SCHAEFFLER

Financial statements 2019

Schaeffler AG

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Combined management report

Combined management report in accordance with section 315 (5) HGB (also referred to as “group management report” or “management report”). The company has chosen to integrate the management report of Schaeffler AG with the following group management report of the Schaeffler Group.

Special items
In order to facilitate a transparent evaluation of the company’s results of operations, the Schaeffler Group reports EBIT, EBITDA, net income, net debt to EBITDA ratio, 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.

* Not part of the group management report and unaudited.

References
Content of websites referenced in the group management report merely provides further information and is not part of the group management report and is unaudited. This does not apply to the corporate governance report including the corporate governance declaration in accordance with sections 289f HGB and 315d HGB, including the declaration of conformity pursuant to section 161 AktG. The reference to the combined separate group 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 Organizational structure and business activities

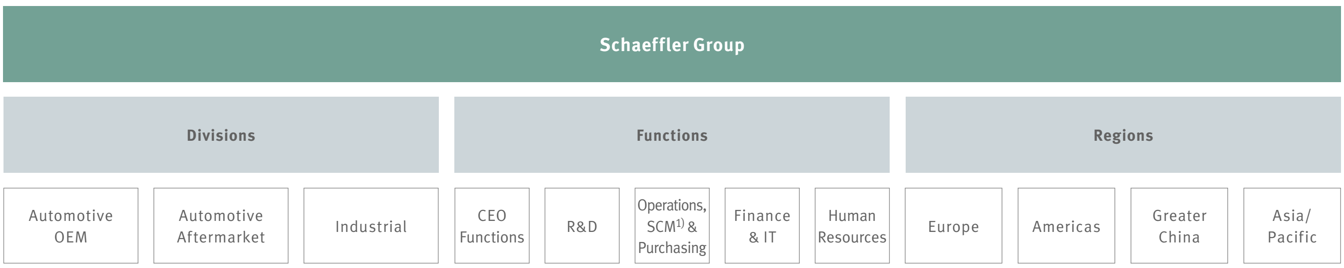
The Schaeffler Group (also referred to as “Schaeffler” below) is a global automotive and industrial supplier. Employing a workforce of approximately 87,700, the company develops and manufactures high-precision components and systems in engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications. These include innovative and sustainable technologies 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 company provides repair solutions in original-equipment quality for the automotive spare parts market worldwide.

Organizational and leadership structure

The Schaeffler Group is characterized by a three-dimensional organizational and leadership structure which differentiates between **divisions**, **functions**, and **regions**. 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 into the four business divisions E-Mobility, Engine Systems, Transmission Systems, and Chassis Systems. 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) R&D, (3) Operations, Supply Chain Management & Purchasing, (4) Finance & IT, 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.

Schaeffler Group organizational structure
since January 1, 2020



Simplified presentation for illustration purposes.
[1] Supply Chain Management.

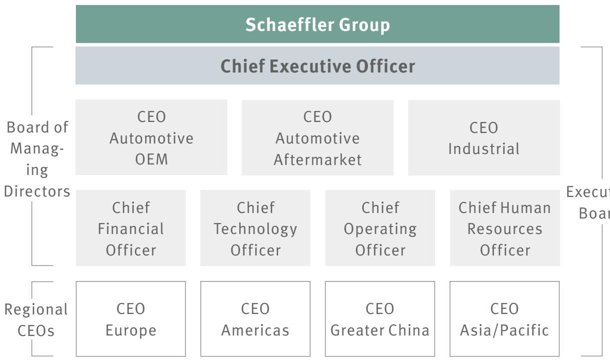
Schaeffler Group functions
since January 1, 2020

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

Simplified presentation for illustration purposes.

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



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 Chairman of the Board of Managing Directors (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. Jointly, 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 2019. The corporate governance report including the corporate governance declaration in accordance with sections 289f HGB and 315d HGB incl. 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 sections 289f HGB and 315d HGB incl. the declaration of conformity pursuant to section 161 AktG at: www.schaeffler.com/ir

Legal group structure

In addition to Schaeffler AG, which acts as the group's lead company, the Schaeffler Group included 152 (prior year: 152) domestic and foreign subsidiaries as at December 31, 2019. The corporate head office of the Schaeffler Group is located in Herzogenaurach. As at December 31, 2019, 103 (prior year: 104) of the subsidiaries are domiciled in the Europe region, 24 (prior year: 25) in the Americas region, 13 (prior year: 10) in the Greater China region, and 13 (prior year: 13) in the Asia/Pacific region.

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, 2019.

Acquisitions and disposals

The Schaeffler Group continued to press ahead with the transformation of the company in 2019. As part of the transformation process, the Schaeffler Group acquired Elmotec Statomat Holding GmbH on January 31, 2019. Elmotec Statomat 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 expertise in manufacturing electric motors.

The Schaeffler Group acquired Xtronic GmbH, based in Boeblingen, under an agreement entered into on May 3, 2019. Xtronic GmbH possesses core expertise related to the development of the "Space Drive" drive-by-wire technology. The acquisition provides the Schaeffler Group with further expertise and know-how in the field of steering systems and autonomous driving.

In addition, the Schaeffler Group closed the sale of its subsidiary The Barden Corporation (UK) Ltd., located in Plymouth, UK, to HQW Holding (UK) Co. Limited on May 31, 2019. The sale represents a step in the reorganization of the Schaeffler Group's UK business activities. As part of this reorganization, the company also closed the production location in Llanelli and consolidated two logistics centers at one location in the UK.

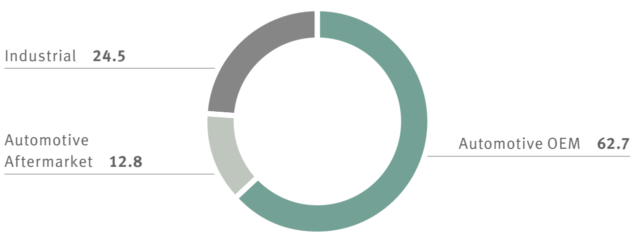
The Schaeffler Group sold Schaeffler Friction Products Hamm GmbH, Hamm, to the company's management team (management buyout) on June 30, 2019. The Hamm location mostly produced friction linings for dry double clutch transmissions in the Automotive OEM division. Alongside friction linings, the Hamm plant manufactured specialized friction solutions for the Industrial division, including applications for agriculture, lift and hoist systems, electromagnetic brakes, and wind turbines.

Furthermore, the company entered into an agreement to sell its plants in Unna and Kaltennordheim on December 5, 2019, as part of the program "RACE". As a consequence of the disposal, a transfer of business occurred on February 3, 2020, under which the employee's employment contracts were assumed by the new owners. The Kaltennordheim location assembles clutches for trucks and tractors. Operations in Unna include reconditioning and small-series production of clutch pressure plates and clutch disks for passenger vehicles. The main reasons for the decision to dispose of the two plants were the decrease in demand for manual clutch systems as well as increasing pricing pressure for truck clutches. The two locations will continue to supply the Schaeffler Group with goods and services for a 15-months transition period scheduled to start in early February.

Business activities

The Schaeffler Group's business is managed based on the three operating divisions – Automotive OEM, Automotive Aftermarket, and Industrial – which each have global responsibility and also represent the reportable segments in accordance with IFRS 8. The Automotive OEM division is headquartered in Buehl, the Automotive Aftermarket division is managed from Langen, and the Industrial division is located in Schweinfurt. The corporate head office of the Schaeffler Group is located in Herzogenaurach.

Schaeffler Group revenue by division
in percent



Automotive OEM division

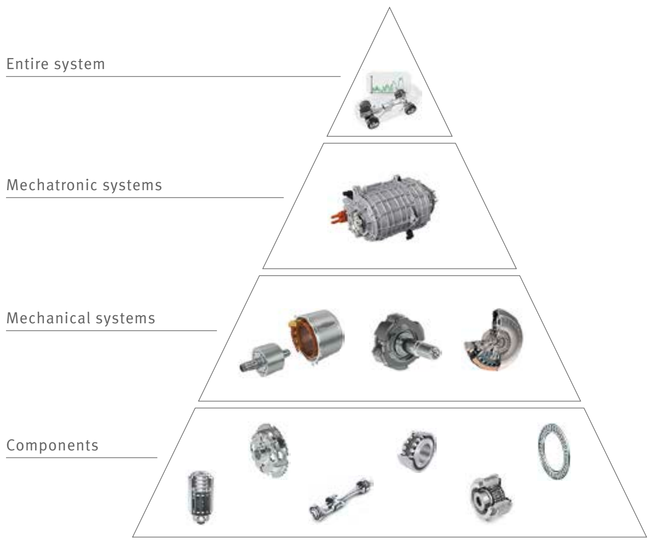
The Automotive OEM division partners with the global automotive industry in developing and manufacturing components and systems for engine, transmission, and chassis applications, as well as for hybrid and electric drive systems. Along with technologies for low-emission and emission-free drive systems, the division develops components and systems for connecting vehicles and for autonomous driving. The Automotive OEM division manages its business based on the four business divisions (BD) E-Mobility, Engine Systems, Transmission Systems, and Chassis Systems which in turn comprise several business units:

- The **E-Mobility BD** develops and manufactures products and system solutions for drive train electrification – from 48-volt mild hybrids and plug-in hybrids through to all-electric drives. The product portfolio includes hybrid modules, electric axle drives, electromechanical actuators, wet double clutches, primary components for continuously variable transmissions, and electric motors.
- The **Engine Systems BD** develops and manufactures components and systems such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems, and the thermal management module.
- The **Transmission Systems BD** develops and manufactures components and systems for transmissions. The product portfolio includes solutions for double-clutch, manual, automated, and automatic transmissions (e.g. torque converters, the dual-mass flywheel, clutches, transmission bearings).
- The **Chassis Systems BD** develops and manufactures components and systems for the chassis. Its product spectrum ranges from wheel bearings through to mechatronic systems for active chassis.

Demand for the Automotive OEM division's products is closely linked to technological developments in the automotive industry as well as to global automobile production, which is affected by short- and long-term legal and economic conditions. Fuel prices, consumer behavior, and alternative mobility concepts impact market trends. Buying incentives and an expanding charging infrastructure could increase demand for components and systems for hybrid and electric drives.

Being a supplier to the largest automobile manufacturers and automotive suppliers (Tier 1), the Automotive OEM division operates in a very competitive market environment. For a long time, the Automotive OEM division has primarily competed with other large automotive suppliers in the fields of drive technology and chassis systems. In the future-oriented fields of electric mobility and autonomous driving, additional competitors new to the industry are entering the market.

Automotive OEM division technology pyramid



Being a partner to the manufacturers of passenger cars and commercial vehicles, the Automotive OEM division is actively involved in shaping the technological change in the industry via its research and development activities. These activities are aimed at strengthening the extensive existing expertise in the field of mechanical components and mechanical systems and enhancing it with respect to mechatronic applications and systems. New developments focus especially on efficient and electrified drives and autonomous driving.

Based on the degree of electrification – “micro”, “mild”, “full”, “plug-in hybrid”, or all-electric vehicles – the Automotive OEM division develops new solutions in the engine, transmission, and electric drive subsystems within what it has called a “Powertrain Matrix”. A modular, highly integrated technology platform allows the company to tailor and manufacture electric motors with a focus on the design envelope. Potential applications of these electric motors range from hybrid modules and dedicated hybrid transmissions through to electric axles in performance classes ranging from 15 to more than 300 kW. Volume production, for instance for electric motors and 2-in-1 electric axles, for a range of customer projects worldwide is scheduled to begin in 2021.

Further, the Automotive OEM division continues to work on advancing drives based on an internal combustion engine and on increasing their efficiency. This includes, for instance, the most recent version of the fully variable valve control system UniAir, electric camshaft phasing units, and the thermal management module. Even conventional bearing solutions for balancer shafts, camshafts, and crankshafts still offer potential for improving fuel economy and lowering emissions. The “Schaeffler Vision Powertrain” is forecasting that 70% of cars manufactured in 2030 will still be equipped with an internal combustion engine. This includes 30% driven exclusively by an internal combustion engine and 40% hybrid vehicles. Another 30% will have all-electric drive systems.

A further area of ongoing development in the automotive sector is autonomous driving, which, along with increased driving comfort, is also expected to improve road safety in the long run. Owned by the Schaeffler-Paravan joint venture, Space Drive is a technology for automated, autonomous, and connected driving that is slated to be advanced to the point of volume production by 2021. A scenario developed by Schaeffler and entitled “Schaeffler Vision Intelligent Corner Vehicle” indicates that by 2035, approximately 14% of passenger cars and light commercial vehicles manufactured will drive in a highly automated manner, 18% in a fully automated manner, and 9% autonomously.

The Automotive OEM division has established a **program** named **“RACE”** to sustainably increase efficiency and adjust its business portfolio. The main objectives of the program are, firstly, to adapt the business portfolio to changing market conditions, including making the relevant adjustments to the worldwide network of plants, and, secondly, to reduce overheads, more closely focus research and development efforts on profitable products with a promising future, and sustainably increase order intake. Initial cost reduction measures have made an impact during the year, and the capex ratio has been improved. The division also reported considerably more nominations for customer projects in the E-Mobility and Engine Systems business divisions. In addition, significant steps aimed at transforming the Automotive OEM division have already been implemented successfully, including disposing of the Hamm location and the plants in Unna and Kaltennordheim and downsizing the workforce, primarily in Europe.

Automotive Aftermarket division

The Automotive Aftermarket division is responsible for the Schaeffler Group’s global business with spare vehicle parts and provides components and comprehensive repair solutions in original-equipment quality for engine, transmission, and chassis applications. The Automotive Aftermarket division is largely supplied by the Automotive OEM division’s manufacturing locations. Like the Automotive OEM and Industrial divisions, the Automotive Aftermarket division operates under the Schaeffler corporate brand and distributes its range under the three product brands LuK, INA, and FAG. In addition, it offers comprehensive services for repair shops under the service brand REPXPERT.

The management model follows a regional approach using 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 supplies independent, non-branded repair shops with components as well as repair solutions and services. 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 custom-assembled repair sets and kits for simple, efficient, and professional vehicle repairs. A global network of distributors, many of whom are organized in trade cooperatives, acts as the Automotive Aftermarket division’s IAM sales market. The OES distribution channel’s customers include the vehicle manufacturers.

The spare parts business is partly influenced by the steadily growing vehicle population and the rising average age as well as the growing complexity of vehicles. The division expects the Greater China region to experience the largest increase in vehicle population; demand for repairs will rise in that region, driven by the vehicle age increasing as well. Therefore, the Automotive Aftermarket division is strengthening its global footprint in the Greater China growth region, especially, including by expanding its local sales network and technical customer support.

The Schaeffler Group believes that increasing vehicle complexity will offer additional growth opportunities to the Automotive Aftermarket division in the coming years. As a result, a further expansion of the product portfolio and a targeted focus on the needs of this specific market are designed to contribute significant growth. At the same time, the division 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.

The Automotive Aftermarket perceives its cross-selling activities, i.e. expanding the product portfolio with existing customers, to hold potential for additional revenue.

Additionally, digitalization is playing an increasingly important role in order to meet customer needs, both new and existing. As a result, the Automotive Aftermarket division is continuing to develop its e-commerce activities and relies on the close integration of marketing, distribution, and services. Together with industry partners, the division is also working to promote the issue of vehicle connectivity and non-discriminatory access to data and is actively involved in the digital data marketplace CARUSO and the related activities.

Five core elements for profitable growth

The Automotive Aftermarket division considers commitment to customer service and operational excellence important success factors. Therefore, in order to further expand its operational excellence, the division strives to make its deliveries to customers around the world even faster and more reliably in order to raise the level of customer satisfaction and loyalty. The focus here is on efficiently supplying customers with intelligent repair solutions, which is ensured by employing state-of-the-art assembly and packaging centers (“Aftermarket Kitting Operation”). Three assembly and packaging centers are already in operation in Mexico City, Singapore, and Shanghai. The assembly and packaging center for Europe is scheduled to commence operations in Halle/Saale in mid-2020.

The competitive pressure in the automotive aftermarket has intensified in recent years. Particularly the Europe and Americas regions are experiencing consolidation at the wholesale level, resulting in growing market power of certain distributors.

In order to safeguard earnings quality and increase the division’s capital efficiency, the division established the **program “GRIP”**. Along with these objectives, “GRIP” mainly aims to free up funds for taking forward-looking measures, including measures regarding sales and logistics, digitalization, and the product portfolio.

“GRIP” consists of numerous individual measures designed to help ensure the Automotive Aftermarket division’s future long-term viability. The various measures have been grouped into eight work streams with different objectives, such as harmonizing pricing and discipline in personnel expenses, other functional expenses, and in inventory management. A significant number of these measures has been initiated during the reporting period and some are already implemented.

Industrial division

The Industrial division develops and manufactures components and systems for rotary and linear movements and offers services for various industrial sectors. 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 customers 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. 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. In addition, the business with distributors is managed by the Industrial Distribution unit. Industry 4.0 products and services are concentrated in a strategic business field with global responsibility. A global key account management function for key customers with operations in more than one region is aimed at meeting their needs with the same level of quality all over the world. Thus, the Industrial business is aligned along customer and market needs in order to grow sustainably and profitably.

The Industrial division’s product portfolio includes rolling and plain bearing solutions, linear technology, maintenance products, monitoring systems, and direct drive technology. Bearing solutions cover a wide range from high-speed and high-precision bearings with small diameters to large-size bearings several meters wide. Applications for the bearings manufactured by the division include drive technology, production machinery and wind turbines, as well as heavy industry. In the aerospace sector, the division is also a manufacturer of high-precision bearings with applications including aircraft and helicopter engines. The Industrial division offers rotary and linear mechatronic products, digital services, as well as new data-based business models for the implementation of Industry 4.0. This includes services and systems for condition monitoring and predictive maintenance that facilitate targeted scheduled maintenance of power units, thus helping to increase machine and equipment availability as well as reduce operating costs.

The Industrial division considers growth in global industrial production a key indicator of trends in its relevant market, a market that is characterized by a large number of competitors and customers in numerous sectors. The Industrial division's future growth will continue to be based on components for rotary and linear applications, which are continually being enhanced. The wide product portfolio ranging from standard products with technical advice through to solutions developed specifically for the customer is designed to enable the Industrial division's customers to obtain maximum performance from their plant and machinery while reducing their total operating cost. Growth areas for rotary rolling bearings include, for instance, the fields of renewable energy and mobility infrastructure, in which the Industrial division participates by manufacturing large-and midsize rolling bearings.

Industrial division technology pyramid

High-quality components and an understanding of how they interact within the system are fundamental to success in the systems business with Industry 4.0 solutions. For that reason, the division is strengthening the extensive expertise it already possesses in the field of mechanical components and mechanical systems and is also enhancing it with respect to mechatronic systems and Industry 4.0 service solutions.

The Schaeffler DuraSense system for automated needs-based relubrication of monorail guidance systems and the Schaeffler SpindleSense system, which employs a monitoring system for spindle bearings to reduce machine downtimes and increase utilization of machine capacity, are examples of this interaction.

In order to further leverage efficiencies, the division established the **program "FIT"**. The program targets sales, production, and purchasing. In sales, it focuses on adjustments to prices and the product and customer portfolios as well as on more extensive use of e-commerce. In production, the program aims to increase productivity by, for instance, enhancing utilization of machine capacity, taking measures to reduce costs, and raising the degree of localization. These measures also involve adjusting the workforce. By signing new price agreements with customers and suppliers, downsizing the workforce, as well as reducing machine set-up times and changing manufacturing processes at the plants, the company has already implemented significant measures during the year.

Locations and production network

With its approximately 170 locations worldwide, 70 production facilities in 22 countries, 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. 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. The Schaeffler Group has a global production system. The plants, which employ approximately 70,000 staff, form the core of the Schaeffler Group's operations and are managed based on uniform principles. The global production system and the manufacturing technologies utilized in the plants represent key factors underlying the Schaeffler Group's worldwide success. The Schaeffler Group is committed to consistently ensuring top quality and product safety across all areas of application. All of the Schaeffler Group's manufacturing locations are certified under globally recognized quality norms, standards, and regulations.

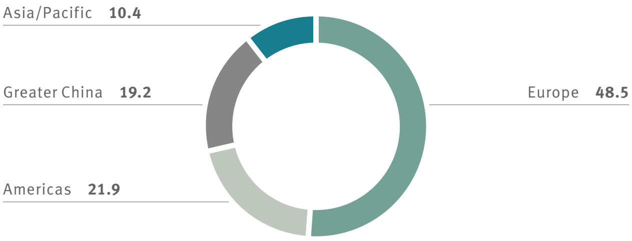
The Schaeffler Group develops new production technologies on a cross-divisional basis and consistently enhances existing technologies in volume production. This has resulted in a technology network that enables the company to realize synergies and establish uniform production standards.

In order to further strengthen the company's production efficiency and quality, it has set up its new "Advanced Production Technology" unit in 2019 to identify new manufacturing technologies and then pilot and apply them in a technology factory. At the same time, the company has established a structure aimed at digitalizing the entire value chain in order to realize its vision of digital, semi-autonomous, and sustainable production using its digital expertise and its own local manufacturing experts.

The Schaeffler Group has established campus locations effective January 1, 2020. A key feature of these campus locations is the existence of several plants at one location with shared infrastructure such as human resources, IT, logistics, or location planning functions. The new plant assignment has reduced the complexity of the existing plant network, streamlined work flows and processes, and eliminated duplicate structures. The change sets the company up to be more efficient and competitive.

One of the Schaeffler Group's key challenges in continually enhancing its global footprint relates to proactively localizing activities in the markets of the future. The resulting growing regional presence is also reflected in a high degree of localization. The degree of localization describes the relation of sales volume manufactured in a region – taking into account procurement flows – to that region's sales.[1]

Schaeffler Group revenue by region
in percent by market view



Until December 31, 2019, the **Europe region** combined the subregions Germany; Western Europe, Central and Eastern Europe & Middle East and Africa (CEEMEA), as well as India. The India subregion has been reallocated to the Asia/Pacific region effective January 1, 2020. In addition, the CEEMEA subregion has been separated into the Middle East & Africa (MEA) and the Central and Eastern Europe (CEE) subregions effective January 1, 2020. The Europe region contributed 48.5% (prior year: 51.4%) of consolidated revenue in 2019. Its Germany subregion represents the Schaeffler Group's largest sales market. The degree of localization amounted to approximately 89% (prior year: 90%) in 2019. The Europe region employed a total of 60,155 employees in 2019, representing 68.6% of the company's entire workforce. This figure includes the employees of the group's global head office in Herzogenaurach. The Europe region has 43 plants and 12 R&D centers. Its regional head office is located in Schweinfurt.

The **Americas region** consists of the two subregions North America and South America. Starting January 1, 2020, Mexico is considered a separate subregion due to the significance of the locations there with approximately 3,000 employees. The Americas region contributed 21.9% (prior year: 20.2%) of revenue in 2019. The degree of localization amounted to approximately 56% (prior year: 56%) in the Americas region. A total of 12,264 staff were employed at 14 plants – consisting of 8 plants in the U.S. and 2 each in Canada, Mexico, and Brazil – 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.

The regional head office of the **Greater China region**, which also includes Taiwan, Hong Kong, and Macao, is located in Anting, China. Schaeffler's first subsidiary in this region was founded in Taicang, China, in 1995. The region generated 19.2% (prior year: 18.0%) of group revenue in 2019. The degree of localization amounted to approximately 54% (prior year: 51%). A total of 12,182 staff were employed at 8 plants and 1 R&D center in the Greater China 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.

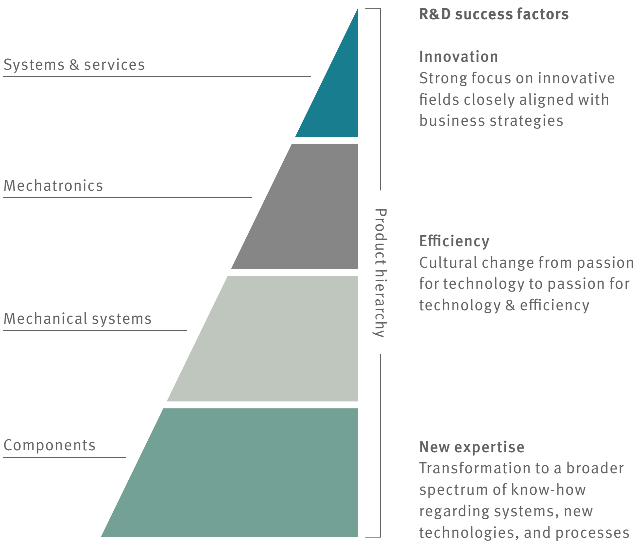
Until December 31, 2019, the **Asia/Pacific region** comprised the subregions South Korea, Japan, and the countries in Southeast Asia. The India subregion has been added to the Asia/Pacific region effective January 1, 2020. 10.4% (prior year: 10.5%) of group revenue was generated by this region in 2019. The degree of localization amounted to approximately 43% (prior year: 35%) in 2019. The Asia/Pacific region had 3,147 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 and has been represented in this region since 1953. The Schaeffler Group celebrated the opening of its new plant in Bien Hoa, Vietnam, on May 9, 2019. The company has invested over EUR 45 m in the construction of this new production plant. Industrial bearings and components for a wide range of applications will be produced there, including radial insert bearings and needle roller bearings.

[1] Sales by market view.

1.2 Research and development

The Schaeffler Group's research and development activities are largely aimed at strengthening the company's extensive existing expertise in the field of mechanical components and mechanical systems and enhancing it with respect to mechatronic applications and systems. With respect to the Automotive OEM and Automotive Aftermarket divisions, these development activities focus on new drive technologies and automated driving. Development activities for the Industrial division mainly concentrate on Industry 4.0 and robotics. The R&D function's credo is to prove its passion for both technology and efficiency.

R&D roadmap



In order to achieve this objective, the Schaeffler Group has identified three key success factors: innovations, R&D efficiency, and expertise in new technologies and processes. In order to generate **innovations**, the Schaeffler Group concentrates on the divisions' strategically relevant business fields. Agile project management is aimed at transferring newly developed products to profitable volume production as quickly as possible. With respect to **R&D efficiency**, the Schaeffler Group plans to structurally reduce its expenditures for developing components in the coming years while assigning additional resources to research and development in the fields of mechatronics as well as systems and services. In addition, Schaeffler has had a global network of R&D centers in place for several years, that keeps it close to its customers and facilitates efficient processes. The expansion of **expertise in new technologies and processes** mainly focuses on mechatronic systems and the related application technology. The company launched the "Fit4Mechatronics" training program during the reporting period. The program is designed to pass on the knowledge of mechatronic systems – and of how to develop and manufacture them – that currently exists within the company to other employees.

In 2019, the Schaeffler Group employed an average of 7,834 R&D staff (prior year: 7,956) at 20 R&D centers (prior year: 20) and additional R&D locations in a total of 23 countries. The Schaeffler Group filed 2,417 patent registrations with the German Patent and Trademark Office in 2018, making it the second most innovative company in Germany for the sixth consecutive year. In addition, Schaeffler Group employees internally reported 3,298 inventions in 2019 (prior year: 3,452).

Research and development expenses

	2015	2016	2017	2018	2019
Research and development expenses (in € millions)	673	751	846	847	849
Research and development expenses (in % of revenue)	5.1%	5.6%	6.0%	6.0%	5.9%
Average number of research and development staff	6,651	7,121	7,634	7,956	7,834

R&D activities in 2019 included, among other things, the development of key components for fuel cells and fuel cell stacks known as metallic bipolar plates. The company used its expertise in materials technology, forming technology, and surface technology in this development work. Bipolar plates are produced by precise forming and coating in the thin-layer range and then stacked to form the core of a fuel cell system. The fuel cell stacks are energy converters in which H_2 reacts with O_2 to form water. The electricity generated during this process can be used to power electric motors in vehicles. The Schaeffler Group became a steering member in the Hydrogen Council, a globally active hydrogen interest group, in 2020. The international initiative comprises 81 leading companies in the energy, transport, and industrial sectors, and its objective is to promote the industrialization of hydrogen technology.

In addition, the company continued to develop the "Space Drive" steer-by-wire technology with joint venture Schaeffler Paravan Technologie GmbH & Co. KG. This system is an electronic interface that operates vehicle steering, accelerator, and braking functions, thus enabling autonomous driving in a wide range of application scenarios such as passenger transport as well as agricultural and industrial applications. "Space Drive" can be used to control the direction of the vehicle without requiring a mechanical connection to the steering mechanism and does not require a steering wheel, rendering new space-saving vehicle concepts possible. As part of its activities in this area, the Schaeffler Group signed an investment agreement with the province of Hunan in China in 2019 to develop a mobility ecosystem. The agreement calls for enhancements of technology for autonomous driving and the establishment of a new R&D center. As part of this collaboration, Schaeffler plans to enhance particularly its Space Drive technology, a key enabler of autonomous driving, and the Schaeffler Mover, a mobility concept featuring Schaeffler Intelligent Corner Module technology.

