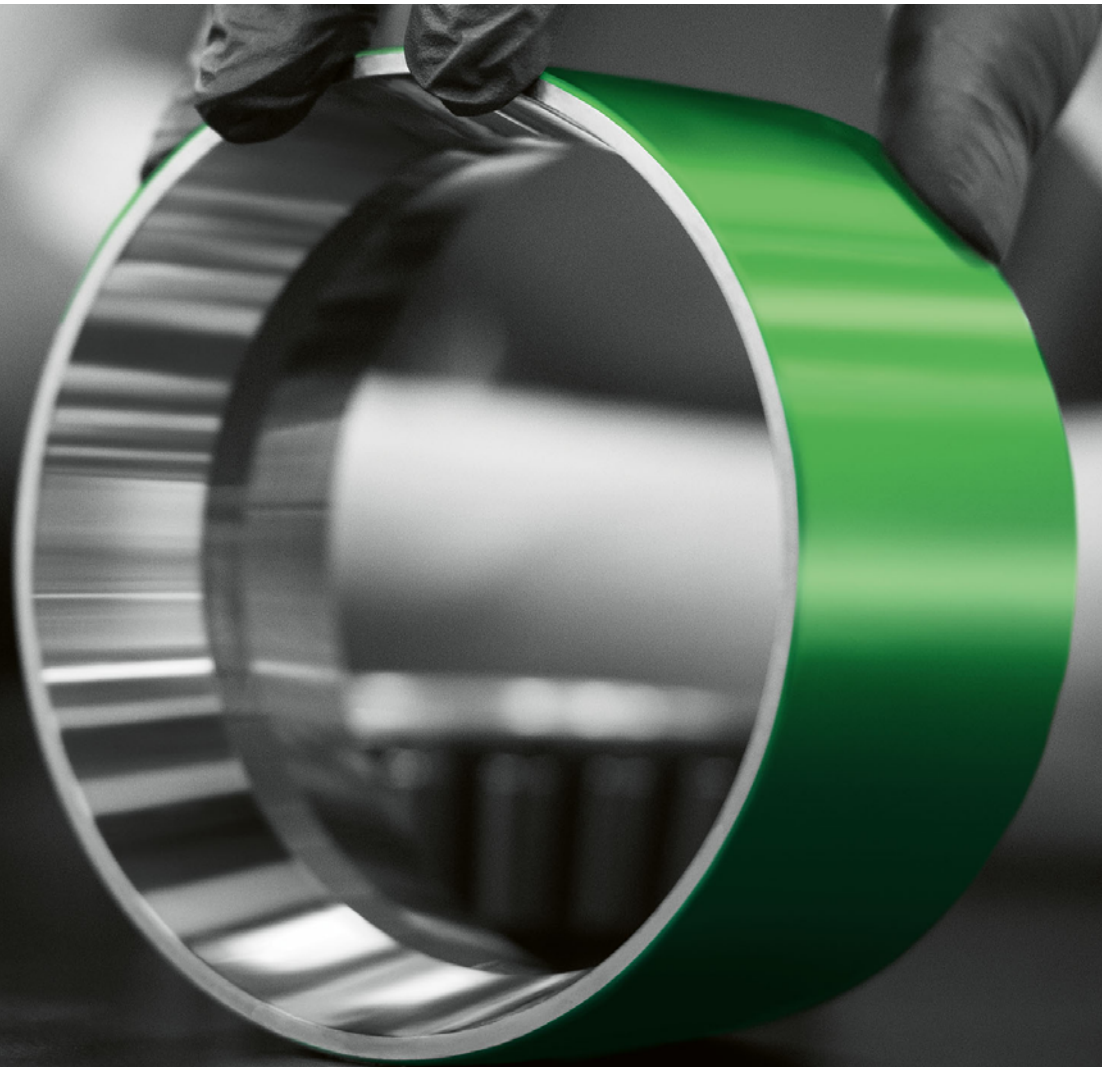


We pioneer motion

# Annual Report 2020



# Schaeffler Group at a glance

## Key figures

Income statement (in € millions)	2020	2019		Change
Revenue	12,600	14,427	-12.7	%
• at constant currency			-10.4	%
EBIT	-143	790	-	%
• in % of revenue	-1.1	5.5	-6.6	%-pts.
EBIT before special items <sup>1)</sup>	803	1,161	-30.9	%
• in % of revenue	6.4	8.1	-1.7	%-pts.
Net income (loss) <sup>2)</sup>	-424	428	-	%
Earnings per common non-voting share (basic/diluted, in €)	-0.63	0.65	-	%
Statement of financial position (in € millions)	12/31/2020	12/31/2019		Change
Total assets	13,207	12,870	2.6	%
Shareholders' equity <sup>3)</sup>	1,838	2,917	-1,079	€ millions
• in % of total assets	13.9	22.7	-8.7	%-pts.
Net financial debt	2,312	2,526	-8.4	%
• Net financial debt to EBITDA ratio before special items <sup>1)</sup>	1.3	1.2		
• Gearing ratio (Net financial debt to shareholders' equity <sup>3)</sup> , in %)	125.8	86.6	39.2	%-pts.
Statement of cash flows (in € millions)	2020	2019		Change
EBITDA	1,116	1,769	-36.9	%
Cash flows from operating activities	1,254	1,578	-324	€ millions
Capital expenditures (capex) <sup>4)</sup>	632	1,045	-412	€ millions
• in % of revenue (capex ratio)	5.0	7.2	-2.2	%-pts.
Free cash flow (FCF) before cash in- and outflows for M&A activities	539	473	66	€ millions
• FCF-conversion (ratio of FCF before cash in- and outflows for M&A activities to EBIT) <sup>5)</sup>	-	0.6	-	%-pts.
Value-based management (in € millions)				Change
ROCE (in %)	-1.8	9.0	-10.8	%-pts.
ROCE before special items (in %) <sup>1)</sup>	10.1	13.2	-3.2	%-pts.
Schaeffler Value Added	-862	-88	> 100	%
Schaeffler Value Added before special items <sup>1)</sup>	84	284	-70.2	%
Employees	12/31/2020	12/31/2019		Change
Headcount	83,297	87,748	-5.1	%

Automotive Technologies division <sup>6)</sup> (in € millions)	2020	2019		Change
Revenue	7,821	9,044	-13.5	%
• at constant currency			-11.6	%
EBIT	-330	286	-	%
• in % of revenue	-4.2	3.2	-7.4	%-pts.
EBIT before special items <sup>1)</sup>	278	496	-44.0	%
• in % of revenue	3.6	5.5	-1.9	%-pts.

Automotive Aftermarket division <sup>6)</sup> (in € millions)				Change
Revenue	1,641	1,848	-11.2	%
• at constant currency			-7.0	%
EBIT	229	290	-20.9	%
• in % of revenue	14.0	15.7	-1.7	%-pts.
EBIT before special items <sup>1)</sup>	259	305	-15.1	%
• in % of revenue	15.8	16.5	-0.7	%-pts.

Industrial division <sup>6)</sup> (in € millions)				Change
Revenue	3,138	3,535	-11.2	%
• at constant currency			-9.2	%
EBIT	-43	214	-	%
• in % of revenue	-1.4	6.0	-7.4	%-pts.
EBIT before special items <sup>1)</sup>	266	361	-26.3	%
• in % of revenue	8.5	10.2	-1.7	%-pts.

<sup>1)</sup> Please refer to pp. 35 et seq. for the definition of special items.

<sup>2)</sup> Attributable to shareholders of the parent company.

<sup>3)</sup> Including non-controlling interests.

<sup>4)</sup> Capital expenditures on intangible assets and property, plant and equipment.

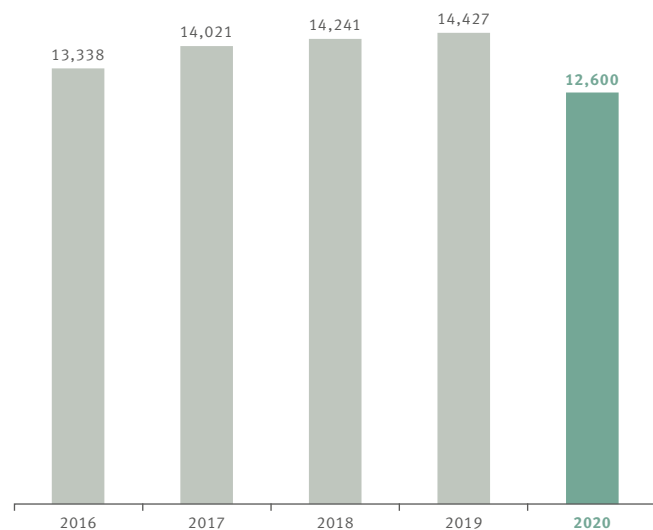
<sup>5)</sup> Only reported if free cash flow before cash in- and outflows for M&A activities and EBIT positive.

<sup>6)</sup> Prior year information presented based on 2020 segment structure.

## Key financials

### Revenue 2016–2020

in € millions



Revenue growth compared to prior year

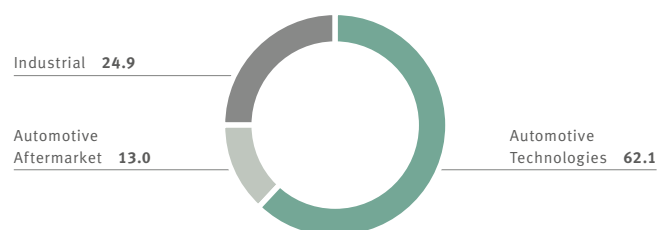
+1.2%    +5.1%    +1.6%    +1.3%    -12.7%

Revenue growth at constant currency

-10.4%

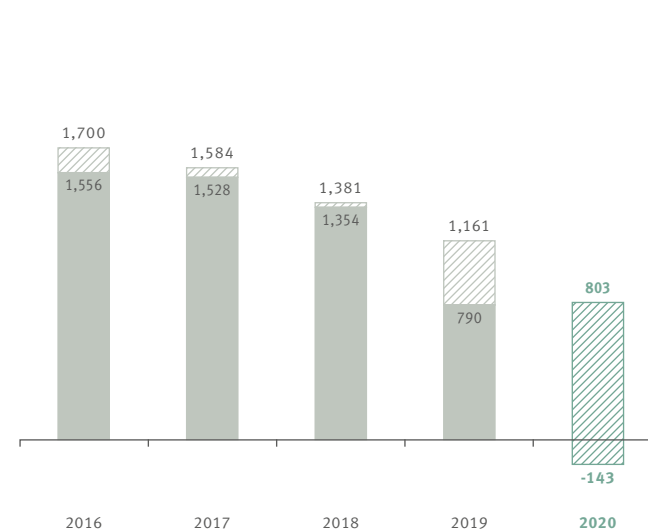
### Schaeffler Group revenue by division

in percent



### EBIT 2016–2020

in € millions



EBIT margin before special items

12.7%    11.3%    9.7%    8.1%    6.4%

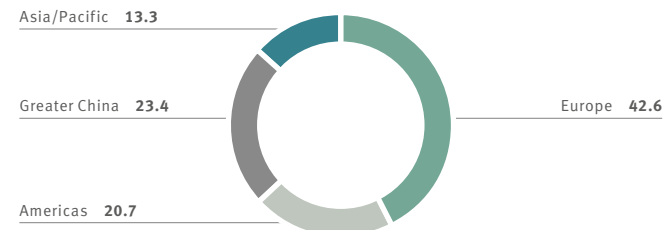
EBIT margin

11.7%    10.9%    9.5%    5.5%    -1.1%

EBIT before special items

### Schaeffler Group revenue by region

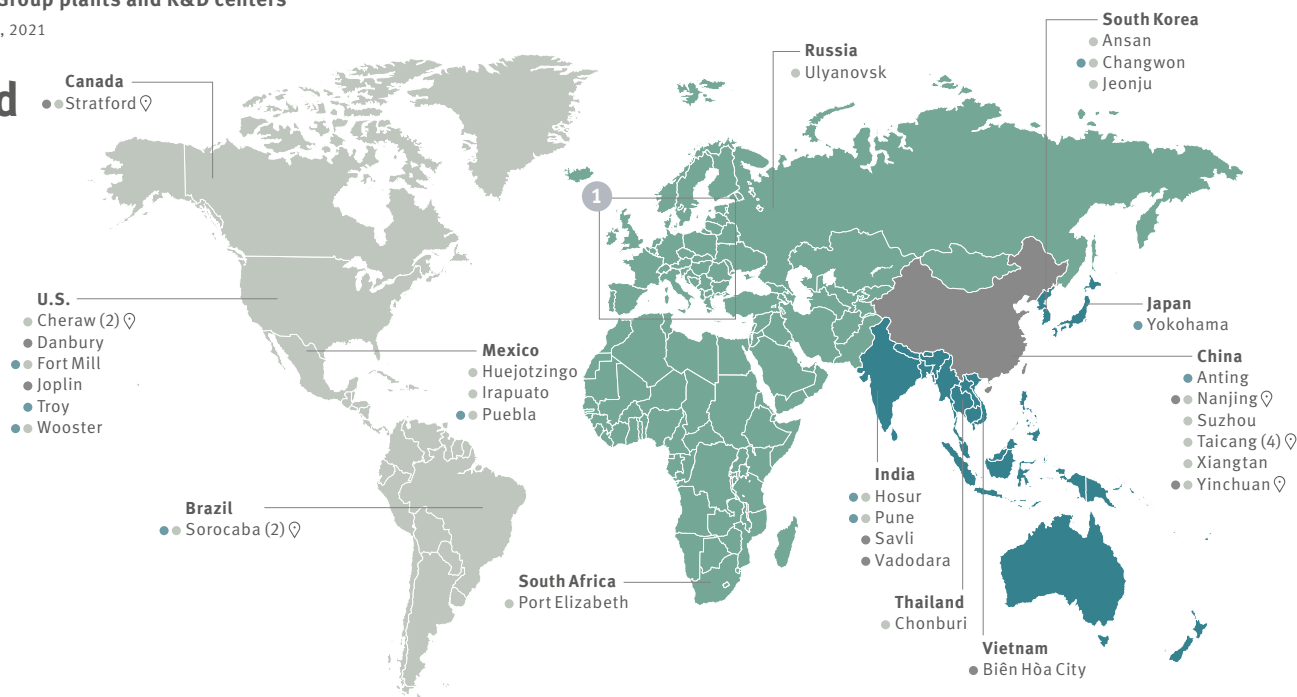
in percent by market view



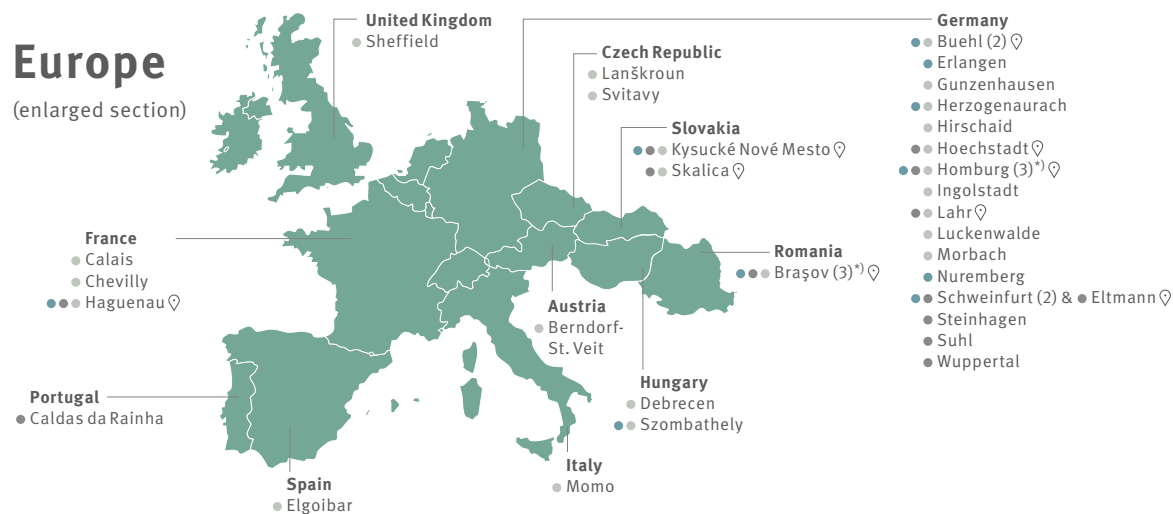
## Schaeffler Group plants and R&D centers

