matthias Zink
CEO Automotive OEM

Responsible for: Business Development & Strategy Automotive OEM; Global Key Account Management Automotive OEM; Engine Systems, Transmission Systems, E-Mobility, and Chassis Systems business divisions; R&D Automotive OEM; Operations & Supply Chain Management Automotive OEM
Appointed: January 1, 2017
Term of office ends: December 31, 2019
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg (since April 3, 2018); member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (since September 21, 2018); member of the Supervisory Board of Schaeffler Savaria Kft., Szombathely, Hungary; member of the board of directors of Schaeffler (China) Co. Ltd., Shanghai, China

The following members left the Board of Managing Directors in 2018

Oliver Jung (until March 31, 2018)
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 ended: March 31, 2018
Seats on supervisory and similar boards: member of the Supervisory Board of FAG Magyarorszag Ipari Kft., Debrecen, Hungary (until April 11, 2018); member of the Supervisory Board of Heidelberger Druckmaschinen AG, Heidelberg; chairman of the Supervisory Board of Schaeffler Austria GmbH, Berndorf-St. Veit, Austria (until March 31, 2018); member of the Supervisory Board of SupplyOn AG, Munich (until May 15, 2018); member of the Supervisory Board of Leistritz AG, Nuremberg (since July 27, 2018)

Prof. Dr. Peter Pleus (until December 31, 2018)
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 ended: December 31, 2018
Seats on supervisory and similar boards: member of the Supervisory Board of IAV GmbH, Berlin (until December 31, 2018)

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 1, 2014
Committee memberships: chairman of the mediation, executive, and nomination committees and member of the audit committee, member of the technology committee (since October 5, 2018)
Seats on supervisory and similar boards: member of the Supervisory Board of Continental AG, Hanover; chairman of the advisory board of Atesteo GmbH (April 20, 2018 to October 1, 2018); chairman of the advisory board of Atesteo Management GmbH (since September 27, 2018)

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

Appointed: December 1, 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*
Former 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, member of the technology committee (since October 5, 2018)
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, Erlangen

Prof. Dr. Hans-Jörg Bullinger
Senator of Fraunhofer-Gesellschaft zur Förderung angew. Forschung e.V.

Appointed: December 1, 2014
Committee memberships: chairman of the technology committee (since October 5, 2018)
Seats on supervisory and similar boards: chairman of the Supervisory Board of ARRI AG, Munich; member of the Supervisory Board of Bauerfeind AG, Zeulenroda-Triebes; chairman of the Supervisory Board of TÜV SÜD AG, Munich; deputy chairman of the Supervisory Board of WILO SE, Dortmund; 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 1, 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
Owner and Managing Partner of AutoValue GmbH

Appointed: December 1, 2014
Committee memberships: member of the nomination committee
Seats on supervisory and similar boards: deputy chairman of the Supervisory Board of JOST-Werke AG, Neu-Isenburg; member of the remuneration committee of the Supervisory Board of Plastic Omnium SA, Levallois-Perret, France; chairman of the advisory board of Woco Industrietechnik GmbH, Bad Soden-Salmuenster

Andrea Grimm*
Member of the Works Council

Appointed: April 8, 2017

Susanne Lau* (since August 8, 2018)
Industrial management assistant Chairperson of the IBR
Deputy Chairperson of the GDR Schaeffler AAM

Appointed: August 8, 2018

Norbert Lenhard*
Chairman of the Group Works Council Schaeffler AG

Appointed: November 19, 2015
Committee memberships: member of the mediation and executive committees, member of the technology committee (since October 5, 2018)

* Employee representative on the Supervisory Board.