The Schaeffler Group closely collaborates with universities in its "Schaeffler Hub for Advanced Research" (SHARE) initiative using the "Company on Campus" concept to develop 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 were working on new steering concepts for autonomous vehicles and on the resilience of actuators in 2019. The "OmniSteer" project was successfully completed in September 2019. SHARE at FAU (Friedrich-Alexander University of Erlangen-Nuremberg) focuses its research on Digitalization along the entire value chain (e.g. additive manufacturing of concrete components, machine learning, condition monitoring and predictive maintenance, real-time process monitoring in production). SHARE at NTU (Nanyang Technological University, Singapore) prioritizes robotics and SHARE at SWJTU (Southwest Jiatong University, Chengdu) concentrates on (chassis) solutions for high-speed trains. Along with other collaborations with universities, the Schaeffler Group has a strategic partnership with Fraunhofer-Gesellschaft that has been in place since 2017.

In December 2019, the Schaeffler Group and ABT e-Line GmbH ("ABT e-Line" below) announced a joint agreement to fully electrify light commercial vehicles weighing up to 3.5 tons. The objective of the agreement between Schaeffler and ABT e-Line is to develop electric drive trains and to integrate and incorporate them into light commercial and specialized vehicles. A further objective is to develop flexible mechatronic chassis solutions.

1.3 Group strategy and management

The Schaeffler Group is a global automotive and industrial supplier and 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 an important basis for the 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.

Strategy "Mobility for tomorrow"

In late 2016, the Schaeffler Group developed its strategy "Mobility for tomorrow" and presented it to the public. The years 2017 to 2019 were all about implementing this strategy. The company vigorously pressed ahead with advancing its expertise in new drive concepts, autonomous driving, and Industry 4.0. As part of this process, all three divisions expanded beyond the component business to include the business with modules and system solutions. The new "E-Mobility" business division and the new "Industry 4.0" business field were established. Additionally, important adjustments to the Schaeffler Group's portfolio of products and technologies were implemented in connection with execution of the M&A strategy. These include founding the joint venture Schaeffler Paravan Technologie GmbH & Co. KG, acquiring Elmotec Statomat Holding GmbH and Xtronic GmbH, and disposing of certain subsidiaries in the UK and in Germany.

To execute the strategy "Mobility for tomorrow", the company also 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.

By the end of 2019, the "CORE", "Working Capital", "Global Footprint", "E-Mobility", "Industry 4.0", "Quality for Tomorrow", "Factory for Tomorrow", "Leadership & Corporate Values" and "New Work" initiatives were successfully completed or transferred to line functions to ensure that their impact is sustainable. The remaining initiatives will be transferred to line functions or a new agenda in 2020.

Capital allocation and portfolio management

A significant criterion for all of the Schaeffler Group's strategic decisions is the efficient allocation of capital. As a result, the Schaeffler Group has developed a new framework for managing its capital allocation. This framework comprises four portfolio strategies (Build, Grow, Harvest, Exit) and four capital expenditure categories (Growth, Rationalization, Maintenance, Security and Regulation).

The initial step under the framework is setting total capital expenditures for a given period based on a reinvestment rate. The next step involves allocating capital expenditures to portfolio strategies and capital expenditure categories.

Capital allocation management framework

Portfolio fields / Capital expenditure categories	1 Growth [1]	2 Rationalization	3 Maintenance	4 Safety and regulatory	Total
A Build	✓			✓	
B Grow	✓	✓	✓	✓	
C Harvest		✓	✓	✓	
D Exit			✓	✓	
Total					Total capital expenditures

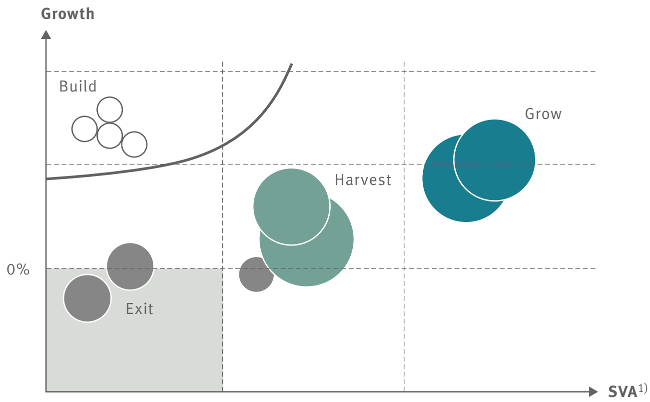
[1] Capital expenditures on capacity expansion and new products.

The investment strategies for the portfolio strategies are defined as follows:

- **Build**: Capital expenditures are made to establish and grow new business fields and for new products at the start of their lifecycle. The growth potential in this portfolio area is very high, while profitability is initially still low.
- **Grow**: Capacity is expanded in existing business fields with high potential for growth and very high profitability. The company also invests in further efficiency gains and in maintaining assets.
- **Harvest**: Capacity in business fields with low potential for growth is not expanded any further. Capital expenditures are made on further efficiency gains and to maintain assets.
- **Exit**: Capacity is not expanded in business fields with low profitability and low potential for growth; rather, only necessary maintenance is done. A divestment of such business fields should be considered.

Capital expenditures necessary for safety measures and to comply with regulatory standards are made in all four portfolio strategies.

Portfolio overview



[1] Schaeffler Value Added.

M&A strategy

The Schaeffler Group pursues a strategy of mainly organic growth based on its existing technological expertise and innovative ability. Under this strategy, acquisitions will primarily be made – in defined focus areas – if they expand the Schaeffler Group's technological expertise or strengthen its current market position.

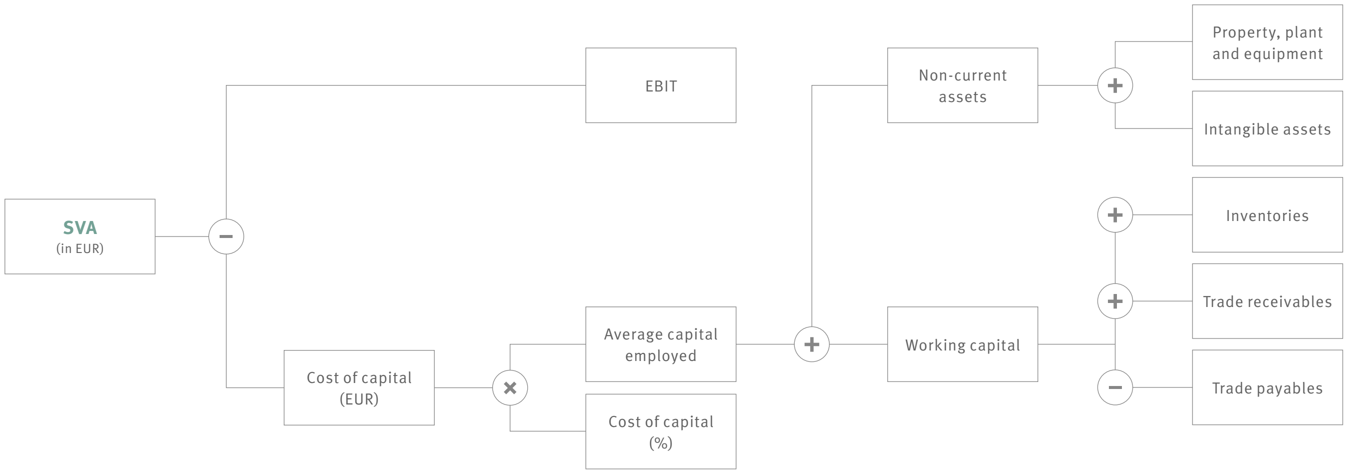
At the core of this approach is an M&A radar that is applicable groupwide and defines seven focus areas where the company is aiming to acquire expertise and generate inorganic growth both within the various divisions and across divisions. The company's search for opportunities to expand the profile of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

Roadmap 2024

Given the changing environment and a persistently challenging competitive environment, the Schaeffler Group will continue to press ahead with its transformation in the coming years, as well.

The Schaeffler Group will announce its Strategy 2024 on March 24, 2020. One of the main focal points of the strategy will be on identifying business fields in which the Schaeffler Group can grow profitably in the long term and on how this growth can be generated. The capital allocation management framework will play an important role in addressing these issues.

Strategic financial performance indicators



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 2019, 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 meetings, 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 the management meetings 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 conti nues 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 performance-based management remuneration is directly linked to the economic development of the company as well .

Strategic financial performance indicators

In order to grow profitably and create long-term value, the company has to employ its available capital profitably. This requires having earnings sustainably exceed the cost of debt and equity capital employed.

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)**. Return on Capital Employed (ROCE)[2] is closely linked to SVA. Both indicators are determined before special items.

More on special items on pp. 30 et seq.

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 SVA starts with the company's EBIT (earnings before financial result, income (loss) from equity-accounted investees, and income taxes). Positive SVA means that EBIT has exceeded the cost of capital for the period and, therefore, that the Schaeffler Group has created value beyond covering its cost of capital. Cost of capital is calculated by applying the minimum return of 10% p.a. (before tax) set by the Board of Managing Directors and the Supervisory Board to the average capital employed during the year. Due to persistently low interest levels and the Schaeffler Group's reduced borrowing costs compared to previous years, the calculation of SVA is based on a cost of capital of 9% starting in 2020.

[2] ROCE is defined as EBIT divided by average capital employed.

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.

Key operating financial performance indicators

The SVA indicator serves as an indicator of the amount of shareholder value added in 2019. This strategic performance indicator is operationalized using key financial performance indicators. Thus, the Schaeffler Group focuses on continually monitoring and increasing 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 are also the basis for the outlook. On the whole, increasing these indicators adds shareholder value for the long term by sustainably generating a premium over and above the cost of capital.

Revenue growth (at constant currency): Since the Schaeffler Group's economic success is based on a long-term growth strategy, significant importance is attached to the performance indicator revenue growth. Revenue growth measures the change in revenue compared to the prior year as a percentage. 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.

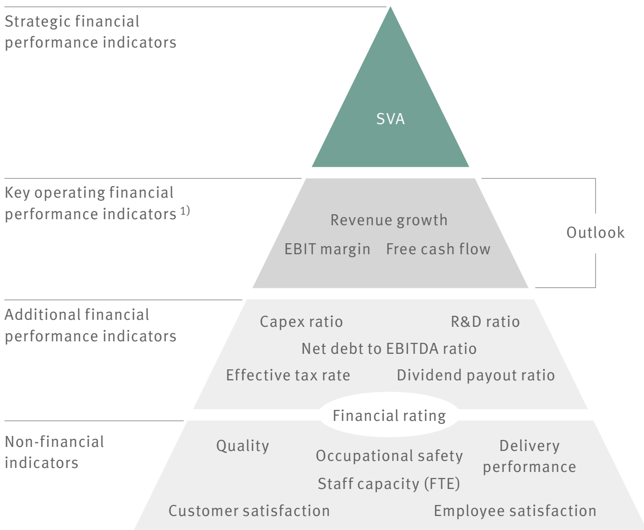
EBIT margin (before special items): The EBIT margin is used to measure the Schaeffler Group's operating earnings. The EBIT margin is a relative indicator calculated as the ratio of EBIT to revenue. This ratio measures the company's profitability. The EBIT margin is calculated before special items in order to make the operating performance more comparable over time.

Free cash flow before cash in- and outflows for M&A activities: Free cash flow measures the company's ability to convert its operating performance to cash inflows. It is defined as the sum of cash flows from operating activities, cash flows from investing activities, and principal repayments on lease liabilities.

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.

More on trends in the indicators discussed above under "Course of business" on pp. 23 et seq. and on special items on pp. 30 et seq.

Management system



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

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, dividend payout ratio, and financial rating.

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 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:** Nominations for customer projects 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 Automotive OEM division's medium- to long-term potential for growth. 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.

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, staff capacity (full-time equivalent, FTE), delivery performance, customer satisfaction, employee satisfaction, and occupational safety.

More on sustainability management on pp. 19 et seq.

For purposes of managing sustainability, the company obtains additional non-financial indicators for the four fields of action addressed in the sustainability strategy. These indicators are used in managing the operation of the group's sustainability measures. For 2020, Schaeffler AG's Supervisory Board has set a specific sustainability target as part of the variable short-term remuneration of the Board of Managing Directors. 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 Schaeffler Group employees act strictly within the relevant legal limits and comply with corporate governance standards.

More on corporate governance on pp. 63 et seq.

Presentation of strategic financial and key operating financial performance indicators in the group management report

	2019	2018	Course of business	Earnings	Performance indicators	Financial position and finance management	Overall assessment	Report on expected developments
SVA (before special items, in € millions)	284	557	✓		✓		✓	
ROCE (before special items, in %)	13.2	16.7	✓		✓		✓	
Revenue growth (at constant currency, in %)	0.1	3.9	✓	✓	✓		✓	✓
EBIT margin (before special items, in %)	8.1	9.7	✓	✓	✓		✓	✓
Free cash flow before cash in- and outflows for M&A activities (in € millions)	473	384	✓			✓	✓	✓

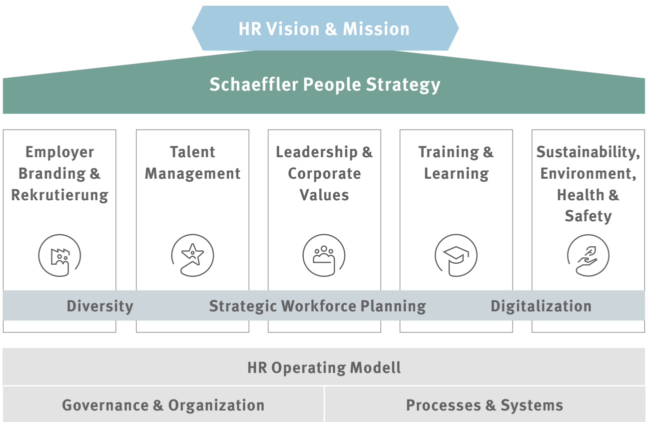
1.4 Employees

The objective of the Schaeffler Group's human resources activities is to recruit, support, and retain the best employees for the long term as an attractive employer on a worldwide basis.

Human resources strategy

The Schaeffler Group's human resource activities are based on the company's human resources (HR) strategy. At the core of this strategy are five pillars representing its key fields of action.

HR strategy house



Employer branding & recruiting

The company's employer branding activities strengthen Schaeffler's perception as an attractive employer with the aim of contacting the best talents worldwide and recruiting them for the company. In 2019, activities aimed at recruiting new employees were characterized especially by the further specification of job descriptions, including those in the fields of E-Mobility and Industry 4.0.

Talent management

The Schaeffler Group's talent management follows a uniform and standardized global approach to identifying, supporting, and retaining talents for the Schaeffler Group in the long term. For purposes of strategic succession management, high-potential staff are identified and their suitability for possible key positions discussed early on. Employees are provided with feedback enabling them to take responsibility for and independently drive the next steps in their career as well as with specific development measures with the support of the relevant manager and the human resources organization.

Leadership & corporate values

The Schaeffler Group has strong values: "Sustainable", "Innovative", "Excellent", and "Passionate". Based on these values, the Executive Board issued Leadership Essentials applicable worldwide that were rolled out in workshops throughout the group during the year. The Leadership Essentials ("Connect for success", "Empower your team", "Care for people", "Manage for results", "Drive the change", and "Take on responsibility") provide guidance to all managers within the company in their daily work and also represent the standard employees expect of their managers. During the year, the company also defined Employee Essentials for all employees without management responsibilities. The guidelines comprising the Employee Essentials are: "Foster our collaboration", "Take the initiative", "Support our change", "Focus on results", "Build on strengths", and "Perform in teams". Together, the Leadership Essentials and the Employee Essentials represent a uniform groupwide framework for teamwork within the company.

Additionally, Schaeffler's leadership and feedback culture is strengthened by the continued implementation of moderated feedback meetings ("upward feedbacks"), in which employees provide feedback to managers, as well as by a new 360 feedback tool. The 360 feedback tool enables managers to obtain feedback on their leadership style from various parties by digital means.

Training & learning

All of the company's training and continuing education courses worldwide are consolidated under the umbrella of the Schaeffler Academy. The Schaeffler Academy supports individual competency-based learning by providing qualification programs with content and methodologies oriented toward the needs of the business. To meet these requirements, the Schaeffler Academy regularly expands its training offerings to include target group-specific training sessions. In 2019, several training programs were developed, including programs designed to increase mechatronics expertise and to strengthen the commitment of sales staff and key account managers to customer service.

Sustainability, environment, health & safety

In its business activities, the Schaeffler Group is intent on combining commercial success, a long-term focus, and awareness of the social and ecological aspects of the company's operations. One of the Schaeffler Group's areas of focus in the process of adding long-term value is on meeting the demands of its significant stakeholders with respect to products, processes, and the company's supply chain as closely as possible. To this end, sustainability aspects are increasingly included in the company's business processes.

Please refer to the "Sustainability" chapter on page 19 and the Schaeffler Group's sustainability report for a detailed discussion and background information on sustainability

Diversity

The Schaeffler Group promotes diversity within the company with the objective of strengthening innovative ability and flexibility in order to be able to identify and meet the needs of global markets.

In 2019, the company established a Diversity Council consisting of members of the Executive Board and other senior managers. The Diversity Council strives to further raise the Schaeffler Group's organization's awareness of the importance of a diverse workforce structure and intercultural exchange, identify measures to help increase diversity, and provide the impetus for pilot projects. Additionally, the diversity aspect was increasingly integrated in existing HR processes such as employer branding, onboarding, and talent management in 2019. The issue was also added to the recruiting process in order to increase the focus on diversity when hiring new employees as well.

Workforce – structural data

	12/31/2019	12/31/2018		Change in
Average age (years)	40.5	39.9	1.5	%
Average tenure (years)	11.9	11.2	6.3	%
Labor turnover rate (%) [1]	4.4	4.8	-0.4	%-pts.
Proportion of female employees (%)	22.1	22.0	0.1	%-pts.
Proportion of female managers (%) [2]	11.5	10.9	0.6	%-pts.

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

Employee structure

The Schaeffler Group employed an average of 89,778 employees (prior year: 92,232) in 2019. The number of employees as at December 31, 2019, declined to 87,748 (prior year: 92,478), 5.1% below the prior year level.

The workforce was downsized especially in production and production-related areas – mainly in the Europe region, particularly in Eastern Europe, as well as in the Americas and Greater China regions. Schaeffler places great emphasis on designing that personal measures to be socially responsible.

Personnel development

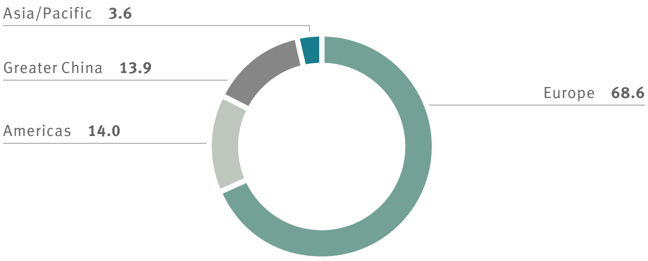
Along with training sessions, employees can also participate in other development measures designed to enhance their cross-functional skills and expand their network. A portal for finding mentors outside the immediate working environment is available on the intranet for this purpose. The company also offers job shadowing and the opportunity to rotate desks. Job shadowing allows employees to gain insight into a different job. Desk rotation has employees working in another department for a limited amount of time while still being responsible for their own job. This gives employees a chance to network and to understand other departments'w needs.

The interdisciplinary concept of "New Work" combines new approaches to work organization and processes, the working environment, and work culture. One example of this concept are offices whose modern design facilitates better and interdisciplinary use of work spaces. Along with the Schweinfurt, Frauenaurach, and Nuremberg locations, where "New Work" is already implemented in full or in part, all other company locations can apply the concept to their office work spaces as well starting in 2019.

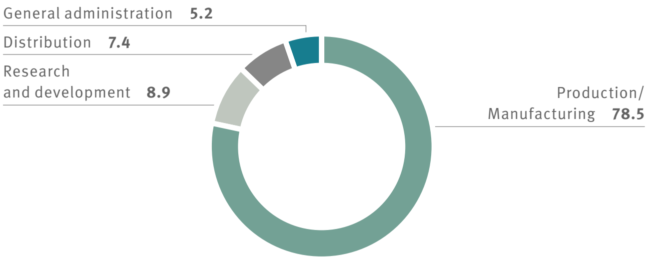
Specialist and project career path

Globally uniform specialist and project career paths enable employees to gain expert knowledge and project management skills. Employees are also given the opportunity to develop in accordance with their strengths and interests.

Schaeffler Group employees by region
in percent, as at December 31, 2019



Schaeffler Group employees by function
in percent, as at December 31, 2019



Supporting new talents

The Schaeffler Group wants to attract and train new talents for all areas of the company. 3,078 trainees (or 3.5% of the Schaeffler Group's workforce) were pursuing an apprenticeship at the Schaeffler Group (prior year: 3,275 or 3.5% of the workforce) as at the end of 2019.

As part of its support for new talents in Germany, the company offers apprenticeships and also provides cooperative degree programs – bachelor programs in business administration, computer science, and engineering – in cooperation with colleges offering cooperative education programs ("Duale Hochschulen"). The degree programs are closely linked with work terms at the company. Additionally, the Schaeffler Group offers a "Two-in-One" degree program which either combines an apprenticeship as an electronics technician with a degree program in automation technology allowing the employee to earn a bachelor's degree in mechatronics engineering, or allows the employee to concurrently complete an apprenticeship as an industrial mechanic and a degree program leading to a bachelor's degree in mechanical engineering.

In 2019, a total of 173 Schaeffler Group employees were enrolled in a cooperative degree program and 139 in a "Two-in-One" degree program. For graduates with particularly high academic achievement, the company offers additional support toward a master's degree.

In addition, the Schaeffler Group offers trainee programs to university graduates in the fields of quality, finance, human resources, research and development, operations (production, logistics, purchasing), automotive, and digitalization. Participants gain extensive insight into the group and a variety of jobs by doing rotations over a period of 12 to 24 months. Mentoring and concurrent training on technical, soft, and intercultural skills prepare these trainees for their future position.

1.5 Sustainability

To the Schaeffler Group, sustainable profitability means taking on ecological and social responsibility in production, at the product level, and within its own supply chain. Because of the importance of sustainability, it is also a key element embedded in Schaeffler's corporate values.

The 17 Sustainable Development Goals (SDGs) issued by the United Nations as part of its "Agenda 2030" guide the company's sustainability focus. The onus is on companies, as well, to actively contribute to these goals and thus to sustainable development. The Schaeffler Group is aware of this responsibility and actively contributes to the SDGs.

Sustainability management and organization

The Sustainability, Environment, Health & Safety department created in 2019 coordinates the groupwide sustainability activities and is responsible for developing and implementing the sustainability strategy. The long-term direction of the company's sustainability management is determined by the Sustainability Committee, which consists of the Executive Board and selected heads of various business departments.

The focus of the company's sustainability activities was realigned in 2019 with the participation of significant stakeholders. The company performed a significance analysis in 2019. The core of this analysis formed a worldwide online survey, with results discussed in internal sustainability workshops and validated by the Sustainability Committee. The significant matters identified in this process also act as a framework for the current sustainability report.

The Board of Managing Directors of Schaeffler AG approved the sustainability roadmap defining specific fields of action in 2019. Its focal points include, for instance, the issues of climate protection and supplier management, for which specific actions have been approved.

In 2019, Schaeffler AG has integrated its group non-financial declaration in accordance with sections 289b (3) and 315b (3) HGB into its separate sustainability report, which is not part of the group management report. The 2019 sustainability report is available from the Schaeffler Group's website.

Combined separate group non-financial report in accordance with sections 289b (3) and 315b (3) HGB within the sustainability report at: www.schaeffler-sustainability-report.com/2019

2. Report on the economic position

2.1 Economic environment

Macroeconomic environment

Global economic growth slowed perceptibly in 2019. Based on available estimates, global gross domestic product grew by 2.8% (prior year: 3.6%), marking the lowest rate of expansion since the global financial crisis (Oxford Economics; January 2020). The slowdown was driven by a weakening of world trade and investment in light of slowing global demand, heightened policy uncertainly, and growing trade restrictions. From a sector perspective, momentum was mainly hampered by the weakness in the manufacturing sector, while the service sector proved more robust.

In the euro region, growth in gross domestic product slowed considerably, especially in Germany and Italy. Momentum was held by back by foreign trade; domestic demand, however, provided a positive impetus for growth. In September 2019, the ECB further eased its monetary policy, which had been highly expansive for years, and, along with reducing interest rates, it also decided, for instance, to renew its bond buying program. In the U.S., economic growth weakened slightly amid slowing investment and exports. However, private consumption continued to develop positively, buoyed by a dynamic labor market. Given the slowing of economic growth and little inflationary pressure, the U.S. Federal Reserve Bank eased its monetary policy as well, lowering its benchmark interest rate a total of three times over the course of the year. Economic activity in Japan remained subdued. Both weak domestic demand and declining exports hampered the growth in gross domestic product.

In China, the gradual slowing of economic growth continued. Investment fell short of expectations. In addition, the trade conflict with the U.S. held back exports. The weaker growth is also a consequence of the Chinese government being increasingly careful about taking measures to support the economy in order to avoid economic imbalances. The Indian economy lost considerable momentum in 2019. Against the backdrop of restrictive lending practices, growth in private consumption and especially in investment were weaker than in the previous year.

In this context, the situation of the Schaeffler Group's regions was as follows: Gross domestic product in the Europe region rose by 2.2%, with India, which is also part of the Europe region, contributing a 5.0% growth rate. Economic output in the Americas region increased by 1.5%, while the Greater China region reported growth of 5.8%. Gross domestic product in the Asia/ Pacific region grew by 2.9%.

The **global capital markets** performed well, with the Dow Jones Industrial Average (DJIA), the Deutsche Aktienindex (DAX), and the Mid-Cap-Dax (MDAX), among others, gaining in value over the course of the year.

In the **currency markets**, the euro declined against all of the foreign currencies most significant to the Schaeffler Group. On an annual average basis, it fell against the U.S. dollar, the Chinese renminbi, the Indian rupee, and the Mexican peso. It appreciated against the Korean won, however.

Sector-specific environment

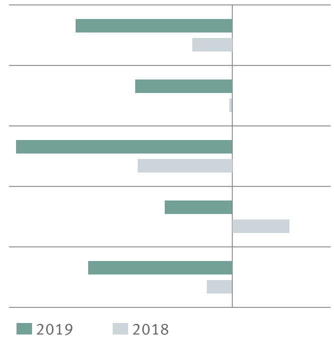
The trend in automobile production significantly affects the results of operations of the Schaeffler Group's Automotive OEM business. The global trend in industrial production provides an indication of the development of the Industrial division's business.

Automobile production

Global automobile production, measured as the number of vehicles up to six tons in weight produced, shrank by 5.8% in 2019, experiencing its largest decline since the global financial crisis (IHS Markit, January 2020). The slump in production across countries and regions is attributable to a number of factors, both structural and cyclical, including a decline in consumer confidence due to increased economic uncertainty and delayed purchases in connection with the transition to electric mobility. Country-specific factors adversely affected global automobile production as well.

In the Europe region, automobile production was down 6.3% from prior year, with all significant markets reporting declines – especially the euro region (-5.3%), the United Kingdom (-14.0%), and India (-10.7%). The contraction in the euro region was mainly driven by the trend in Germany – automobile production there fell 9.1% short of the prior year in light of significantly weaker exports. The slump in production in the United Kingdom is attributable to several factors, including weak exports and disruptions related to the Brexit process. In India, the decline in production was partly the result of a decrease in domestic demand driven by restricted access to loans outside of the banking sector. Vehicle purchases in India are frequently financed using loans. Automobile production in the Americas region was 3.9% below the prior year level. Automobile production in the U.S. fell by 3.9%, primarily due to a seven-week strike at one of the major automobile manufacturers which also contributed to the contraction in Canada and Mexico. In Brazil, automobile production remained static at its prior year level as exports to Argentina – Brazil's most important export market – remained extremely weak due to the economic crisis there. In the Greater China region, automobile production contracted by 8.7%. The significant contraction is attributable to a number of factors, especially deteriorating consumer sentiment given the trade conflict with the U.S. and disruptions related to the – partly early – implementation of a new emissions standard. Automobile production in the Asia/Pacific region was 2.7% below the prior year level. Automobile production in Japan dropped by 1.2%. The fourth quarter saw a significant decline compared to the prior year because of an increase in value-added tax effective October 1, while accelerated purchases contributed to solid growth in the first three quarters. In South Korea, automobile production fell 3.2% short of the prior year level due to weak domestic demand and exports.