since January 1, 2021

### World



### 1 Europe (enlarged section)



Regions <sup>1)</sup>	Europe	Americas	Greater China	Asia/Pacific	Schaeffler Group
<b>R&amp;D centers</b>	10	5	1	4	20
<b>Plants</b>	43	13	10	9	75
Automotive	28	10	8	6	52
Industrial	15	3	2	3	23
<b>Campus locations</b>	9	3	3	—	15

Number of plants in brackets.

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

Braşov <sup>1)</sup> 2 plants Industrial, 1 plant Automotive  
Homburg <sup>1)</sup> 2 plants Automotive, 1 plant Industrial

# Highlights 2020

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Revenue down significantly despite recovery in H2;  
H1: -21.8% // H2: +1.0%

Revenue at **EUR 12.6 bn**  
(down 10.4% at constant currency)

(prior year: EUR 14.4 bn)

---

H2 earnings improved sequentially and compared to prior year  
H1 1.2% // H2 10.5% (H2 2019: 8.4%)

EBIT margin before special items **6.4%**

(prior year: 8.1%)

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Free cash flow ahead of prior year

Free cash flow before cash in-  
and outflows for M&A activities at  
**EUR 539 m**

(prior year: EUR 473 m)

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Schaeffler is positioning itself for the future

Implementation of structural measures in Europe and  
Roadmap 2025 started

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-  Further details in the report
-  Further details online

\* Part of the group management report.



## Message from the shareholders

# Message from the shareholders



Around the world, the year 2020 stands for a global crisis and danger like nothing most of us have ever experienced before. The coronavirus pandemic has brought home to us just how vulnerable the economy and society and how essential solidarity and flexibility are.

Like many other companies, the Schaeffler Group had to suspend its full-year guidance in March due to the massive slump in demand and disrupted production at many of our customers. Toward mid-year, the business gradually started to recover and the Schaeffler Group was able to meet the redefined full-year targets communicated in November. Once again, the global positioning as an automotive and industrial supplier operating worldwide in four regions has proven invaluable.

We would like to express our sincere appreciation to all employees of the Schaeffler Group who have shown great commitment and dedication, flexibility, and discipline under the challenging conditions of this crisis. Our particular gratitude and respect go, first and foremost, to the employees in production, to our company medical service, and to the crisis management teams.

When our company's founder Dr.-Ing. E. h. Georg Schaeffler developed the cage-guided needle roller bearing, whose 70th anniversary we celebrated in 2020, it revolutionized bearing technology around the world. Creativity and a pioneering spirit have always been part of Schaeffler's DNA. Our new claim "We pioneer motion" highlights this commitment to actively shape the mobility and motion of the future together with our customers and partners. And even in this highly demanding past year, the Schaeffler Group successfully brought innovations to the market.



Georg F. W. Schaeffler



Maria-Elisabeth Schaeffler-Thumann



## Message from the shareholders

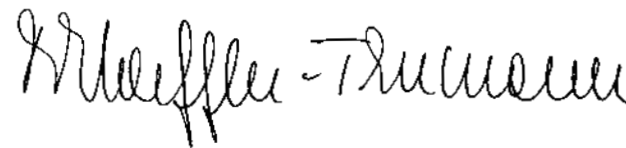
In addition to the impact of the coronavirus pandemic, our company is faced with profound changes in our social, geopolitical, and macro-economic environment and a technological transition that is progressing extremely rapidly. For that reason, the Schaeffler AG Board of Managing Directors, in close coordination with the Supervisory Board and the family shareholders, adopted a comprehensive package of structural measures in September. An appropriate and necessary step, even though it comes with some very painful cuts.

The Schaeffler Group is responding to this dynamic market environment and the related challenges with the “Roadmap 2025” it published in late fall. This corporate compass for the coming years sets out how the Schaeffler Group intends to develop and hold its own. The company will concentrate on more effectively utilizing and further expanding its strengths – innovative ability, superior quality, manufacturing excellence, and comprehensive system understanding – and on consistently realizing synergies across all areas of the company. With its “Schaeffler” brand and the four common corporate values Sustainable, Innovative, Excellent, and Passionate, the Schaeffler Group is strong and united in its thinking and its actions.

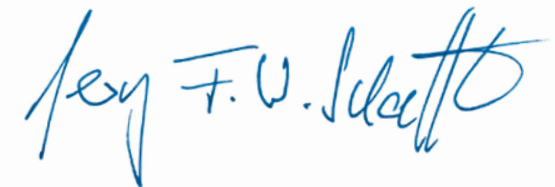
Despite all challenges and necessary changes – as family shareholders, we are convinced that the Schaeffler Group is on the right track.

We thank all of our employees as well as the customers, shareholders, business and research partners of the Schaeffler Group for their commitment and dedication, their flexibility, and their confidence in this unusual year 2020.

Yours sincerely,



Maria-Elisabeth Schaeffler-Thumann



Georg F. W. Schaeffler



## Introduction by the Chief Executive Officer

# Introduction by the Chief Executive Officer

*Ladies and gentlemen,*

After the challenging year 2019, we had started 2020 ready for action and cautiously optimistic. Once we had published the results and the full-year guidance in March 2020, we had originally planned to present our new strategic concept, explain the measures we were going to take to implement the concept, and kick off an image campaign. That didn't happen. You all know why. Only one day after our annual press conference on March 10, 2020, the World Health Organization classified the spread of the coronavirus as a pandemic that has since evolved into to a worldwide crisis.

Much has changed since then. Not only our assessment of the market and competitive environment, but also in the way we operate our business, how we lead, and what priorities we set. The pandemic has brought home to us that the health of our employees and their families is and must be our first priority. And how important strong crisis management is. And also, how strategically significant resilient supply chains are, especially for a global automotive and industrial supplier like us.

Over the course of 2020, we have seen that our structure with different divisions, business models, and regions makes sense and is invaluable, and that diversification can make a big difference in times of crisis. Especially so if we can build on a common technological basis across businesses and regions. And the pandemic has of course made us more acutely aware of the close connection between sustainability and digitalization. And of the fact that we have to do more and can do more to actually realize the potential emerging for us in these areas. Whether in production, in our plants, in the technical departments, or at the management level.



Klaus Rosenfeld



## Introduction by the Chief Executive Officer

The following thoughts are important to me personally: In the difficult year 2020, we, the Schaeffler Group, have proven once more that we can handle crises. We have stayed our course and, where needed, we have responded appropriately, early, and with a sense of proportion. With both tactical as well as the necessary structural measures. I would also like to emphasize the contribution made by our 4 regions. This crisis has clearly illustrated the value of our regional structure. And it has brought us closer together as a team – particularly across the various levels of management. That is especially important to me.

### A year full of motion

Reviewing the year 2020 in detail or attempting to provide detailed commentary on the year's events would be beyond the scope of this introduction. We have summarized the most important events for you under the heading "Significant events 2020". I would also like to recommend that you read the sections on the corporate strategy and on the results of operations of our divisions. They illustrate that 2020 was a year full of motion.

Let me name the following examples: The Automotive Technologies division has made great strides in the field of electric mobility. We have won orders for front and rear axle transmissions and for hybrid modules that are now being realized in volume production. Add to that dedicated hybrid transmissions and several orders for electric motors and electric axles. A particular highlight for the Automotive Aftermarket division was the assembly and packaging center Europe (AKO) in Halle (Saale) commencing operations in September 2020. By 2023, the AKO will house at least 60 percent of European inventories. Incorporating both digital and non-digital solutions, it will provide a long-term boost to efficiency and agility in the supply of spare parts for the automotive aftermarket. And finally, the Industrial division presented OPTIME, an innovative condition monitoring solution in the Industry 4.0 field that promises extensive customer benefit and has been very well received. A small product with a large impact and great potential. And only one example of the capability of our Industrial division that focuses on eight sectors and a wide range of applications and end markets.

„Over the course of 2020, we have seen that our structure with different divisions, business models, and regions makes sense and is invaluable, and that diversification can make a big difference in times of crisis.“

In parallel to the successes in the operating business, in early September 2020 we announced additional structural measures in Germany and Europe to further transform the Schaeffler Group, especially with a view to the technological transition, and to strengthen the company's ability to compete and realize future opportunities. The package of measures has two broad aims: one defensive and one proactive. On the one hand, it involves downsizing the workforce and capacity as well as consolidating locations. On the other hand, we want to cluster capabilities and strengthen German locations. While we are downsizing the workforce, with contributions made by all three divisions as well as the functional areas, we are making targeted investments in expanding local capabilities and improving the company's competitiveness.

In Herzogenaurach, we are establishing a cross-divisional center of excellence for hydrogen technology. No doubt a technology of the future, with applications offering extensive opportunities for both the Industrial and the Automotive Technologies divisions. At the Hoechststadt location, we will build a state-of-the-art tool manufacturing center and cluster capabilities from other locations. Additionally, we will expand our Buehl location into a

## Introduction by the Chief Executive Officer

center of excellence for electric mobility. Jobs originally intended for a foreign location will now be created there. And finally, we will significantly strengthen the Schweinfurt location. Not only in the promising fields of industrial automation and robotics, but also in our traditional bearing business.

Along with these selected measures, we will focus more closely on qualifying and training our employees. This, too, is a significant contribution to safeguarding our competitiveness and ability to realize future opportunities. And a sign that we are implementing all of these measures in a socially responsible and fair manner and with a sense of proportion. As laid down in our Future Accord and as can be expected from a family business.

### Roadmap 2025 “We pioneer motion”

We also used 2020 to review and enhance our strategic direction, define an integrated program of measures with three divisional and four cross-divisional subprograms, and to set our mid-term targets for the timeframe 2021 to 2025. These three elements make up our “Roadmap 2025” that we presented at the Capital Markets Day on November 18, 2020. The Roadmap 2025 is a forward strategy that illustrates where and how we intend to win. It builds on the Schaeffler Group’s specific capabilities and competitive advantages: innovation, quality, system understanding, and manufacturing excellence. Its objective is to more extensively realize opportunities for growth as well as synergies within the Schaeffler Group in order to create value sustainably. The framework for all this consists of our vision, our mission, and our newly reformulated purpose. And our new claim “We pioneer motion”, which connects all of our activities.

This claim also characterizes our image campaign that we started in the fourth quarter of 2020 in order to better showcase our Schaeffler brand. Only by living up to this claim can we achieve our commitment to be the preferred technology partner for our customers in the future as well.

We are focusing our activities on five future trends: sustainability & climate change, new mobility & powertrain electrification, autonomous production, data economy & digitalization, and demographic change. We consider especially the issues of sustainability and digitalization to be at once an obligation and an opportunity. Because only if we rank among the best in these fields will we win the future for us and for our customers. We are guided in this by our purpose, which also puts our commitment in a nutshell: “We pioneer motion to advance how the world moves”. The strong fourth quarter reassures us that we will emerge from the crisis of the year 2020 stronger than before.

With this in mind, I would like to thank all those who have stood by and supported the Schaeffler Group in 2020. Our customers and business partners. Our family shareholders and our investors. Our management and, above all, our employees in production. Their work literally generated the results of this very difficult year 2020. Our particular gratitude goes to them.

Yours sincerely,



Klaus Rosenfeld  
CEO

## Executive Board



**Klaus Rosenfeld**  
Chief Executive Officer



**Corinna Schittenhelm**  
Chief Human Resources Officer



**Dr. Klaus Patzak**  
Chief Financial Officer



**Matthias Zink**  
CEO Automotive Technologies



**Michael Söding**  
CEO Automotive Aftermarket



**Dr. Stefan Spindler**  
CEO Industrial





## Executive Board

## Executive Board



**Andreas Schick**  
Chief Operating Officer



**Uwe Wagner**  
Chief Technology Officer



**Jürgen Ziegler**  
Regional CEO Europe



**Marc McGrath**  
Regional CEO Americas



**Dr. Yilin Zhang**  
Regional CEO Greater China



**Dharmesh Arora**  
Regional CEO Asia/Pacific



# Significant events 2020

## First quarter 2020

At its meeting on March 6, 2020, the Supervisory Board of Schaeffler AG decided to renew the contract with Michael Söding, **CEO Automotive Aftermarket**, until December 31, 2023.

On March 24, 2020, the Board of Managing Directors of Schaeffler AG announced that it was suspending the **full-year outlook for 2020** for the Schaeffler Group and its divisions that had been published on March 10, 2020, due to the worldwide spread of the coronavirus pandemic and the resulting implications for the company's results of operations.

☰ More on the guidance for the Schaeffler Group and its divisions in the report on expected developments on pp. 59 et seq.

Since the start of the **coronavirus pandemic**, the Schaeffler Group has taken comprehensive measures to keep supply chains intact, safeguard the financial stability of the company, and protect the health of its employees. The Schaeffler Group bases the protective measures for its employees on the recommendations made by national, international, and local authorities. For instance, business travel and training have been restricted and employees in many areas have been working remotely since the pandemic began.