Dr. Siegfried Luther
Management Consultant

Appointed: December 1, 2014
Committee memberships: chairman of the audit committee (until June 30, 2018), member of the audit committee (since July 1, 2018)
Seats on supervisory and similar boards: member of the Supervisory Board of Evonik Industries AG, Essen; member of the board of directors of Sparkasse Gütersloh-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 secretary

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

Dirk Spindler*
Senior Vice President R&D Processes, Methods and Tools of Schaeffler AG

Appointed: November 19, 2015

Robin Stalker
Chartered Accountant

Appointed: December 1, 2014
Committee memberships: member of the audit committee (until June 30, 2018), chairman of the audit committee (since July 1, 2018)
Seats on supervisory and similar boards: deputy chairman of the Supervisory Board of Schmitz Cargobull AG, Horstmar; member of the audit and risk committee of the Supervisory Board of Commerzbank AG, Frankfurt (since May 8, 2018)

Jürgen Stolz*
Member of the Works Council at the Buehl plant
Member of the European Schaeffler Works Council

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, member of the technology committee (since October 5, 2018)
Seats on supervisory and similar boards: member of the Supervisory Board of GEW-Management GmbH, Homburg

Dr. Otto Wiesheu
Lawyer

Appointed: December 1, 2014

Prof. KR Ing. Siegfried Wolf
Chairman of the Supervisory Board of OJSC Gaz Group

Appointed: December 1, 2014
Committee memberships: member of the executive committee, member of the technology committee (since October 5, 2018)
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; member of the Supervisory Board of Miba AG, Mitterbauer Beteiligungs AG, Laakirchen, Austria; chairman of the board of directors of Russian Machines LLC (until April 30, 2018); chairman of the Supervisory Board of SBERBANK Europe AG, Vienna, Austria; member of the Supervisory Board of UC RUSAL Plc, Nicosia, Cyprus (until June 28, 2018)

Jürgen Worrich*
Chairman of the European Schaeffler Works Council
Member of the Works Council at Herzogenaurach plant

Appointed: November 19, 2015
Committee memberships: member of the audit committee, member of the technology committee (since October 5, 2018)

Prof. Dr.-Ing. Tong Zhang
Director of the Academic Committee of Automotive Studies at Tongji University in Shanghai, China

Appointed: December 1, 2014
Committee memberships: member of the technology committee (since October 5, 2018)

The following member left the Supervisory Board in 2018

Stefanie Schmidt* (until June 30, 2018)
Ergonomics specialist at the Wuppertal location

Appointed: November 19, 2015
Term of office ended: June 30, 2018

* Employee representative on the Supervisory Board.

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 18 m (prior year: EUR 17 m) in 2018.

The following share-based remuneration was granted to members of the Board of Managing Directors in 2018 under the Performance Share Unit Plan (PSUP) implemented in 2015: 252,760 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 12.48 and EUR 10.63, respectively), 126,383 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 12.48 and EUR 10.63, respectively), and 126,383 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 7.92 and EUR 6.00, respectively). Please refer to the remuneration report for a detailed discussion of the PSUP.

In addition, the company committed to pay two Managing Directors advances of EUR 300 thousand each for 2017 and advances of EUR 300 thousand and EUR 225 thousand, respectively, for 2018, and also committed to pay an advance of EUR 300 thousand to one of these Managing Directors for 2019; these advances 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 1.5 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 2 m in 2018 (prior year: EUR 4 m).

Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 21 m at December 31, 2018 (prior year: EUR 13 m).

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 13,104 thousand (prior year: EUR 10,740 thousand).

Under section 268 (8) HGB, EUR 0 thousand (prior year: EUR 1,205 thousand) is 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 2018 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

Auditors' fees

The information on auditors' fees required by section 285 (17) HGB is disclosed in the consolidated financial statements of Schaeffler AG, Herzogenaurach.

Group affiliation

The company prepares consolidated financial statements and, in addition, is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach. Both of these are filed with the operator of the Electronic Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Electronic Federal Gazette.

Events after the reporting period

No material events expected to have a significant impact on the net assets, financial position, or results of operations of Schaeffler AG occurred after December 31, 2018.