Automobile production



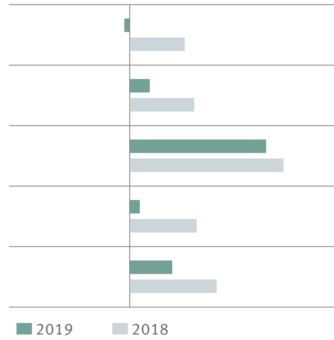
		Change in %	million units
Europe	2019	-6.3	26.8
	2018	-1.6	28.7
Americas	2019	-3.9	19.4
	2018	-0.1	20.2
Greater China	2019	-8.7	24.7
	2018	-3.8	27.1
Asia/Pacific	2019	-2.7	17.8
	2018	2.3	18.2
World	2019	-5.8	88.7
	2018	-1.0	94.2

Source: IHS Markit (January 2020).
Regions reflect the regional structure of the Schaeffler Group.

Industrial production

Based on preliminary estimates, growth in global industrial production, measured as gross value added based on constant prices and exchange rates, slowed perceptibly to 1.7% in 2019 (Oxford Economics, December 2019). This is the lowest growth rate since the global financial crisis. The loss in growth momentum was partly driven by a lower propensity to invest due to increased economic uncertainty, mainly as a result of persistent trade conflicts. In addition, because of close interdependencies along the value chain, the weakness in the automotive sector also affected other industrial sectors such as the metals industry. The cyclical downturn in parts of the electrical sector, such as the semiconductor industry, was another factor.

Industrial production



		Change in %
Europe	2019	-0.2
	2018	2.2
Americas	2019	0.8
	2018	2.6
Greater China	2019	5.5
	2018	6.2
Asia/Pacific	2019	0.4
	2018	2.7
Welt	2019	1.7
	2018	3.5

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

In the Europe region, industrial production was approximately flat with prior year (-0.2%). Industrial production in the euro region declined continually over the course of the year, dropping by a total of 0.8% compared to the prior year level. Germany reported the most marked weakness: Against a backdrop of lower demand in Asia, increased Brexit uncertainty, and a decline in automobile production, industrial production contracted by 3.3%. India experienced considerably slower growth with the growth rate there falling to below 2%. Growth in the Americas region (0.8%) slowed in light of momentum weakening across countries. In the U.S., industrial production expanded by 1.5%, growing considerably less than in the prior year. Growth was hampered by, among other things, tensions with a number of trading partners – especially China – adversely affecting the investment climate. In the Greater China region, industrial production was up 5.5% in total, less than in the prior year. Both the trade conflict with the U.S. and the ongoing transformation into a more sustainable economic model contributed to the slower expansion. In the Asia/Pacific region, growth in industrial production amounted to 0.4%. While industrial production in South Korea was up slightly, Japan reported a decline of 1.5%. The decline in Japan is attributable to both weak demand for exports – especially from China – and subdued investment.

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.

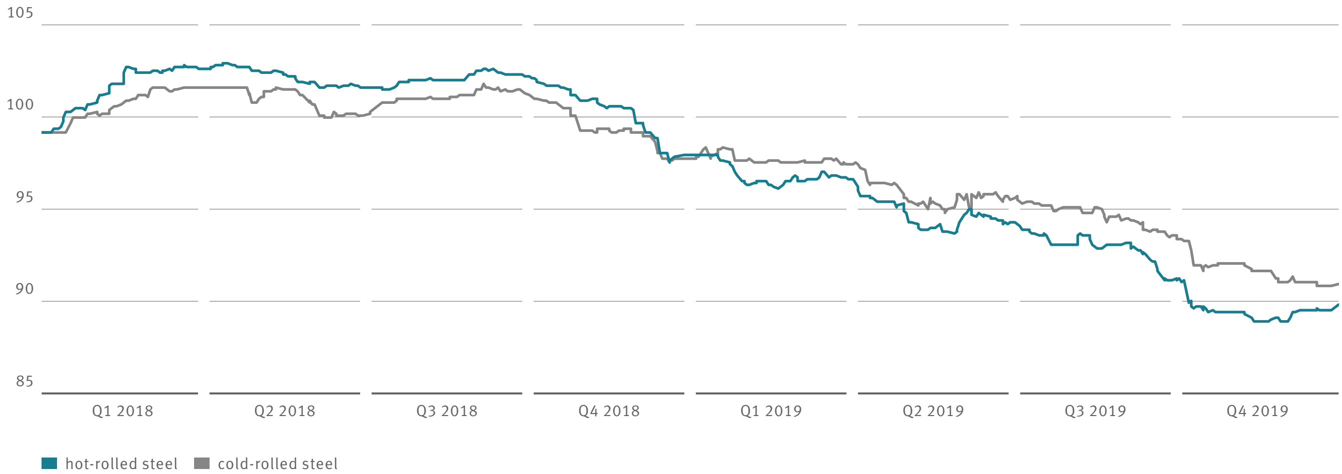
Prices for most of the Schaeffler Group's significant input materials fell over the course of the year, mainly due to declining demand as a result of weakening global economic growth. Annual average prices were consistently lower than in the prior year (Bloomberg; EIA; ICIS; Platts).

Steel is used to manufacture rolling bearings and automotive components. Prices for cold- and hot-rolled steel dropped in the majority of cases over the course of the year and, depending on where the materials were procured, averaged between just under 8% and more than 25% less than in the prior year. The highest average price reduction was reported in the U.S.

Aluminum is primarily used for pressure die castings, while copper is mainly required for use in electric motors and mechatronic components. While the price of aluminum largely declined continually, the copper price was volatile and closed higher at year-end than at the beginning of the year. On an annual average basis, the price of aluminum fell by just under 15% from its prior year level, copper by just under 8%.

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 was volatile over time and closed higher at year-end than at the beginning of the year. The annual average price of crude oil fell just under 10% short of its prior year level. Based on the ICIS Global Petrochemical Index (IPEX), prices of processed petrochemical products, including the plastics used by the Schaeffler Group, declined over the course of the year. On an annual average basis, prices dropped by just under 17%.

Prices of selected steel types
in percent (12/31/2018 = 100)



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

2.2 Course of business 2019

Overall assessment of the 2019 business year by the Board of Managing Directors

The Schaeffler Group has successfully held its own in a challenging market and competitive environment. Its results of operations have met the adjusted 2019 guidance for revenue growth excluding the impact of currency translation and for the EBIT margin before special items. Its free cash flow before cash in- and outflows for M&A activities exceeds the adjusted guidance. However, special items considerably held back net income (which is not part of the guidance) in 2019.

Global automobile production, in particular, deteriorated significantly more sharply than originally anticipated at the beginning of 2019, resulting in weaker demand in the Automotive OEM division. Nevertheless, the Automotive OEM division clearly outperformed global automobile production despite the more difficult trade environment, declining sales market growth, and increased pressure on prices. The Automotive Aftermarket division felt the impact of uncertain economic factors and adjustments to inventory levels made by a few major customers. Following noticeable revenue declines in the first two quarters, the division was able to stabilize its revenue trend over the remainder of the year. The Industrial division saw its growth momentum slow in the second half of the year. The Industrial business did better than originally anticipated, however, since certain sector clusters experienced higher demand than previously expected at the beginning of the year. Thus, Schaeffler's nature as a global automobile and industrial supplier has once more served it well – revenue declines in one division can be compensated for, at least in part, by another division.

In response to the tense situation in the market, declining demand, and pressure for technological change, the Schaeffler Group has decided to initiate clearly focused measures to reposition the company better and more efficiently in line with customer needs. The **programs "RACE"**, **"GRIP"**, and **"FIT"** are designed to serve this purpose, and have already achieved initial successes. Initial cost reduction measures have made an impact during the year, and the capex ratio has improved. The Automotive OEM division also reported considerably more nominations for customer projects in the E-Mobility and Engine Systems business divisions. The disposal of the Hamm location as well as the plants in Unna and Kaltennordheim and the further downsizing of the workforce in both direct and indirect areas are further significant steps that have already been implemented successfully. The Board of Managing Directors places great emphasis on designing, together with the employee representatives, that these personal measures are socially responsible. Additionally, integrating the Elmotec Statomat Holding GmbH represented an important step toward expanding the manufacturing expertise in the field of electric motors, and the acquisition of Xtronic GmbH added further know-how regarding steering systems and autonomous driving.

In addition to reducing its financial debt in 2019, the Schaeffler Group also placed investment grade bonds with an aggregate volume of EUR 2.2 bn in the capital markets for the first time. With a net debt to EBITDA ratio before special items of 1.2 (prior year: 1.2) and high liquidity, the group's financial and net asset position is solid.

Results of operations compared to outlook 2019

On February 19, 2019, 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 three divisions for 2019. On July 29, 2019, the Board of Managing Directors of Schaeffler AG decided to reduce the guidance for 2019 as a result of changes in market conditions.

Comparison to outlook 2019 – group

	Actual 2018	Outlook 2019		Actual 2019
		issued 02/19/2019	issued 07/29/2019	
Schaeffler Group				
Revenue growth [1]	3.9%	1 to 3%	-1 to 1%	0.1%
EBIT margin before special items [2]	9.7%	8 to 9%	7 to 8%	8.1%
Free cash flow [3]	EUR 384 m	approx. EUR 400 m	EUR 350 to 400 m	EUR 473 m

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 30 et seq. for the definition of special items.
[3] Before cash in- and outflows for M&A activities.

The main reason for the adjustment to the guidance were deteriorating market conditions for the Automotive OEM division, especially in China and Europe, and the impact of the resulting lower volumes. Consequently, the guidance for the Automotive OEM division's constant-currency revenue growth and EBIT margin before special items for 2019 was lowered. In addition, lower demand from a few major customers made a reduction in the revenue guidance for the Automotive Aftermarket division necessary. Demand in certain sectors of the Industrial division, however, exceeded demand, and the revenue guidance was increased as a result.

The **Schaeffler Group** has met its adjusted revenue guidance – revenue grew by 0.1% excluding the impact of currency translation. Its EBIT margin before special items of 8.1% was slightly higher than the adjusted guidance. Free cash flow before cash in- and outflows for M&A activities of EUR 473 m considerably exceeded the adjusted guidance for 2019. This outcome was driven by the better-than-expected working capital performance in particular.

The **Automotive OEM division's** revenue growth of 0.8%, excluding the impact of currency translation, and EBIT margin before special items of 5.4% both fall within the adjusted guidance.

The decline in revenue of the **Automotive Aftermarket division** amounted to 1.1% excluding the impact of currency translation, falling within the adjusted guidance. The division's EBIT margin before special items for 2019 was 16.1%, thus slightly exceeding the guidance.

The **Industrial division** met the adjusted revenue guidance, generating 3.1% in revenue growth excluding the impact of currency translation. Its EBIT margin before special items for 2019 of 10.5% was within the adjusted guidance as well.

Comparison to outlook 2019 – divisions

	Actual 2018	Outlook 2019 issued 02/19/2019	Outlook 2019 issued 07/29/2019	Actual 2019
Automotive OEM				
Revenue growth [1]	2.1%	1 to 3%	-2 to 0%	-0.8%
EBIT margin before special items [2]	7.5% [3]	6 to 7%	5 to 6%	5.4%
Automotive Aftermarket				
Revenue growth [1]	2.2%	1 to 3%	-2 to 0%	-1.1%
EBIT margin before special items [2]	18.2% [3]	15 to 16%	15 to 16%	16.1%
Industrial				
Revenue growth [1]	10.1%	1 to 3%	2 to 4%	3.1%
EBIT margin before special items [2]	10.9% [3]	10 to 11%	10 to 11%	10.5%

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 30 et seq. for the definition of special items.
[3] Comparative figure based on 2019 segment structure.

Significant events 2019

Schaeffler establishes efficiency and transformation programs

The Schaeffler Group has established the **programs "RACE"** in the Automotive OEM division, **"GRIP"** in the Automotive Aftermarket division, and **"FIT"** in the Industrial division in 2019. The three programs are designed to increase the relevant division's profitability and adapt the business portfolio to changing market conditions. In addition, the programs aim to strengthen the long-term competitiveness of the divisions, by, for instance, improving capital allocation and developing new opportunities for revenue.

"RACE", "GRIP", and "FIT" led to EUR 356 m in special items that adversely affected the Schaeffler Group's earnings for the year and were mainly related to measures aimed at downsizing the workforce such as a cross-divisional voluntary severance scheme in Germany. Significant additional expenditures were incurred in connection with adjusting capacity of non-current assets and with adjusting the product portfolio and the plant network.

More on the programs in the "Business activities" chapter on pp. 6 et seq. and the "Earnings" chapter on pp. 27 et seq.

Schaeffler continues to execute M&A strategy

The Schaeffler Group acquired **Elmotec Statomat Holding GmbH** in a transaction that closed on January 31, 2019. Elmotec Statomat is a manufacturer of production machinery for the high-volume construction of electric motors. The acquisition represented a further step toward expanding the Schaeffler Group's manufacturing expertise in the field of construction of electric motors and implementing its electric mobility strategy.

The Schaeffler Group has obtained control of Xtronic GmbH, based in Boeblingen, by entering into an agreement to acquire a 100% interest in **Xtronic GmbH** on May 3, 2019. Xtronic GmbH is a technology partner that develops customer-specific software and electronics solutions for the international automotive industry. It provides services and solutions for applications in fields such as automated driving and electric mobility. Xtronic possesses core expertise related to the development of the "Space Drive" drive-by-wire technology. The acquisition of Xtronic GmbH provides the Schaeffler Group with further expertise and know-how in the field of steering systems and autonomous driving.

In December 2019, the Schaeffler Group and ABT e-Line GmbH ("ABT e-Line" below) announced a joint agreement to fully electrify light commercial vehicles weighing up to 3.5 tons. The objective of the agreement between Schaeffler and ABT e-Line is to develop more advanced electric drive trains and to integrate and incorporate them into vehicles, focusing on light commercial and special vehicles. A further objective is to develop flexible mechatronic chassis solutions.

Schaeffler Group completes reorganization of its UK business activities

On May 31, 2019, the Schaeffler Group closed the sale of its subsidiary **The Barden Corporation (UK) Ltd.**, located in Plymouth, UK, to HQW Holding (UK) Co. Limited that had been agreed on April 26, 2019. The purchaser also acquired the global rights to the Barden brand except for America. In America, the Schaeffler Group will continue to have exclusive use of the Barden brand. The sale represents a step in the reorganization of the Schaeffler Group's UK business activities initiated by the company. As part of this reorganization, the company also closed the Llanelli production location and consolidated two logistics centers at one location. This completed the reorganization of the company's UK business activities.

Enhancing the Schaeffler Group's organizational structure

The Board of Managing Directors of Schaeffler AG has decided to simplify and further decentralize the Schaeffler Group's organizational structure effective January 1, 2020, in order to increase the company's flexibility and efficiency. As part of this process, the Europe and Asia/Pacific regions and their subregions were redrawn and the organizational structure within Automotive OEM division streamlined. Additionally, the company strengthened divisional management by, for instance, integrating certain parts of the R&D and logistics functions directly into the divisions.

Changes in the Executive Board

At its meeting on March 1, 2019, the Supervisory Board of Schaeffler AG decided to extend the contract of Matthias Zink, CEO of the Automotive OEM division, by a further five years until December 31, 2024. In addition, the new Regional CEOs for the Americas and Asia/Pacific regions were announced. Marc McGrath has assumed the role of CEO for the Americas region from Bruce Warmbold, who retired at the end of the year. The Asia/Pacific region will be led by Dharmesh Arora who has succeeded Helmut Bode. Helmut Bode retired at the end of the year as well. Marc McGrath and Dharmesh Arora, took on their new roles on October 1, 2019, and have been members of the Executive Board of the Schaeffler Group since that date.

At its meeting on October 1, 2019, the Supervisory Board of Schaeffler AG bade farewell to Chief Technology Officer and Deputy CEO Prof. Dr.-Ing. Peter Gutzmer. The Supervisory Board of Schaeffler AG appointed Uwe Wagner as Professor Gutzmer's successor on the Board of Managing Directors for a term of three years, effective October 1, 2019. Uwe Wagner, previously Head of Research and Development Automotive OEM and Industrial, is responsible for R&D.

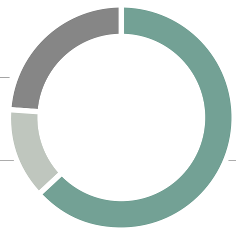
On November 5, 2019, the Schaeffler Group announced that Dietmar Heinrich will not extend his contract. Dietmar Heinrich has been the CFO of Schaeffler AG since August 2017. His employment agreement ends on July 31, 2020.

Schaeffler Group

Constant-currency revenue growth nearly flat with prior year // H2 2019 constant-currency revenue growth at plus 0.8%, mainly driven by higher demand in the Automotive OEM and Automotive Aftermarket divisions // EUR 372 m in special items, largely related to programs "RACE", "GRIP", and "FIT" // EBIT margin before special items below prior year: 8.1% (prior year: 9.7%) // Adjusted revenue guidance met; adjusted earnings guidance slightly exceeded

Revenue EUR **14,427** m

EBIT margin before special items **8.1**%



Schaeffler Group earnings

in € millions	2019	2018	Change in %
Revenue	**14,427**	**14,241**	**1.3**
• at constant currency			0.1
Revenue by division [1]			
Automotive OEM	9,038	8,996	0.5
• at constant currency			-0.8
Automotive Aftermarket	1,848	1,862	-0.7
• at constant currency			-1.1
Industrial	3,541	3,383	4.7
• at constant currency			3.1
Revenue by region [2]			
Europe	7,003	7,313	-4.2
• at constant currency			-4.5
Americas	3,154	2,874	9.8
• at constant currency			6.4
Greater China	2,763	2,562	7.9
• at constant currency			6.7
Asia/Pacific	1,506	1,493	0.9
• at constant currency			-0.7
Cost of sales	-10,853	-10,558	2.8
Gross profit	**3,574**	**3,683**	**-3.0**
• in % of revenue	24.8	25.9	-
Research and development expenses	-849	-847	0.2
Selling and administrative expenses	-1,533	-1,492	2.8
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)	**790**	**1,354**	**-41.7**
• in % of revenue	5.5	9.5	-
Special items [3]	372	27	> 100
EBIT before special items	**1,161**	**1,381**	**-15.9**
• in % of revenue	8.1	9.7	-
Financial result	-137	-155	-11.3
Income (loss) from equity-accounted investees	-17	-4	> 100
Income taxes	-196	-300	-34.7
Net income [4]	428	881	-51.4
Earnings per common non-voting share (basic/diluted, in €)	0.65	1.33	-51.1

[1] Prior year information presented based on 2019 segment structure.
[2] Based on market (customer location).
[3] Please refer to pp. 30 et seq. for the definition of special items.
[4] Attributable to shareholders of the parent company.

2.3 Earnings

Schaeffler Group earnings

The Schaeffler Group's **revenue** increased by 1.3% to EUR 14,427 m (prior year: EUR 14,241 m) during the reporting period. Constant currency revenue growth amounted to 0.1%. The revenue trend was characterized by the mixed trends of the individual divisions in 2019. In the Automotive OEM division, revenue declined by 0.8% driven by prices. While revenue in the Automotive Aftermarket division declined by 1.1%, mainly driven by volumes, the Industrial division grew its revenue by 3.1% due to increases in both prices and volumes.

The revenue trend in the Schaeffler Group's four regions was also quite mixed. Revenue in the Europe region fell by 4.2% (-4.5% at constant currency). This was attributable to revenue decreasing in all three divisions. The Americas region increased its revenue considerably by 9.8% (+6.4% at constant currency). All three divisions contributed to this region's revenue growth. Greater China region revenue was up 7.9% (+6.7% at constant currency), mainly as a result of an increase in Industrial division revenue there. The Automotive OEM division also generated revenue growth in the Greater China region as a result of encouraging growth in the second half of 2019. Revenue in the Asia/Pacific region rose by 0.9% (-0.7% at constant currency). The decline in revenue excluding the impact of currency translation was mainly attributable to the Automotive OEM division.

Cost of sales for the year amounted to EUR 10,853 m, EUR 295 m or 2.8% higher than in the prior year period (prior year: EUR 10,558 m). **Gross profit** decreased by EUR 109 m or 3.0% to EUR 3,574 m (prior year: EUR 3,683 m). The gross margin declined correspondingly, falling by 1.1 percentage points to 24.8% (prior year: 25.9%). The lower margin is largely attributable to an adverse impact of selling prices and a change in product mix in the Automotive OEM division, partly due to the expanded systems business. In addition, gross margin was adversely affected by higher fixed costs.

Functional costs rose by EUR 44 m or 1.9% to EUR 2,383 m (prior year: EUR 2,339 m), growing by 0.1 percentage points to 16.5% of revenue (prior year: 16.4%). Research and development expenses of EUR 849 m were virtually flat with prior year (+0.2%; prior year: EUR 847 m) and represented an R&D ratio of 5.9% of revenue (prior year: 6.0%). Selling and administrative expenses rose by EUR 42 m or 2.8% to EUR 1,533 m (prior year: EUR 1,492 m) because of increased administrative expenses. These were mainly caused by higher personnel expenses and the cost of IT and digitalization projects.

EBIT amounted to EUR 790 m during the year (prior year: EUR 1,354 m), and the corresponding EBIT margin was 5.5% (prior year: 9.5%). EBIT for the reporting period was adversely affected by EUR 372 m in **special items** (prior year: EUR 27 m). At a total of EUR 356 m, most of this amount related to the programs "RACE", "GRIP", and "FIT" and primarily included expenses of downsizing the workforce. Significant additional expenditures were incurred in connection with adjusting capacity of non-current assets and with adjusting the product portfolio and the plant network. In addition, EUR 18 m and EUR 11 m in expenditures were recognized for the reorganization of the company's UK business activities and the integration of the internal supplier "Bearing & Components Technologies", respectively. On the other hand, a full refund of a penalty of EUR 13 m paid in 2015 in the Industrial division in connection with antitrust proceedings in South Korea had an offsetting effect on EBIT. The prior year included a total of EUR 27 m in special items.

Based on that, **EBIT before special items** declined by EUR 220 m or 15.9% to EUR 1,161 m in 2019 (prior year: EUR 1,381 m) with a corresponding drop in EBIT margin before special items by 1.6 percentage points to 8.1% (prior year: 9.7%). The decline was primarily due to the decrease in gross margin as described above. The margin trend was also hampered by the increase in administrative expenses. In addition, an adverse impact from transactions denominated in foreign currency held back the margin trend compared to the prior year period.

The Schaeffler Group's **financial result** improved by EUR 18 m to EUR -137 m in 2019.

Schaeffler Group financial result

in € millions	2019	2018 [1]
Interest expense on financial debt [2]	-103	-99
Gains and losses on derivatives and foreign exchange	-16	-1
Fair value changes on embedded derivatives	23	-43
Interest income and expense on pensions and partial retirement obligations	-42	-40
Other	2	28
Total	**-137**	**-155**

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 "New accounting pronouncements" to the consolidated financial statements for further details.
[2] Incl. amortization of transaction costs and prepayment penalties.

Interest expense on financial debt amounted to EUR 103 m in 2019 (prior year: EUR 99 m). The slightly higher interest expense is attributable to expenses related to the refinancing transaction, mainly a prepayment penalty of EUR 6 m (prior year: EUR 0 m) and EUR 12 m (prior year: EUR 0 m) in deferred transaction costs derecognized.

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to EUR 16 m (prior year: EUR 1 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 gains of EUR 23 m (prior year: losses of EUR 43 m).

Income tax expense amounted to EUR 196 m in 2019 (prior year: EUR 300 m), resulting in an effective tax rate of 30.8% (prior year: 25.1%). The increase in the effective tax rate compared to the prior year was primarily the result of prior year one-time items not reoccurring this year and of an increase in non-creditable withholding taxes. A shift in the composition of taxable income between countries with higher and lower tax rates had an offsetting effect.

Net income attributable to shareholders of the parent company for 2019 was EUR 428 m (prior year: EUR 881 m). This net income was adversely affected by EUR 257 m in special items that were mainly related to the programs "RACE", "GRIP", and "FIT". **Net income** before special items amounted to EUR 686 m (prior year: EUR 902 m). The Board of Managing Directors and the Supervisory Board will propose a dividend for 2019 of EUR 0.44 (prior year: EUR 0.54) per common share and EUR 0.45 (prior year: EUR 0.55) per common non-voting share to the annual general meeting. This represents a dividend of 43.0% (prior year: 40.1%) of net income attributable to shareholders before special items.

Basic and diluted **earnings per common share** decreased to EUR 0.64 (prior year: EUR 1.32) in 2019. Basic and diluted **earnings per common non-voting share** amounted to EUR 0.65 (prior year: EUR 1.33). 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.

The initial application of the new financial reporting standard, IFRS 16, during the reporting period has not had any significant impact on EBIT and the financial result, but increased EBITDA by EUR 62 m.

Schaeffler Value Added before special items (SVA) declined to EUR 284 m in 2019 (prior year: EUR 557 m); return on capital employed (ROCE) before special items fell to 13.2% (prior year: 16.7%). The considerable decline in SVA was mainly attributable to the trend in Automotive OEM division EBIT before special items. The increase in average capital employed had a further adverse effect on SVA.

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. 14 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 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.

Free cash flow (FCF) is calculated as the sum of cash flows from operating activities and cash flows from investing activities as well as principal repayments on lease liabilities. The company also reports free cash flow 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. The restructuring category mainly includes expenses related to restructurings as defined in IAS 37 as well as expenses closely related to these restructurings, such as termination benefits as defined in IAS 19.

Reconciliation

	2019	2018	2019	2018	2019	2018	2019	2018
Income statement (in € millions)		Total		Automotive OEM		Automotive Aftermarket		Industrial
EBIT	**790**	**1.354**	**282**	**662**	**283**	**341**	**225**	**351**
• in % of revenue	5.5	9.5	3.1	7.4	15.3	18.3	6.4	10.4
Special items	**372**	**27**	**209**	**11**	**15**	**-3**	**147**	**19**
• Legal cases	-13	-21	0	-13	0	-3	-13	-5
• Restructuring	384	48	209	24	15	0	160	23
- Program “RACE”	204	0	204	0	0	0	0	0
- Program “GRIP”	15	0	0	0	15	0	0	0
- Program “FIT”	137	0	0	0	0	0	137	0
- Integration Bearing & Components Technologies	11	26	1	12	0	0	10	14
- Reorganization United Kingdom business	18	22	4	12	0	0	13	9
• Other	0	0	0	0	0	0	0	0
EBIT before special items	**1.161**	**1.381**	**491**	**673**	**298**	**339**	**373**	**370**
• in % of revenue	8.1	9.7	5.4	7.5	16.1	18.2	10.5	10.9
Net income [1]	**428**	**881**						
Special items	**372**	**27**						
• Legal cases	-13	-21						
• Restructuring	384	48						
• Other	0	0						
– Tax effect [2]	-115	-7						
Net income before special items [1]	**686**	**902**						
Statement of financial position (in € millions)	**31.12.2019**	**31.12.2018**						
Net financial debt	2,526	2,547						
/ EBITDA	1,769	2,175						
Net financial debt to EBITDA ratio	**1.4**	**1.2**						
Net financial debt	2,526	2,547						
/ EBITDA before special items	2,116	2.202						
Net financial debt to EBITDA ratio before special items	**1.2**	**1.2**						
Statement of cash flows (in € millions)	**2019**	**2018**						
EBITDA	**1,769**	**2,175**						
Special items	**347**	**27**						
• Legal cases	-13	-21						
• Restructuring	360	48						
• Other	0	0						
EBITDA before special items	**2,116**	**2,202**						
Free cash flow (FCF)	**372**	**222**						
-/+ Cash in- and outflows for M&A activities	101	162						
(FCF) before cash in- and outflows for M&A activities	**473**	**384**						
(FCF) before cash in- and outflows for M&A activities	473	384						
/ EBITDA before special items	2,116	2,202						
FCF conversion ratio (in %)	**22.4**	**17.4**						
Value-based management (in € millions)								
EBIT	790	1,354						
– Cost of capital	878	824						
Schaeffler Value Added (SVA)	**-88**	**529**						
EBIT before special items	1,161	1,381						
– Cost of capital	878	824						
SVA before special items	**284**	**557**						
EBIT	790	1,354						
/ Average capital employed	8,778	8,245						
ROCE (in %)	**9.0**	**16.4**						
EBIT before special items	1,161	1,381						
/ Average capital employed	8,778	8,245						
ROCE before special items (in %)	**13.2**	**16.7**						

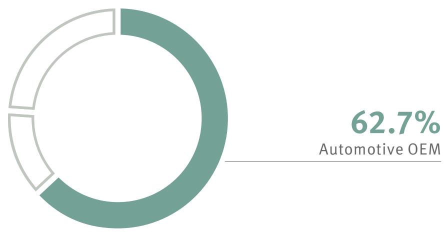
[1] Attributable to shareholders of the parent company.
[2] Based on the group’s effective tax rate for the relevant year.