Given the low utilization of its production capacity, the Schaeffler Group took measures to adapt its costs to the abruptly changed market conditions in March 2020. In this context, the company has agreed on a set of measures for direct and indirect areas with employee representatives. Along with closure days, using hours in flexitime accounts, and plant holidays, the measures also comprise short-time work. To further safeguard the company's financial stability, investing activities were further adapted to current results of operations, in line with the Schaeffler Group's capital allocation management framework. To keep supply chains intact, requirements and capacities are proactively and closely coordinated with both customers and suppliers.

In connection with the spread of the coronavirus pandemic and the resulting implications for the company's results of operations, Schaeffler AG's Board of Managing Directors had postponed the strategic Capital Markets Day scheduled for March 24, 2020, that was to include communication of the strategy, and rescheduled it for November 18, 2020. Instead, the company held a **Capital Markets Update Call** with members of the Board of Managing Directors on March 24, 2020, to update investors and analysts on the implications of the pandemic for the company's current results of operations as well as on countermeasures implemented such as those to safeguard the company's financial stability.

The coronavirus pandemic and the measures taken worldwide to contain it led to increased uncertainty regarding the Schaeffler Group's future course of business and, therefore, to changes in the assumptions used to determine the recoverable amount of groups of cash-generating units. As a result, an **impairment** of EUR 249 m was recognized on goodwill allocated to the Automotive Technologies division as at March 31, 2020.

## Second quarter 2020

Schaeffler AG placed EUR 347 m in Schuldschein loans with international investors for the first time on April 9, 2020. EUR 300 m of these funds will be used exclusively to refinance a portfolio of sustainable products in accordance with the Schaeffler Group's **"Green Finance Framework"**. Further Schuldschein tranches with an aggregate volume of EUR 210 m were issued in the second and third quarter of 2020. The issue proceeds of the various Schuldschein loans were received in May, June, and August 2020.

Schaeffler AG's **virtual annual general meeting**, which was held on May 8, 2020, passed a resolution to pay a dividend 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 Schaeffler AG's shareholders for 2019. This represents a dividend payout ratio of 43.0% of net income attributable to shareholders before special items.

## Significant events 2020

### Third quarter 2020

Also at its meeting on May 8, 2020, the Supervisory Board of Schaeffler AG decided to renew the contract with **Chief Operating Officer** Andreas Schick for a further five years to March 31, 2026.

## Third quarter 2020

On July 20, 2020, the Supervisory Board of Schaeffler AG appointed Dr. Klaus Patzak as a member of the Board of Managing Directors of Schaeffler AG effective from August 1, 2020, for a three-year term of office ending on July 31, 2023. Dr. Patzak succeeded Dietmar Heinrich in the position of **CFO**, which includes responsibility for the Finance and IT functions. Dietmar Heinrich left Schaeffler AG at the end of his term of office on July 31, 2020, in order to pursue new challenges in his career.

On September 9, 2020, the Board of Managing Directors of Schaeffler AG adopted additional **structural measures in Europe** to further transform the Schaeffler Group and strengthen its ability to compete and realize future opportunities for the long term. These measures are expected to result in approximately EUR 700 m in transformation expenses. EUR 580 m of these expenses were recognized within the programs “RACE”, “GRIP”, and “FIT” during the reporting period. The package of measures has two broad aims: The first is to adjust excess structural capacity by downsizing the workforce and to consolidate Schaeffler’s locations in Europe, especially in Germany. All three of the group’s divisions and all of its corporate functions will contribute to the measures which will be implemented in the most socially responsible manner possible on the basis of the Future Accord agreed with the IG Metall trade union in 2018. The company is currently engaged in constructive dialog with employee representatives with the aim of implementing the structural measures using a diverse mix of tools. The second aim is to strengthen the company’s competitiveness and expand local capabilities. For instance, plans for Herzogenaurach, the Schaeffler Group’s global headquarters, include establishing a state-of-the-art central laboratory facility and siting a center of excellence for hydrogen technology. At the Buehl location, where the Automotive Technologies division is headquartered, the

center of excellence for electric mobility and electric-motor mass production will be expanded. In Schweinfurt, the headquarters of the Industrial division, Schaeffler plans to consolidate and cluster its production processes for classic mid- and large-diameter bearing products, thereby significantly boosting that location’s capabilities. The measures will also strengthen the Industrial division’s main development activities in key areas of future technology, such as in robotics. The company also intends to establish a center of innovation for groupwide Industry 4.0 technologies. Further, “RACE”, “GRIP”, and “FIT” program measures are being implemented outside of Europe as well. In this manner, the Schaeffler Group continuously adapts its structures to changing market conditions.

The **virtual extraordinary general meeting** of Schaeffler AG held on September 15, 2020, approved the creation of authorized capital of up to 200 million shares. This authorization only permits the issue of common non-voting shares and expires on August 31, 2025. The authorization does not permit an exclusion of subscription rights. This anticipatory resolution makes it possible to strengthen the company’s capital base as needed by way of a capital increase in order to drive forward the Schaeffler Group’s transformation and utilize potential growth opportunities.

## Fourth quarter 2020

Schaeffler AG placed two euro bond series with an aggregate volume of EUR 1.5 bn with international investors under its debt issuance program on October 5, 2020. The **bond issue** comprised two tranches of EUR 750 m each. The 5 year bonds carry a coupon of 2.750% and the 8 year bonds a coupon of 3.375%. The proceeds from the issuance are being used to refinance existing debt. On October 14, 2020, the company prepaid the capital investment loan of EUR 238 m in full and redeemed a EUR 205 m portion of Schaeffler AG’s bond series due in 2022. Additionally, on November 4, 2020, the company redeemed the final outstanding EUR 600 m bond series issued by Schaeffler Finance B.V.

On November 9, 2020, the Board of Managing Directors of Schaeffler AG agreed on a new **full-year outlook for 2020** based on current information concerning the course of business in the fourth quarter.

☰ More on the guidance for the Schaeffler Group and its divisions in the report on expected developments on pp. 59 et seq.

On November 18, 2020, the Schaeffler Group presented its **“Roadmap 2025”** at its first virtual Capital Markets Day 2020. The “Roadmap 2025” updates Schaeffler’s corporate strategy to 2025, sets out a program for its execution, and includes a set of financial mid-term targets. The company’s overarching goal is to create value sustainably for its customers and business partners, employees and executives, and its investors and family shareholders. In order to achieve this goal, Schaeffler plans to employ its key strengths – innovative ability, quality, systems know-how, and manufacturing expertise – to shape progress that moves the world. The claim **“We pioneer motion”** reflects this goal as well. Its newly expressed vision of being the automotive and industrial supplier of choice that leads through innovation, agility, and efficiency forms Schaeffler’s guiding principle.



# Schaeffler on the capital markets

## Capital market trends

In 2020, the capital markets were characterized by high volatility caused by the coronavirus pandemic. Due to the rapid spread of the coronavirus pandemic and the resulting adverse implications for the global economy, prices declined sharply in February and March 2020. Late in the first quarter of 2020, prices began to recover mainly in response to the announcement of government action to support the economy. Additionally, several central banks increased liquidity, supporting the rebound. Over the course of the remainder of the year, infection levels initially rose once more and, along with the related measures aimed at containing the coronavirus, led to renewed uncertainty and persistently high volatility in the capital markets. However, hope for the speedy availability and the first approval of a vaccine lifted the stock markets up again in the fourth quarter.

In this context, trends in the global equities markets varied in 2020. The Euro STOXX 50 fell by 5.1%, while the Dow Jones Industrial Average was up 7.2% and the Nikkei 225 16.0%. The Deutsche Aktienindex (DAX) increased by 3.5%, rising to a level of 13,719 points as at December 31, 2020.

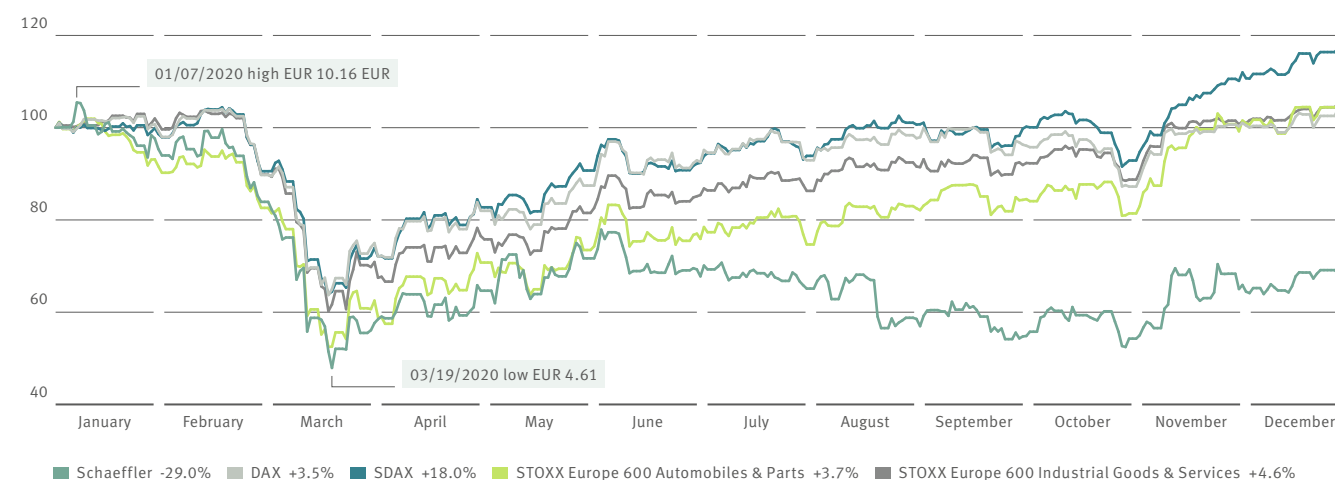
Corporate bonds were traded at heavily discounted prices for several weeks beginning in mid-March. Having bottomed out in early April, bond markets stabilized over the course of the remainder of 2020, albeit at a lower level than at the beginning of the year.

## Schaeffler shares

Schaeffler AG's common non-voting shares lagged behind the benchmark indexes DAX (+3.5% compared to December 31, 2019), SDAX (+18.0%), STOXX Europe 600 Automobiles & Parts (+3.7%), and the STOXX Europe 600 Industrial Goods and Services (+4.6%) in 2020. On December 31, 2020, the common non-voting shares of Schaeffler AG were quoted at EUR 6.84, 29.0% lower than on December 31, 2019.

### Schaeffler share price trend 2020

in percent (12/31/2019 = 100)



Source: Bloomberg (closing prices).

## Schaeffler on the capital markets

Ratings and Schaeffler bonds

## Schaeffler share performance

	2020	2019
Share price at year-end 12/31 (in €) <sup>1)</sup>	6.84	9.63
Share price (high; in €) <sup>1)</sup>	10.16	10.43
Share price (low; in €) <sup>1)</sup>	4.61	5.82
Average trading volume (number of shares)	677,107	1,007,373
DAX 12/31 <sup>1)</sup>	13,719	13,249
SDAX 12/31 <sup>1)</sup>	14,765	12,512
STOXX Europe 600 Automobiles & Parts 12/31 <sup>1)</sup>	527	508
STOXX Europe 600 Industrial Goods & Services 12/31 <sup>1)</sup>	629	602
Earnings per share (in €)		
• Common shares	-0.64	0.64
• Common non-voting shares	-0.63	0.65
Dividend per share (in €) <sup>2)</sup>		
• Common shares	0.24	0.44
• Common non-voting shares	0.25	0.45

<sup>1)</sup> Source: Bloomberg (closing prices).<sup>2)</sup> For the relevant year; proposed dividend for 2020.

Schaeffler shares suffered from risk-off decisions, especially impacting companies undergoing transformative change. Especially in the first half of the year, the automotive sector saw considerable adverse consequences emerge for both demand and production of passenger cars and light commercial vehicles. The creation of authorized capital and the – for investors – surprising timing had an additional adverse impact on the share price. The extensive structural measures announced in September to further transform the Schaeffler Group and strengthen its ability to compete and realize future opportunities for the long term were positively received by the financial markets. The strategic framework “Roadmap 2025” presented in November, with a focus on growth areas and active portfolio management on one hand and strict discipline with respect to capital and costs on the other, was received similarly positively. The initial market response to the related new financial mid-term targets was restrained, though. However, once the targets had been illustrated along with the “Roadmap 2025” at the Capital Markets Day, the price recovered.

## Schaeffler shares – base data

ISIN	DE000SHA0159
German securities identification number (WKN)	SHA015
Stock symbol	SHA
	Frankfurt Stock Exchange (Prime Standard)
German stock exchange	
Index	SDAX
Share type	Common non-voting
Number of common non-voting shares as at December 31, 2020	166,000,000
Free float	75%

For the year 2020, the Board of Managing Directors and the Supervisory Board will propose a dividend of EUR 0.24 per common share and EUR 0.25 per common non-voting share to the annual general meeting. This represents a dividend payout ratio of 49.7% of net income attributable to shareholders before special items.

## Ratings and Schaeffler bonds

Schaeffler AG holds ratings by the three rating agencies Fitch, Moody's, and Standard & Poor's. In light of the economic implications of the coronavirus pandemic, Moody's and Standard & Poor's downgraded their issuer rating for Schaeffler AG and the instrument ratings for the outstanding bonds in June and July, respectively. Moody's downgraded the Schaeffler Group's ratings from “Baa3” to “Ba1” on June 15, 2020. Standard & Poor's downgraded its ratings for the Schaeffler Group from “BBB-” to “BB+” on July 20, 2020. Fitch continues to assign an investment grade rating of “BBB-” to the Schaeffler Group.

## Dividend trend and dividend payout ratio

EUR per common non-voting share

<sup>1)</sup> Subject to approval by the annual general meeting.