List of shareholdings

List of shareholdings of Schaeffler AG as at 12/31/2018 **No. 102**

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income in € thousands
A. Affiliated companies					
I. Germany					
CBF Europe GmbH	Wuppertal	DE	100.00	-3,865	0
Compact Dynamics GmbH	Starnberg	DE	100.00	4,624	1,030
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00	49	2
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00	1,636	-14
FAG Aerospace GmbH	Schweinfurt	DE	100.00	47	2
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00	80,774	9,960
FAG Industrial Services GmbH [2)]	Herzogenrath	DE	100.00	816	0
INA - Drives & Mechatronics AG & Co. KG	Suhl	DE	100.00	4,388	669
INA Automotive GmbH [2)]	Herzogenaurach	DE	100.00	18	0
Industriewerk Schaeffler INA-Ingenieurdienst GmbH [2)]	Herzogenaurach	DE	100.00	558,435	0
LuK GmbH & Co. KG	Buehl	DE	100.00	1,142,246	295,670
LuK Management GmbH	Buehl	DE	100.00	95,097	0
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00	37,495	762
LuK Unna GmbH & Co. KG	Unna	DE	100.00	19,482	265
PD Qualifizierung und Beschäftigung GmbH [2)]	Schweinfurt	DE	100.00	122	0
Schaeffler AS Auslandsholding GmbH [2)]	Buehl	DE	100.00	20,369	0
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00	644,849	195,774
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	418	-7
Schaeffler Beteiligungsverwaltungs GmbH [2)]	Herzogenaurach	DE	100.00	40,841	0
Schaeffler Bio-Hybrid GmbH	Herzogenaurach	DE	100.00	11,025	-1,455
Schaeffler Bühl Auslandsholding GmbH [2)]	Buehl	DE	100.00	59,029	0
Schaeffler Bühl Beteiligungs GmbH [2)]	Buehl	DE	100.00	56,928	0
Schaeffler Bühl Holding GmbH [2)]	Buehl	DE	100.00	34,342	0
Schaeffler Bühl Verwaltungs GmbH [2)]	Buehl	DE	100.00	1,809,970	0
Schaeffler Consulting GmbH [2)]	Herzogenaurach	DE	100.00	2,025	0
Schaeffler Digital Solutions GmbH	Chemnitz	DE	100.00	622	371
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	9,527	637
Schaeffler Friction Verwaltungs GmbH	Buehl	DE	100.00	63,898	9,246
Schaeffler Grundstückverwaltungs GmbH	Buehl	DE	100.00	247	-9
Schaeffler IAB Beteiligungs GmbH [2)]	Herzogenaurach	DE	100.00	4,567,977	0
Schaeffler IAB Verwaltungs GmbH [2)]	Herzogenaurach	DE	100.00	1,322,860	0
Schaeffler IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00	26	-1
Schaeffler Immobilien AG & Co. KG	Herzogenaurach	DE	100.00	136,504	11,619
Schaeffler Invest GmbH [2)]	Herzogenaurach	DE	100.00	100	0
Schaeffler KWK Verwaltungs GmbH	Langen	DE	100.00	30	-1
Schaeffler Paravan Management GmbH	Herzogenaurach	DE	100.00	25	1
Schaeffler Raytech Verwaltungs GmbH [2)]	Morbach	DE	100.00	15,781	0
Schaeffler Schweinfurt Beteiligungs GmbH [2)]	Herzogenaurach	DE	100.00	726,565	0
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00	13,580,785	273,909
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 Sechs GmbH [2)]	Herzogenaurach	DE	100.00	1,248,248	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	6,113	-1,403
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	67	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00	91,067	26,130
II. Foreign					
Schaeffler Middle East FZE	Jebel Ali	AE	100.00	16,275	1,135
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00	733	-176
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00	73,858	8,330
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00	11,888	437
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00	46,116	379
Schaeffler Bulgaria OOD	Sofia	BG	100.00	2,683	192
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00	335	-22
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00	153,210	26,214
Schaeffler Belrus OOO	Minsk	BY	100.00	476	187
Schaeffler Aerospace Canada Inc.	Stratford	CA	100.00	101,602	14,828
Schaeffler Canada Inc.	Oakville	CA	100.00	59,129	8,376
Schaeffler Schweiz GmbH	Romanshorn	CH	100.00	23,747	2,375
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00	1,796	-102
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00	713,332	137,246
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00	119,026	16,501
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00	51,099	1,321
Schaeffler (Xiangtan) Co., Ltd.	Xiangtan	CN	100.00	7,760	-3,589
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00	603	-32
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00	86,759	5,259
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00	607,458	73,348
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00	255,996	73,635
Schaeffler Colombia Ltda.	Bogota	CO	100.00	402	-16
Schaeffler CZ s.r.o.	Prague	CZ	100.00	10,422	1,289
Schaeffler Production CZ s.r.o.	Lanskroun	CZ	100.00	37,315	10,207
Schaeffler Danmark ApS	Aarhus	DK	100.00	9,061	319
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00	93,523	4,914
Schaeffler Finland Oy	Espoo	FI	100.00	10,104	289
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00	7,198	-1,810
Schaeffler France SAS	Haguenau	FR	100.00	105,061	11,407
LuK (UK) Limited	Sheffield	GB	100.00	0	0
LuK Leamington Limited	Sheffield	GB	100.00	0	39
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00	7,367	-2,088
Schaeffler Automotive Aftermarket (UK) Limited	Sheffield	GB	100.00	1	0
Stocklook Limited	Swansea	GB	100.00	1	4
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00	19,733	434
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	GR	100.00	324	244
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00	33,642	8,248
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00	675	295
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00	29,488	1,394
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00	4,786	797
Schaeffler Savaria Kft.	Szombathely	HU	100.00	118,672	47,005
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00	2,943	561
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00	336	65
Schaeffler India Ltd.	Mumbai	IN	74.13	338,897	31,033
INA Invest S.r.L.	Momo	IT	100.00	35,945	34,135
Schaeffler Italia S.r.l.	Momo	IT	100.00	96,595	8,368