Automotive OEM division

Favorable impact of volumes despite declining market // Constant-currency revenue decline at minus 0.8% // Global automobile production (-5.8%) clearly outperformed // H2 2019 constant-currency revenue growth at plus 1.3%: higher demand in Greater China region; Americas region maintains high growth rate; Europe region declines significantly // EUR 209 m in special items, largely related to program “RACE” // Earnings quality adversely affected, partly by unfavorable impact of selling prices and change in product mix // Adjusted revenue and earnings guidance met

Revenue **EUR 9,038 m**

EBIT margin before special items **5.4%**



Automotive OEM division earnings

in € millions	2019	2018	Change in %
Revenue	**9,038**	**8,996**	**0.5**
• at constant currency			-0.8
Revenue by business division			
E-Mobility BD	676	493	37.3
• at constant currency			36.7
Engine Systems BD	2,793	2,782	0.4
• at constant currency			-1.0
Transmission Systems BD	4,006	4,167	-3.9
• at constant currency			-5.5
Chassis Systems BD	1,563	1,554	0.5
• at constant currency			-0.3
Revenue by region [1]			
Europe	3,781	4,014	-5.8
• at constant currency			-6.0
Americas	2,155	1,939	11.1
• at constant currency			7.4
Greater China	1,959	1,910	2.6
• at constant currency			1.8
Asia/Pacific	1,143	1,133	0.9
• at constant currency			-0.7
Cost of sales	-7,172	-6,986	2.7
Gross profit	**1,866**	**2,010**	**-7.2**
• in % of revenue	20.6	22.3	-
Research and development expenses	-675	-680	-0.7
Selling and administrative expenses	-683	-674	1.4
EBIT	**282**	**662**	**-57.4**
• in % of revenue	3.1	7.4	-
Special items [2]	209	11	> 100
EBIT before special items	**491**	**673**	**-27.0**
• in % of revenue	5.4	7.5	-

Prior year information presented based on 2019 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 30 et seq. for the definition of special items.

Automotive OEM division earnings

In 2019, Automotive OEM division **revenue** rose slightly compared to the prior year, increasing by 0.5% to EUR 9,038 m (prior year: EUR 8,996 m). Excluding the impact of currency translation, revenue dropped slightly, decreasing by 0.8%. An adverse impact of pricing was only partially compensated for by increased volumes. This was mainly caused by the weak market environment in the global automotive business, with demand deteriorating more over the course of the year than originally anticipated at the beginning of the year. However, the division once again clearly outperformed global automobile production, which declined by 5.8% during the year.

In the Europe region, revenue fell by 5.8% (-6.0% at constant currency), mainly due to the 6.3% drop in automobile production in 2019. Despite regional vehicle production declining by 3.9%, the Americas region generated 11.1% in additional revenue (+7.4% at constant currency), a key contribution to Automotive OEM division revenue. This growth was primarily the result of a few major customers' increased requirements due to product ramp-ups. In the Greater China region, the Automotive OEM division grew its revenue by 2.6% (+1.8% at constant currency) despite the challenging environment in the automotive sector – vehicle production there declined by 8.7% during the reporting period. This growth was attributable to increased demand in the second half of 2019, partly as a result of product ramp-ups, as well as a base effect in the prior year. The Asia/Pacific region reported 0.9% in additional revenue (-0.7% at constant currency) while vehicle production fell by 2.7%.

The **E-Mobility BD** increased its revenue for the year by a considerable 37.3% (+36.7% at constant currency). This growth was mainly driven by product ramp-ups of primary components for continuously variable transmissions (CVTs) and in the actuators field, as well as components for wet double clutches. All other product groups increased their revenue as well.

Engine Systems BD revenue for the year was 0.4% (-1.0% at constant currency) higher than in the prior year. While the thermal management module generated significant additional revenue and revenue with camshaft phasing units rose, revenue decreased in other product groups.

Transmission Systems BD revenue declined by 3.9% (-5.5% at constant currency), due especially to lower demand for components for manual transmissions. Components for automated transmissions, however, improved over the prior year.

Chassis Systems BD revenue for the reporting period increased by 0.5% (-0.3% at constant currency), remaining virtually flat with prior year. The chassis actuators and wheel bearings product groups, in particular, did well.

Cost of sales increased by EUR 186 m or 2.7% to EUR 7,172 m during the year (prior year: EUR 6,986 m). **Gross profit** decreased by EUR 144 m or 7.2% to EUR 1,866 m (prior year: EUR 2,010 m). The gross margin fell by 1.7 percentage points to 20.6% (prior year: 22.3%), mainly due to the price-driven revenue decline and a change in product mix, partly as a result of the expanded systems business. In addition, gross margin was adversely affected by higher fixed costs.

Functional costs rose by EUR 5 m or 0.3% to EUR 1,358 m (prior year: EUR 1,353 m), remaining at 15.0% of revenue, flat with prior year (prior year: 15%). Research and development expenses of EUR 675 m were below prior year (prior year: EUR 680 m) as a result of a stronger focus on key strategic business fields. Research and development expenses represented an R&D ratio of 7.5% of revenue, a slight decrease from prior year (prior year: 7.6%). Selling and administrative expenses, however, rose by EUR 9 m or 1.4% to EUR 683 m (prior year: EUR 674 m) due to higher administrative expenses that were primarily caused by increased personnel expenses. IT and digitalization projects also increased costs in 2019.

Automotive OEM division **EBIT** for the year amounted to EUR 282 m (prior year: EUR 662 m), and the EBIT margin was 3.1% (prior year: 7.4%). EBIT for the reporting period was adversely affected by a total of EUR 209 m in **special items** (prior year: EUR 11 m), including EUR 204 m related to the program "RACE". The latter included primarily expenses related to downsizing the workforce. Significant additional expenditures were incurred in connection with adjusting capacity of non-current assets and with adjusting the product portfolio and the plant network. In addition, EUR 4 m and EUR 1 m in expenditures were recognized for the reorganization of the company's UK business activities and the integration of the internal supplier "Bearing & Components Technologies", respectively. The prior year included a total of EUR 11 m in special items.

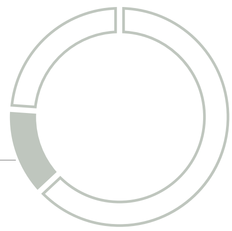
Based on that, **EBIT before special items** declined considerably by EUR 182 m or 27.0% to EUR 491 m (prior year: EUR 673 m) with a drop in EBIT margin by 2.0 percentage points to 5.4% (prior year: 7.5%). The decline was primarily due to the change in gross margin as described above. In addition, an adverse impact from transactions denominated in foreign currency hampered the margin trend compared to the prior year period, and the EBIT margin was also held back by the increase in administrative expenses.

Automotive Aftermarket division

Volume-driven revenue decline: down 1.1% at constant currency // Demand declines in the Europe region; business expanded in Americas region // Revenue trend stabilized in H2 2019 // EUR 15 m in special items related to program "GRIP" // Earnings quality adversely affected by lower revenue combined with higher product costs and administrative expenses // Adjusted revenue guidance met; earnings guidance slightly exceeded

Revenue **EUR 1,848 m**

EBIT margin before special items **16.1%**



Automotive Aftermarket division earnings

in € millions	2019	2018	Change in %
Revenue	**1,848**	**1,862**	**-0.7**
• at constant currency			-1.1
Revenue by region [1]			
Europe	1,355	1,395	-2.9
• at constant currency			-3.1
Americas	362	339	6.8
• at constant currency			6.6
Greater China	81	76	6.8
• at constant currency			5.7
Asia/Pacific	50	51	-3.2
• at constant currency			-5.4
Cost of sales	-1,217	-1,200	1.4
Gross profit	**631**	**661**	**-4.6**
• in % of revenue	34.1	35.5	-
Research and development expenses	-27	-29	-7.2
Selling and administrative expenses	-307	-306	0.5
EBIT	**283**	**341**	**-17.2**
• in % of revenue	15.3	18.3	-
Special items [2]	15	-3	> 100
EBIT before special items	**298**	**339**	**-12.1**
• in % of revenue	16.1	18.2	-

Prior year information presented based on 2019 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 30 et seq. for the definition of special items.

Automotive Aftermarket division earnings

Automotive Aftermarket division **revenue** dropped by 0.7% (-1.1% at constant currency) to EUR 1,848 m (prior year: EUR 1,862 m) during the year, mainly as a result of lower demand in the Europe region. Americas region revenue rose compared to the prior year, however. The impact of the Greater China and Asia/Pacific regions on the Automotive Aftermarket division's revenue trend for the reporting period was insignificant.

The **Europe region** experienced a decrease in revenue for the reporting period by 2.9% compared to the prior year period (-3.1% at constant currency), partly due to a few major customers in Germany and in Western Europe adjusting inventory levels both in the Independent Aftermarket and in the OES business. The impact of these factors on the revenue trend was slightly mitigated by higher demand in the Independent Aftermarket in the Central and Eastern Europe & Middle East and Africa subregion.

The **Americas region** reported a 6.8% increase in revenue (+6.6% at constant currency) on the back of increased requirements and business with new customers in the Independent Aftermarket. Revenue growth slowed considerably in the second half of 2019, primarily driven by a base effect – business with a new customer had already resulted in increased demand in the Independent Aftermarket in the second half of 2018.

The **Greater China region** grew its revenue by 6.8% (+5.7% at constant currency) driven by both the Independent Aftermarket and the OES business.

The **Asia/Pacific region** reported a drop in revenue by 3.2% (-5.4% at constant currency) that was attributable to lower OES customers' requirements.

Automotive Aftermarket division **cost of sales** increased by EUR 17 m or 1.4% to EUR 1,217 m during the year (prior year: EUR 1,200 m). **Gross profit** of EUR 631 m fell EUR 30 m or 4.6% short of the prior year level (prior year: EUR 661 m). As a result, the division's gross margin declined by 1.4 percentage points to 34.1% (prior year: 35.5%), largely due to lower sales volumes than in the prior year combined with increased product costs.

Functional costs decreased slightly during the reporting period, falling by EUR 1 m or 0.2% to EUR 334 m (prior year: EUR 335 m), and representing 18.1% of revenue (prior year: 18.0%). Both the decline in revenue and the increase in administrative expenses, especially in connection with IT and digitalization projects, adversely affected the relative functional cost structure.

Automotive Aftermarket division **EBIT** for the year amounted to EUR 283 m (prior year: EUR 341 m), and the EBIT margin was 15.3% (prior year: 18.3%). EBIT for the year was adversely affected by a total of EUR 15 m in **special items** related to the program “GRIP”. These included primarily expenses related to downsizing the workforce. A special item of EUR 3 m had increased EBIT in the prior year.

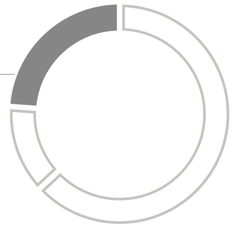
Based on that, **EBIT before special items** declined considerably by EUR 41 m or 12.1% to EUR 298 m (prior year: EUR 339 m) with a drop in EBIT margin before special items to 16.1% (prior year: 18.2%). Along with the decline in gross margin, an adverse impact from transactions denominated in foreign currency hampered the margin trend compared to the prior year. The increase in administrative expenses had an adverse impact on the EBIT margin as well. Further, favorable non-operating one-time items helped improve the margin in the prior year period.

Industrial division

Revenue increase driven by prices and volumes: up 3.1% at constant currency // Growth primarily driven by wind sector cluster in the Greater China region and railway sector cluster in the Europe region // H2 2019 revenue at prior year level: declines especially in the industrial automation, offroad, and power transmission sector clusters // EUR 147 m in special items, largely related to program "FIT" // Earnings quality hampered: gross margin increased, EBIT margin before special items below prior year level // Adjusted revenue guidance met; earnings in line with guidance

Revenue **EUR 3,541 m**

EBIT margin before special items **10.5%**



Industrial division earnings

in € millions	2019	2018	Change in %
Revenue	**3,541**	**3,383**	**4.7**
• at constant currency			3.1
Revenue by region 1)			
Europe	1,867	1,904	-1.9
• at constant currency			-2.4
Americas	638	596	7.0
• at constant currency			2.9
Greater China	723	575	25.6
• at constant currency			23.4
Asia/Pacific	314	308	1.7
• at constant currency			-0.1
Cost of sales	-2,464	-2,371	3.9
Gross profit	**1,077**	**1,012**	**6.4**
• in % of revenue	30.4	29.9	-
Research and development expenses	-147	-139	6.3
Selling and administrative expenses	-543	-512	6.1
EBIT	**225**	**351**	**-35.8**
• in % of revenue	6.4	10.4	-
Special items 2)	147	19	› 100
EBIT before special items	**373**	**370**	**0.9**
• in % of revenue	10.5	10.9	-

Prior year information presented based on 2019 segment structure.
1) Based on market (customer location).
2) Please refer to pp. 30 et seq. for the definition of special items.

Industrial division earnings

Industrial division **revenue** for the reporting period increased by 4.7% (+3.1% at constant currency) to EUR 3,541 m (prior year: EUR 3,383 m), driven by both prices and volumes. Following revenue growth for the first half of 2019 of 5.9%, excluding the impact of currency translation, the economic environment kept revenue for the second half of 2019 flat with prior year. Mainly declining demand in a few sector clusters hampered the revenue trend in the Europe region. The additional revenue in 2019 was largely driven by increased demand in the wind sector cluster in the Greater China region. The railway, raw materials, and aerospace sector clusters as well as Industrial Distribution also contributed to growth in 2019.

Revenue in the **Europe region** was down 1.9% (-2.4% at constant currency), mainly as a result of the industrial automation and offroad sector clusters. Revenue for the power transmission, two wheelers, and aerospace sector clusters as well as for Industrial Distribution dropped as well. Revenue decreased considerably compared to the prior year period as a result of lower demand in the second half of 2019. The railway, raw materials, and wind sector clusters, on the other hand, provided positive impetus for growth.

The **Americas region** increased its revenue by 7.0% during the reporting period (+2.9% at constant currency). This increase was primarily the result of growth in the wind, aerospace, and railway sector clusters as well as in Industrial Distribution.

Greater China region revenue rose by 25.6% (+23.4% at constant currency) during the reporting period, mainly due to higher demand in the wind sector cluster. The raw materials, power transmission, railway, and aerospace sector clusters contributed to revenue growth as well, as did Industrial Distribution.

In the **Asia/Pacific region**, revenue was up 1.7% from the prior year (-0.1% at constant currency). The decline in revenue excluding the impact of currency translation, particularly in the offroad sector cluster, was not fully offset by higher demand in Industrial Distribution.

Industrial division **cost of sales** rose by EUR 93 m or 3.9% to EUR 2,464 m in 2019 (prior year: EUR 2,371 m). **Gross profit** increased by EUR 65 m or 6.4% to EUR 1,077 m (prior year: EUR 1,012 m). The division's gross margin improved correspondingly, rising by 0.5 percentage points to 30.4% (prior year: 29.9%). The growth in margin compared to the prior year period was mainly attributable to the impact of volumes and successful price realization in the market.

Functional costs for the year of EUR 691 m were EUR 40 m or 6.1% above the prior year level (prior year: EUR 651 m). Functional costs as a percentage of revenue rose to 19.5% (prior year: 19.2%). Research and development expenses increased to EUR 147 m (prior year: EUR 139 m), partly due to activities regarding Industry 4.0 and robotics. Selling and administrative expenses increased by EUR 31 m or 6.1% to EUR 543 m (prior year: EUR 512 m), partly as a result of increased personnel and logistics expenses and the increased cost of IT and digitalization projects.

Industrial division **EBIT** amounted to EUR 225 m in 2019 (prior year: EUR 351 m), and the EBIT margin was 6.4% (prior year: 10.4%). EBIT for the reporting period was adversely affected by a total of EUR 147 m in **special items**, including EUR 137 m related to the program "FIT". The latter included primarily expenses related to downsizing the workforce. Significant additional expenditures were incurred in connection with adjusting the capacity of non-current assets and with adjustments to the product portfolio. In addition, EUR 13 m and EUR 10 m in expenditures were recognized for the reorganization of the company's UK business activities and the integration of the internal supplier "Bearing & Components Technologies", respectively. On the other hand, the full refund of a penalty of EUR 13 m previously paid in connection with antitrust proceedings in South Korea had an offsetting effect on EBIT. The prior year included a total of EUR 19 m in special items.

Based on that, EBIT before special items increased by EUR 3 m or 0.9% to EUR 373 m (prior year: EUR 370 m). The division's **EBIT margin before special items** declined by 0.4 percentage points to 10.5% (prior year: 10.9%). Along with an adverse impact from transactions denominated in foreign currency, the EBIT margin was mainly hampered by higher administrative expenses.

2.4 Financial position and finance management

Cash flow and liquidity

Cash Flow

in € millions	2019	2018	Change in %
Cash flows from operating activities	1,578	1,606	-1.7
Cash used in investing activities	-1,147	-1,384	-17.1
• including cash outflows for the acquisition of subsidiaries	-105	-163	-35.4
• including proceeds from the disposal of subsidiaries	4	0	> 100
Cash used in financing activities	-572	-111	> 100
• including principal repayments on lease liabilities	-60	0	-
Net increase (decrease) in cash and cash equivalents	**-140**	**110**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents	8	-8	-
Cash and cash equivalents as at beginning of period	801	698	14.7
Cash and cash equivalents	**668**	**801**	**-16.6**
Free cash flow (FCF)	**372**	**222**	**67.7**
Free cash flow (FCF) before cash in- and outflows for M&A activities	**473**	**384**	**23.2**

Cash flows from operating activities for 2019 of EUR 1,578 m (prior year: EUR 1,606 m) were virtually flat with prior year despite lower earnings. The main reasons were the earnings impact of amortization, depreciation, impairment losses, and provisions as well as lower income tax payments. Changes in working capital had an adverse impact totaling EUR 224 m (prior year: favorable impact of EUR 32 m). This impact was driven by the increase in trade receivables and the decline in trade payables, which exceeded the decrease in inventory levels. The working capital ratio, defined as working capital as a percentage of revenue, was 18.4% as at December 31, 2019 (prior year: 17.9%).

Capital expenditures on property, plant and equipment and intangible assets (capex) amounted to EUR 1,045 m (prior year: EUR 1,232 m) in 2019.

Net cash outflows for M&A activities for 2019 were EUR 101 m and mainly related to the acquisitions of Elmotec Statomat GmbH and Xtronic GmbH.

EUR 572 m in cash was used in **financing activities** (prior year: EUR 111 m) during the year. EUR 361 m of the EUR 364 m in dividends paid during the year represented the dividends paid to Schaeffler AG's shareholders. The proceeds of three new bond series denominated in EUR that were issued in March 2019 resulted in a cash inflow of EUR 2,190 m. A portion of these proceeds was used in March to prepay EUR 500 m of the term loan and to repay the EUR 160 m outstanding under the Revolving Credit Facility. EUR 1,431 m was used during the second quarter to redeem three bond series. The related termination of the cross-currency swaps serving as hedging instruments resulted in a cash inflow of EUR 37 m. The prepayment of the entire remaining balance outstanding under the term loan late in the year led to a cash outflow of EUR 500 m. EUR 115 m and EUR 52 m in funds were obtained by issuing commercial paper and utilizing short-term lines of credit, respectively. EUR 66 m (prior year: EUR 94 m) was drawn under the long-term capital investment loan in 2019. Subsidiaries repaid an additional EUR 18 m of their financial debt during the reporting period. **Principal repayments on lease liabilities** – presented in financing activities starting in 2019 in accordance with IFRS 16 – amounted to EUR 60 m in the reporting period.

Free cash flow is calculated as the sum of cash flows from operating activities and cash flows from investing activities as well as principal repayments on lease liabilities. Free cash flow for 2019 amounted to EUR 372 m (prior year: EUR 222 m). **Free cash flow before cash in- and outflows for M&A activities** amounted to EUR 473 m (prior year: EUR 384 m).

Cash and cash equivalents decreased by EUR 133 m to EUR 668 m as at December 31, 2019 (prior year: EUR 801 m).

As at December 31, 2019, cash and cash equivalents consisted primarily of bank balances. EUR 413 m (prior year: EUR 379 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 1.8 bn (prior year: EUR 1.3 bn) and other bilateral lines of credit totaling EUR 246 m of which EUR 12 m was drawn as at December 31, 2019. In addition, EUR 74 m of the Revolving Credit Facility was utilized (prior year: EUR 13 m) in the form of letters of credit and overdrafts on current accounts.

Capital expenditures

Capital expenditures on property, plant and equipment and intangible assets (capex) declined considerably, dropping EUR 188 m or 15.2% to EUR 1,045 m in 2019 (prior year: EUR 1,232 m). Capital expenditures amounted to 7.2% (prior year: 8.7%) of revenue (capex ratio). By far the largest share of total capital expenditures related to the Europe region.

Capital expenditures by region (capex)

		in € millions	Change in € millions
Europe	2019	**637**	-70
	2018	707	
Americas	2019	**150**	-9
	2018	159	
Greater China	2019	**214**	-91
	2018	305	
Asia/Pacifik	2019	**44**	-17
	2018	61	
Schaeffler Group	2019	**1,045**	-187
	2018	1,232	

2019 2018

Regions reflect the regional structure of the Schaeffler Group.

Total additions to intangible assets and property, plant and equipment amounted to EUR 933 m (prior year: EUR 1,275 m). Approximately 75% of these additions related to the **Automotive OEM division**, approximately 7% to the **Automotive Aftermarket division**, and approximately 17% to the **Industrial division**. In order to strengthen its competitive position, the Schaeffler Group primarily invested in strategically aligning its logistics activities and IT infrastructure as well as in expanding capacity and in equipment and machinery for product start-ups.

The largest share of total capital expenditures related to the **Europe region**, where the company invested mainly in the assembly and packaging center "AKO" in Halle (Saale) and the "IT 2020" initiative that are part of the company's program for the future, the "Agenda 4 plus One". The acquisition of real estate in Herzogenaurach represented another significant capital expenditure. Additional funds were invested in new product start-ups, mainly in the Automotive OEM division, and in expanding capacity, including capacity related to electric mobility. In the Industrial division, the Schaeffler Group primarily invested in expanding production capacity for the rolling bearing business.

Capital expenditures in the **Americas region** related especially to equipment and machinery for product start-ups in the E-Mobility business division and expanding capacity in the Transmission Systems business division.

In the **Greater China region**, the company continued to make targeted investments in expanding capacity and to realize new product start-ups in 2019. Significant capital expenditures in this field related to the Transmission Systems, Engine Systems, and E-Mobility business divisions. The Industrial division mainly invested in its rolling bearing business.

In 2019, the **Asia/Pacific region** invested primarily in expanding the capacity of the Industrial division at the production location in Vietnam, which manufactures mainly radial insert bearings and needle roller bearings with a high degree of vertical integration. Further capital expenditures were made in South Korea, mainly to expand capacity in the Transmission Systems business division.

Financial debt

The group's net financial debt decreased by EUR 22 m to EUR 2,526 m (prior year: EUR 2,547 m) in 2019.

Netto-Finanzschulden

in € millions	12/31/2019	12/31/2018	Change in %
Bonds	2,781	2,019	37.8
Facilities Agreement	48	1,146	-95.8
Capital investment loan	249	183	36.1
Commercial paper	115	0	-
Other financial debt	1	0	76.0
Total financial debt	**3,194**	**3,348**	**-4.6**
Cash and cash equivalents	**668**	**801**	**-16.6**
Net financial debt	**2,526**	**2,547**	**-0.8**

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 1.4 as at December 31, 2019 (prior year: 1.2). The net debt to EBITDA ratio before special items was 1.2 (prior year: 1.2).

The gearing ratio, defined as the ratio of net financial debt to shareholders' equity including non-controlling interests, increased to 86.6% as at December 31, 2019 (prior year: 83.2%).

The Schaeffler Group was able to have the remaining guarantees provided by subsidiaries released on February 28, 2019. Since that date, the Schaeffler Group's group financing arrangements have been free of any in rem security and guarantees from subsidiaries.

On March 19, 2019, Schaeffler AG issued three bond series denominated in EUR with terms ranging from three to eight years and an aggregate volume of EUR 2.2 bn under its debt issuance program. All three bond series were issued by Schaeffler AG and are listed on the regulated market of the Luxembourg Stock Exchange. The proceeds of the bond issuance were received on March 26, 2019.

An initial portion of the bond proceeds was used to prepay EUR 500 m of the existing term loan on March 26, 2019. At the end of March 2019, a further portion of the issuance proceeds was used to repay the amount outstanding under the Revolving Credit Facility at that date.

The remaining proceeds of the bond issuance were used on May 15, 2019, to redeem three bond series totaling EUR 900 m and USD 600 m issued by Schaeffler Finance B.V.

The refinancing transactions triggered the amendments to the EUR 2.3 bn Facilities Agreement and the EUR 250 m capital investment loan agreed on August 31, 2018, including a reduction in the margins on the term loan and the Revolving Credit Facility, improvements to other credit terms, and an increase in the Revolving Credit Facility to EUR 1.5 bn. All of these amendments became effective on March 26, 2019.

On August 19, 2019, rating agency Standard & Poor's confirmed its company rating for the Schaeffler Group of BBB- while lowering the outlook for the rating to negative. Standard & Poor's rating for the outstanding bonds issued by Schaeffler AG and Schaeffler Finance B.V. remains unchanged at BBB-.

On December 6, 2019, Schaeffler AG established a multi-currency commercial paper program with a maximum issued volume of EUR 1.0 bn and issued its first short-term notes shortly thereafter.

Schaeffler AG's Revolving Credit Facility was expanded from EUR 1.5 bn to EUR 1.8 bn effective December 16, 2019. Also in December 2019, the company obtained new bilateral lines of credit totaling EUR 200 m.

Schaeffler AG prepaid the EUR 500 m term loan outstanding in full on December 20, 2019, from available liquidity.

The total amount drawn under the Revolving Credit Facility as at December 31, 2019, was EUR 0 m (December 31, 2018: EUR 160 m).

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
as at December 31

	2019	2018	2019	2018
		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-/negative	BBB-/stable	BBB-	BBB-

The Schaeffler Group had the following syndicated loans outstanding as at December 31, 2019:

Schaeffler Group syndicated loans

		12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	
Tranche	Currency		Principal in millions		Carrying amount in € millions		Coupon	Maturity
Term Loan	EUR	0	1,000	0	993	Euribor 1) + 0.80%	Euribor 1) + 1.20%	09/30/2023
Revolving Credit Facility 2)	EUR	1,800	1,300	48	153	Euribor 1) + 0.50%	Euribor 1) + 0.80%	09/30/2023
Capital investment loan 3)	EUR	250	250	249	183	Euribor 1) + 1.00%	Euribor 1) + 1.00%	12/15/2022
Total				**297**	**1,329**			

1) Euribor floor of 0.00%.
2) EUR 74 m (December 31, 2018: EUR 173 m) were drawn down as at December 31, 2019, including EUR 21 m in the form of letters of credit.
3) EUR 250 m (December 31, 2018: EUR 184 m) were drawn down as at December 31, 2019.

In addition, the group had further bilateral lines of credit in the equivalent of EUR 246 m (prior year: EUR 45 m), primarily in Germany and the U.S. EUR 234 m of these facilities were unutilized as at December 31, 2019 (prior year: EUR 31 m).[3]

The Schaeffler Group's bonds outstanding at December 31, 2019, are set out below. Schaeffler AG's bonds are listed on the regulated market of the Luxembourg Stock Exchange, while the bond series issued by Schaeffler Finance B.V., Barneveld, Netherlands, is traded on the Euro MTF market of the Luxembourg Stock Exchange.

The bond series due May 15, 2025, issued by Schaeffler Finance B.V. carries a unilateral call option exercisable by the issuer. The issuer can choose to call the bonds at their contractual redemption price any time after May 15, 2020.

Schaeffler Group bonds

		12/31/2019	12/31/2018	12/31/2019	12/31/2018		
ISIN	Currency	Principal in millions		Carrying amount in € millions		Coupon	Maturity
XS1212469966 [1)]	EUR	-	400	-	399	2.500%	05/15/2020
XS1067864022 [1)]	EUR	-	500	-	499	3.500%	05/15/2022
US806261AM57 [1)]	USD	-	600	-	525	4.750%	05/15/2023
DE000A2YB699	EUR	750	-	747	-	1.125%	03/26/2022
DE000A2YB7A7	EUR	800	-	793	-	1.875%	03/26/2024
XS1212470972 [2)]	EUR	600	600	597	596	3.250%	05/15/2025
DE000A2YB7B5	EUR	650	-	644	-	2.875%	03/26/2027
Total				**2,781**	**2,019**		

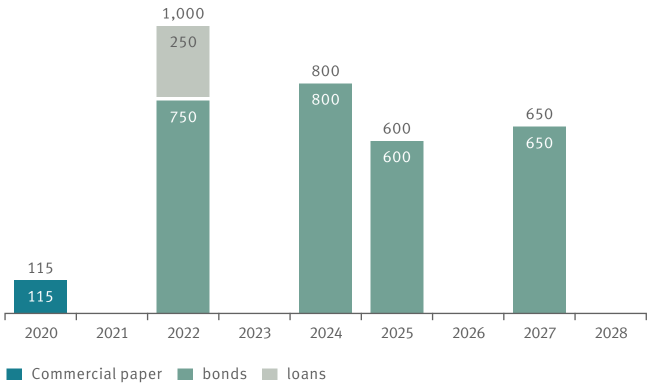
1) Redeemed in full on May 15, 2019.
2) The bond series carries a unilateral call option exercisable by the issuer. It can be redeemed at a fixed price starting on May 15, 2020.