The following summary shows the three rating agencies' ratings as at December 31, 2020:

## Schaeffler Group ratings

as at December 31

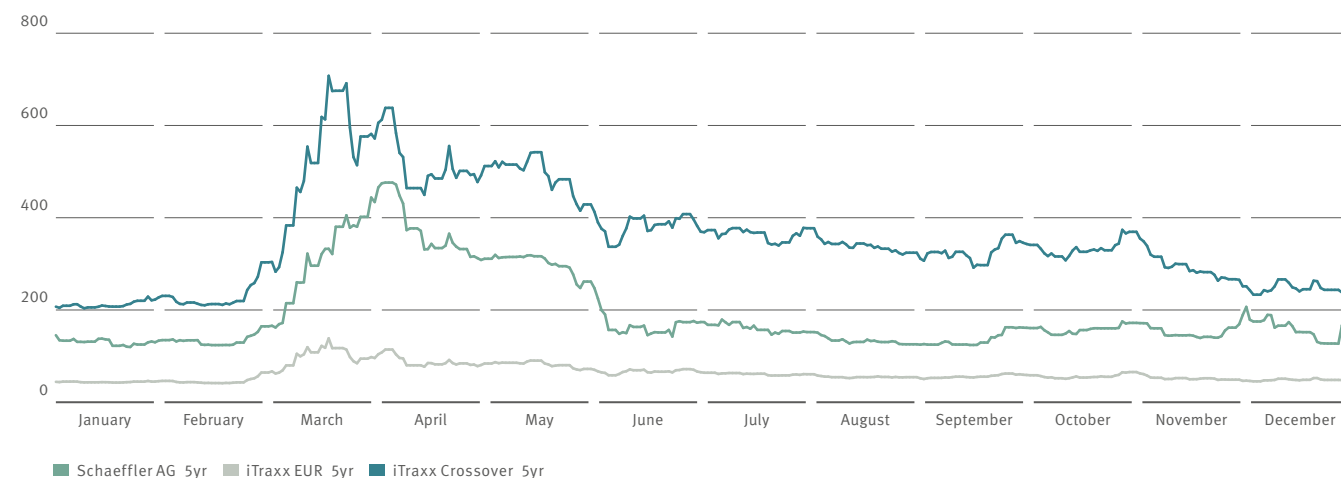
	2020	2019	2020	2019
	Company		Bonds	
Rating agency	Rating/Outlook		Rating	
Fitch	BBB-/negative	BBB-/stable	BBB-	BBB-
Moody's	Ba1/stable	Baa3/stable	Ba1	Baa3
Standard & Poor's	BB+/stable	BBB-/negative	BB+	BBB-

## Schaeffler on the capital markets

## Investor relations

## Credit default swap (CDS) price trend 2020

in basis points



Source: Bloomberg (closing prices).

The Schaeffler Group had a total of five series of bonds outstanding as at December 31, 2020, all of them denominated in EUR. The bonds were issued by Schaeffler AG.

The Schaeffler Group had the following bonds outstanding as at December 31, 2020:

## Schaeffler Group bonds

ISIN	Issuer	Currency	12/31/2020	12/31/2019	Coupon	Maturity	12/31/2020	12/31/2019
			Principal in millions	Principal in millions			Price in % <sup>1)</sup>	Price in % <sup>1)</sup>
DE000A2YB699 <sup>2)</sup>	Schaeffler AG	EUR	545	750	1.125%	03/26/2022	101.09	102.24
DE000A2YB7A7	Schaeffler AG	EUR	800	800	1.875%	03/26/2024	103.41	104.73
DE000A289Q91	Schaeffler AG	EUR	750	-	2.750%	10/12/2025	106.21	-
DE000A2YB7B5	Schaeffler AG	EUR	650	650	2.875%	03/26/2027	106.80	109.93
DE000A3H2TA0	Schaeffler AG	EUR	750	-	3.375%	10/12/2028	110.30	-

<sup>1)</sup> Source: Bloomberg.<sup>2)</sup> EUR 205,332,000 were prepaid on October 14, 2020. Original principal EUR 750,000,000.

The outstanding bond series trended laterally at the beginning of the year. Starting in early March, prices declined in connection with the spread of the coronavirus pandemic in Europe. They began to stabilize in the second quarter and remained stable throughout the remainder of the year. The prices of the two new bond series issued in October under the debt issuance program rose considerably. The bond series callable since May 15, 2020, issued by Schaeffler Finance B.V., was redeemed in full on November 4, 2020.

## Investor relations

An open and continuous dialogue with equity and bond investors and other capital market participants is important to Schaeffler AG. Due to the coronavirus pandemic, all IR activities in 2020 took place remotely from March onwards.

Members of the Board of Managing Directors and the Investor Relations team held numerous one-on-one discussions with institutional investors and analysts during roadshows, investor conferences, field trips, and the Capital Markets Day. The company regularly presented and discussed quarterly and annual results via conference calls. Discussions with analysts and investors focused on the results of operations and profitability of the various business areas and regions, the implications of the coronavirus pandemic, and the Schaeffler Group's restructuring measures. In the Automotive Technologies division, especially the distinction between mature business areas on the one hand and future-oriented technologies as well as new business on the other was of particular interest. With respect to future-oriented technologies, discussions with analysts and investors focused especially on the development of order intake and on technological competitive advantages. In the Automotive Aftermarket division, the main topics discussed and explained were enhancement of the business model and efficiency measures such as the new assembly and packaging center for the Europe region. For the Industrial division, discussions mainly pointed out growth initiatives in the components and systems business, such as components for wind turbines and for rail

**Schaeffler on the capital markets**

## Geographic distribution of free float

vehicles, rolling bearings and sensors for agricultural technology, new systems for robotics, the condition monitoring system OPTIME, and initial development of key components for fuel cells operating on hydrogen.

At the Capital Markets Day in November, members of the Board of Managing Directors presented the company's updated strategy and discussed the growth opportunities and value creation potential of the group and its three divisions. Presentations also included the mid-term targets for the timeframe to 2025 for the group and the three divisions. The next Capital Markets Day will be held in 2023 and will again focus on the Schaeffler Group's strategy and mid-term targets.

The company was covered by analysts representing a total of 19 banks (prior year: 17) as at February 5, 2021. Recommendations issued on Schaeffler AG's common non-voting shares were either "buy" or "overweight" by a total of seven banks, "hold" or "neutral" by nine banks, and "sell" or "underperform" by three banks. Their average upside target was EUR 6.70.

**Analyst opinions for Schaeffler AG shares <sup>1)</sup>**

Banks	Recommendation	Price target in €
Bankhaus Metzler	Buy	9.00
Berenberg Bank	Buy	7.20
BofA Merrill Lynch	Underperform	4.90
Citigroup	Neutral	6.30
Deutsche Bank	Hold	6.50
DZ Bank	Hold	6.30
Exane BNP Paribas	Underperform	5.60
HSBC	Buy	8.00
J.P. Morgan Cazenove	Overweight	8.00
Jefferies	Hold	7.00
Jyske Bank	Hold	6.70
Kepler Cheuvreux	Hold	6.60
Morgan Stanley	Underweight	5.10
NordLB	Hold	6.00
Oddo BHF	Buy	8.00
Pareto Securities	Buy	9.50
Stifel	Buy	7.30
UBS	Neutral	6.60
Warburg Research	Hold	7.00

<sup>1)</sup> Recommendations up to February 5, 2021.

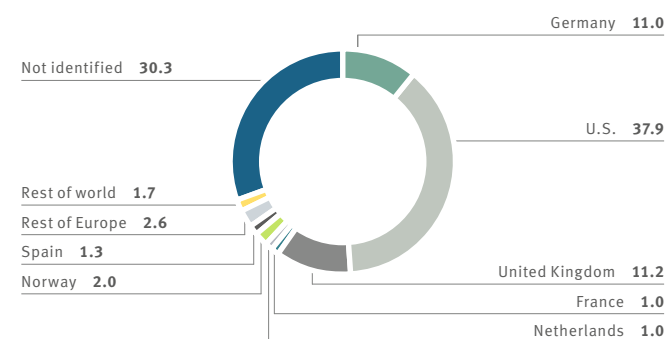
**Geographic distribution of free float**

The distribution of the institutional free float of Schaeffler's common non-voting shares as at January 31, 2021, was determined using a shareholder identification survey (Share ID). The identification rate was 69.7%. This means that, out of the 166 million common non-voting shares that are widely held, the survey was able to attribute 115.8 million shares to 160 institutional investors in approximately 30 countries. As at the

reporting date, 41.5 million shares, the largest holding, were held by strategic investor BDT Capital Partners. A total of 62.9 million shares were included in trading portfolios of institutional investors domiciled in the U.S. At year-end, 11.0% or 18.2 million shares were held by institutional shareholders in Germany. The unidentified free float of 30.3% represented private investors and others.

**Geographic distribution of free float**

in percent



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[www.schaeffler.com/ir](http://www.schaeffler.com/ir)

☰ See back cover for financial calendar.



# Group management report

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

## Special items

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

## Impact of currency translation/constant currency

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

Rounding differences may occur.

## References

Content of websites referenced in the group management report merely provides further information and is not part of the group management report and is unaudited. This does not apply to the corporate governance declaration including the corporate governance report in accordance with sections 289f 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.

\* Part of the group management report.

**Fundamental information about the group**  
Organizational structure and business activities

# 1. Fundamental information about the group

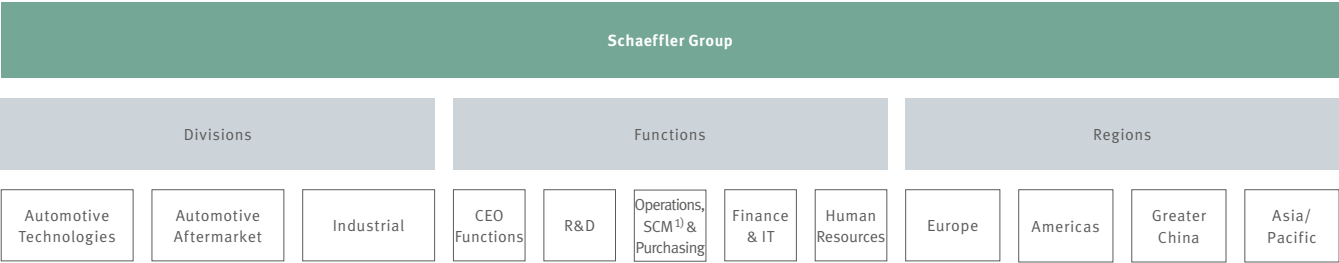
## 1.1 Organizational structure and business activities

The Schaeffler Group (also referred to as “Schaeffler” below) is a global automotive and industrial supplier. Employing a workforce of approximately 83,300, Schaeffler develops and manufactures high-precision components and systems for engine,

transmission, and chassis applications, electrified powertrain systems, as well as rolling and plain bearing solutions for several industrial sectors. These include innovative and sustainable technologies for vehicles with internal combustion engines and for hybrid and electric vehicles, as well as components and systems for rotary and linear motion, and services, maintenance products, and monitoring systems for several industrial

applications. Additionally, the company provides repair solutions in original-equipment quality for the automotive spare parts market worldwide.

### Schaeffler Group organizational structure



Simplified presentation for illustration purposes.  
<sup>1)</sup> Supply Chain Management.

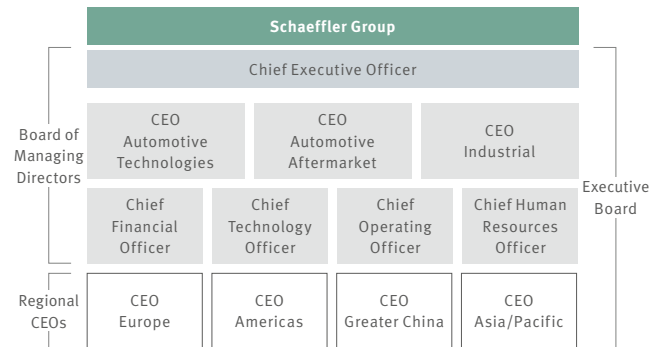
## Organizational and leadership structure

The Schaeffler Group is characterized by a three-dimensional organizational and leadership structure which differentiates between divisions, functions, and regions. Thus, the Schaeffler Group’s business is managed based on the three divisions – Automotive Technologies, Automotive Aftermarket, and Industrial – which also represent the reportable segments. The Automotive Technologies division business is organized 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.



**Fundamental information about the group**

Organizational structure and business activities

**Schaeffler Group leadership structure**

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.

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 Technologies (CEO Automotive Technologies), 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).

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 2020. The corporate governance declaration including the corporate governance report 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 declaration including the corporate governance report in accordance with sections 289f HGB and 315d HGB incl. the declaration of conformity pursuant to section 161 AktG at: [www.schaeffler.com/ir](http://www.schaeffler.com/ir)

**Schaeffler Group functions**

Schaeffler Group				
CEO Functions	R&D	Operations, Supply Chain Management & Purchasing	Finance & IT	Human Resources
<ul style="list-style-type: none"> <li>– Quality</li> <li>– Schaeffler Consulting</li> <li>– Communications &amp; Public Relations</li> <li>– Branding &amp; Corporate Marketing</li> <li>– Investor Relations</li> <li>– Legal</li> <li>– Internal Audit</li> <li>– Corporate Development &amp; Strategy</li> <li>– Compliance &amp; Corporate Security</li> <li>– Corporate Real Estate</li> <li>– Strategic IT &amp; Digitalization</li> </ul>	<ul style="list-style-type: none"> <li>– R&amp;D Management</li> <li>– Advanced Research &amp; Innovation</li> <li>– Corporate R&amp;D</li> <li>– R&amp;D Processes, Methods &amp; Tools</li> <li>– Intellectual Property Rights</li> </ul>	<ul style="list-style-type: none"> <li>– Schaeffler Production System, Strategy &amp; Processes</li> <li>– Digitalization &amp; Operations IT</li> <li>– Advanced Production Technology</li> <li>– Production Technology</li> <li>– Special Machinery</li> <li>– Supply Chain Management &amp; Logistics</li> <li>– Purchasing &amp; Supplier Management</li> <li>– Quality Operations, Supply Chain Management &amp; Purchasing</li> </ul>	<ul style="list-style-type: none"> <li>– Finance Strategy, Processes &amp; Infrastructure</li> <li>– Corporate Accounting</li> <li>– Corporate Controlling</li> <li>– Corporate Treasury</li> <li>– Corporate Tax &amp; Customs</li> <li>– Corporate Reporting</li> <li>– Corporate Insurance</li> <li>– Divisional Controlling Automotive Technologies</li> <li>– Divisional Controlling Automotive Aftermarket</li> <li>– Divisional Controlling Industrial</li> <li>– Shared Services</li> <li>– IT &amp; Digitalization</li> </ul>	<ul style="list-style-type: none"> <li>– HR Strategy</li> <li>– HR Policies &amp; Standards</li> <li>– Leadership, Recruiting &amp; Talent Management</li> <li>– Schaeffler Academy</li> <li>– HR Systems, Processes &amp; Reporting</li> <li>– Sustainability, Environment, Health &amp; Safety</li> <li>– HR Functions</li> </ul>

## Fundamental information about the group

### Organizational structure and business activities

## Legal group structure

The Schaeffler Group included 150 (prior year: 152) domestic and foreign subsidiaries as at December 31, 2020. The parent company is Schaeffler AG, which is based in Herzogenaurach. The corporate headquarters of the Schaeffler Group are located in Herzogenaurach as well. As at December 31, 2020, 99 (prior year: 102) subsidiaries are domiciled in the Europe region. 24 (prior year: 24) further subsidiaries are domiciled in the Americas region, 14 (prior year: 13) in the Greater China region, and 13 (prior year: 13) in the Asia/Pacific region.