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	5,202	2,609
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00	50,429	7,070
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00	52,429	11,396
Schaeffler Korea Corporation	Changwon-si	KR	100.00	371,394	42,382
SIA "Schaeffler Baltic"	Riga	LV	100.00	638	189
LuK Puebla, S. de R.L. de C.V.	Puebla	MX	100.00	87,105	18,063
Rodamientos FAG S.A. de C.V.	Puebla	MX	100.00	678	-77
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Cuautitlan Izcalli	MX	100.00	30,180	5,028
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	MX	100.00	112,577	-10
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00	5,279	998
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00	38,067	-29,091
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00	7,968	221
Radine B.V.	Barneveld	NL	100.00	1,296	430
Schaeffler Finance B.V.	Barneveld	NL	100.00	15,503	-40,871
Schaeffler Nederland B.V.	Barneveld	NL	100.00	9,193	1,296
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00	12,225	2,744
LuK Norge AS	Kongsberg	NO	100.00	23,988	9,382
Schaeffler Norge AS	Sandnes	NO	100.00	4,871	71
Schaeffler Peru S.A.C.	Lima	PE	100.00	372	31
Schaeffler Philippines Inc.	Makati City	PH	100.00	1,999	-436
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	100.00	20	-26
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00	18,860	9,494
Schaeffler Portugal, Unipessoal, Lda.	Caldas da Rainha	PT	100.00	25,763	1,480
Schaeffler Romania S.R.L.	Brasov	RO	100.00	193,474	11,377
Schaeffler SR d.o.o.	Belgrade	RS	100.00	193	163
Schaeffler Manufacturing Rus ooo	Ulyanovsk	RU	100.00	7,120	-2,137
Schaeffler Russland GmbH	Moscow	RU	100.00	12,153	3,789
Schaeffler Sverige AB	Arlandastad	SE	100.00	10,295	1,202
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00	-2,802	-769
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00	36,481	5,325
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00	616	113
Schaeffler Kysuce, spol. s.r.o.	Kysucke Nove Mesto	SK	100.00	183,751	13,948
Schaeffler Skalica spol. s.r.o.	Skalica	SK	100.00	116,419	10,566
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00	2,924	431
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	100.00	1,509	0
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00	2,852	-5
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00	11,664	129
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.00	3,419	1,515
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00	2,901	386
Schaeffler Ukraine GmbH	Kiev	UA	100.00	1,427	404
FAG Bearings LLC	Danbury	US	100.00	4,661	5,241
FAG Interamericana A.G.	Miami	US	100.00	26,592	1,769
LMC Bridgeport, Inc.	Danbury	US	100.00	11,736	701
LuK Clutch Systems, LLC	Wooster	US	100.00	126,957	2,688
LuK-Aftermarket Services, LLC	Valley City	US	100.00	4,315	0
Schaeffler Aerospace USA Corporation	Danbury	US	100.00	174,766	12,281
Schaeffler Group USA, Inc.	Fort Mill	US	100.00	657,656	14,399
Schaeffler Holding LLC	Danbury	US	100.00	0	0
Schaeffler Transmission Systems, LLC	Wooster	US	100.00	317,432	56,920
Schaeffler Transmission, LLC	Wooster	US	100.00	127,486	2,794
Schaeffler Venezuela, C.A.	Caracas	VE	100.00	3	11
Schaeffler Vietnam Co., Ltd.	Bien Hoa City	VN	100.00	20,562	-6,918

INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00	85,435	4,768
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00	37,580	6,505
B. Investments					
I. Germany					
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00	33	-5
Contitech-INA GmbH & Co. KG	Hanover	DE	50.00	211	-2
Schaeffler Paravan Technologie GmbH & Co. KG [3]	Herzogenaurach	DE	90.00	0	0
II. Foreign					
Eurings Zrt. [1]	Debrecen	HU	37.00	5,023	285
Colinx, LLC [1]	Greenville	US	20.00	3,977	-118

[1] Values from 2017.
[2] There is a profit and loss transfer agreement.
[3] Newly established. Financial statements not yet prepared.

Preparation of financial statements

The Board of Managing Directors of Schaeffler AG prepared the financial statements on February 19, 2019, 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, 2019

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dietmar Heinrich

Andreas Schick

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, 2018, and the statement of profit and loss for the financial year from January 1, 2018 to December 31, 2018, 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, 2018 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration which is 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, 2018, and of its financial performance for the financial year from January 1, 2018, to December 31, 2018, 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 declaration 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 "Auditors' Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditors' 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, 2018, to December 31, 2018. 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 to the Annual Financial Statements.

The Financial Statement Risk As of December 31, 2018, Schaeffler AG's financial statements include investments in affiliated companies in the amount of EUR 14.109 m. 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 lower of acquisition cost or, in the case of expected permanent impairment, the fair value. The Company determines the fair value of shares in affiliated companies 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 to five years following the balance sheet 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 carrying 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 depends to a large extent on the Company's estimates and judgements with regard to the assumptions used. 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 revenue 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 Observations The assumptions and estimates used by the Company are appropriate.

Other Information

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

- the corporate governance declaration, and
- the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditors' 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 controls 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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 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 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 auditors' 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 20, 2018. We were engaged by the Supervisory Board on July 4, 2018. We have been the auditors of Schaeffler AG without interruption since the financial year 2015.

We declare that the opinions expressed in this auditors' 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 annual financial statements, we have audited the consolidated financial statements of Schaeffler AG and conducted various audits of the annual financial statements of 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 Schaeffler AG as well as performed statutory and contractual audits, such as audits in accordance with the EEG, EMIR audits in accordance with section § 20 WpHG a.F. (§ 32 Abs. 1 WpHG) and confirmations of compliance with contractual conditions. We provided a coaching in connection with the non-financial statement. 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, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

gez. Alt-Scherer	gez. Koeplin
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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, 2019

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

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Date of publication
Wednesday, March 6, 2019

Published by
Schaeffler AG, Industriestr. 1-3
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Publicis Pixelpark, Erlangen, Germany
Speedpool GmbH, Hamburg (image section), Germany

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Printed by
Eberl Print GmbH, Immenstadt/Allgäu, Germany

Printed on FSC®-certified paper. By using FSC® paper we are actively supporting the preservation of our forests, promoting plant and wildlife protection, and are taking a stand against the exploitation of human beings in the forestry industry.

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 that case, the version submitted to the Federal Gazette shall be binding.

The reporting period comprises the financial year 2018, which runs from January 1 to December 31, 2018. This report reflects relevant information available by the editorial deadline on February 19, 2019.

Rounding differences may occur.

This English version of the annual report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.

For better readability, this report generally uses only the masculine form when referring to groups of persons. Unless indicated otherwise, these statements should not be construed to refer to a specific gender.

Schaeffler in Social Media

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