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 2019 as stipulated in the debt agreements.

The company's maturity profile, which consists of commercial paper, the capital investment loan, and the bonds issued by Schaeffler AG and Schaeffler Finance B.V., Barneveld, Netherlands, was as follows as at December 31, 2019:

Maturity profile

Principal outstanding as at December 31, 2019, in € millions



3 See Note 4.12 to the consolidated financial statements for further details.

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 value highly 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 for the long term.

External group financing is primarily provided by capital and money market instruments as well as syndicated and bilateral lines of credit from international banks. One such line of credit is a contractually agreed-upon Revolving Credit Facility of EUR 1.8 bn available to cover any short- to medium-term liquidity needs. Furthermore, Schaeffler AG has established a commercial paper program with an aggregate volume of EUR 1.0 bn to cover short-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 200 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 largely 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 also obtains lines of credit for subsidiaries from local banks. 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 12,870 m in **total assets** as at December 31, 2019 (prior year: EUR 12,362 m).

Consolidated statement of financial position (abbreviated)

in € millions	12/31/2019	12/31/2018	Change in %
ASSETS			
Non-current assets	7,387	6,827	8.2
Current assets	5,483	5,534	-0.9
Total assets	**12,870**	**12,362**	**4.1**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	2,917	3,060	-4.7
Non-current liabilities	6,273	5,780	8.5
Current liabilities	3,680	3,521	4.5
Total shareholders' equity and liabilities	**12,870**	**12,362**	**4.1**

Non-current assets rose by EUR 560 m to EUR 7,387 m as at December 31, 2019 (prior year: EUR 6,827 m). The increase was primarily attributable an increase in deferred tax assets by EUR 193 m and capitalization of EUR 193 m in right-of-use assets under leases as part of the initial application of IFRS 16 (prior year: EUR 0 m). In addition, intangible assets rose by EUR 101 m, property, plant and equipment by EUR 36 m, and other assets by EUR 38 m. The increase in intangible assets is primarily attributable to the acquisitions of the Elmotec Group and Xtronic GmbH.

Current assets declined by EUR 51 m to EUR 5,483 m (prior year: EUR 5,534 m) in 2019. The decline was largely attributable to decreases in cash and cash equivalents by EUR 133 m (see "Cash flow and liquidity", pp. 38 et seq.) and inventories by EUR 51 m. These decreases were partially offset by trade receivables increasing by EUR 126 m. As at December 31, 2019, trade receivables with a carrying amount of EUR 178 m (prior year: EUR 166 m) net of retained credit risk had been sold under the ABCP program (asset-backed commercial paper).

Shareholders' equity including non-controlling interests fell by EUR 144 m to EUR 2.917 m as at December 31, 2019 (prior year: EUR 3,060 m). Net income of EUR 440 m increased shareholders' equity. The increase was partially offset by EUR 361 m in dividends paid to Schaeffler AG's shareholders for 2018. Accumulated other comprehensive income was impacted adversely mainly by EUR 297 m in discount rate-driven adjustments to pensions and similar obligations and favorably by the EUR 65 m impact of translating the net assets of foreign group companies. The equity ratio was 22.7% as at December 31, 2019 (December 31, 2018: 24.8%).

Non-current liabilities rose by EUR 493 m to EUR 6,273 m as at December 31, 2019 (prior year: EUR 5,780 m). The increase was partly attributable to a discount rate-driven increase in pensions and similar obligations by EUR 465 m and the recognition of EUR 144 m in lease liabilities (prior year: EUR 0 m) as part of the initial application of IFRS 16. In addition, three new bond series denominated in euros with an aggregate volume of EUR 2.2 bn were issued under Schaeffler AG's debt issuance program (see "Financial debt", pp. 39 et seq.). A portion of the bond proceeds was used to redeem three outstanding bond series issued by Schaeffler Finance B.V. totaling EUR 1.431 m. Furthermore, the EUR 1.0 bn term loan outstanding was paid off over the course of the year, and an additional EUR 66 m was drawn under the capital investment loan. In total, non-current financial debt decreased by EUR 162 m.

Current liabilities rose by EUR 159 m to EUR 3,680 m as at December 31, 2019 (prior year: EUR 3,521 m), partly due to increases in provisions by EUR 218 m and in other financial liabilities by EUR 65 m that were mainly related to the programs "RACE", "GRIP", and "FIT". Furthermore, the initial application of IFRS 16 resulted in the recognition of EUR 50 m in lease liabilities. These increases were partially offset by trade payables declining by EUR 235 m.

The Schaeffler Group's significant off-balance sheet commitments include contingent liabilities (see Note 5.4 to the consolidated financial statements for further details). Obligations under non-cancelable operating rental and lease agreements (prior year: EUR 141 m) no longer represent off-balance sheet commitments due to the initial application of IFRS 16 effective January 1, 2019.

2.6 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).

Schaeffler AG earnings

Income statement of Schaeffler AG (abbreviated)

in € millions	2019	2018	Change in %
Revenue	15	35	-57.1
Cost of sales	-14	-31	-54.8
Gross profit	**1**	**4**	**-75.0**
General and administrative expenses	-134	-116	15.5
Net other operating income	32	55	-41.8
Income from equity investments	725	800	-9.4
Interest result	-148	-142	4.2
Income taxes	-22	-102	-78.4
Earnings after income taxes	**454**	**499**	**-9.0**
Net income for the year	**454**	**499**	**-9.0**
Retained earnings brought forward	0	0	0.0
Retained earnings	**454**	**499**	**-9.0**

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 in 2018. As a result, Schaeffler AG has been earning only minor amounts of revenue from services for subsidiaries since then. 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.

In performing its function as management holding company of the Schaeffler Group, Schaeffler AG incurred EUR 134 m (prior year: EUR 116 m) in general and administrative expenses.

Schaeffler AG performs most of the Schaeffler Group's hedging activities related to currency risk. As a result, its net other operating income is characterized by foreign exchange gains and losses on hedges of currency risk arising from the operations and on financing arrangements of the Schaeffler Group.

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

For the first time, interest expense included EUR 49 m in accrued interest on the new bonds issued in 2019. EUR 11 m (prior year: EUR 18 m) in interest expense was incurred on institutional loans. 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 46 m (prior year: EUR 73 m).

Income tax expense for 2019 amounted to EUR 22 m (prior year: EUR 102 m) and consisted entirely of current tax expense of EUR 22 m (prior year: EUR 102 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 2019.

Net income for the year amounted to EUR 453 m (prior year: EUR 499 m) in 2019 and equals retained earnings for 2019.

The Board of Managing Directors and the Supervisory Board will propose a dividend for 2019 of EUR 0.44 (prior year: EUR 0.54) per common share and EUR 0.45 (prior year: EUR 0.55) per common non-voting share to the annual general meeting.

Schaeffler AG financial position and net assets

Balance sheet of Schaeffler AG (abbreviated)

in € millions	12/31/2019	12/31/2018	Change in %
ASSETS			
Fixed assets	14,215	14,282	-0.5
Current assets	8,765	8,920	-1.7
Prepaid expenses and deferred charges	0	1	-100
Excess of plan assets over post-employment benefit liability	5	5	0.0
Total assets	**22,985**	**23,208**	**-1.0**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	7,290	7,197	1.3
Provisions	278	294	-5.4
Liabilities	15,415	15,713	-1.9
Deferred income	2	4	-50.0
Total shareholders' equity and liabilities	**22,985**	**23,208**	**-1.0**

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

Current assets largely consist of short-term loans and other financial receivables related to Schaeffler AG's cash pooling function and responsibility for the internal group financing of the Schaeffler Group. This line item further includes Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 725 m (prior year: EUR 800 m) that had not yet been paid as at December 31, 2019. Schaeffler Technologies AG & Co. KG paid EUR 800 m in respect of the prior year's net income to Schaeffler AG in 2019, and Schaeffler AG 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 46 m (prior year: EUR 191 m) at the end of the reporting period.

On April 24, 2019, Schaeffler AG's annual general meeting passed a resolution to pay a dividend of EUR 361 m (prior year: EUR 361 m) to Schaeffler AG's shareholders for 2018 and to add the remaining retained earnings of EUR 138 m (prior year: EUR 92 m) to revenue reserves.

The decrease in provisions was mainly attributable to lower provisions for pending losses on foreign exchange contracts held to hedge currency risk.

For the first time, the company issued three bond series denominated in euros with an aggregate principal of EUR 2,200 m as well as EUR 115 m in short-term commercial paper in 2019. A portion of the proceeds was used to repay in full three loans payable to Schaeffler Finance B.V. as well as the term loan. At December 31, 2019, the company had a loan payable to Schaeffler Finance B.V. of EUR 600 m (prior year: EUR 2,106 m) resulting from the transfer of proceeds from bond issuances.

Further, the company has 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.

More on financial debt on pp. 39 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".

2.7 Other components of the group management report

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

- “Corporate governance report including the corporate governance declaration in accordance with sections 289f HGB and 315d HGB” beginning on page 63,
- “Governance structure” beginning on page 70,
- “Remuneration report” beginning on page 75 and
- “Governing bodies of the company” beginning on page 90.

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

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

Combined separate group non-financial report in accordance with sections 289b (3) and 315b (3) HGB within the sustainability report at: www.schaeffler-sustainability-report.com/2019

3. Supplementary report

The increased incidence of coronavirus infections, particularly in China, has led to unscheduled production downtimes subsequent to the reporting date, adversely impacting the net assets, financial position, and earnings of the Schaeffler Group.

On December 5, 2019, the Schaeffler Group entered into an agreement to sell its plants in Unna and Kaltennordheim. The disposal on February 3, 2020, resulted in a transfer of the business under which the employee's employment contracts were assumed by the new owners.

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, 2019.

4. Report on opportunities and risks

The Schaeffler Group's risk management system is an integral component of its governance structure. The Schaeffler Group is exposed to a large number of potential risks that can adversely affect its business. The company also systematically identifies opportunities.

The Schaeffler Group's risk strategy calls for the group to cautiously take on calculated business risks in order to execute the company's strategy and take advantage of the related opportunities. Operating a profitable business requires companies to exploit opportunities and identify, assess, and manage the related risks early on. Avoiding individual risks potentially jeopardizing the continued existence of the company as well as compliance violations is imperative.

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. The Schaeffler Group defines risks jeopardizing the continued existence of the company as any risk potentially resulting in insolvency. In this context, risk tolerance is defined as the maximum loss that may result in the breach of a covenant, a liquidity shortfall, or a rating downgrade below the minimum rating required to appropriately refinance outstanding debt.

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 shareholders' equity (net assets), depending on the risk category.

4.1 Risk management system

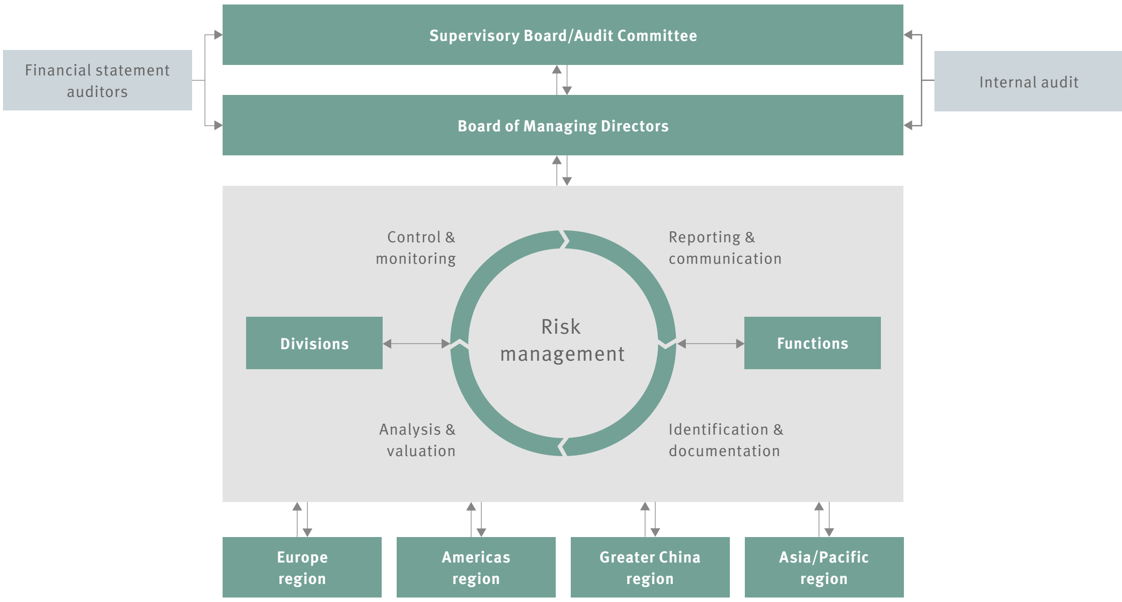
The Schaeffler Group intentionally takes risks in order to meet its corporate objectives.

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 strategy. 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.

Structure of risk management system



The Board of Managing Directors has asked Risk Management to review and update the risk management system on an ongoing basis and to ensure that existing uniform groupwide standards are implemented and complied with. All instructions from Risk Management are binding on all individuals responsible for risk.

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

The system for identifying risks related to the non-financial declaration in accordance with section 289b (3) HGB in connection with section 289c HGB is described in the Schaeffler Group's separate sustainability report.

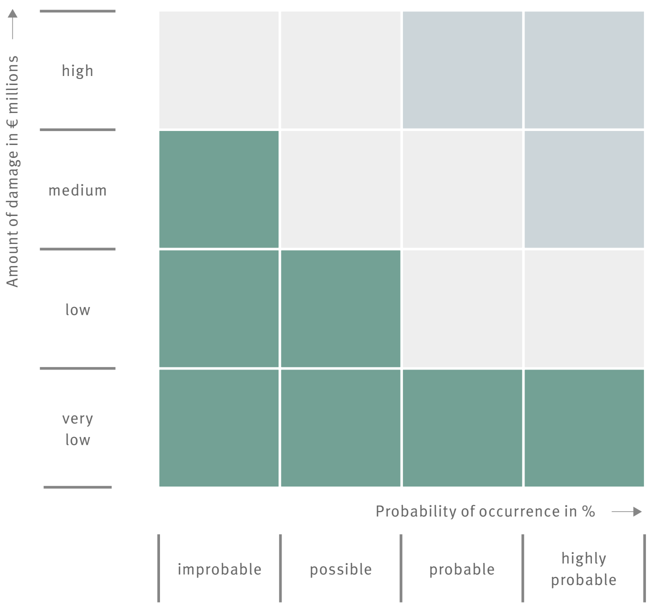
Combined separate group non-financial report in accordance with sections 289b (3) and 315b (3) HGB within the sustainability report at: www.schaeffler-sustainability-report.com/2019

The guideline also defines – as a further component of the risk management system – a groupwide catalog of risk categories to ensure that all risks along the value chain are identified. Identified risks have to be assigned to the 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 2019, 40 of 153 Schaeffler Group entities were included, representing 94% of revenue and 96% of the Schaeffler Group's EBIT. The remaining 113 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

Risk matrix



Impact assessment

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

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

Risk classes

low medium high

Impact on net assets, financial position, and earnings

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.

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.

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. Reports to the audit committee are made annually.

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

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

4.2 Internal control system

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

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

The financial statement information reported by Schaeffler AG and its subsidiaries via a uniform groupwide chart of accounts represents the base data for the compilation of the separate and consolidated financial statements. Many subsidiaries receive support from an internal shared 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 that quality standards are maintained in compilation, preparation, and issuance.

Schaeffler AG's Board of Managing Directors and the audit committee monitor the effectiveness of the internal control system.

4.3 Risks

The net risks discussed 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.

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. Therefore, environments are continually monitored and modeled using scenarios in order to initiate specific actions.

Since the Schaeffler Group's production and manufacturing locations are located all over the world, they are subject to various environmental standards. The locations meet the 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 subject to a constant improvement and enhancement process, occurrence of these risks is considered improbable.

Digitalization

The Schaeffler Group has prioritized the issue of digitalization and has developed a Digitalization strategy – its “Digital Agenda”. The pace of implementation and adaptation represents an important success factor in this regard and, therefore, also a risk. This issue is among the focal areas of the Schaeffler Group’s activities. However, should the Schaeffler Group nevertheless be unable to meet these challenges as quickly as appropriate, this could have a medium impact on the group’s financial position and earnings.

Strategic market and technology risks

The evolution of the company’s business from being component-driven toward being more systems-based is ongoing, and this change is reducing the proportion of value added by the Schaeffler Group. This poses a medium risk to the Schaeffler Group’s financial position and earnings. 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 operates in a highly competitive and technologically fast-paced environment. The Automotive division’s 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 unable to fully pass these demands for 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 losses in revenue from conventional drive trains in the years ahead. 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.

Changes in the environment of Automotive OEM

A merger of automobile manufacturers can interfere with supply contracts and projects to the point of their elimination. Disclosure and sharing of information about prices and consolidation of purchasing volumes provides transparency regarding pricing and cost structures, potentially leading to increased pressure on margins. This could have a medium impact on the Schaeffler Group’s financial position and earnings. The company continually monitors and analyzes the market in an attempt to recognize changes and mergers of OEMs early on, in order to be able to address market trends in a targeted manner. The Automotive OEM division also tries to offer each customer customer-specific products and technologies to reduce exchangeability and comparability to the extent possible.

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, including changes in consumption patterns, fuel prices, and interest rate levels. 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.

An 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.

An estimate of the impact of the spread of the coronavirus on the Schaeffler Group's sales and supply is not yet possible; a task force is currently monitoring this impact and continually reassessing the related risk.

A change in forecasted market trends could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings. 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 slowdowns. Should prices deteriorate unexpectedly, the amount of damage arising from this risk is reduced by renegotiating with suppliers.

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.

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

The influence of force majeure could result in delays or interruptions in the supply chain. Shortening the period between failure at the plant, regardless of the cause, and when alternative means of production are set up is key. Where necessary, production can either be realized by another Schaeffler Group plant with a comparable production line 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 the influence 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 appropriate 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 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 continuous improvement processes in production 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.

Delivery performance

The delivery performance represents 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 Industrial division and the Automotive Aftermarket operate high-performance distribution centers to better supply the market with only a few logistics locations. Ensuring that contractual delivery dates are met could have a medium impact on the Schaeffler Group's financial position and earnings.

Efficiency and transformation programs

The Schaeffler Group has established a number of programs in Germany and abroad to improve its cost structure. These programs include measures to adapt capacity as well as initiatives to improve the portfolio structure. Adapting the organization and manufacturing landscape could potentially not proceed as planned, the benefits turn out to be fewer than originally expected, the impact occur later than expected, or not at all. Implementing the adaptation can result in additional expenditures. This could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings. The efficiency programs established are closely monitored and their impact is constantly reviewed in order to ensure they are implemented in a targeted manner and to prevent negative deviations.

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. Not only do counterfeit products offered at significantly reduced prices cause irritation in the trade as well as in end customers and frequently result in requests for price reductions, but inferior counterfeit products also lead to loss of reputation caused by early failure of such products. This damages both the company's image and the value of the brand. Therefore, combating product piracy is a high priority for the Schaeffler Group. The Schaeffler Group protects intellectual property not only by registering industrial property rights worldwide but also by 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. The Schaeffler Group's business partners are increasingly requiring the Schaeffler Group to adhere to these standards and the related contractual obligations. The company is addressing the growing threat by taking specific action. Not complying with these requirements may result in a loss of contracts. 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. Circumstances identified as not meeting the requirements of the compliance management system 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. 71 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 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.

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 2019 by existing financing instruments and by the refinancing arrangements completed.

To avoid unforeseen short- or medium-term liquidity needs to the extent possible, short- and medium-term liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period of up to twelve months. Short-term fluctuations in cash flow are monitored daily and can be offset using lines of credit. To this end, the Schaeffler Group has a Revolving Credit Facility of EUR 1.8 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.

Liquidity tied up in working capital reduces the financial scope for action. To improve the allocation of its capital, the Schaeffler Group closely monitors its working capital and takes action to improve it. Should the company be unable to counteract an increase in working capital, this could have a medium impact on the Schaeffler Group's financial position.

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 risk is continually monitored and reported on. 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.

Risk assessment

	Amount of damage in €	Probability of occurrence in %	Risk class	Change from prior year
Strategic risks				
• Country risks	low	highly probable	medium	↘
• Digitalization	high	improbable	medium	↗
• Strategic market and technology risks	medium	possible	medium	→
• Electric mobility	medium	possible	medium	→
• Change in the environment of the Automotive OEM division	medium	possible	medium	new
Operating risks				
• Market development	high	possible	medium	↘
• Production risk	high	possible	medium	↗
• Loss of market share	low	highly probable	medium	↗
• Warranty and liability risks	low	highly probable	medium	↗
• Delivery performance	low	highly probable	medium	↘
• Failure of bottleneck machines	high	improbable	medium	new
• Efficiency and transformation programs	low	probable	medium	new
• Product piracy risks	low	probable	medium	→
• Information security risks	low	probable	medium	→
Legal risks				
• Compliance risks	high	improbable	medium	→
Financial risks				
• Tax risks	high	probable	high	→
• Pension risks	high	possible	medium	→
• Working capital risks	high	possible	medium	new
• Liquidity risk	high	improbable	medium	→
• Currency risks	medium	possible	medium	↘

↗ increased → unchanged ↘ reduced

4.4 Opportunities

The responsibility for identifying and utilizing opportunities lies with operating management. The objective is to identify 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 and its range of products and services have a worldwide presence in order to participate in the expected megatrends of the future.

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

Globalization

The Schaeffler Group's extensive range of products and services is fundamental to participating in the expected megatrends. Automobile manufacturers, for instance, increasingly rely on global platforms in order to save costs (common parts, standardization of components). Its worldwide production locations enable the Schaeffler Group to benefit from this trend and to supply OEMs and suppliers with products meeting the required technological and quality standards in the desired local markets.

Growing demand for automobiles in emerging countries

The company perceives a growing vehicle market especially in the emerging countries. Schaeffler expects the number of vehicles per resident in these countries to increase significantly, approaching those of mature markets.

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 has in the past been associated with an increase in the volume of air traffic. As a result, the Schaeffler Group is expecting growth in the aerospace sector to be steady. In this sector, issues such as reducing CO_2 and weight as well as lowering fuel consumption are increasingly gaining in importance. The Schaeffler Group is already actively participating in these developments.

Energy chain

The Schaeffler Group expects rising energy and water consumption in large cities and metropolitan areas in the future, partly due to urbanization. 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 active in the market. Continually expanding the existing expertise in these business fields offers additional future opportunities for growth.

Increasing technological standards in the truck market

Increasing regulation in the truck market renders it necessary to make the drive train more efficient and reduce the emissions it produces. The Schaeffler Group specifically offers its customers technologically advanced solutions to enable them to comply with the stricter standards.

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

In practice, the term “Industry 4.0” is frequently used in connection with highly individualized products in very flexible manufacturing conditions. In the future, companies may network their machinery, warehousing systems, and equipment around the world. The high level of interconnectedness can facilitate progress in manufacturing, including application 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 used wherever something is moving and primary data can be obtained. For instance, this allows rolling bearings to be monitored continually and their operation to be improved based on the results.

Digitalization

The topic of “Digitalization” connects all three of the Schaeffler Group’s divisions. It will significantly transform the entire economy and its traditional processes. The convergence of the real world and the digital world will produce new business models and a lasting increase in value creation. The Schaeffler Group’s “Digital Agenda” comprises four key elements: Products & Services, Machines & Processes, Analyses & Simulation, and User Experience & Customer Value. With its “Digital Agenda”, the Schaeffler Group is concentrating both on internal processes and on products and solutions for its customers. It is not only internally that the company aims to increase the efficiency of its processes, use available data more intensively, and more effectively link production locations, machines, and buildings. It also aims to expand on its customers’ existing business models and help them develop new ones.

Legal opportunities

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

Increased standards due to new legislation

Stricter regulations, such as the continual reduction of CO_2 emission targets for vehicles, render it necessary to continue to make the internal combustion engine more efficient. Its systems and components enable the Schaeffler Group to offer its customers solutions that further reduce both consumption and emissions of internal combustion engines.

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 improved slightly compared to the prior year. This change is due to 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

Taking into account the forecast by Oxford Economics (February 2020), the Schaeffler Group expects global gross domestic product to grow by just under 3% in 2020 (2019: 2.8%).

The expected development of the global economy is subject to several risks that could result in perceptibly lower growth than forecast if they materialize. These risks include, in particular, an escalation of global trade conflicts as well as a deepening slowdown in growth in the U.S., the euro region, or in China. Further such risks include economic crises in vulnerable emerging markets, geopolitical conflicts escalating, and the spread of the coronavirus.

Taking into account the forecasts of research institute IHS Markit (February 2020), the Schaeffler Group expects global automobile production, measured in terms of the number of passenger cars and light commercial vehicles produced, to decrease by about 3 to 5% in 2020 (2019: -5.8%).

Based on the forecast by Oxford Economics (December 2019) and their most recent assessment the Schaeffler Group expects global industrial production to grow by less than 1% in 2020 (2019: 1.7%).

5.2 Schaeffler Group outlook

Outlook 2020 – group

	Actual 2019	Actual 2019 adjusted comparative figure [4]	Outlook 2020
Schaeffler Group			
Revenue growth [1]	0.1%	0.1%	-2 to 0%
EBIT margin before special items [2]	8.1%	8.1%	6.5 to 7.5%
Free cash flow [3]	EUR 473 m	EUR 473 m	EUR 300 to 400 m

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 30 et seq. for the definition of special items.
[3] Before cash in- and outflows for M&A activities.
[4] Comparative figure based on 2020 segment structure.

The Schaeffler Group expects its revenue to grow by -2 to 0% excluding the impact of currency translation in 2020.

In addition, the company expects to generate an EBIT margin before special items of 6.5 to 7.5% in 2020.

The Schaeffler Group also anticipates free cash flow before cash in- and outflows for M&A activities for 2020 to amount to EUR 300 to 400 m.

Outlook 2020 – divisions

	Actual 2019	Actual 2019 adjusted comparative figure [3]	Outlook 2020
Automotive OEM			
Revenue growth [1]	-0.8%	-0.8%	-2 to 0%
EBIT margin before special items [2]	5.4%	5.5%	4.5 to 5.5%
Automotive Aftermarket			
Revenue growth 1)	-1.1%	-1.1%	0 to 2% [4]
EBIT margin before special items [2]	16.1%	16.5%	13 to 14%
Industrial			
Revenue growth [1]	3.1%	3.1%	-2 to 0% [4]
EBIT margin before special items [2]	10.5%	10.2%	9.5 to 10.5%

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 30 et seq. for the definition of special items.
[3] Comparative figure based on 2020 segment structure.
[4] Change from version as of February 18, 2020.

The group anticipates that its Automotive OEM division will continue to outperform global automobile production, which is expected to decline by 3 to 5%, in 2020. Therefore, the company expects Automotive OEM division revenue to grow by -2 to 0% in 2020 (2019: -0.8%), excluding the impact of currency translation. The company also expects an EBIT margin before special items of between 4.5 and 5.5% for 2020 (2019, adjusted comparative figure: 5.5%) for the Automotive OEM division.

For the Automotive Aftermarket division, the group anticipates revenue growth – excluding the impact of currency translation – of -2 to 0% (2019: -1.1%) and an EBIT margin before special items of 13 to 14% (2019, adjusted comparative figure: 16.5%) in 2020.

In the Industrial division, the economic environment suggests that growth will continue to slow. Based on these considerations, the company expects to generate -2 to 0% (2019: 3.1%) in revenue growth in 2020, excluding the impact of currency translation. In addition, the Industrial division anticipates generating an EBIT margin before special items of between 9.5 and 10.5% (2019, adjusted comparative figure: 10.2%) in 2020.

Divisionalization is continuing and strengthens the division's management of the business; this influences the outlook 2020 for the divisions. Under this reorganization, functions previously managed at the corporate level, such as certain logistics warehouses, have been integrated into the divisions, giving the divisions full responsibility. This change has been reflected in the adjusted comparative figures for 2019 presented above as well.

Herzogenaurach, March 5, 2020

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.

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 and 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 2019, 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 2018, 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 2019

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

1.2 Corporate governance principles

The Schaeffler Group's manner of conducting business is based on integrity, fairness, and mutual respect. The related leadership principles are transparency, trust, and teamwork. 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.