Schaeffler AG is a publicly listed stock 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, 2020.

## Disposals during the year

On February 3, 2020, the business of the plants in Unna and Kaltennordheim were transferred to a consortium of investors. The employees' employment contracts were also assumed by the new owners as part of that transfer. 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. Since the buyer's original plans could not be realized due to the difficult market environment, Schaeffler took further support measures. In connection with these measures, Schaeffler is in a position to exercise contractual rights to participate in decision-making at both locations.

On October 15, 2020, the Schaeffler Group sold of all of its shares in Schaeffler Bio-Hybrid GmbH to Micromobility services and solutions GmbH under a management buyout (MBO). Schaeffler Bio-Hybrid GmbH was founded within the Schaeffler Group as a startup and had been working on developing a four-wheel pedelec bike named Bio-Hybrid since late 2017. The vehicle is powered by a combination of muscle power and an electric motor and can be driven in cycle lanes without a driver's license. The company has been renamed Bio-Hybrid GmbH. Being independent of the Schaeffler Group, the new entity will be able to be more agile in its actions and move ahead with volume production in a more targeted manner.

## Business activities

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

### Schaeffler Group revenue by division

in percent



## Fundamental information about the group

### Organizational structure and business activities

## Automotive Technologies division

The Automotive Technologies division partners with the global automotive industry in developing and manufacturing components and systems for internal combustion engine, transmission, and chassis applications, as well as for hybrid and electric powertrain systems. Along with technologies for low-emission and emission-free powertrains, this also includes products for autonomous driving. In late October 2020, the Schaeffler Group started the process of renaming the division “Automotive Technologies”. The name will be changed gradually at all locations worldwide, and the change does not affect the organizational structure or existing relationships with customers or suppliers. The new name is designed to convey the company’s role as technology partner to all customers requiring components as well as mechanical and mechatronic systems on the basis of comprehensive manufacturing expertise. The Automotive Technologies 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 components and systems for powertrain electrification – from 48-volt mild hybrids and plug-in hybrids through to all-electric drives. The product portfolio includes hybrid modules, electric axle transmissions, electric axle drives, electro-mechanical and hydraulic actuators, wet double clutches, as well as electric motors. In light of future market requirements, the E-Mobility BD has included, effective January 1, 2021, products in its portfolio that previously came under the Engine Systems BD, such as thermal management modules and key components for fuel cells.
- The **Engine Systems BD** develops and manufactures components and systems for conventional and hybridized internal combustion engines such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems, and products for chain and belt drives.

- The **Transmission Systems BD** develops and manufactures components and systems for all transmission types. Its portfolio includes products such as torque converters, torsion and vibration dampers, clutches, and transmission bearings.
- The **Chassis Systems BD** develops and manufactures products including mechanical components and systems for the chassis, such as wheel bearings, bearings for chassis and accessory units, as well as special applications for commercial vehicles.

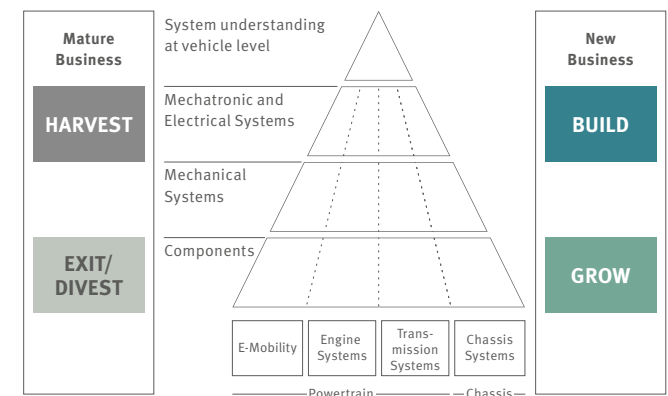
Demand for products of the Automotive Technologies division is heavily driven by global vehicle production, which in turn is closely linked to the development of sales markets and the general economy. In the medium to long term, market growth is affected not only by economic factors, but is also heavily influenced by the legal environment. Hence, regulatory requirements and ecological reasons will increase demand for products that help reduce pollutants and meet prescribed limits. Additionally, buying incentives and an expanding charging infrastructure could further boost 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 Technologies division operates in a highly competitive market environment. In the fields of powertrain technology and chassis systems, the division primarily competes with other large automotive suppliers. In the future-oriented fields of electric mobility and autonomous driving, additional competitors new to the industry are entering the market.

Being a partner to the manufacturers of passenger cars and commercial vehicles, the Automotive Technologies division is actively involved in shaping the technological change in the industry via its research and development activities. This change is reflected in how the division manages its product portfolio and capital allocation: While in mature business areas with

limited potential for growth – such as mechanical components and systems – the focus is on profitability and efficiency, Automotive Technologies concentrates its investing activities more closely on future-oriented technologies and new business areas, especially in the fields of mechatronic applications and systems for efficient, low-emission, and electrified powertrains, as well as autonomous driving. The mature business areas continue to be of great importance in maintaining the division’s profitability during the transition and generating funds for growth in new business areas.

### Automotive Technologies division – portfolio management



The “**Schaeffler Vision Powertrain**” scenario expresses Schaeffler’s expectation of how electrification of the powertrain will develop and forms the basis of the division’s strategic considerations. The “Schaeffler Vision Powertrain” predicts that in 2035, approximately 15% of all newly produced vehicles will be powered exclusively by an internal combustion engine and approximately 35% of all new vehicles will have a hybrid powertrain, i. e. a combination of an electric motor and an internal combustion unit. The powertrains of another approximately 50% of vehicles are expected to be all-electric. Therefore, the division continues to push ahead with electrifying the powertrain.

**Fundamental information about the group**  
Organizational structure and business activities

For electrified powertrains, for instance, 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. For instance, volume production of electric motors and 2-in-1 electric axles for a range of customer projects worldwide is scheduled to begin in 2021. In addition, the division has also won initial nominations for the new 3-in-1 electric axle (a combination of electric motor, transmission, and power electronics) during the year. Assigning the thermal management module and key fuel cell components to the E-Mobility BD further strengthens the division's systems expertise. Thus, Schaeffler offers 4-in-1 systems – consisting of transmission, electric motor, power electronics, and thermal management – for battery- and hybrid-electric vehicles. The Automotive Technologies division's activities also continue to comprise enhancing powertrains based on an internal combustion engine and increasing their efficiency. This includes, for instance, the fully variable valve control system UniAir, electric camshaft phasing units, and accessory drives for hybridized powertrains, including pulley decouplers. Even conventional bearing solutions for balancer shafts, camshafts, and crankshafts still offer potential for improving fuel economy and lowering emissions.

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. Therefore, paralleling the "Schaeffler Vision Powertrain", the company has developed a scenario entitled "**Schaeffler Vision Intelligent Connected Vehicle**" which forecasts that by 2035, approximately 15% of passenger cars and light commercial vehicles manufactured will drive in a highly automated and approximately 15% in a partly automated manner. Automating driving functionalities requires appropriate technologies for powertrains and chassis, and the Automotive Technologies

division is working on developing those technologies. Owned by the Schaeffler-Paravan joint venture, Space Drive is a redundant electronics and software architecture for driving "by wire". Using this technology as a basis for automated, autonomous, and connected driving, the Automotive Technologies division aims to access new areas promising growth in the chassis field. Furthermore, the division is working on new mobility concepts, including drive platforms for highly automated vehicle concepts such as the Schaeffler Mover. For instance, the second R&D center in the Greater China region will focus on developing technologies for intelligent driving. With the support of the local administration and jointly with other automated driving suppliers, the R&D center will participate in establishing an industrial ecosystem and a value chain for intelligent driving in the region.

The Automotive Technologies division initiated the program named "RACE" back in 2018 in order to sustainably increase efficiency with respect to capital and costs. The program is designed to increase the agility of the Automotive Technologies division and to push ahead with the transition toward new powertrain and chassis technologies. In order to adapt the business portfolio to changing market conditions, research and development activities are focusing more closely on significant strategic business areas. Under the program "RACE", capital expenditures were reduced considerably in accordance with the capital allocation framework and planned cost efficiency measures were implemented during the year. In addition, the E-Mobility BD realized its target volume of nominations for customer projects from technologies and systems for electrified powertrains. The structural measures in Europe adopted during the year that apply to the Automotive Technologies division are also being executed as part of the program "RACE". Starting in 2021, the program "RACE" is being integrated into the execution program of the "Roadmap 2025" as a divisional subprogram.

⊞ More on the "Roadmap 2025" on pp. 12 et seq.

**Automotive Aftermarket division**

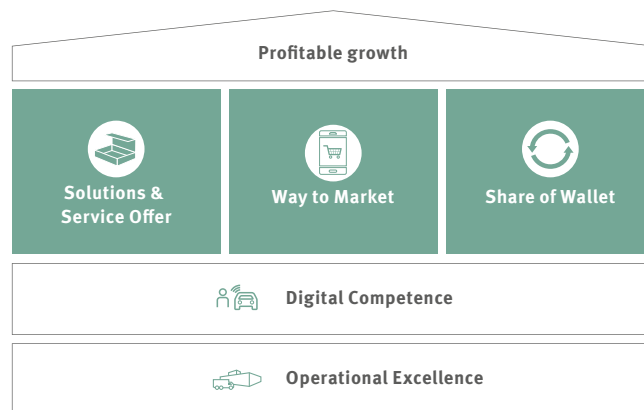
The Automotive Aftermarket division is responsible for the Schaeffler Group's global business with spare vehicle parts and provides components and comprehensive repair solutions in original-equipment quality for engine, transmission, and chassis applications. The Automotive Aftermarket division is largely supplied by the Automotive Technologies division's manufacturing locations. 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 REPERT.

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 as well as the supply of original spare parts to branded repair shops, i.e., those that are authorized by automobile manufacturers. The OES distribution channel's customers include the vehicle 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.

**Fundamental information about the group**

## Organizational structure and business activities

The spare parts business is influenced by three key drivers: continuing growth in the global vehicle population, especially in the vehicle age range between 4 and 10 years that is lucrative to the aftermarket; an increase in average vehicle age of the population overall; as well as increasing vehicle complexity. These factors are leading to an increase in the number of repairs that are increasingly requiring advanced repair solutions for repair shops. The division expects the largest increase in both vehicle population and demand for repairs in the Greater China region until 2025, whose vehicle fleet is both growing and aging.

**Five core elements of profitable growth of the Automotive Aftermarket division**

Therefore, the Automotive Aftermarket division is strengthening its global footprint, especially in the Greater China growth region, by taking measures such as expanding its local sales network and technical customer support. In addition, the Schaeffler Group started an innovative supply chain business model named ETC platform China in mid-2020. The division created ETC to be a transparent and user-friendly B2B platform connecting manufacturers, dealers, and resellers of vehicle parts with each other and, additionally, offering a comprehensive range of parts for engines, transmissions, and chassis. The platform Schaeffler

has developed thus reflects the requirements and high degree of fragmentation of the value chain in the Chinese market.

The Schaeffler Group believes that the growing technical complexity of vehicles as well as their increasing connectivity will offer additional growth opportunities to the Automotive Aftermarket division in the coming years. Therefore, the division is continuing the process of transforming itself from a component supplier into a supplier of systems and integrated repair solutions for its customers. At the same time, the division is strengthening its service offerings in order to support both repair shops and trade customers digitally as well as by offering on-site training. The transition toward new powertrain technologies plays a role here, as well, and Schaeffler Automotive Aftermarket partners its customers and repair shops to actively support them in this process.

The trend toward digitalization that is affecting all industries challenges established business models; however, it also offers new possibilities and sales channels (“Way to Market”) in the form of data-driven business models and e-commerce. To benefit from this opportunity, the division is enhancing its digital selling activities by closely integrating distribution, marketing, and service offerings. Together with industry partners, Schaeffler Automotive Aftermarket is additionally working to promote digital connectivity of vehicles as well as non-discriminatory access to data and is actively involved in the digital data market place CARUSO. CARUSO is a central platform providing harmonized vehicle data to the automotive aftermarket, thus linking suppliers and users of data.

Furthermore, the division perceives additional potential in expanding the portfolio with existing customers (“Share of Wallet”). Continually improving its commitment to customer service and its operational excellence are important success factors in this regard. This includes quick and reliable deliveries to customers in order to further 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 in Halle (Saale) commenced operations in September 2020 as planned.

The structure of the spare parts market is changing. Along with the changes in vehicle technology, the sector is marked by consolidation of customers at the wholesale level, a changing competitive landscape, and new mobility concepts. With its divisional subprogram of the execution program of the “Roadmap 2025”, the Automotive Aftermarket division is addressing these changes in technology, markets, and customer needs. The divisional subprogram is designed to expand digital and service offerings, introduce further innovative product solutions, and open up new ways to market. This includes, for instance, the introduction and expansion of the ETC platform China. The Automotive Aftermarket division ensures a balance between initiatives promoting growth in the medium and long term on the one hand and measures to increase efficiency in the short term on the other. Starting in 2021, the program “GRIP” designed to safeguard earnings quality and increase capital efficiency – which also includes implementation of the structural measures for Europe adopted during the year – is being integrated into the divisional subprogram of the execution program of the “Roadmap 2025”. Similarly, further expansion of the assembly and packaging center in Halle (Saale) is now part of the execution program.

⊞ More on the “Roadmap 2025” on pp. 12 et seq.

## Fundamental information about the group

### Organizational structure and business activities

## Industrial division

The Industrial division develops and manufactures components and systems for rotary and linear motion and offers services for various industrial sectors. The management model of the Industrial division follows a regional approach with 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. In addition, the business with distributors is managed by the Industrial Distribution unit. Managing the business on a regional basis allows the division to closely target its response to local customer needs and to strengthen customer loyalty. Cross-regional issues, such as the global technology and product strategy, are driven forward by the close network linking the regions within the division. Industry 4.0 products and services as well as the hydrogen growth area are each concentrated in a strategic business area 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. Bearing applications include drive technology, production machinery, and wind turbines, as well as the process 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, automated lubrication solutions, as well as new data-based business models for the implementation of Industry 4.0. These include condition monitoring solutions and cloud-based digital

services for predictive maintenance facilitating targeted scheduled maintenance of machinery, thus helping to increase machine and equipment availability as well as reduce operating costs.

### Industrial division technology pyramid



The sales market of the Industrial division is characterized by a large number of customers in numerous sectors. Demand for the Industrial division's products is closely linked to the changes in global industrial production, particularly in the engineering, transport vehicle, and electric equipment sectors. The Industrial division's future growth will continue to be significantly based on components for rotary and linear applications, which are continually being enhanced. Technical advice and customer-specific products accompany the wide range of standard products offered. Areas promising growth are the fields of renewable energy, robotics for industrial automation, as well as electrification and hydrogen.

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


One example of such a mechatronic system is a torque measurement system introduced to agricultural engineering customers in 2020. This system helps improve efficiency and safety of harvesting and fertilizing processes. The condition monitoring system "OPTIME" introduced to the European Market in 2020 is an example of the services offered within the strategic Industry 4.0 business area. This system represents an integrated IoT solution (sensors, gateways, digital service in the cloud) for wireless, automated condition monitoring of bearing positions in production equipment. Special algorithms developed based on Schaeffler's rolling bearing expertise graphically visualize the condition of the bearings in an app on mobile end devices. This IoT service can be expanded with additional sensors and offers significant cost savings to facility operators compared with manual off-line measurement. Since the start of the coronavirus pandemic and the related health protection measures, customers are requesting solutions for remotely monitoring facilities at a considerably increased rate.

The objective of the divisional subprogram that is part of the execution program of the "Roadmap 2025" is adding sustainable value to the Industrial division. To achieve this objective, the division aims to generate additional growth in profitable business areas by further strengthening its position in the rolling bearing and linear market and adding digital and mechatronic technologies to its business portfolio. Additionally, the division plans to improve structures and processes related to supplying customers. The program "FIT" initiated in 2018, which has contributed significantly to earnings during the year, is being integrated into the divisional subprogram of the execution program of the "Roadmap 2025" starting in 2021. "FIT" targets



**Fundamental information about the group**  
Organizational structure and business activities

sales, production, and purchasing. The structural measures in Europe adopted during the year that apply to the Industrial division are also being executed as part of the program “FIT”.

 More on the “Roadmap 2025” on pp. 12 et seq.

## Locations and production network

With its approximately 200 locations worldwide, 75 production facilities in 22 countries, 20 research and development centers, and a tight-knit sales and service network, the Schaeffler Group’s customers always find it close at hand <sup>1</sup>.

The company has a global production system. The plants, which employ approximately 65,000 staff, form the core of the Schaeffler Group’s operations and are managed based on uniform principles on a cross-divisional basis. The global production system and the manufacturing technologies utilized in the plants represent key factors to the Schaeffler Group’s worldwide success. The Schaeffler Group is committed to consistently ensuring top quality and product safety across all fields of application. Modernizing quality technologies, such as by digitizing processes, has formed an integral part of the company’s quality strategy for several years. Additionally, 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 within its technology network and consistently enhances existing technologies in volume production. In this manner, the company is able to realize synergies and create cross-divisional production standards – for instance for producing rolling bearings or manufacturing fuel cells and electrolyzers for the hydrogen chain.

In order to be able to flexibly respond to constantly changing customer requirements and purchase requisitions, processes along the Schaeffler Group’s entire operational value chain have been digitized further and (partly) automated, including using artificial intelligence. In digital, semi-autonomous, and sustainable pilot factories, this has already been implemented, for instance at the Rodisa location. In addition, suppliers are being integrated into the value chain via digital platforms such as SupplyOn, allowing them to respond to changing requirements at short notice. Technological initiatives additionally support the objective above and are aimed at being able to more quickly refit production lines and facilities, such as for smaller batch sizes.

In recognition of looming technological and regulatory developments and changing customer requirements, the company had already begun adjusting its European production footprint in recent years in order to streamline its structures and align them more closely with divisional requirements. However, in order to further accelerate the Schaeffler Group’s transformation as well as to strengthen its ability to compete and realize future opportunities for the long term, it is vital for the company to take further structural measures that were approved by Schaeffler AG’s Board of Managing Directors in September 2020. While the capacity downsizing and consolidation measures will affect Schaeffler’s larger locations in Herzogenaurach, Buehl, Schweinfurt, Hoechstadt, and Homburg, most of the impact will be felt at locations with technologically obsolescent product portfolios or highly fragmented plant structures.

In addition, the measures involve clustering and consolidating local technology and production capabilities at the group’s locations in Herzogenaurach, Hoechstadt, Buehl, and Schweinfurt in order to strengthen selected locations in Germany and boost the competitiveness of the company as a whole. Further, the Automotive Aftermarket division’s headquarters in Langen will be expanded by means of employee transfers. Plans for Herzogenaurach, the Schaeffler Group’s global headquarters,

include establishing a state-of-the-art central laboratory facility and siting a center of excellence for hydrogen technology. The Hoechstadt location will gain a tool-manufacturing center of excellence and will absorb the Herzogenaurach location’s current tool-manufacturing capacity. To enable this, the Industrial division’s activities in Hoechstadt will be relocated to Schweinfurt, transforming Hoechstadt into a purely automotive location.

The Buehl location, where the Automotive Technologies division is headquartered, will be developed into a center of excellence for electric mobility and electric-motor mass production. In Schweinfurt, the headquarters of the Industrial division, Schaeffler plans to consolidate and cluster its production processes for classic mid- and large-diameter bearing products, thereby significantly boosting that location’s capabilities. The measures will also strengthen the Industrial division’s main development activities in key areas of future technology, such as robotics. The division also intends to establish a center of innovation for groupwide Industry 4.0 technologies and expand its specialized aerospace products operations. In addition, the AKO logistics center in Halle (Saale) commenced operations in September 2020.

<sup>1</sup> The definition of locations was revised and adapted to the new structure during the year.



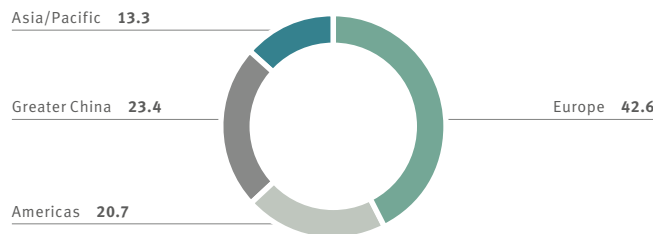
## Fundamental information about the group

### Research and development

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 degree of localization<sup>2</sup> describes the relation of sales volume manufactured in a region – taking into account procurement flows – to that region's<sup>3</sup> sales.

### Schaeffler Group revenue by region

in percent by market view



The **Europe region** combines the subregions Germany, Western Europe, Middle East & Africa, as well as Central & Eastern Europe. The Europe region contributed 42.6% (prior year: 45.1%) of consolidated revenue in 2020. Its Germany subregion represents the Schaeffler Group's largest sales market. The degree of localization amounted to approximately 87% (prior year: 87%) in 2020. The Europe region employed a total of 53,865 employees as at December 31, 2020, representing 64.7% of the company's entire workforce. This figure includes the employees of the group's headquarters in Herzogenaurach. The Europe region has 43 plants and 10 R&D centers. Its regional headquarters are located in Schweinfurt.

The **Americas region** consists of the subregions U.S. & Canada, South America, and Mexico. The Americas region contributed 20.7% (prior year: 21.9%) of revenue in 2020. The degree of localization amounted to approximately 57% (prior year: 57%) in the Americas region. A total of 11,785 staff were employed as at December 31, 2020, at 13 plants – consisting of 7 plants in the U.S. and another 2 each in Canada, Mexico, and Brazil – and 5 R&D centers as well as distribution locations in North and South America. The Americas region has its regional headquarters in Fort Mill in the U.S. The Schaeffler Group has been manufacturing in this region since 1953. The Joplin plant celebrated its 50th anniversary in 2020.

The regional headquarters of the **Greater China region**, which also includes Taiwan, Hong Kong, and Macao, are located in Anting, China. Schaeffler's first subsidiary in this region was founded in Taicang, China, in 1995. The region generated 23.4% (prior year: 19.2%) of group revenue in 2020. The degree of localization amounted to approximately 56% (prior year: 56%). A total of 11,787 staff were employed as at December 31, 2020, at 10 plants and 1 R&D center in the Greater China region.

The **Asia/Pacific region** comprises the subregions South Korea, Japan, Southeast Asia, and India. 13.3% (prior year: 13.9%) of group revenue was generated by this region in 2020. The degree of localization amounted to approximately 43% (prior year: 42%) in 2020. The Asia/Pacific region had 5,860 employees as at December 31, 2020. The regional headquarters are located in Singapore. The Schaeffler Group operates a total of 9 plants and 4 R&D centers in this region. The Schaeffler Group has been represented in this region since 1953.

## 1.2 Research and development

Across all divisions, innovation and efficiency are the leading drivers of research and development at the Schaeffler Group. Therefore, and especially against the backdrop of the ongoing technological transformation, the focus on technology and enhancing technological and methodical capabilities are essential. For that reason, the Schaeffler Group initiated a global R&D program named "4x4" in early 2020.

In order to make innovation more effective, the company defined **six innovation clusters** in which innovative ideas are checked against their market potential and Schaeffler's areas of expertise early on in the process. By clearly emphasizing differentiating factors relevant to the market, the Schaeffler Group is able to more closely focus its research and advance development projects.

### Innovation clusters in research and development



<sup>2</sup> Prior year information presented based on 2020 segment structure.

<sup>3</sup> Sales by market view.

**Fundamental information about the group**  
Research and development

In the **innovation cluster Hydrogen and Energy Transition**, the Schaeffler Group relies on the potential of green hydrogen for a CO<sub>2</sub>-neutral, sustainable future and, being an automotive and industrial supplier, considers the full range of possible applications – from hydrogen generation and electrolysis via mobile and stationary applications in fuel cells through to using steels that have been direct reduced using hydrogen. R&D activities in 2020 included, among other things, the enhancement of key components for fuel cells and fuel cell stacks known as metallic bipolar plates. For this project, the Schaeffler Group expanded its expertise in the field of electrochemical cell technology, supplementing its core expertise at the systems level and in material, forming, and surface technology. Based on these capabilities, the company also considers potential in other electrochemical applications, especially in electrolyzers, but also in solid state and flow batteries.

The **innovation cluster Electric and Automated Mobility** addresses electrified powertrains and automated driving. E-Mobility developed highly efficient technologies for electric motors and power electronics in 2020 that are being used in electric axles and dedicated hybrid transmissions such as the Multimode transmission. In the drive-by-wire field, the Schaeffler-Paravan joint venture continued to enhance the “Space Drive” technology in 2020. This resulted in the development of a third generation of steering electronics for applications in series and retrofit solutions. The use of the “Space Drive” technology in motor racing was a significant milestone in 2020, when the steer-by-wire technology was tested successfully in a racing vehicle without a steering column under extreme conditions for the first time worldwide. This test made motor racing an ideal testing ground for a key autonomous driving technology as well.

In the **innovation cluster Robotics and IoT**, the Schaeffler Group develops highly integrated and intelligent system solutions for the growing robotics market as well as innovative Industry 4.0 solutions. In 2020, the company brought to market OPTIME, a condition monitoring system representing an integrated IoT solution (sensors, gateways, digital service in the cloud) for wireless automated condition monitoring of bearings in production equipment.

In the **innovation cluster Bearing Technologies**, wind power, for instance, as well as electric mobility and robotics provide constant potential for innovation. For the robotics field, the company successfully developed a transmission bearing named “XZU” based on Schaeffler’s core expertise in needle roller bearings. Compared to crossed roller bearings currently used in robot solutions, this new bearing type offers considerable benefits with respect to rigidity and friction as well as improved protection against grease leakage. Furthermore, the company made significant progress in the fields of hybrid bearings, plain bearings, and in simulating bearing applications in an electro-mechanical environment. Additionally, the company was able to further integrate the use of product and design data and further automate construction processes, thereby improving the efficiency of the development process and the related business processes.

The **innovation cluster Material and Surface Science** develops surfaces and coatings that represent key technologies for numerous new and existing applications. For instance, they allow for high-performance and reliable components along the entire energy chain of a future hydrogen economy. Material and surface science will take on an important role when it comes to sustainability, particularly in improving the CO<sub>2</sub> footprint of the Schaeffler Group’s products. Significant contributions to this

improvement can be gained from targeted selection of raw materials – including the use of alternative materials, composite materials, multi-material design, and coatings –, modifying the characteristics of materials (e.g., by heat treating them), and improving processes (e.g., the hardening process).

In the **innovation cluster Artificial Intelligence**, the Schaeffler Group connects its product-related AI application activities in order to use AI technology to improve the cost and performance of the products it offers to its customers in the industrial and automotive business. For example, AI-based algorithms are being used in robotics products to analyze data provided by sensors that are integrated into components, facilitating real-time measurement of forces and torques. One perspective is that use of data generated by Schaeffler’s drive-by-wire technology in development and simulation platforms will help in the development of automated driving. Additionally, AI methods are also used in product development, for instance to design lighter components requiring less material.

The Schaeffler Group continues to collaborate closely with various universities and research facilities. As part of its Schaeffler Hub for Advanced Research (SHARE) initiative, the company works closely with Karlsruhe Institute for Technology, Germany (research focuses: automated driving/electric mobility), Friedrich-Alexander University of Erlangen-Nuremberg, Germany (research focus: digitalization along the value chain), Nanyang Technological University, Singapore (research focus: individual urban mobility), and Southwest Jiaotong University in Chengdu, China (research focus: chassis solutions for high-speed trains). Along with further collaborations with universities, the Schaeffler Group has a strategic partnership with Fraunhofer-Gesellschaft that has been in place since 2017.

## Fundamental information about the group

### Research and development

As part of its open innovation strategy, Schaeffler follows a long-term corporate venturing approach, acting as a technology accelerator. In its innovation clusters, the Schaeffler Group reviews future-oriented technologies and innovative business models and realizes these in pilot projects with start-ups and small and medium-sized businesses. This approach lays the foundation for a successful long-term strategic cooperation, for instance in the form of an R&D partnership, a supplier relationship, or a future customer relationship. The partnership with the innovation platform Plug & Play in Silicon Valley, which is established worldwide, provides access to rapidly growing and relevant deep-tech start-up ecosystems in all four of the Schaeffler Group's regions.

In expanding its R&D expertise in new technologies, the company's focuses include electronics, software, mechatronics, and artificial intelligence. Therefore, in a joint project with the Schaeffler Academy, the research and development function established an expertise training program named "Fit4Mechatronics" to aid staff development.