The Schaeffler Group Code of Conduct demands integrity of all employees. This means complying with all applicable local, national, and international laws and regulations, wherever the Schaeffler Group does business.

In its business activities, the Schaeffler Group is intent on combining commercial success, a long-term focus, and awareness of the social and ecological aspects of the company's operations. Combining economic success with acting responsibly toward the environment, people, and society is very important to the Schaeffler Group. Schaeffler identifies with the corporate values "Sustainable", "Innovative", "Excellent", and "Passionate". These values form an important basis for the success of the Schaeffler Group for the benefit and in the interest of customers and business partners, employees, and managers as well as shareholders and family shareholders. In addition to maintaining its fundamental orientation toward sustainability in managing the company's business, the Board of Managing Directors issued a sustainability roadmap in 2019, comprising specific actions to strengthen sustainability in the Schaeffler Group's entire value chain.

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 interest and, therefore, take into account the interests of shareholders, employees, and other stakeholders of the company in order to add long-term value. The members of the Board of Managing Directors run the business in accordance with the law, the company's articles of association, and the internal rules of procedure, taking into account the obligation to obtain approval set out in the Supervisory Board's internal rules of procedure. The Board of Managing Directors is directly responsible for managing the company, sets objectives and the company's strategic direction, consults on them with the Supervisory Board, manages the implementation of the company's strategy, and regularly discusses the status of its implementation with the Supervisory Board.

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 – and appropriate protection – to report violations of the law within the company; this opportunity is also provided to third parties.

More on compliance on page 71 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 has 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 of 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 2019. The company strives to increase the number of female members on the Board of Managing Directors beyond the established target in the long term. 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 company aims for an average age of all members of the Board of Managing Directors of 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 increased consideration given to younger executives. The targets established were met in 2019.
- **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 the candidates’ education and training, professional career, and their current responsibilities. The targets established were met in 2019.
- **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. All members of the Board of Managing Directors are experienced in international business.

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. 90 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 Supervisory Board’s 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. 75 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 code-termination 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, and unanimously confirmed that decision on September 30, 2019. The Supervisory Board currently has six female members, with three women being employee representatives and three women representing the shareholders. As a result, the employee representatives and the shareholders' side both meet the legally required quota.

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, and unanimously confirmed that decision on September 30, 2019. The Supervisory Board currently has six female members, with three women being employee representatives and three women representing the shareholders. As a result, the employee representatives' side and the shareholders' side meet the legally required quota. Nominees for the regular election of employee representatives in 2020 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 2019. No member of the Supervisory Board currently serves on a governing body or in a consulting role with respect to a key competitor or is a former member of the Board of Managing Directors.

More on avoiding conflicts of interest on page 69

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: Sabine Bendiek, Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Sabrina Soussan, Robin Stalker, Prof. TU Graz e.h. 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. TU Graz e.h. KR Ing. Siegfried Wolf; Georg F. W. Schaeffler is the committee's chairman. The executive committee advises and assists the Chairman of the Supervisory Board and his Deputy in their Supervisory Board responsibilities. It prepares the meetings of the Supervisory Board. Another significant responsibility of the executive committee is preparing personnel decisions to be made by the Supervisory Board. It makes recommendations regarding new appointments or reappointments to and dismissals from the Board of Managing Directors. It also prepares the Supervisory Board's decision regarding the remuneration system and individual remuneration of the members of the Board of Managing Directors. In addition, the executive committee passes resolutions regarding the approval of certain legal transactions and measures specified in the Supervisory Board's internal rules of procedure on behalf of the Supervisory Board, to the extent such delegation is not prohibited by section 107 (3) (3) AktG.

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

The audit committee makes a recommendation to the Supervisory Board regarding auditors to be appointed, together with its reasons for the recommendation; where the audit has been put out to tender, the recommendation includes at least two candidates. The audit committee engages the auditors, determines the areas of focus for the audit, and agrees on 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. The Chairman of the Supervisory Board is a member of the committee by virtue of this position. 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 other committee members are Dr. Holger Engelmann, 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. TU Graz e.h. 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 2019.

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 upon 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 upon that the auditors would report on all findings and events coming to their attention during the performance of their audit that are significant to the responsibilities of the Supervisory Board. Under the agreement, the auditors have to inform the Supervisory Board and note in their long-form audit report if, during the course of the audit, they become aware of any facts rendering the declarations on the German Corporate Governance Code issued by the Board of Managing Directors and the Supervisory Board inaccurate. The audit committee monitors the auditors' independence. In a letter dated February 28, 2019, the auditors have issued a binding independence letter for the year ended December 31, 2019.

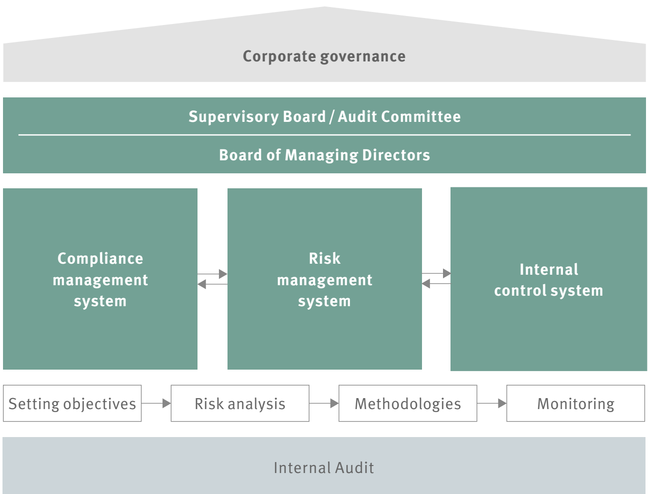
2. Governance structure

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. The Schaeffler Code of Conduct drives its behavior and the nature of the business relationships that are consistent with its corporate values. 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.

In 2019, the Schaeffler Group has continued to improve the processes within its governance structure with a view to meeting

Schaeffler Group governance structure



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, Risk Management, 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.

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

Three lines of defense model

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 employees of the Schaeffler Group's operating units 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, there is a whistleblowing system available for confidentially reporting violations of the Schaeffler Code of Conduct, especially regarding illegal business practices.

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 fulfills its obligation to manage the company responsibly and to maintain effective controls.

2.1 Compliance management system

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

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

The CMS is based on the three pillars of prevention, detection, and reaction and is part of the second line of defense within the Schaeffler Group's governance structure. The CMS in its current state is the result of a comprehensive revision initiated by the Board of Managing Directors as part of the "Compliance Fit & Proper" program. An independent audit firm confirmed the appropriateness and implementation of the Schaeffler Group's compliance management system in accordance with the Principles for the Proper Performance of Reasonable Assurance Engagements Relating to Compliance Management Systems, IDW AsS 980, 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.

In a systematic training program that is specific to its various target audiences, the Schaeffler Group provides its employees and managers with the required understanding of compliance and makes them aware of compliance risks in their day-to-day business. Web-based and classroom training sessions are used to familiarize them with the Schaeffler Group Code of Conduct and the relevant group guidelines. In 2019, training sessions specifically addressed fighting corruption, antitrust and competition legislation, as well as conflicts of interest. Training sessions are continually refined and updated and adapted to the employees' areas of responsibility. In addition, the company has also put in place arrangements for detecting possible compliance violations; these arrangements include controls as well as a global whistleblowing system which can be used to report suspected 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 2019.

The company continued to digitize its register of contacts with competitors. It contributes to transparency and supports the process for approving contacts with competitors in advance. The IT-based business partner due diligence workflow that is integrated in the existing business processes has commenced operations. This new process facilitates and improves 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. 73 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. 50 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 that 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 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 (e.g. Compliance and Corporate Security, Controlling, Legal, Quality, Risk Management).

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

In its audit reports, Internal Audit communicates its findings, identifies the individuals responsible for implementation, and agrees on 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.

With the involvement of external consultants, Schaeffler AG's Supervisory Board has enhanced the company's remuneration policy for the Board of Managing Directors originally introduced in connection with the listing in October 2015. The amended remuneration policy for the Board of Managing Directors, which applies to all members of the Board of Managing Directors with a term of office extending beyond July 31, 2020, was approved by the Supervisory Board retroactive to January 1, 2020, at its extraordinary meeting on February 4, 2020, and will be submitted to the annual general meeting on April 17, 2020, for approval.

3.1 Main features of the remuneration system for the Board of Managing Directors in 2019

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 the Board of Managing Directors – system and components

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 divisional Schaeffler Value Added (SVA Division) and divisional cash flow (DCF Division) (weighted equally) The Supervisory Board has the ability to set additional strategic targets each year	0% –150%	Meeting annual targets	Annually
Long-term bonus Performance Share Unit Plan (PSUP)	Share price trend of Schaeffler common non-voting shares and meeting targets consisting of: 50% service condition and 25% relative Total-Shareholder-Return-(TSR)-based performance target and 25% cumulative FCF-based performance target	Maximum is the number of PSUs granted, minimum number is nil 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 2019.

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 divisional Schaeffler Value Added (SVA Division) as well as divisional cash flow (DCF 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 DCF 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 DCF performance targets. The Supervisory Board exercised this right to set additional targets for 2019, the first time it has done so. For 2019, an additional target was established which provides an incentive to reduce the volatility of FCF over the course of 2019. To this end, the company measures the change in each of working capital (Delta Working Capital) and capital expenditures (Delta Capex) from the first to the fourth quarter of 2019. The objective is to reduce the sum of these two deltas. This additional target is weighted at 20% of the individual target-based bonus for 2019. 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 that 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.[4]
- 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 AG'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.

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

The 2015, 2016, 2017, 2018, and 2019 tranches of PSUs subject to FCF- and TSR-based performance targets vest based on the following target tiers.

PSUP performance targets (1)

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)

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 vested are calculated in EUR 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 2019 tranche is EUR 8.50. The PSUs granted to each individual and the related fair values in 2019 are as follows:

PSUs granted in 2019

	Grant amount (in € thousands)	Number of PSUs outstanding on December 31, 2019 [1]	Grant date fair value per PSU (in €)	Grant date fair value (in € thousands)
Klaus Rosenfeld (CEO)	1,300			
Base number of PSUs		76,471	5.36	410
FCF PSUs		38,235	5.36	205
TSR PSUs		38,235	3.12	119
Dietmar Heinrich	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60
Andreas Schick	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60
Corinna Schittenhelm	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60
Michael Söding	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60
Dr. Stefan Spindler	800			
Base number of PSUs		47,058	5.36	252
FCF PSUs		23,530	5.36	126
TSR PSUs		23,530	3.12	73
Uwe Wagner [2]	163			
Base number of PSUs		9,558	5.37	51
FCF PSUs		4,780	5.37	26
TSR PSUs		4,780	2.17	10
Matthias Zink	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60
Managing Directors who left the company in 2019				
Prof. Dr. Peter Gutzmer [3]	950			
Base number of PSUs		55,883	5.36	300
FCF PSUs		27,941	5.36	150
TSR PSUs		27,941	3.12	87
Total	**6,463**	**760,297**	**-**	**3,645**

[1] Equals the number of PSUs granted on January 1, 2019.
[2] Uwe Wagner has been a member of the Board of Managing Directors of Schaeffler AG since October 1, 2019.
[3] Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His employment agreement remained in effect until December 31, 2019.

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

	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	**7,800**	**556,346**	**-**	**6,244**

[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 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 2019 tranche (prior year: 2018 tranche) reflects the following input parameters:

- risk-free interest rate for the remaining performance period of 0.07% (prior year: -0.29%) for a January 1, 2019, grant date; -0.82% for an October 1, 2019, grant date (prior year: 0.28% for a March 2, 2018, grant date)
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 7.37% (prior year: 3.38%) for a January 1, 2019, grant date; 7.81% for an October 1, 2019, grant date (prior year: 3.92% for a March 2, 2018, grant date)
- expected volatility of Schaeffler AG common non-voting shares of 36.83% (prior year: 28.90%) for a January 1, 2019, grant date; 36.28% for an October 1, 2019, grant date (prior year: 32.59% for a March 2, 2018, grant date)
- expected volatility of the benchmark index of 14.80% (prior year: 10.32%) for a January 1, 2019, grant date; 15.65% for an October 1, 2019, grant date (prior year: 12.03% for a March 2, 2018, grant date)
- expected correlation coefficient between the benchmark index and Schaeffler AG common non-voting shares of 0.53 (prior year: 0.45) for a January 1, 2019, grant date; 0.50 for an October 1, 2019, grant date (prior year: 0.50 for a March 2, 2018, 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. This percentage amounts to 2.5% per year of membership on the Board of Managing Directors, and between 1.5% and 3% for one member of the Board of Managing Directors, gradually increasing over time. 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 59. 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. 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, 2019, calculated in accordance with IAS 19 and based on the beneficiary's current age and years of service. As a result of the change in the company's retirement benefits for the members of the Board of Managing Directors with a term of office extending beyond July 31, 2020, the benefits earned by each member of the Board of Managing Directors were fixed as at December 31, 2019, and deemed vested. No further benefits will be earned in relation to any service period beyond December 31, 2019. This applies to all members of the Board of Managing Directors with a term of office extending beyond July 31, 2020.

Service cost for 2019 and defined benefit obligations as at December 31, 2019, in accordance with IAS 19

in € thousands	Year	Service cost	Defined benefit obligation
Klaus Rosenfeld (CEO)	2019	1,244	14,255
Dietmar Heinrich [1]	2019	283	652
Andreas Schick	2019	328	514
Corinna Schittenhelm	2019	322	1,142
Michael Söding	2019	288	602
Dr. Stefan Spindler	2019	254	1,159
Uwe Wagner [2]	2019	74	75
Matthias Zink	2019	324	882
Managing Directors who left the company in 2019			
Prof. Dr. Peter Gutzmer [3]	2019	0	5,878
Total		**3,118**	**25,160**

[1] Dietmar Heinrich's retirement benefit arrangement remains unchanged.
[2] Uwe Wagner has been a member of the Board of Managing Directors of Schaeffler AG since October 1, 2019. Per the actuary, the DBO additionally includes interest expense on the service cost.
[3] Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His employment agreement remained in effect until December 31, 2019.

Service cost for 2018 and defined benefit obligations as at December 31, 2018, in accordance with IAS 19

in € thousands	Jahr	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.

Change in remuneration system 2015

As part of the change in the remuneration system in 2015, the company has committed to pay two then Managing Directors advances of EUR 300 thousand and EUR 225 thousand, respectively, for 2018, and has also committed to pay EUR 300 thousand in advance to one of these Managing Directors for 2019; these payments will be offset against payment of the long-term bonuses granted in 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 agreement of Uwe Wagner, who was appointed to the Board of Managing Directors in 2019, includes a post-contract non-competition clause calling for corresponding compensation.

Prof. Dr.-Ing. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG early as at October 1, 2019. His employment agreement remained in effect until December 31, 2019. The fixed remuneration, including fringe benefits, he continued to receive amounts to a total of EUR 166 thousand and his proportionate short-term bonus for 2019 is EUR 157 thousand. In connection with the post-contract non-competition clause, the company will make additional payments over a period from January 2020 to probably December 2021 in the amount of 50% of the average monthly contractual remuneration granted for the last 12 months before the end of Prof. Dr.-Ing. Gutzmer's employment. 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 continued to receive amounted to a total of EUR 304 thousand and his proportionate short-term bonus for 2018 was EUR 321 thousand.

External activities of members of the Board of Managing Directors

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

Appropriateness of the remuneration of the Board of Managing Directors

In accordance with section 87 AktG, the Supervisory Board of Schaeffler AG ensures that the remuneration of individual members of the Board of Managing Directors bears a reasonable relationship to the duties and performance of such member as well as the condition of the company. The Supervisory Board engaged Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to review the appropriateness of the Managing Directors' remuneration, most recently in 2019. 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 2018 and 2019.

Benefits granted for 2019

	Klaus Rosenfeld				Dietmar Heinrich				Andreas Schick			
	Chief Executive Officer				Chief Financial Officer				Chief Operating Officer			
	since October 24, 2014				since August 1, 2017				since April 1, 2018			
in € thousands	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)
Fixed remuneration	1,200	1,200	1,200	1,200	600	600	600	600	450	600	600	600
Fringe benefits	28	32	32	32	20	30	30	30	19	34	34	34
Total	**1,228**	**1,232**	**1,232**	**1,232**	**620**	**630**	**630**	**630**	**469**	**634**	**634**	**634**
One-year variable remuneration	1,200	1,200	0	1,800	600	600	0	900	450	600	0	900
Multi-year variable remuneration												
• Long-term bonus: PSUP (4 years) - 2016 tranche	-	-	-	-	-	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2017 tranche	-	-	-	-	-	-	-	-	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2018 tranche	1,052	-	-	-	526	-	-	-	329	-	-	-
• Long-term bonus: PSUP (4 years) - 2019 tranche	-	734	0	2,600	-	367	0	1.300	-	367	0	1.300
Total	**3,479**	**3,166**	**1,232**	**5,632**	**1,746**	**1,597**	**630**	**2,830**	**1,248**	**1,601**	**634**	**2,834**
Pension expense	1,244	1,244	1,244	1,244	279	283	283	283	242	328	328	328
Total remuneration	**4,723**	**4,411**	**2,477**	**6,877**	**2,026**	**1,880**	**913**	**3,113**	**1,490**	**1,929**	**962**	**3,162**

Benefits received for 2019

	Klaus Rosenfeld		Dietmar Heinrich		Andreas Schick	
	Chief Executive Officer		Chief Financial Officer		Chief Operating Officer	
	since October 24, 2014		since August 1, 2017		since April 1, 2018	
in € thousands	2019	2018	2019	2018	2019	2018
Fixed remuneration	1,200	1,200	600	600	600	450
Fringe benefits	32	28	30	20	34	19
Total	**1,232**	**1,228**	**630**	**620**	**634**	**469**
One-year variable remuneration	1,254	856	627	428	627	321
Multi-year variable remuneration						
• Long-term bonus: PSUP (4 years) - 2015 tranche [1]	420	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	0	0	0
• Long-term bonus: PSUP (4 years) - 2018 tranche	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2019 tranche	0	0	0	0	0	0
Total	**2,906**	**2,084**	**1,257**	**1,048**	**1,261**	**790**
Pension expense	1,244	1,244	283	279	328	242
Total remuneration	**4,151**	**3,327**	**1,540**	**1,328**	**1,589**	**1,031**

[1] Received in March 2019 for the 2015 tranche, which had a performance period from 2015 to 2018.

Corinna Schittenhelm				Michael Söding				Dr. Stefan Spindler				Uwe Wagner				Matthias Zink			
Chief Human Resources Officer				CEO Automotive Aftermarket				CEO Industrial				Chief Technology Officer				CEO Automotive OEM			
since January 1, 2016				since January 1, 2018				since May 1, 2015				since October 1, 2019				since January 1, 2017			
2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)
600	600	600	600	600	600	600	600	600	600	600	600	-	150	150	150	600	600	600	600
25	27	27	27	30	31	31	31	24	28	28	28	-	13	13	13	26	42	42	42
625	**627**	**627**	**627**	**630**	**631**	**631**	**631**	**624**	**628**	**628**	**628**	**-**	**163**	**163**	**163**	**626**	**642**	**642**	**642**
600	600	0	900	600	600	0	900	750	750	0	1.125	-	150	0	225	600	600	0	900
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
526	-	-	-	526	-	-	-	647	-	-	-	-	-	-	-	526	-	-	-
-	367	0	1.300	-	367	0	1.300	-	452	0	1.600	-	87	0	325	-	367	0	1.300
1,750	**1,594**	**627**	**2,827**	**1,756**	**1,598**	**631**	**2,831**	**2,021**	**1,830**	**628**	**3,353**	**-**	**401**	**163**	**713**	**1,752**	**1,609**	**642**	**2,842**
325	322	322	322	278	288	288	288	252	254	254	254	-	74	74	74	323	324	324	324
2,076	**1,916**	**949**	**3,149**	**2,034**	**1,886**	**919**	**3,119**	**2,273**	**2,084**	**882**	**3,607**	**-**	**475**	**237**	**787**	**2,075**	**1,934**	**967**	**3,167**

Corinna Schittenhelm		Michael Söding		Dr. Stefan Spindler		Uwe Wagner		Matthias Zink	
Chief Human Resources Officer		CEO Automotive Aftermarket		CEO Industrial		Chief Technology Officer		CEO Automotive OEM	
since January 1, 2016		since January 1, 2018		since May 1, 2015		since October 1, 2019		since January 1, 2017	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
600	600	600	600	600	600	150	-	600	600
27	25	31	30	28	24	13	-	42	26
627	**625**	**631**	**630**	**628**	**624**	**163**	**-**	**642**	**626**
627	428	653	500	773	704	157	-	534	376
0	0	0	0	172	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	0	0	0	0	0	0	-	0	0
1,254	**1,053**	**1,284**	**1,130**	**1,573**	**1,328**	**320**	**-**	**1,176**	**1,002**
322	325	288	278	254	252	74	-	324	323
1,576	**1,378**	**1,572**	**1,408**	**1,827**	**1,580**	**394**	**-**	**1,501**	**1,326**

**Benefits granted for 2019 –
Managing Directors who left the company in 2019**

	Prof. Dr. Peter Gutzmer			
	Deputy CEO and Chief Technology Officer			
	from October 24, 2014 to October 1, 2019			
in € thousands	**2018**	**2019**	**2019 (Min)**	**2019 (Max)**
Fixed remuneration	600	450	450	450
Fringe benefits	29	21	21	21
Total	**629**	**471**	**471**	**471**
One-year variable remuneration	900	563	0	844
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) - 2016 tranche	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2017 tranche	-	-	-	-
• Long-term bonus: PSUP (4 years) - 2018 tranche	768	-	-	-
• Long-term bonus: PSUP (4 years) - 2019 tranche	-	536	0	1,900
Total	**2,297**	**1,570**	**471**	**3,215**
Pension expense	0	0	0	0
Total remuneration	**2,297**	**1,570**	**471**	**3,215**

**Benefits received for 2019 –
Managing Directors who left the company in 2019**

	Prof. Dr. Peter Gutzmer	
	Deputy CEO and Chief Technology Officer	
	from October 24, 2014 to October 1, 2019	
in € thousands	**2019**	**2018**
Fixed remuneration	450	600
Fringe benefits	21	29
Total	**471**	**629**
One-year variable remuneration	784	642
Multi-year variable remuneration		
• Long-term bonus: PSUP (4 years) - 2015 tranche [1]	307	0
• Long-term bonus: PSUP (4 years) - 2016 tranche	0	0
• Long-term bonus: PSUP (4 years) - 2017 tranche	0	0
• Long-term bonus: PSUP (4 years) - 2018 tranche	0	300
• Long-term bonus: PSUP (4 years) - 2019 tranche	300	0
Total	**1,862**	**1,570**
Pension expense	0	0
Total remuneration	**1,862**	**1,570**

[1] Received in March 2019 for the 2015 tranche, which had a performance period from 2015 to 2018; former Managing Directors also received payments under the 2015 PSUP tranche in 2019. These payments amounted to EUR 194 thousand for Dr. Ulrich Hauck, EUR 307 thousand for Norbert Indlekofer, EUR 307 thousand for Oliver Jung, and EUR 307 thousand for Prof. Dr. Peter Pleus.

The total remuneration for 2019 and 2018 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 2019 by individual

	Remuneration components			
in € thousands	fixed	variable, short-term	variable, long-term[1]	Total remuneration
Klaus Rosenfeld (CEO)	1,232	1,254	734	3,220
Dietmar Heinrich	630	627	367	1,624
Andreas Schick	634	627	367	1,628
Corinna Schittenhelm	627	627	367	1,621
Michael Söding	631	653	367	1,651
Dr. Stefan Spindler	628	773	452	1,853
Uwe Wagner [2]	163	157	87	407
Matthias Zink	642	534	367	1,543
Managing Directors who left the company in 2019				
Prof. Dr. Peter Gutzmer [3]	471	784	536	1.792
Total	**5,660**	**6,035**	**3,645**	**15,340**

[1] Share-based payment in the form of the PSUP.
[2] Uwe Wagner has been a member of the Board of Managing Directors of Schaeffler AG since October 1, 2019.
[3] Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His employment agreement remained in effect until December 31, 2019.

Total remuneration (HGB) for 2018 by individual

	Remuneration components			
in € thousands	fixed	variable, short-term	variable, long-term[1]	Total remuneration
Klaus Rosenfeld (CEO)	1,228	856	1,052	3,135
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	1,578
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	576	893
Prof. Dr. Peter Pleus [5]	643	564	768	1,975
Total	**6,250**	**4,979**	**6,244**	**17,473**

[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.

The total expenses and income resulting from the PSUP for 2019 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 2019

in € thousands	Expenses and income (IFRS)
Klaus Rosenfeld (CEO)	723
Dietmar Heinrich	196
Andreas Schick	148
Corinna Schittenhelm	336
Michael Söding	165
Dr. Stefan Spindler	434
Uwe Wagner [1]	7
Matthias Zink	255
Managing Directors who left the company in 2019	
Prof. Dr. Peter Gutzmer [2]	1,091
Total	**3,355**

[1] Uwe Wagner has been a member of the Board of Managing Directors of Schaeffler AG since October 1, 2019.
[2] Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His employment agreement remained in effect until December 31, 2019.

The total expenses 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

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	**-464**

[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.

3.3 Enhancement of the remuneration system effective January 1, 2020

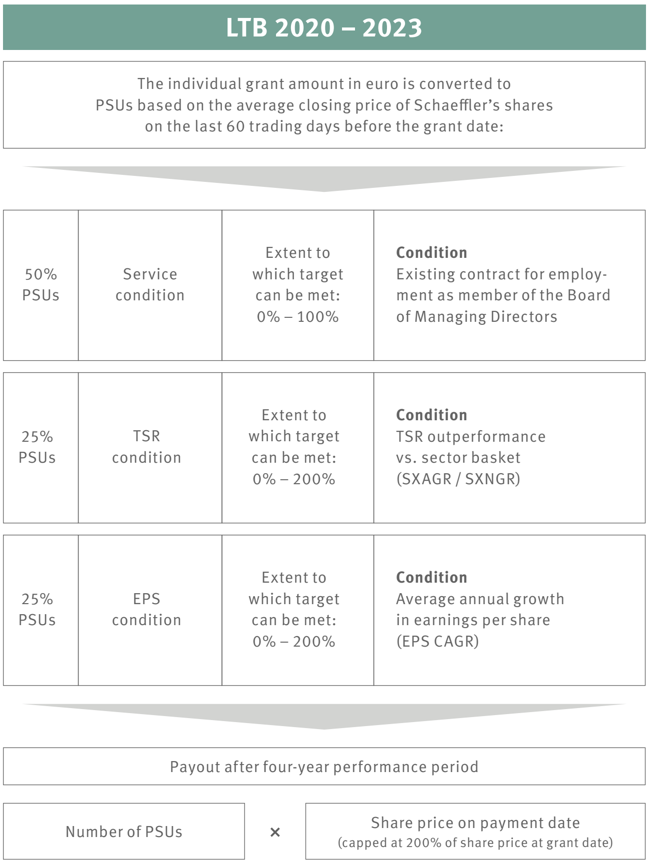
At its extraordinary meeting on February 4, 2020, Schaeffler AG's Supervisory Board passed a resolution to enhance the company's remuneration policy for the Board of Managing Directors. With the involvement of external consultants, the company's remuneration policy for the Board of Managing Directors, originally introduced in connection with the listing in October 2015, was revised with a view to expected amendments to the legal requirements regarding the remuneration of boards of managing directors (see Shareholder Rights Directive ("Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie" – ARUG II)), the draft German Corporate Governance Code (GCGC), as well as benchmark market practice. The amended remuneration policy for the Board of Managing Directors, which applies to all members of the Board of Managing Directors with a term of office extending beyond July 31, 2020, was approved by the Supervisory Board retroactive to January 1, 2020, and will be submitted to the annual general meeting for approval on April 17, 2020.

	2019	2020
Long-term variable remuneration	Components: 50% service condition 25% TSR condition 25% FCF condition	Components: 50% service condition 25% TSR condition 25% EPS condition
	Peer Group: MDAX	Peer group: weighted sector basket (SXAGR/SXNGR) [1]
	Extent to which target can be met for TSR and FCF condition: 0–100%	Extent to which target can be met for TSR and EPS condition: 0–200%
Obligation to hold shares	No	Yes, condition for payment of long-term variable remuneration
Sustainability reflected in the variable remuneration of the Board of Managing Directors	Strategic targets in short-term variable remuneration	Specific sustainability target in short-term variable remuneration; revision clause allowing sustainability targets to be added to long-term variable remuneration at a later date
Clawback	No	Yes
Remuneration capped	Individual components of remuneration capped	Total remuneration per role capped
Retirement benefits	Pure defined benefit model	Defined contribution model

[1] SXAGR: STOXX Europe 600 Automobiles and Parts Gross Return (weight: 75%); SXNGR: STOXX Europe 600 Industrial Goods and Services Gross Return (weight: 25%).