### Research and development expenses

	2016	2017	2018	2019	2020
Research and development expenses (in € millions)	751	846	847	849	758
Research and development expenses (in % of revenue)	5.6%	6.0%	6.0%	5.9%	6.0%
Average number of research and development staff	7,121	7,634	7,956	7,834	7,780

In 2020, the Schaeffler Group employed an average of 7,780 R&D staff (prior year: 7,834) at 20 R&D centers (prior year: 20) and additional R&D locations in a total of 23 countries. The Schaeffler Group filed 2,385 patent registrations with the German Patent and Trademark Office in 2019, making it the second most innovative company in Germany for the seventh consecutive year. In addition, Schaeffler Group employees internally reported 2,291 inventions in 2020 (prior year: 3,298).

## Fundamental information about the group

### Group strategy and management

## 1.3 Group strategy and management

The Schaeffler Group's overarching objective is to create value sustainably for its customers and business partners, employees and managers, as well as its investors and family shareholders. In order to achieve this objective, the company plans to rely on its key strengths – innovative strength, quality, systems know-how, and manufacturing expertise – to shape progress that moves the world. The claim “We pioneer motion” reflects this aim. Schaeffler sees its mission in developing and delivering innovative and intelligent components, systems, and services that enable sustainable mobility and motion in cooperation with its customers, partners, and society, focusing especially on sustainability and digitalization.

## Roadmap 2025

The strategic framework entitled “Roadmap 2025” consists of three main elements: “Strategy 2025”, “Execution Program 2025”, with its seven subprograms, and “Mid-term Targets 2025”. These define the financial framework and reflect the overarching commitment to creating value sustainably.

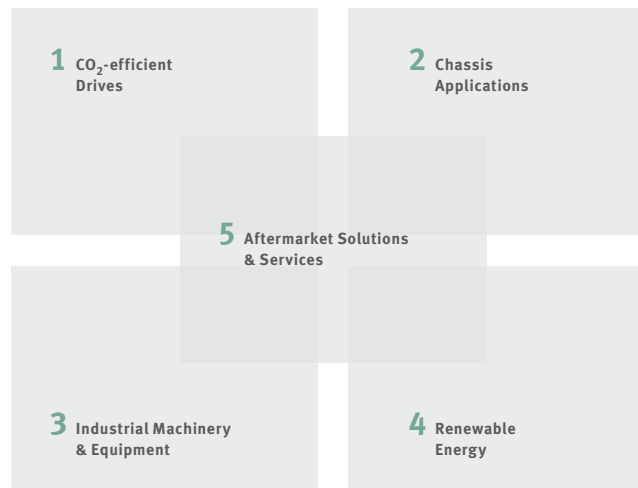
## Strategy 2025

The Schaeffler Group's corporate strategy has been enhanced in 2020 in order to continue the group's ongoing transformation in a future-oriented and targeted manner. Therefore, the “Strategy 2025” succeeds the “Mobility for tomorrow” strategic concept published in 2016 that paved the way for Schaeffler evolving into an integrated automotive and industrial supplier with three divisions.

The revised strategy is designed to play to the company's strengths and to render it more focused and efficient in the various business areas. Its newly formulated vision of being the automotive and industrial supplier of choice that leads through innovation, agility, and efficiency forms the guiding principle for the Schaeffler Group. This vision illustrates that the customer will

remain at the center of what the company does. Innovation, agility, and efficiency are three strategic dimensions that are particularly critical for success in the global competitive environment under current market conditions. The company therefore puts a particular focus on regularly reviewing and evaluating its performance in these categories.

### Five focus areas for growth initiatives

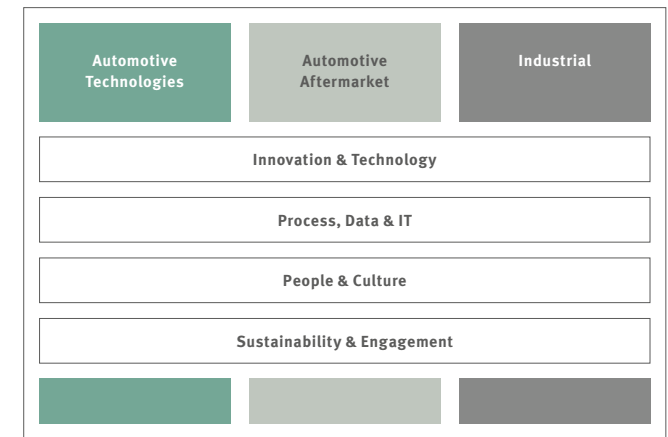


An analysis of which external trends are particularly relevant for Schaeffler, both before and after the coronavirus pandemic, and of how the market environment has changed since 2016 identified five key future trends: sustainability & climate change, new mobility & electrified powertrain, autonomous production, data economy & digitalization, and demographic change. The five focus areas derived from this trend provide the content framework for potential growth initiatives and thus specify the company's strategic investment fields. The focus areas are designed to support an efficient and long-term-oriented use of resources and take the product and service offerings of all three divisions into account.

## Execution Program 2025

The updated strategy is executed via the “Execution Program 2025” with a total of seven subprograms. The seven subprograms are divided into three divisional (vertical) and four cross-divisional (horizontal) subprograms. All subprograms are focused on achieving the defined strategic priorities – innovation, agility, and efficiency.

### Divisional and cross-divisional subprograms



## Fundamental information about the group

### Group strategy and management

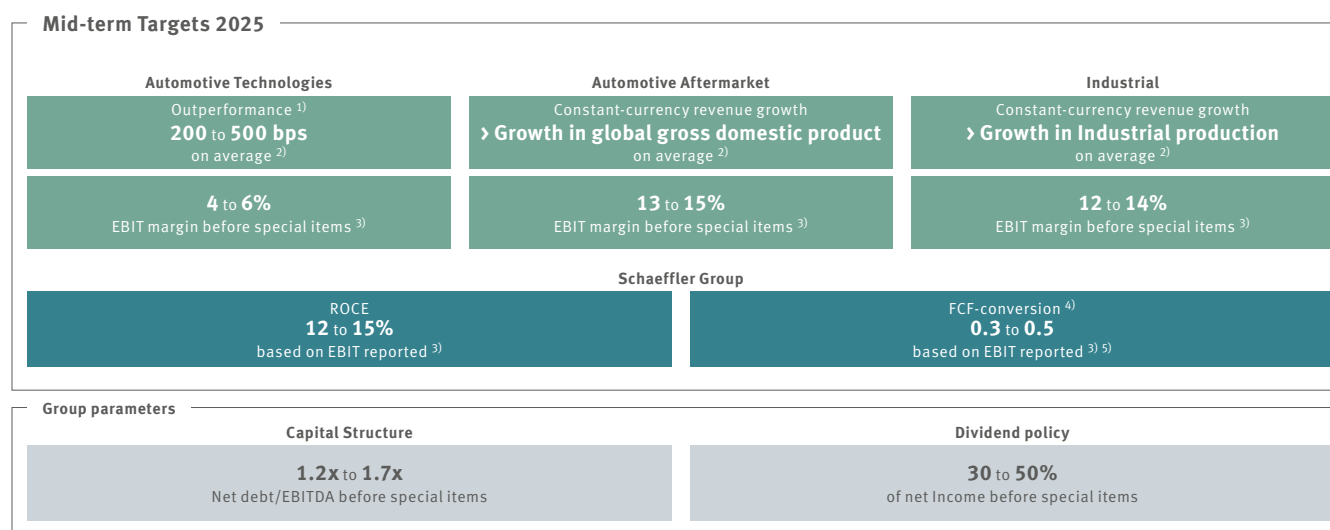
The divisional subprograms are designed to advance the growth initiatives derived from the focus areas, boost market positions, and increase cost and capital efficiency. Within the Automotive Technologies division, the focus is on the transition to new powertrain and chassis technologies, while the Automotive Aftermarket division concentrates primarily on extending its digital and service offering, introducing innovative repair solutions, and opening up new ways to the market. The subprogram of the Industrial division is mainly designed to strengthen the competitive position in the rolling bearing market and increase the use of new digital and mechatronic industrial technologies.

Meanwhile, the four cross-divisional subprograms are focused on key areas designed to make the company as a whole more future-proof and help harness potential synergies across divisions. “Innovation & Technology” relates to strategically managing product innovations in order to further strengthen Schaeffler’s position as a pioneer of sustainable mobility and motion, while “Process, Data & IT” combines the activities related to reshaping processes for the digital age through data-driven knowledge acquisition and state-of-the-art IT solutions. The main objectives of the “People & Culture” subprogram are modern personnel development, greater diversity, collaboration and agility within the workforce, and an appreciative leadership style. Finally, “Sustainability & Engagement” is dedicated to embedding environmental and social responsibility in the company’s value chain as a central success factor for a sustainable business operation. In addition, the “Execution Program 2025” also addresses the global footprint and cost structures of the Schaeffler Group.

## Mid-term Targets 2025

The third component of the “Roadmap 2025” are the “Mid-term Targets 2025” that the company intends to attain by 2025, signifying stable and reliable finance management. They sustain the overarching objective of sustainable value creation and express the planned result of the company’s strategy and the execution program in quantitative terms.

mid-term targets are complemented by group parameters relating to the capital structure and distribution of profits, signifying stable and reliable finance management. For the net debt to EBITDA ratio, one of these group parameters, the Schaeffler Group aims for a range of 1.2 to 1.7 for the period 2021 to 2025. The Schaeffler Group intends to continue to pay dividends of 30 to 50% of consolidated net income before special items.



<sup>1)</sup> Constant-currency revenue growth above global automobile production (IHS Markit).

<sup>2)</sup> From 2021 to 2025.

<sup>3)</sup> Latest in 2023.

<sup>4)</sup> See page 17 for definition of free cash flow conversion.

<sup>5)</sup> Before cash in- and outflows for M&A activities.

At group level, the focus is on two indicators: Firstly, return on capital employed (ROCE), which is a measure of the company’s value creation and is targeted to reach a range of 12 to 15% by 2023 at the latest. The second target relates to free cash flow conversion (FCF-conversion), a measure that expresses the ability to generate cash from EBIT and is targeted to fall into a range of 0.3 to 0.5 by 2023 at the latest. The Schaeffler Group’s

The Automotive Technologies division is aiming for average annual revenue growth – excluding the impact of currency translation – to exceed the growth in global production of passenger cars and light commercial vehicles by 200 to 500 basis points. The target EBIT margin before special items is 4 to 6%, with the lower end of that range to be reached by 2023 at the latest.

## Fundamental information about the group

## Group strategy and management

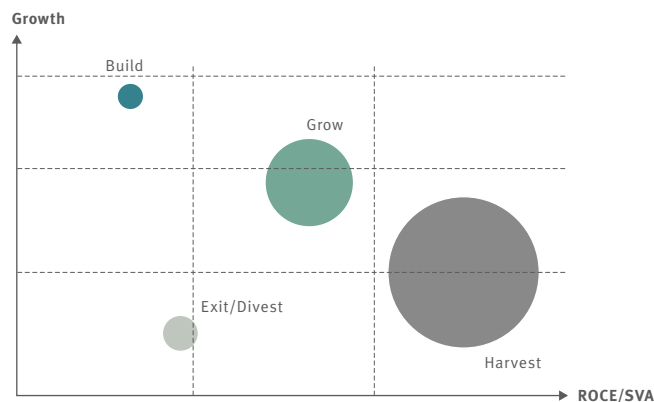
The Automotive Aftermarket division is aiming for average annual revenue growth – excluding the impact of currency translation – to exceed growth in global gross domestic product, and an EBIT margin before special items of 13 to 15%, with the lower end of that range being reached by 2023 at the latest.

As mid-term targets for 2025, the Industrial division is aiming for average annual revenue growth – excluding the impact of currency translation – to exceed the growth of global industrial production and an EBIT margin before special items of 12 to 14%, with the lower end of that range to be achieved by 2023 at the latest.

## Capital allocation and portfolio management

In order to use its capital appropriately and in line with its strategy, the Schaeffler Group has developed a capital allocation framework applicable across all divisions.

## Portfolio management



The framework identifies four fundamental portfolio strategies and provides a structure for investment and divestment decisions. The four strategies – Build, Grow, Harvest and Exit/Divest – are applied in all three divisions and their business areas and are always directly tied to a product, sector cluster, customer group, and a region. Business areas are assigned to these strategies depending on their growth potential and return on capital employed (ROCE), which is the key target figure on group level within the mid-term targets 2025. New growth areas still at the start of their life cycle are assigned to the **“Build”** portfolio strategy, whereas existing business areas that can be further expanded with suitably high capital efficiency are classed under the **“Grow”** strategy. Business areas with lower growth potential are more strongly focused on profitability and

efficiency, and are included in the **“Harvest”** category. And if certain areas are no longer core strategic activities, or are not sufficiently profitable, they are allocated to the **“Exit/Divest”** portfolio strategy. Capital expenditures necessary for safety measures and to comply with regulatory standards are made in all four portfolio strategies.

## Capital allocation management framework

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

<sup>1)</sup> Capital expenditures on capacity expansion and new products.

The four portfolio strategies thus also drive the Schaeffler Group's capital allocation process. The investment amounts to be allocated are arrived at by linking the portfolio strategies directly to a framework for capital allocation. This framework identifies four different investment categories – growth investments, rationalization investments, maintenance investments, and investments required in order to comply with regulatory requirements or ensure safety. The four portfolio strategies and four investment categories together form a matrix for the allocation of capital to the business areas.

**Fundamental information about the group**  
Group strategy and management

The total investment amount for the Schaeffler Group is determined via a set reinvestment rate or a target band. At the same time, the framework is designed to ensure that in a context of internal competition for the most efficient use of resources, capital is used where it will produce the highest value contribution.

**Key topic of sustainability**

Sustainability represents a significant component of the Schaeffler Group's corporate values and is considered a task of society as a whole. Sustainable corporate success is understood to mean assuming ecological and social responsibility – in production, through the use of the company's products by customers, as well as through the involvement of suppliers.

The Sustainability Roadmap addresses significant action fields such as climate protection, occupational safety, and a sustainable supply chain. Specifically, the group has set groupwide sustainability targets. As part of the Schaeffler Climate Program, the company has set targets addressing the increase in energy efficiency, the purchasing of renewable electricity, and CO<sub>2</sub>-neutral production by 2030. The further improvement of the CDP climate rating has already been achieved in 2020. Additional targets relate to the reduction of occupational accidents and the operation of a sustainable supplier management. The Schaeffler Group annually reports on the progress of business-relevant, non-financial topics in the areas of customers & products, environment & energy, suppliers & raw materials, and employees & society as part of its regular sustainability report.

In 2020, Schaeffler AG has integrated its group non-financial declaration into its separate sustainability report, which is not part of the group management 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/2020](http://www.schaeffler-sustainability-report.com/2020)

**Key topic of digitalization**

The Schaeffler Group treats digital transformation as a shared task for all divisions, functions, and regions. The automation of business processes, mined additional information from structured and unstructured data, and state-of-the-art forms of connectivity both in-house and with external stakeholders open up opportunities for Schaeffler and its customers along the entire value chain.