Long-term variable remuneration

The main features of the previous long-term variable remuneration system will be maintained. The amendments are designed to ensure that the system continues to comply with the requirements of market participants and the regulatory environment in the future and to further strengthen this compliance.



Service condition

The amount paid depends on Schaeffler AG's share price trend. Payment is only made 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.[5]

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

TSR condition

The TSR condition remains a component of long-term variable remuneration. It facilitates relative performance measurement by comparison to a peer group.

- In order to reflect the company's sector-specific market environment – Automotive OEM, Automotive Aftermarket, and Industrial – the peer group consists of a sector basket. This sector basket replicates the performance of the STOXX Europe 600 Automobiles and Parts Gross Return (SXAGR) and STOXX Europe 600 Industrial Goods and Services Gross Return (SXNGR), weighted 75% and 25%, respectively. These weights represent the revenue structure of the various business fields within Schaeffler AG.
- The TSR outperformance is calculated as the difference between the TSR of Schaeffler shares and the TSR of the peer group.
- The extent to which the target can be met is limited to 200%, representing TSR outperformance of at least +25%. A TSR outperformance of ‹ -25% represents 0% of the target being met.

EPS condition

EPS growth will replace the cumulative FCF target beginning in 2020. Annual EPS growth measured over the four-year performance period reflects Schaeffler AG's operating performance and, in combination with TSR outperformance, ensures balanced performance measurement.

- EPS growth is calculated based on the average annual growth rate (CAGR) of earnings per common non-voting share (EPS) during the performance period.
- Like the TSR condition, the extent to which the target can be met is capped at 200%, representing an annual growth rate of at least 7.5%. No payment is made for the EPS condition when the annual growth rate amounts to ‹ 0%.

Obligation to hold shares

To increase orientation toward the capital markets and to more extensively align the interests of the Board of Managing Directors and the owners of Schaeffler AG, the members of the Board of Managing Directors will in future be obligated to acquire shares in the company. Introduction of this obligation to hold shares also takes into account the widespread share ownership among managing directors in the international peer group.

The number of shares required to be held will be based on the level of fixed annual remuneration and will be gradually built up over the period ending December 31, 2023 (or, for new members of the Board of Managing Directors, over the first four-year LTB planning period). The members of the Board of Managing Directors are permitted to count their existing personal holdings of the company's common non-voting shares toward the obligation.

The CEO will be required to hold shares representing an amount twice that of his then current fixed annual remuneration. The remaining members of the Board of Managing Directors will be required to hold shares equaling the amount of their then current fixed annual remuneration. This is a prerequisite for payment of the 2020-2023 LTB tranches and of future LTB tranches.

Sustainability as part of the remuneration of the Board of Managing Directors

In order to reflect the growing importance of sustainability as part of the company's strategy, sustainability targets need to be taken into account in the remuneration of the Board of Managing Directors. Therefore, the Supervisory Board has set a specific target for the short-term variable remuneration in 2020, to be embedded in the agreed targets for 2020 as a multiplier with a possible range from 0.9 to 1.1 that is applied to the extent targets are met under the short-term bonus. However, the payout cannot exceed a maximum of 150% of the individual target-based bonus.

The sustainability target consists of two equally-weighted sub-targets that can be either met or not met.

- Improvement of the Schaeffler Group's CDP rating 2020 to at least "B"
- Implementation of measures in 2020 to increase energy efficiency by at least 25 GWh

The scoring level ("CPD rating") reflects the company's progress in assuming comprehensive responsibility for climate protection and is assigned by an independent non-profit organization. Under the second sub-target, the Board of Managing Directors has to implement energy efficiency measures presented to the Supervisory Board that will increase energy efficiency by at least 25 GWh annually. These measures prioritize buildings and plants as well as machinery and equipment. The energy efficiency measures and their implementation will be reviewed by an external and independent expert.

For coming years, sustainability targets will be reflected in the long-term variable remuneration of the Board of Managing Directors.

Clawback

With a view to future requirements of the revised GCGC, the company is introducing a clawback clause for variable remuneration. In the event of a severe violation of the duty of care in managing the company, the Supervisory Board can decide to withhold or claw back the variable remuneration. Variable components previously paid can be clawed back within five years of payment.

Cap on remuneration

In response to the amendments to the legal requirements regarding the remuneration of boards of managing directors (ARUG II), the Supervisory Board has capped the total remuneration per role on the Board of Managing Directors effective January 1, 2020, as part of its amendments to the company's remuneration policy for the Board of Managing Directors. The cap on the total remuneration granted for each year was set based on the maximum amounts of the various components of remuneration (base remuneration, STI, LTI, as well as retirement benefits and other fringe benefits).

Retirement benefits

A further significant change in connection with the amendments to the remuneration policy for the Board of Managing Directors relates to retirement benefits. Both the amount and the system will be more closely aligned with common market practice.

All current members of the Board of Managing Directors hold retirement benefit commitments. Until 2019, retirement benefit commitments made to members of the Board of Managing Directors took the form of final-pay-based defined benefit commitments. These defined benefit commitments were replaced with defined contribution commitments effective January 1, 2020. The defined benefits earned by each member of the Board of Managing Directors up to December 31, 2019, have been fixed and deemed vested. Effective January 1, 2020, a fixed contribution (benefit contribution) will be credited to a benefit account for each member of the Board of Managing Directors each year and invested in a reimbursement insurance policy.

The member of the Board of Managing Directors is then entitled to retirement or disability benefits in the form of a lump-sum payment in the amount of the balance in the benefit account, floored at no less than the sum of the benefit contributions made. Retirement benefits are paid if employment ends upon attainment of the age of 65. Disability benefits are paid if employment ends due to disability. Beneficiaries are entitled to claim retirement benefits early beginning at age 62. Members of the Board of Managing Directors can opt to receive their retirement benefits – rather than in a lump sum – in installments or in the form of a life annuity with monthly payments (annuity option).

The survivor is entitled to the balance on hand in the benefit account upon death of the member of the Board of Managing Directors. If the member of the Board of Managing Directors passes away while receiving an annuity, the survivor receives a life annuity of 60% of the most recent annuity payments, provided the member of the Board of Managing Directors had chosen the annuity option including coverage for surviving dependants.

Installment payments as well as life annuities are increased by 1.0% each year beginning at retirement.

Change in remuneration system 2020

Current members of the Board of Managing Directors to whom the new remuneration policy applies are granted a one-time smoothing component equal to half their annual fixed remuneration to compensate for the reduction in retirement benefits. The smoothing component will be granted in the form of PSUs with a service condition in early 2020 and will be paid in three equal tranches beginning in March 2021. The amount paid depends on Schaeffler AG's share price trend, further strengthening the focus of the remuneration of the Board of Managing Directors on the company's sustainable and long-term development. The total amount paid under all three tranches is capped at an amount equal to one year's fixed remuneration. For 2020 only, the cap on the total remuneration granted is increased by the maximum amount of the smoothing component.

3.4 Remuneration of the Supervisory Board

The description of the remuneration of the Supervisory Board includes the disclosures required by German commercial law and is consistent with the recommendations of the GCGC. The remuneration of the Supervisory Board was set by a resolution passed by the general meeting on December 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 2019 or 2018. The following tables summarize the amount of remuneration of each member of the Supervisory Board.

Supervisory Board remuneration for 2019 [1)]

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees [2)]	Total remuneration
Bendiek, Sabine (since April 24, 2019)	35		6	41
Bullinger, Prof. Dr. Hans-Jörg	50		12	62
Engelmann, Dr. Holger	50	14	14	77
Gottschalk, Prof. Dr. Bernd	50		8	58
Grimm, Andrea [3)]	50		6	56
Lau, Susanne [3)]	50		6	56
Lenhard, Norbert [3)]	50	20	18	88
Luther, Dr. Siegfried (until April 24, 2019)	16	6	3	25
Mittag, Dr. Reinold [3)]	50	20	15	85
Resch, Barbara [3)]	50	20	14	84
Schaeffler, Georg F. W.	100	40	20	160
Schaeffler-Thumann, Maria-Elisabeth	75	20	0	95
Soussan, Sabrina (since April 24, 2019)	35		6	41
Spindler, Dirk	50		9	59
Stalker, Robin	50	40	15	105
Stolz, Jürgen [3)]	50		9	59
Vicari, Salvatore [3)]	50	20	18	88
Wechsler, Jürgen [3)]	75	20	17	112
Wiesheu, Dr. Otto (until April 24, 2019)	16		2	17
Wolf, Prof. KR Ing. Siegfried	50	20	11	81
Worrich, Jürgen [3)]	50	20	18	88
Zhang, Prof. Dr.-Ing. Tong	50		12	62
Total	**1,100**	**260**	**236**	**1,596**

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 2018 [1)]

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 8, 2018) [3)]	20		5	25
Lenhard, Norbert [3)]	50	20	14	84
Luther, Dr. Siegfried	50	30	14	93
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**	**180**	**1.535**

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 2019 or 2018.

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 2024. 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 and technology committees
Seats on supervisory and similar boards: member of the supervisory board of Continental AG, Hanover;
chairman of the advisory board of ATESTEO Management GmbH

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, executive, and technology committees
Seats on supervisory and similar boards: member of the supervisory board of BMW AG, Munich (until May 16, 2019);
deputy chairman of the Supervisory Board of Siemens Healthcare GmbH, Erlangen (until March 18, 2019)

Sabine Bendiek (since April 2019)

Managing Director Microsoft Deutschland GmbH

Appointed: April 24, 2019

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
Seats on supervisory and similar boards: chairman of the Supervisory Board of ARRI AG, Munich; member of the Supervisory Board of Bauerfeind AG, Zeulenroda-Triebes; member of the Supervisory Board of CO.DON AG, Berlin (since June 12, 2019); member of the Supervisory Board of Alfred Kärcher SE & Co. KG, Winnenden (until June 30, 2019); chairman of the Supervisory Board of TÜV SÜD AG, Munich; deputy chairman of the Supervisory Board of Wilo SE, Dortmund (until April 13, 2019)

* Employee representative on the Supervisory Board.

Dr. Holger Engelmann
Chairman of the Management Board of Webasto SE

Appointed: December 1, 2014
Committee memberships: member of the nomination and audit committees
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 Supervisory Board of Plastic Omnium SA, Levallois-Perret, France; chairman of the Supervisory Board of Haldex AB, Stockholm, Sweden (since May 6, 2019)

Andrea Grimm*
Deputy Chairperson of the Works Council at the Herzogenaurach plant

Appointed: April 8, 2017

Susanne Lau*
Industrial management assistant
Chairperson of the Works Council at the Hamburg plant
Deputy Chairperson of the Company Works Council of Schaeffler Automotive Aftermarket GmbH & Co. KG

Appointed: August 8, 2018

Norbert Lenhard*
Chairman of the Group Works Council of Schaeffler AG

Appointed: November 19, 2015
Committee memberships: member of the mediation, executive, and technology committees

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

Sabrina Soussan (since April 24, 2019)
CEO Siemens Mobility GmbH

Appointed: April 24, 2019
Seats on supervisory and similar boards: member of the Board of Directors of ITT Inc., White Plains, U.S.

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: chairman of the audit committee
Seats on supervisory and similar boards: member of the Supervisory Board of Commerzbank AG, Frankfurt/Main; deputy chairman of the Supervisory Board of Schmitz Cargobull AG, Horstmar

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

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 and technology committees

Prof. TU Graz e.h. KR Ing. Siegfried Wolf
Entrepreneur

Appointed: December 1, 2014
Committee memberships: member of the executive and technology committees
Seats on supervisory and similar boards: member of the Supervisory Board of Banque Eric Sturdza SA, Geneva, Switzerland; member of the Supervisory Board of OJSC GAZ Group, Nizhny Novgorod, Russia (until February 20, 2019); member of the Supervisory Board of Miba AG, Laakirchen, Austria; member of the Supervisory Board of Mitterbauer Beteiligungs-AG, Laakirchen, Austria; chairman of the Supervisory Board of SBERBANK Europe AG, Vienna, Austria; member of the Supervisory Board of Continental AG, Hanover; member of the Supervisory Board of Porsche Automobil Holding SE, Stuttgart (since June 27, 2019)

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

Appointed: November 19, 2015
Committee memberships: member of the audit and technology committees

* Employee representative on the Supervisory Board.

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

The following members left the Supervisory Board in 2019

Dr. Siegfried Luther (until April 24, 2019)
Management Consultant

Appointed: December 1, 2014
Term of office ended: April 24, 2019
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. Otto Wiesheu (until April 24, 2019)
Lawyer

Appointed: December 1, 2014
Term of office ended: April 24, 2019

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. TU Graz e.h. KR Ing. Siegfried Wolf

Audit committee

Robin Stalker (Chairman), Dr. Holger Engelmann, 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

Prof. Dr. Hans-Jörg Bullinger (Chairman), Norbert Lenhard, Georg F. W. Schaeffler, Salvatore Vicari, Jürgen Wechsler, Prof. TU Graz e.h. 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) R&D, (2) Operations, Supply Chain Management & Purchasing, (3) Finance & IT, 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; Strategic IT & Digitalization
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; member of the board of directors of Schaeffler Holding (China) Co. Ltd., Shanghai, China; member of the board of directors of Schaeffler India Ltd., Mumbai, India; member of the board of directors of Siemens Gamesa Renewable Energy S.A., Zamudio, Spain

Dietmar Heinrich
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax and Customs; Corporate Reporting; Corporate Insurance; Shared Services; IT & Digitalization
Appointed: August 1, 2017
Term of office ends: July 31, 2020
Seats on supervisory and similar boards: member of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach; member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach

Andreas Schick
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, Supply Chain Management & 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, Hallbergmoos

Corinna Schittenhelm
Chief Human Resources Officer

Responsible for: HR Strategy, Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Sustainability, Environment, Health & Safety; Human Resources Functions
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; member of TÜV SÜD Gesellschafterausschuss GbR, Munich (since April 1, 2019)

Michael Söding
CEO Automotive Aftermarket

Responsible for: Business Development & Strategy AAM; Sales & Marketing AAM; Product Management & R&D AAM; Operations & Supply Chain Management AAM; Quality AAM; Purchasing & Supplier Management AAM; Divisional Controlling AAM; Human Resources 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 Management & Marketing Industrial; Strategic Business Field Industry 4.0; R&D Industrial; Operations & Supply Chain Management Industrial; Quality Industrial; Purchasing & Supplier Management Industrial; Divisional Controlling Industrial; Human Resources Industrial
Appointed: May 1, 2015
Term of office ends: April 30, 2023

Uwe Wagner (since October 1, 2019)
Chief Technology Officer

Responsible for: R&D Management; Advanced Research & Innovation; Corporate R&D; R&D Processes, Methods & Tools; Intellectual Property Rights
Appointed: October 1, 2019
Term of office ends: September 30, 2022
Seats on supervisory and similar boards: member of the Supervisory Board of IAV GmbH Ingenieursgesellschaft Auto und Verkehr, Berlin (since January 1, 2019); member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (since November 30, 2019); member of the advisory board of Xtronic GmbH, Boeblingen (since September 2, 2019), member of the advisory board of Compact Dynamics GmbH, Starnberg (since January 1, 2020)

Matthias Zink
CEO Automotive OEM

Responsible for: Business Development & Strategy Automotive OEM; Global Key Account Management Automotive OEM; BD Engine Systems; BD Transmission Systems; BD E-Mobility; BD Chassis Systems; R&D Automotive OEM; Operations & Supply Chain Management Automotive OEM; Quality Automotive OEM; Purchasing & Supplier Management OEM; Divisional Controlling OEM; Human Resources OEM
Appointed: January 1, 2017
Term of office ends: December 31, 2024
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg; member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach; member of the Supervisory Board of Schaeffler Savaria Kft., Szombathely, Hungary; chairman of the board of directors of Schaeffler (China) Co. Ltd., Shanghai, China

The following member left the Board of Managing Directors in 2019

Prof. Dr.-Ing. Peter Gutzmer (until October 1, 2019)
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 ended: October 1, 2019
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg (until November 21, 2019); member of the supervisory board of Continental AG, Hanover (until April 26, 2019); chairman of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (until December 31, 2019); chairman of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (until November 29, 2019)

Financial statements 2019

1. Balance sheet

Balance sheet of Schaeffler AG

in €	12/31/2019	12/31/2018	Change in %
ASSETS			
Intangible assets	**56,498.00**	**63,261.00**	**-10.7**
Property, plant and equipment	**208,740.00**	**287,056.00**	**-27.3**
Shares in affiliated companies	14,108,811,258.16	14,108,811,258.16	0.0
Loans receivable from affiliated companies	105,488,974.25	172,988,197.93	-39.0
Long-term financial assets	**14,214,300,232.41**	**14,281,799,456.09**	**-0.5**
Fixed assets	**14,214,565,470.41**	**14,282,149,773.09**	**-0.5**
Trade receivables	0.00	0.00	0.0
Receivables from affiliated companies	8,655,680,942.56	8,559,563,794.71	1.1
Receivables from entities to which the company is linked by equity ownership	3,730.65	733.04	> 100
Other assets	63,515,895.03	168,776,090.22	-62.4
Receivables and other assets	**8,719,200,568.24**	**8,728,340,617.97**	**-0.1**
Cash at banks	**46,371,775.84**	**190,853,595.88**	**-75.7**
Current assets	**8,765,572,344.08**	**8,919,194,213.85**	**-1.7**
Prepaid expenses and deferred charges	**240,615.33**	**893,805.09**	**-73.1**
Excess of plan assets over post-employment benefit liability	**4,462,920.30**	**5,470,791.47**	**-18.4**
Total assets	**22,984,841,350.12**	**23,207,708,583.50**	**-1.0**
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	3,811,114,756.05	3,672,955,806.81	3.8
Retained earnings	453,809,423.22	499,458,949.24	-9.1
Shareholders' equity	**7,289,924,179.27**	**7,197,414,756.05**	**1.3**
Provisions for pensions and similar obligations	51,611,677.81	47,972,117.25	7.6
Tax provisions	120,698,944.15	124,661,073.39	-3.2
Other provisions	105,669,848.71	120,983,159.36	-12.7
Provisions	**277,980,470.67**	**293,616,350.00**	**-5.3**
Bonds	2,200,000,000.00	0.00	-
Bank debt	319,452,380.50	1,344,000,000.00	-76.2
Trade payables	4,949,367.25	6,168,886.03	-19.8
Amounts payable to affiliated companies	12,736,423,943.18	14,352,253,321.64	-11.3
Other liabilities	154,011,196.25	10,055,456.78	> 100
• including taxes of EUR 1,864,921.83 (prior year: EUR 1,942,171.92)			
Liabilities	**15,414,836,887.18**	**15,712,477,664.45**	**-1.9**
Deferred income	**2,099,813.00**	**4,199,813.00**	**-50.0**
Total shareholders' equity and liabilities	**22,984,841,350.12**	**23,207,708,583.50**	**-1.0**

2. Income statement

Income statement of Schaeffler AG

in €	2019	2018	Change in %
1. Revenue	14,609,294.36	35,484,285.44	-58.8
2. Cost of sales	-13,556,646.12	-31,518,488.18	-57.0
3. Gross profit	**1,052,648.24**	**3,965,797.26**	**-73.5**
4. General and administrative expenses	-134,342,950.92	-115,673,190.26	16.1
5. Other operating income	391,793,604.66	352,697,763.01	11.1
6. Other operating expenses	-359,544,690.54	-297,753,843.81	20.8
7. Income from equity investments	725,000,000.00	800,000,000.00	-9.4
• affiliated companies EUR 725,000,000.00 (prior year: EUR 800,000,000.00)			
8. Income from other securities and long-term loans receivable	1,107,853.52	1,283,203.75	13.7
• affiliated companies EUR 1,107,853.52 (prior year: EUR 1,283,203.75)			
9. Other interest and similar income	38,760,819.83	34,398,691.14	12.7
• affiliated companies EUR 35,858,860.43 (prior year: EUR 33,133,022.08)			
10. Interest and similar expenses	-188,262,141.61	-177,560,106.62	6.0
• affiliated companies EUR 106,384,272.84 (prior year: EUR 135,069,820.83)			
11. Income taxes	-21,708,586.52	-101,855,730.30	78.7
12. Earnings after income taxes	**453,856,556.66**	**499,502,584.17**	**-9.1**
13. Other taxes	-47,133.44	-43,634.93	8.0
14. Net income for the year	**453,809,423.22**	**499,458,949.24**	**-9.1**
15. Retained earnings brought forward	-	0.00	0.0
16. Retained earnings	**453,809,423.22**	**499,458,949.24**	**-9.1**

3. Notes to the financial statements

3.1 General information on the financial statements

Schaeffler AG, Herzogenaurach, is registered in the Commercial Register B of the Fürth Local Court under No. HRB 14738.

These financial statements were prepared in accordance with the requirements of the German Commercial Code (“Handelsgesetzbuch” – HGB) and the supplementary provisions of the German Stock Companies Act (“Aktiengesetz”). The income statement has been prepared in the cost of sales format.

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 in 2018. 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 2019 has changed from that of the prior year.

3.2 Accounting policies

Intangible assets are recognized at acquisition cost and amortized on a straight-line basis over their expected useful life of 2 to 4 years.

Property, plant and equipment is measured at acquisition or manufacturing cost net of straight-line depreciation. The company expects their useful life to be 2 to 8 years.

Long-term financial assets, which comprise **shares in affiliated companies** and **loans receivable from affiliated companies**, are recognized at acquisition cost or, where there is a permanent impairment, at their lower fair value. Write-downs are reversed when the cause of the permanent impairment no longer exists.

Receivables and other assets are measured at face value taking into account all known risks. Non-interest-bearing receivables and other assets with a remaining term of more than one year are discounted back to the balance sheet date.

Derivative financial instruments are measured separately using market prices. Fair value is determined 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. Any resulting unrealized losses are recognized in profit or loss.

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. The company uses the net hedge presentation method of hedge accounting.

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. The assets offset in this balance are valued at fair value or at the price quoted for the plan assets in the capital markets.

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 taxes are also recognized on temporary differences of subsidiaries that are part of the same tax group as Schaeffler AG and of partnerships. The tax rate used to calculate deferred taxes is the rate expected to apply when the differences reverse and amounts to 28.7% (prior year: 28.6%). Deferred tax liabilities are offset against deferred assets. The net asset balance is not 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 2018 G") mortality tables. The valuation of pension provisions reflects future annual salary increases of 3.25%, pension increases of 1.0 – 1.75%, and an employee turnover rate of 2.1%. Pension obligations are discounted at the average of the previous ten years' market interest rate based on an assumed term of 15 years, as published by the German Central Bank ("Deutsche Bundesbank") as at December 31, 2019. This discount rate is 2.71% (3.21%).

Tax and other provisions are recognized at their expected settlement amount taking into account all known risks, uncertain obligations, and pending losses evaluated 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 have been discounted at the average of the previous seven years' market interest rate appropriate to their remaining term to maturity as published by the German Central Bank.

The Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan and the related provision, measured at the fair value of the payment obligation attributable to the period up to the reporting date, is presented under other provisions. The obligations are remeasured as at each balance sheet date. The fair value is determined using a binomial model that reflects the terms of the relevant contract (including payment floors and caps, target range for the TSR-based performance target, expected dividend payments, as well as the volatility of Schaeffler AG common non-voting shares and the benchmark index MDAX).

The resulting changes are recognized as personnel expense and presented under administrative expenses.

Bonds, 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.

Transactions denominated in foreign currency are translated at the mean spot exchange rate applicable on the balance sheet date. Any resulting unrealized losses are reflected in corresponding provisions for pending losses. Unrealized foreign exchange gains are only recognized to the extent they relate to receivables and liabilities due in up to one year. Balance sheet items denominated in foreign currency that form part of a hedging relationship designed to hedge currency risk and are subject to hedge accounting are translated at the mean spot exchange rate applicable on the transaction date.

3.3 Notes to the balance sheet

Fixed assets

Fixed assets of Schaeffler AG (HGB)

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, 2019	**184**	**184**	**865**	**865**	**14,108,811**	**172,988**	**14,281,799**	**14,282,848**
Additions	26	26	180	180	0	8,862	8,862	9,068
Disposals	0	0	-193	-193	0	-76,361	-76,361	-76,554
Transfers	0	0	0	0	0	0	0	0
Balance as at December 31, 2019	**210**	**210**	**852**	**852**	**14,108,811**	**105,489**	**14,214,300**	**14,215,362**
Accumulated amortization, depreciation, and write-downs								
Balance as at January 01, 2019	**121**	**121**	**578**	**578**	**0**	**0**	**0**	**699**
Additions	33	33	258	258	0	0	0	291
Disposals	0	0	-193	-193	0	0	0	-193
Transfers	0	0	0	0	0	0	0	0
Balance as at December 31, 2019	**154**	**154**	**643**	**643**	**0**	**0**	**0**	**797**
Net book values								
as at January 01, 2019	**63**	**63**	**287**	**287**	**14,108,811**	**172,988**	**14,281,799**	**14,282,149**
as at December 31, 2019	**56**	**56**	**209**	**209**	**14,108,811**	**105,489**	**14,214,300**	**14,214,565**

Long-term loans receivable from affiliated companies classified as fixed assets consist of EUR 30,000 thousand (prior year: EUR 90,000 thousand) due from Schaeffler Savaria Kft., EUR 65,489 thousand (prior year: EUR 82,988 thousand) due from FAG Magyarorszag Ipari Kft., and EUR 10,000 thousand (prior year: EUR 0 thousand) due from Schaeffler Invest GmbH.

Receivables and other assets

Receivables and other assets

in € thousands	12/31/2019 Due in up to one year	12/31/2019 Due in 1 to 5 years	12/31/2019 Due in more than 5 years	12/31/2018 Due in up to one year	12/31/2018 Due in 1 to 5 years	12/31/2018 Due in more than 5 years
Trade receivables	0	0	0	0	0	0
Receivables from affiliated companies	8,655,681	0	0	8,559,564	0	0
• including short-term loans of	7,892,762	0	0	7,722,217	0	0
• including other financial receivables of	13,481	0	0	12,966	0	0
• including trade receivables of	23,547	0	0	23,526	0	0
• including other receivables of	725,891	0	0	800,855	0	0
Receivables from entities to which the company is linked by equity ownership	4	0	0	1	0	0
Other assets	63,516	0	0	105,531	63,245	0

Other receivables from affiliated companies largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 725,000 thousand (prior year: EUR 800,000 thousand), which has not yet been paid. Schaeffler Technologies AG & Co. KG paid EUR 800,000 thousand in respect of net income for the prior year to Schaeffler AG in 2019. Schaeffler AG in turn used these funds entirely to pay off existing liabilities due to Schaeffler Technologies AG & Co. KG.

Due to the termination of hedge accounting for a hedging relationship under the net hedge presentation method, the positive initial market value of cross-currency swaps of EUR 63,245 thousand, which was included in other assets in the prior year, has been expensed under other operating expenses.

Due to the imparity principle, the company has not capitalized forward exchange contracts with positive market values of EUR 67,826 thousand (prior year: EUR 83,448 thousand) used to hedge currency risk from operations. The nominal amount of these contracts is EUR 4,250,032 thousand (prior year: EUR 3,528,694 thousand).

Excess of plan assets over post-employment benefit liability

The assets offset against pension obligations consist mostly of reimbursement insurance policies as well as equity, fixed-income, and money market fund units.

Net amount of pensions and similar obligations

in € thousands	12/31/2019	12/31/2018
Settlement amount of pensions and similar obligations	29,753	26,317
Fair value of plan assets offset	34,215	31,788
Net amount of pensions and similar obligations	**4,462**	**5,471**
Acquisition cost of plan assets offset	**33,507**	**31,794**

in € thousands	2019	2018
Interest income on plan assets offset	1,735	484
Interest expense on pensions and similar obligations [1)]	-9,191	-9,220
Net interest income (expense)	**-7,456**	**-8,736**

[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, 2019.

Capital reserves

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

Retained earnings

In 2019, a dividend of EUR 361 m was paid to the shareholders from retained earnings, and the remaining EUR 138 m was added to other revenue reserves. The company's net income for 2019 of EUR 454 m was added to retained earnings.

For 2019, the Board of Managing Directors will propose to the Schaeffler AG annual general meeting a resolution to pay a dividend of EUR 295 m and to add the remaining retained earnings to revenue reserves.

Other provisions

Other provisions

in € thousands	12/31/2019	12/31/2018
Provisions for pending losses on open transactions	73,295	93,259
Provisions for profit sharing, other bonuses, and share-based payments	20,043	14,897
Miscellaneous other provisions	12,332	12,827
Total other provisions	**105,670**	**120,983**

The company has recognized EUR 73,295 thousand (prior year: EUR 93,259 thousand) in provisions for pending losses for negative market values of forward exchange contracts used to hedge currency risk from operations. The nominal amount of these contracts is EUR 3,731,518 thousand (prior year: EUR 4,246,204 thousand).

Liabilities

Liabilities

			12/31/2019			12/31/2018
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
Bonds (not convertible)	0	1,550,000	650,000	0	0	
Bank debt	69,452	250,000	0	160,000	1,184,000	0
Trade payables	4,949	0	0	6,169	0	0
Amounts payable to affiliated companies	12,136,424	600,000	0	12,283,640	1,469,039	599,574
• including loans of	10,909,061	600,000	0	10,421,323	1,469,039	599,574
• including other financial debt of	1,149,522	0	0	1,754,206	0	0
• including trade payables of	4,667	0	0	3,594	0	0
• including other liabilities of	73,174	0	0	104,517	0	0
Other liabilities	153,734	277	0	10,055	0	0
• including taxes of	1,865	0	0	1,942	0	0

On March 19, 2019, Schaeffler AG issued three bond series denominated in EUR with terms ranging from three to eight years and an aggregate volume of EUR 2.2 bn. The three bond series are listed on the regulated market of the Luxembourg Stock Exchange. The 3-year bonds have a principal of EUR 750,000 thousand and a coupon of 1.125%, the 5-year bonds have a principal of EUR 800,000 thousand and a coupon of 1.875%, and the 8-year bonds have a principal of EUR 650,000 thousand and a coupon of 2.875%.

EUR 500,000 thousand of the bond proceeds received was used to prepay a portion of the term loan. The remaining funds were used to pay off three intragroup loans due to Schaeffler Finance B.V. totaling EUR 1,468,613 thousand. At the balance sheet date, amounts payable to affiliated companies still include a loan of EUR 600,000 thousand (prior year: EUR 2,068,613 thousand) due to Schaeffler Finance B.V.

In December 2019, the company established its first commercial paper program allowing it to issue a maximum of EUR 1 bn in short-term debt instruments. On December 31, 2019, the company had utilized EUR 115,000 thousand of the commercial paper program. The proceeds as well drawings under bilateral lines of credit enabled the company to repay the remaining EUR 500,000 thousand outstanding of the term loan in full late in the year.

There were no liens or similar rights as at the balance sheet date (prior year: EUR 1,000,000 thousand). 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

In 2019, a micro-hedge relationship between cross-currency swaps and intragroup loans was terminated because the hedged item was repaid in full and the hedging instrument was closed out. As a result, the positive initial market value of these cross-currency swaps, which had been included in other assets, was expensed, leading to EUR 24,435 thousand in other operating expenses.

At December 31, 2019, there is an additional micro-hedge relationship between cross-currency swaps with a notional amount of EUR 48,707 thousand (prior year: EUR 105,852 thousand). The hedging instrument has a positive fair value of EUR 590 thousand (prior year: EUR 2,123 thousand), and the hedged item has a negative fair value of EUR 590 thousand (prior year: EUR 2,123 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 590 thousand (prior year: EUR 27,607 thousand) in changes in the value of hedged items and EUR -590 thousand (prior year: EUR -34,972 thousand) in changes in the value of hedging instruments have not been recognized in the balance sheet.

Deferred taxes

Deferred tax liabilities significant in amount result from differences between amounts recognized in financial reporting and tax balance sheets with respect to fixed 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.

3.4 Notes to the income statement

Analysis of revenue

Analysis of revenue

in € thousands	2019	2018
Domestic	13,144	32,349
Foreign	1,465	3,135
Total revenue	**14,609**	**35,484**

As Schaeffler AG is the ultimate parent company of the Schaeffler Group, it provides services as part of managing the group; these services include public relations activities, treasury, legal consulting, tax consulting, compliance, human resources, internal audit, quality management, and general management.

Schaeffler AG exclusively performs the management functions of a corporate center. For this reason, employees fulfilling other functions were transferred to other subsidiaries and the system for recharging services within the group was revised in the prior year. This has further reduced the amount of revenue from services for subsidiaries.

Disclosures required for the cost of sales format

Disclosures required for the cost of sales format

in € thousands	2019	2018
Wages and salaries	80,441	78,444
Social security, post-employment, and other employee benefit costs	8,613	10,358
• including post-employment benefits of	1,196	2,911
Personnel expense	**89,054**	**88,802**

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

Other operating income includes foreign exchange gains of EUR 386,029 thousand (prior year: EUR 321,989 thousand). Other operating expenses include foreign exchange losses of EUR 356,274 thousand (prior year: EUR 297,753 thousand).

Other interest and similar income does not include any income from discounting provisions (prior year: EUR 674 thousand). Other interest and similar expenses includes EUR 11,771 thousand (prior year: EUR 12,572 thousand) in expenses from compounding provisions.

Expenses and income related to prior years

Expenses and income related to prior years

in € thousands	2019	2018
Tax expense and benefits related to prior years	13,085	11,523
Gains on reversal of provisions	1,012	26,094
Income related to prior years	**14,097**	**14,571**

3.5 Other disclosures

Contingent liabilities

Contingent liabilities

in € thousands	12/31/2019	12/31/2018	Change in %
From granting security for third-party liabilities	607,513	2,035,196	-70.1
• including amounts secured by liens of	607,513	2,035,196	-70.1
• including security granted for liabilities of affiliated companies of	607,513	2,035,196	-70.1

The company had guarantees outstanding of EUR 95,384 thousand (prior year: EUR 136,295 thousand) at December 31, 2019, 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

in € thousands	2019	2018	Change in %
Off-balance-sheet payment obligations	3,041	2,839	7.1
• including obligations under multi-year leases of	2,364	2,121	11.5
• including obligations to affiliated companies of	677	718	-5.7

Average number of employees for the year

Average number of employees

	2019	2018	Change in %
Salaried employees	535	560	-4.5
Temporary staff	20	24	-16.7
Total	**555**	**584**	**-5.0**

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; Strategic IT & Digitalization
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; member of the board of directors of Schaeffler Holding (China) Co. Ltd., Shanghai, China; member of the board of directors of Schaeffler India Ltd., Mumbai, India; member of the board of directors of Siemens Gamesa Renewable Energy S.A., Zamudio, Spain

Dietmar Heinrich

Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax and Customs; Corporate Reporting; Corporate Insurance; Shared Services; IT & Digitalization
Appointed: August 1, 2017
Term of office ends: July 31, 2020
Seats on supervisory and similar boards: member of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach; member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach

Andreas Schick

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, Supply Chain Management & 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, Hallbergmoos

Corinna Schittenhelm

Chief Human Resources Officer

Responsible for: HR Strategy, Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Sustainability, Environment, Health & Safety; Human Resources Functions
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; member of TÜV SÜD Gesellschafterausschuss GbR, Munich (since April 1, 2019)

Michael Söding

CEO Automotive Aftermarket

Responsible for: Business Development & Strategy AAM; Sales & Marketing AAM; Product Management & R&D AAM; Operations & Supply Chain Management AAM; Quality AAM; Purchasing & Supplier Management AAM; Divisional Controlling AAM; Human Resources 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 Management & Marketing Industrial; Strategic Business Field Industry 4.0; R&D Industrial; Operations & Supply Chain Management Industrial; Quality Industrial; Purchasing & Supplier Management Industrial; Divisional Controlling Industrial; Human Resources Industrial
Appointed: May 1, 2015
Term of office ends: April 30, 2023

Uwe Wagner (since October 1, 2019)

Chief Technology Officer

Responsible for: R&D Management; Advanced Research & Innovation; Corporate R&D; R&D Processes, Methods & Tools; Intellectual Property Rights
Appointed: October 1, 2019
Term of office ends: September 30, 2022
Seats on supervisory and similar boards: member of the supervisory board of IAV GmbH Ingenieursgesellschaft Auto und Verkehr, Berlin (since January 1, 2019); member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (since November 30, 2019); member of the advisory board of Xtronic GmbH, Boeblingen (since September 2, 2019), member of the advisory board of Compact Dynamics GmbH, Starnberg (since January 1, 2020)

Matthias Zink

CEO Automotive OEM

Responsible for: Business Development & Strategy Automotive OEM; Global Key Account Management Automotive OEM; BD Engine Systems; BD Transmission Systems; BD E-Mobility; BD Chassis Systems; R&D Automotive OEM; Operations & Supply Chain Management Automotive OEM; Quality Automotive OEM; Purchasing & Supplier Management OEM; Divisional Controlling OEM; Human Resources OEM
Appointed: January 1, 2017
Term of office ends: December 31, 2024
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg; member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach; member of the supervisory board of Schaeffler Savaria Kft., Szombathely, Hungary; chairman of the board of directors of Schaeffler (China) Co. Ltd., Shanghai, China

The following member left the Board of Managing Directors in 2019

Prof. Dr.-Ing. Peter Gutzmer (until October 1, 2019)

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 ended: October 1, 2019
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg (until November 21, 2019); member of the supervisory board of Continental AG, Hanover (until April 26, 2019); chairman of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (until December 31, 2019); chairman of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (until November 29, 2019)

Supervisory Board

In accordance with section 11 of its articles of incorporation, the company has a 20-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 and technology committees
Seats on supervisory and similar boards: member of the supervisory board of Continental AG, Hanover; chairman of the advisory board of ATESTEO Management GmbH

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, executive, and technology committees
Seats on supervisory and similar boards: member of the supervisory board of BMW AG, Munich (until May 16, 2019); deputy chairman of the supervisory board of Siemens Healthcare GmbH, Erlangen (until March 18, 2019)

Sabine Bendiek (since April 2019)

Managing Director Microsoft Deutschland GmbH

Appointed: April 24, 2019

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
Seats on supervisory and similar boards: chairman of the supervisory board of ARRI AG, Munich; member of the supervisory board of Bauerfeind AG, Zeulenroda-Triebes; member of the supervisory board of CO.DON AG, Berlin (since June 12, 2019); member of the supervisory board of Alfred Kärcher SE & Co. KG, Winnenden (until June 30, 2019); chairman of the supervisory board of TÜV SÜD AG, Munich; deputy chairman of the supervisory board of Wilo SE, Dortmund (until April 13, 2019)

Dr. Holger Engelmann

Chairman of the management board of Webasto SE

Appointed: December 1, 2014
Committee memberships: member of the nomination and audit committees
Seats on supervisory and similar boards: chairman of the supervisory board of Webasto Thermo & Comfort SE, Gilching

Prof. Dr. Bernd Gottschalk

Acting Partner of AutoValue GmbH

Appointed: December 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 supervisory board of Plastic Omnium SA, Levallois-Perret, France; chairman of the supervisory board of Haldex AB, Stockholm, Sweden (since May 6, 2019)

Andrea Grimm*

Deputy Chairperson of the Works Council at the Herzogenaurach plant

Appointed: April 8, 2017

Susanne Lau*

Industrial management assistant
Chairperson of the Works Council at the Hamburg plant
Deputy Chairperson of the Company Works Council of Schaeffler Automotive Aftermarket GmbH & Co. KG

Appointed: August 8, 2018

Norbert Lenhard*

Chairman of the Group Works Council Schaeffler AG

Appointed: November 19, 2015
Committee memberships: member of the mediation, executive, and technology committees

* Employee representative on the Supervisory Board.

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

Sabrina Soussan (since April 24, 2019)

CEO Siemens Mobility GmbH

Appointed: April 24, 2019
Seats on supervisory and similar boards: member of the board of directors of ITT Inc., White Plains, U.S.

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: chairman of the audit committee
Seats on supervisory and similar boards: member of the supervisory board of Commerzbank AG, Frankfurt/Main; deputy chairman of the supervisory board of Schmitz Cargobull AG, Horstmar

Jürgen Stolz*

Member of the Works Council at the Buehl plant
Member of the European Works Council of the Schaeffler Group

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 and technology committees

Prof. TU Graz e.h. KR Ing. Siegfried Wolf

Entrepreneur

Appointed: December 1, 2014
Committee memberships: member of the executive and technology committees
Seats on supervisory and similar boards: member of the supervisory board of Banque Eric Sturdza SA, Geneva, Switzerland; member of the supervisory board of OJSC GAZ Group, Nizhny Novgorod, Russia (until February 20, 2019); member of the supervisory board of Miba AG, Laakirchen, Austria; member of the supervisory board of Mitterbauer Beteiligungs-AG, Laakirchen, Austria; chairman of the supervisory board of SBERBANK Europe AG, Vienna, Austria; member of the supervisory board of Continental AG, Hanover; member of the supervisory board of Porsche Automobil Holding SE, Stuttgart (since June 27, 2019)

Jürgen Worrich*

Chairman of the European Works Council of the Schaeffler Group
Member of the Works Council at the Herzogenaurach plant

Appointed: November 19, 2015
Committee memberships: member of the audit and technology committees

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

The following members left the Supervisory Board in 2019

Dr. Siegfried Luther (until April 24, 2019)

Management Consultant

Appointed: December 1, 2014
Term of office ended: April 24, 2019
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. Otto Wiesheu (until April 24, 2019)

Lawyer

Appointed: December 1, 2014
Term of office ended: April 24, 2019

* 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 15 m in 2019 (prior year: EUR 18 m).

The following share-based remuneration was granted to members of the Board of Managing Directors in 2019 under the Performance Share Unit Plan (PSUP) implemented in 2015: 380,262 Performance Share Units (PSUs) subject to a service condition (fair value per PSU at grant date of EUR 5.35 and EUR 5.37, respectively), 162,135 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 5.35 and EUR 5.37, respectively) and 162,135 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 3.12 and EUR 2.17, respectively). Please refer to the remuneration report for a detailed discussion of the PSUP.

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

Short-term benefits paid to members of Schaeffler AG's Supervisory Board amounted to EUR 1.6 m (prior year: EUR 1.5 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 1 m in 2019 (prior year: EUR 3 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 28 m at December 31, 2019 (prior year: EUR 21 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 11,706 thousand (prior year: EUR 13,104 thousand).

Under section 268 (8) HGB, EUR 709 thousand (prior year: EUR 0 thousand) are not available for distribution, as they relate to assets recognized at fair value.

Gains are only available for distribution to the extent that distributable reserves remaining after such distribution plus any retained earnings brought forward less any losses brought forward are at least equal to the amounts not available for distribution.

Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code pursuant to section 161 AktG in December 2019 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, 2019.

List of shareholdings

List of shareholdings of Schaeffler AG as at 12/31/2019

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 [2)]	Starnberg	DE	100.00	2,624	0
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00	51	2
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00	1,636	-9
Elmotec Statomat GmbH	Karben	DE	100.00	-22,870	1,267
INA Automotive GmbH	Herzogenaurach	DE	100.00	14	-3
Industriewerk Schaeffler INA-Ingenieurdienst GmbH [2)]	Herzogenaurach	DE	100.00	558,435	0
K + K Industrieanlagen GmbH [1)]	Karben	DE	100.00	6,893	15
LuK Management GmbH	Buehl	DE	100.00	95	0
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00	27,091	-10,404
LuK Unna GmbH & Co. KG	Unna	DE	100.00	3,806	-15,676
Schaeffler Aerospace Germany Beteiligungs GmbH	Schweinfurt	DE	100.00	49	2
Schaeffler Aerospace Germany GmbH & Co. KG	Schweinfurt	DE	100.00	90,939	10,164
Schaeffler AS Auslandsholding GmbH [2)]	Buehl	DE	100.00	20,369	0
Schaeffler Automotive Buehl GmbH & Co. KG	Buehl	DE	100.00	1,315,375	173,129
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00	797,089	152,240
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	408	-11
Schaeffler Beteiligungsverwaltungs GmbH [2)]	Herzogenaurach	DE	100.00	40,841	0
Schaeffler Bio-Hybrid GmbH	Herzogenaurach	DE	100.00	4,591	-4,913
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 [2)]	Chemnitz	DE	100.00	622	0
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 Verwaltungs GmbH	Buehl	DE	100.00	108,099	44,201
Schaeffler Grundstücksverwaltungsgesellschaft mbH	Buehl	DE	100.00	240	-8
Schaeffler IAB Beteiligungs GmbH [2)]	Herzogenaurach	DE	100.00	4,567,977	0
Schaeffler IAB Verwaltungs GmbH [2)]	Herzogenaurach	DE	100.00	1,322,859	0
Schaeffler IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00	25	-1
Schaeffler Immobilien AG & Co. KG	Herzogenaurach	DE	100.00	148,286	11,783
Schaeffler Industrial Drives AG & Co. KG	Suhl	DE	100.00	4,113	-275
Schaeffler Invest GmbH [2)]	Herzogenaurach	DE	100.00	100	0
Schaeffler KWK Verwaltungs GmbH [2)]	Langen	DE	100.00	29	0
Schaeffler Monitoring Services GmbH [2)]	Herzogenrath	DE	100.00	816	0
Schaeffler Paravan Management GmbH	Herzogenaurach	DE	100.00	27	0
Schaeffler Qualifizierung und Beschäftigung GmbH [2)]	Schweinfurt	DE	100.00	122	0
Schaeffler Raytech Verwaltungs GmbH [2)]	Morbach	DE	100.00	15,781	0
Schaeffler Schweinfurt Beteiligungs GmbH [2)]	Schweinfurt	DE	100.00	726,564	0
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00	12,863,409	7,624
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 [2)]	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	4,764	-1,349
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	69	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00	93,858	2,791
Xtronic GmbH	Boeblingen	DE	100.00	1,645	-367
II. Foreign					
Schaeffler Middle East FZE	Jebel Ali	AE	100.00	17,073	482
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00	-1,691	-2,714
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00	80,681	6,823
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00	12,576	517
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00	9,319	1,216
Schaeffler Bulgaria OOD	Sofia	BG	100.00	468	188
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00	339	10
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00	177,033	34,948
Schaeffler Belrus OOO	Minsk	BY	100.00	726	231
Schaeffler Aerospace Inc.	Stratford	CA	100.00	43,388	19,940
Schaeffler Canada Inc.	Oakville	CA	100.00	56,355	12,193
Schaeffler Schweiz GmbH	Romanshorn	CH	100.00	11,408	9,939
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00	1,572	-123
ETC Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00	1,416	-896
RepXpert Automotive Aftermarket Services Consulting (Shanghai) LLP	Shanghai	CN	100.00	1,579	0
Schaeffler Automotive Aftermarket Services Consulting (Shanghai) Co.	Shanghai	CN	100.00	853	0
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00	822,093	152,420
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00	137,723	18,067
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00	55,175	3,761
Schaeffler (Xiangtan) Co., Ltd.	Xiangtan	CN	100.00	15,585	-5,849
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00	323	-288
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00	47,982	5,432
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00	619,332	100,236
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00	305,632	80,716
Schaeffler Colombia Ltda.	Bogotá	CO	100.00	464	57
Schaeffler CZ s.r.o.	Prague	CZ	100.00	11,191	921
Schaeffler Production CZ s.r.o.	Lanškroun	CZ	100.00	49,141	14,003
Schaeffler Danmark ApS	Aarhus	DK	100.00	11,335	2,280
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00	62,557	9,037
Schaeffler Finland Oy	Espoo	FI	100.00	10,684	580
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00	5,508	-1,690
Schaeffler France SAS	Haguenau	FR	100.00	80,030	-10,045
Schaeffler (UK) Limited	Sheffield	GB	100.00	28,444	16,106
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	GR	100.00	608	284
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00	27,983	7,805
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00	540	380
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00	29,739	1,121
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00	5,517	892
Schaeffler Savaria Kft.	Szombathely	HU	100.00	138,077	19,633
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00	3,360	293
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00	261	-108
Schaeffler India Ltd.	Mumbai	IN	74.13	369,406	46,622
INA Invest S.r.l.	Momo	IT	100.00	35,972	27
Schaeffler Italia S.r.l.	Momo	IT	100.00	103,026	6,430

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	6,986	1,784
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00	32,824	5,859
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00	46,129	6,357
Schaeffler Korea Corporation	Changwon-si	KR	100.00	368,058	66,303
Schaeffler Kazakhstan GmbH	Almatay	KZ	100.00	79	49
SIA "Schaeffler Baltic"	Riga	LV	100.00	878	219
Rodamientos FAG S.A. de C.V.	Puebla	MX	100.00	789	99
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Mexico City	MX	100.00	33,164	1,157
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	MX	100.00	264,490	9
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00	6,371	804
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00	65,016	-22,108
Schaeffler Transmision, S. de R.L. de C.V.	Puebla	MX	100.00	120,956	28,185
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00	9,127	914
Radine B.V.	Barneveld	NL	100.00	2,066	1,169
Schaeffler Finance B.V.	Barneveld	NL	100.00	43,195	27,693
Schaeffler Nederland B.V.	Barneveld	NL	100.00	6,772	1,579
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00	4,335	4,110
LuK Norge AS	Kongsberg	NO	100.00	8,783	80
Schaeffler Norge AS	Sandnes	NO	100.00	4,914	-15
Schaeffler Peru S.A.C.	Lima	PE	100.00	699	311
Schaeffler Philippines Inc.	Makati City	PH	100.00	2,026	-48
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	100.00	307	268
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00	27,711	8,654
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.00	32,469	6,706
Schaeffler Romania S.R.L.	Brașov	RO	100.00	3,360	293
Schaeffler SR d.o.o.	Belgrade	RS	100.00	263	69
Schaeffler Rus OOO	Ulyanovsk	RU	100.00	7,866	-230
Schaeffler Russland GmbH	Moscow	RU	100.00	18,622	4,609
Schaeffler Sverige AB	Arlandastad	SE	100.00	11,122	1,003
Schaeffler Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00	-3,388	-493
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00	25,723	-1,314
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00	267	-9
Schaeffler Kysuce, spol. s r.o.	Kysucké Nové Mesto	SK	100.00	203,381	19,844
Schaeffler Skalica spol. s r.o.	Skalica	SK	100.00	127,633	11,225
Schaeffler Slovensko spol s.r.o.	Kysucké Nové Mesto	SK	100.00	2,187	-737
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	100.00	1,673	0
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00	3,089	-6
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00	12,032	-877
Schaeffler Turkey Endüstrive Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.00	3,493	414
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00	3,331	304
Schaeffler Ukraine GmbH	Kiev	UA	100.00	2,195	460
FAG Bearings LLC	Danbury	US	100.00	5,296	547
LMC Bridgeport, Inc.	Danbury	US	100.00	12,139	42
LuK-Aftermarket Services, LLC	Valley City	US	100.00	132,272	2,884
Schaeffler Aerospace USA Corporation	Danbury	US	100.00	190,390	11,283
Schaeffler Group USA, Inc.	Fort Mill	US	100.00	700,341	12,806
Schaeffler Holding LLC	Danbury	US	100.00	5,296	547
Schaeffler Transmission Systems LLC	Wooster	US	100.00	382,220	58,883
Schaeffler Transmission, LLC	Wooster	US	100.00	134,461	6,773
Schaeffler Venezuela, C.A.	Caracas	VE	100.00	2	7
Schaeffler Vietnam Co., Ltd.	Biên Hòa City	VN	100.00	8,988	-12,023
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00	113,444	23,733

Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00	28,330	7,941
B. Investments					
I. Germany					
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00	210	1
Contitech-INA GmbH & Co. KG	Hanover	DE	50.00	29	-5
Schaeffler Paravan Technologie GmbH & Co. KG	Herzogenaurach	DE	90.00	185,302	-20,545
II. Foreign					
Resitec Ltd.	Telford	GB	33.30	-	-
Statec S.r.l.	Turin	IT	35.00	-	-
Eurings Zrt.	Debrecen	HU	37.00	5,496	473
Colinx, LLC	Greenville	US	20.00	3,096	45

1) Newly established.
2) There is a profit and loss transfer agreement.

Preparation of financial statements

The Board of Managing Directors of Schaeffler AG prepared the financial statements on February 18, 2020. As a result of a change in the assessment of the impact of the coronavirus on global economic growth subsequent to this date, the Board of Managing Directors of Schaeffler AG has decided to adjust the outlook for the Automotive Aftermarket and Industrial divisions in the combined management report and has prepared new financial statements on March 5, 2020, 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, March 5, 2020

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Dietmar Heinrich

Andreas Schick

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Uwe Wagner

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, 2019, and the income statement for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the accounting policies presented therein. In addition, we have audited the management report of Schaeffler AG for the financial year from January 1 to December 31, 2019. In accordance with German legal requirements, we have not audited the content of the parts of the management report which are listed in the "Other information" section of our report.

The management report includes references not provided for in the law that have been marked as unaudited. In accordance with German legal requirements, we have audited neither the content of these references nor the content of the information referred to by these references.

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, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, 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 parts of the management report which are listed in the "Other information" section. The management report includes references not provided for by the law that have been marked as unaudited. Our opinion covers neither these references nor any information referred to by these references.

Pursuant to section 322 (3) sentence 1 of the German Commercial Code ("Handelsgesetzbuch" – HGB), 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 Institute of Public Auditors in Germany ("Institut der Wirtschaftsprüfer" – 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 any 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 Matter 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 to December 31, 2019. 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 Long-Term Financial Assets

For information on the accounting policies used, please refer to Note 3.2 to the annual financial statements.

The Financial Statement Risk Long-term financial assets in Schaeffler AG's financial statements include EUR 14.109 m in shares in affiliated companies as at December 31, 2019. The Company's long-term financial assets represent 61.39% of total assets, and therefore have a material impact on the Company's net assets.

Long-term financial assets are stated at acquisition cost or, where impairment is likely to be permanent, at their lower 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 investment-specific forecasts for the three or five years following the balance sheet date, that are extrapolated using company-specific growth rates. The corresponding discount rates are derived from the rate of return for an alternative investment of similar risk. If 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 fair value using the discounted cash flow method, is complex and depends to a large extent on the Company's estimates and judgments regarding the assumptions made. This applies, inter alia, to the estimation of future cash flows and the company-specific growth rates, the determination of the capitalization rates, and the assessment of whether the impairment is permanent.

Our Audit Approach We conducted our audit using a risk-based approach. We assessed whether there are any indications of a need to recognize an impairment loss on shares in affiliates based on evidence obtained in our audit. Our audit procedures included evaluating the forecast of future revenue and earnings trends for the various companies. We discussed the company-specific forecasts with those responsible for the planning process. In addition, we assessed whether the Schaeffler Group's expectations for market growth were within a reasonable range as compared to peer-group industry information and other publicly available information, as well as whether the company-specific budgeted and planned amounts, underlying assumptions, and company-specific growth rates were within a reasonable range. 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 our internal 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 plans and budgets.

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

Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises:

- the combined non-financial report referred to in the management report,
- the combined corporate governance declaration referred to in the management report, and
- the disclosures extraneous to management reports which have been included in the management report and which have been marked as unaudited.

The other information also comprises the remaining parts of the annual report.

The other information does not comprise the annual financial statements, the information within the management report whose content has been audited, or 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, the information within the management report whose content has been audited, 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 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, any 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 and related disclosures made by management.
- conclude on the appropriateness of 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 underlying assumptions. 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 auditors by the annual general meeting on April 24, 2019. We were engaged by the Supervisory Board on July 4, 2019. We have been the auditors of Schaeffler AG, a publicly-listed company, 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 financial statements of Schaeffler AG and conducted various audits of the annual financial statements of subsidiaries and joint ventures. As part of our audit, we performed a review of interim financial statements, as well as audited parts of the system of internal controls over financial reporting. In addition, we audited the combined separate group non-financial report of Schaeffler AG as well as performed various statutory and contractual audits, such as audits in accordance with the German Renewable Energy Act ("Erneuerbare-Energien-Gesetz" – EEG), EMIR audits in accordance with section 32 (1) of the German Securities Trading Act ("Wertpapierhandelsgesetz" – WpHG), comfort letter in connection with the debt issuance program, and concurrent review of divisional consolidation project. Further, we provided support services in connection with an enforcement examination by the Financial Reporting Enforcement Panel (FREP) ("Deutsche Prüfstelle für Rechnungslegung e.V.").

Note on supplementary audit

We are issuing this auditors' report on the financial statements and the amended combined management report based on our duly performed audit completed on February 19, 2020, and our supplementary audit completed on March 6, 2020, which related to the change in the outlook for the Automotive Aftermarket and Industrial divisions in the "Schaeffler Group outlook" section. Please refer to management's discussion of the change in the "Schaeffler Group outlook" section of the amended management report and in the "Preparation of financial statements" section of the notes to the financial statements.

German Public Auditor Responsible for the Engagement

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

Munich, February 19, 2020, except as to the change referred to in the note on the supplementary audit, which is as of March 6, 2020.

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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

Responsibility statement by the company's legal representatives

The Board of Managing Directors of Schaeffler AG prepared the financial statements on February 18, 2020. As a result of a change in the assessment of the impact of the coronavirus on global economic growth subsequent to this date, the Board of Managing Directors of Schaeffler AG has decided to adjust the outlook for the Automotive Aftermarket and Industrial divisions in the combined management report and has prepared new financial statements on March 5, 2020, and released them for submission to the Supervisory Board of Schaeffler AG. 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, March 5, 2020

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Dietmar Heinrich

Andreas Schick

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Uwe Wagner

Matthias Zink