As part of the company-wide digital agenda, experts from all business and IT departments work together on evaluating digital technologies as well as risks. On the one hand, this relates to changing the value chain – both internally at Schaeffler and in interaction with business partners. These changes involve digital equipment, means of communication, and networking of plants. On the other hand, this relates to additional sales potential with digital sales channels and digital products and services.

**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 several 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.

Along with the qualitative evaluation of the entity potentially subject to an M&A transaction, the final assessment of whether the transaction is beneficial also includes a detailed quantitative analysis. In particular, the company pursues an acquisition only if the related expected return on capital employed exceeds a required minimum set internally. Specific risks such as country- or business-specific risks are taken into account, as is the maturity of the business, and may result in adjustments to the required minimum return in certain cases.

**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, oversees, and advises the Board of Managing Directors.

In 2020, 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.



## Fundamental information about the group

### Group strategy and management

## Value-based management

The Schaeffler Group's internal management system is designed to support execution of the group strategy. In order to ensure that the Schaeffler Group continues to meet its overarching objective of creating value sustainably, a value-based approach to managing its business portfolio is an integral component of all planning, management, and control processes. One important principle underlying value-based management of companies is the necessity to reflect the interests and needs of investors. The Schaeffler Group's performance-based management remuneration is directly linked to the economic development of the company as well.

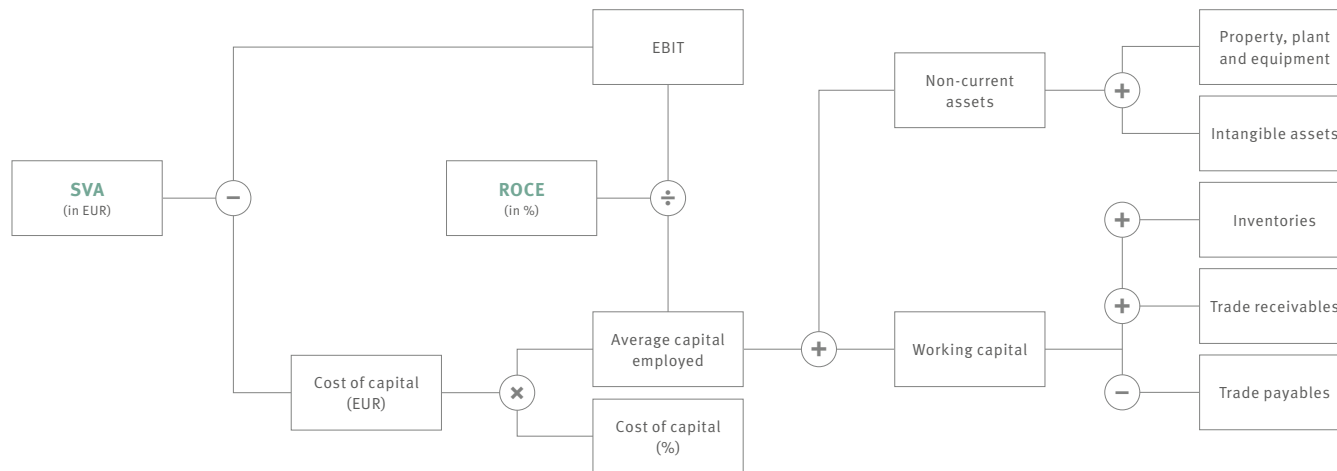
### Strategic financial performance indicators

In order to create value sustainably, 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 strategic performance indicators underlying its value-based management process are **return on capital employed (ROCE)** as well as **Schaeffler Value Added (SVA)**. Both indicators are additionally determined based on EBIT before special items.

⊞ More on special items on pp. 35 et seq.

### Strategic financial performance indicators



**Return on Capital Employed (ROCE):** ROCE is a measure of the value added by the Schaeffler Group. It measures the profitability of capital employed in percent and is defined as EBIT (earnings before financial result, income (loss) from equity-accounted investees, and income taxes) divided by average capital employed. If ROCE exceeds the cost of capital, the company is generating value by employing its resources. In 2020, the company used a pre-tax cost of capital of 9% p.a. To harmonize the cost of capital used for various purposes, a pre-tax cost of capital of 10% will be applied starting in 2021.

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

**Schaeffler Value Added (SVA):** The Schaeffler Group's value added in absolute terms is measured using the amount of value added by the company, referred to as Schaeffler Value Added (SVA). SVA is defined as EBIT less the cost of capital. Therefore, positive SVA means that the Schaeffler Group has created value beyond covering its cost of capital. Cost of capital is calculated by applying the cost of capital to the average capital employed during the year.

## Fundamental information about the group

### Group strategy and management

### Key operating financial performance indicators

The indicators ROCE and SVA serve as indicators of the amount of shareholder value added in a period. These strategic performance indicators are 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. The continuous improvement of these indicators also contributes to increasing Schaeffler Value Added and return on capital employed.

On the whole, increasing these indicators contributes to increasing long-term shareholder value by sustainably generating a premium over and above the cost of capital.

**Revenue growth (at constant currency):** Revenue growth contributes to the company's value creation and, in addition, determines the resources required for the company's operations.

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.

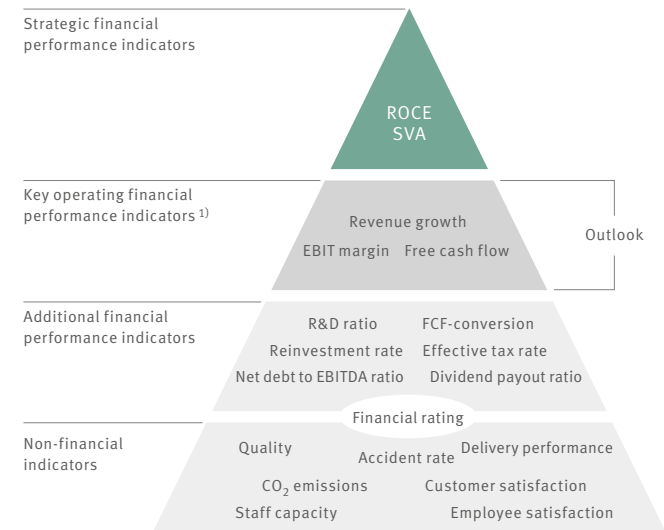
Revenue growth is also analyzed in comparison to relevant market indicators in order to evaluate the development of the company's market position and competitive position.

**EBIT margin (before special items):** The EBIT margin is used to measure the Schaeffler Group's operating earnings, which also contributes to value creation. 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 amount of cash inflows for a period. 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. As a result, free cash flow impacts the development of capital employed over time. 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" and on special items on pp. 35 et seq.

### Management system



<sup>1)</sup> 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 reinvestment rate <sup>4</sup>, R&D ratio, FCF-conversion <sup>5</sup>, net debt to EBITDA ratio, effective tax rate, dividend payout ratio, and financial rating. Starting in 2021, the company also calculates the measure free cash flow before cash in- and outflows for M&A activities and before special items as an additional indicator.

<sup>4</sup> The reinvestment rate is the ratio of additions to intangible assets and property, plant and equipment to depreciation, amortization, and impairment losses (excluding depreciation of right-of-use assets under leases and impairments of goodwill).

<sup>5</sup> The FCF-conversion is the ratio of free cash flow before cash in- and outflows for M&A activities to EBIT.

**Fundamental information about the group**

## Group strategy and management

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, automobile and industrial production, or currency trends 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 an 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 Technologies:** 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 Technologies 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 (headcount, HCO and full-time equivalent, FTE), delivery performance, customer satisfaction, employee satisfaction, employee accident rate, and CO<sub>2</sub> emissions.



More in the sustainability report under:  
[www.schaeffler-sustainability-report.com/2020](http://www.schaeffler-sustainability-report.com/2020)

For purposes of managing sustainability, the company measures 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. Similarly to 2020, Schaeffler AG's Supervisory Board has set another strategic sustainability target for 2021 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.

## 2. Report on the economic position

### 2.1 Economic environment

#### Macroeconomic environment

Based on preliminary estimates, **global gross domestic product** for the reporting year fell approximately 3.6% below the prior year level (Oxford Economics, February 2021). The decline was attributable to the coronavirus pandemic that plunged the global economy into a deep recession in the first half of 2020. The measures, some quite drastic, taken to contain the pandemic – initially in China and then worldwide – led to a severe decline in economic activity combined with significant disruption in international labor markets. Meanwhile, the high level of uncertainty among companies and consumers hampered the global economy as well. Many countries around the world eased containment measures in May after their numbers of new infections had dropped. As a result, the global economy started to recover at the beginning of the third quarter, and this recovery continued into the fourth quarter. However, as infection levels rose again, rapidly in part, the economic recovery slowed toward the end of the reporting year. While global gross domestic product fell short of the prior year level throughout the reporting year in the context of these developments, the contraction in the second quarter was the most extensive by far.

Containment measures – some very extensive – were initiated as early as late January in China, the country initially hit hardest by the coronavirus. Easing of containment measures began in

mid-March after numbers of new infections had dropped considerably. As a result, having experienced a heavy slump in gross domestic product in the first quarter, the Chinese economy returned to a growth course as early as in the second quarter and grew in each of the third and fourth quarter as well. Outside China, the coronavirus began to spread rapidly and across continents in March. These developments and the related containment measures put in place in many countries resulted in considerable economic disruption worldwide toward the end of the first quarter and especially over the course of the second quarter. Numerous economies – including the euro region, the U.S., Japan, and India – experienced a drastic slump in economic activity in the second quarter, some of historic proportion. In the third quarter, a recovery was visible in the majority of economies outside China as well, due to the previous easing of containment measures; however, economic output fell short of the prior year level nearly everywhere. In certain economies, particularly in several industrialized nations, fourth-quarter economic performance was hampered by infection levels rising considerably once more and a renewed tightening of containment measures. However, this resulted in noticeably less economic disruption than in the second quarter.

In light of these trends, solely China reported growth in gross domestic product for the reporting year, while economic output shrank in all other significant economies. The resulting situation of the Schaeffler Group's regions was as follows: Gross domestic product in the Europe region decreased by approximately 5.0% while economic output in the Americas region

declined by approximately 4.8%. In the Greater China region, gross domestic product rose by approximately 2.0%, while the Asia/Pacific region's economic output fell by approximately 4.6%.

Trends in the global **capital markets** varied over the course of 2020. While the Euro STOXX 50 declined as at December 31, 2020, the Dow Jones Industrial Average (DJIA), the Deutsche Aktienindex (DAX), and the Nikkei 225 all closed ahead of their opening level for the year.

In the **currency markets**, the euro rose against all of the foreign currencies most significant to the Schaeffler Group. On an annual average basis, it gained in value against the U.S. dollar, the Chinese renminbi, the Indian rupee, the Mexican peso, and the South Korean won.

☰ More on foreign currency translation on pp. 125 et seq.

## Report on the economic position

### Economic environment

## Sector-specific environment

The trend in automobile production significantly affects the results of operations of the Schaeffler Group's Automotive Technologies division. The global trend in industrial production in the mechanical engineering, transport equipment, and electrical equipment provides an indication of the development of the Industrial division's business sectors <sup>6</sup>.

### Automobile production






In 2020, global automobile production, measured as the number of vehicles up to six tons in weight produced, slumped to approximately 16.2% below the prior year level according to preliminary estimates (IHS Markit, January 2021). This extensive decline was driven by massive disruption due to the coronavirus pandemic, particularly in the first half of the year. For instance, over the course of the first two quarters, plants in the automotive industry were temporarily closed worldwide and in all of the Schaeffler Group's regions, some for several months. A further adverse coronavirus pandemic-related factor were temporary disruptions in the global supply chain, including with respect to intermediate products from China. Additionally, some countries temporarily closed car dealerships due to the pandemic.

Meanwhile, a number of factors contributed to a decline in demand as well – along with mobility restrictions, particularly the expected or already apparent deterioration in consumers' economic situation. The global automotive business recovered perceptibly in the third quarter, although production levels still fell short of the prior year's. A key driver of this trend was the previous easing of containment measures worldwide that released the pent-up demand for passenger vehicles, partly in combination with buying incentives and/or government stimulus measures. The recovery was also buoyed by the reopening of automobile production plants worldwide and the restocking of vehicle inventories previously depleted, heavily in part; however, health protection measures, some of them strict, contributed to plants not reaching their original production capacity in some

cases. In the fourth quarter, the global automotive business continued to recover, although several Western European countries retightened their containment measures, with some countries once more temporarily closing car dealerships. Against this background, global automobile production declined throughout the first three quarters of the year, with the most severe contraction by far reported for the second quarter. The majority of all significant production countries and all Schaeffler Group regions experienced a similar trend, with the exception of Greater China. Global automobile production did not start growing again until the fourth quarter.

Automobile production in the Europe region slumped by approximately 20.8% in 2020, with the number of vehicles produced in the euro region falling to approximately 24.2% below the prior year level. Automobile production in the Americas region slumped by approximately 21.8%. The number of vehicles produced in the U.S. fell approximately 18.4% short of the prior year level and approximately 20.4% in Mexico. Brazil experienced an even heavier slump in production of approximately 32.3%. In the Greater China region, automobile production fell approximately 4.3% below the prior year level. Given that containment measures were eased and automobile production plants there reopened comparatively early, this region – in contrast to the Schaeffler Group's remaining regions – reported year-on-year growth from the second quarter until year-end. In the first quarter, output had dropped by nearly half. In the Asia/Pacific region, automobile production slumped by approximately 20.1%. Production in Japan fell to approximately 17.2% below prior year, and approximately 12.1% in South Korea. The heaviest decline of approximately 23.5% was reported by India.

### Automobile production

		Change in %	Million units
Europe		-20.8 -4.9	18.0 22.8
Americas		-21.8 -3.8	15.2 19.4
Greater China		-4.3 -8.5	23.7 24.8
Asia/ Pacific		-20.1 -4.3	17.5 21.9
World		-16.2 -5.5	74.5 89.0

■ 2020 ■ 2019

Source: IHS Markit (January 2021).

Regions reflect the regional structure of the Schaeffler Group.

### Industrial production

Based on preliminary estimates, global industrial production for the year was down approximately 3.8% from the prior year level (Oxford Economics, December 2020). The sectors particularly relevant to the Schaeffler Group – mechanical engineering, transport equipment, and electrical equipment – experienced a decline of approximately 6.5% worldwide. While these sectors' global production declined throughout the reporting period, the most severe contraction was experienced in the second quarter. This decline – the first since 2009 – is attributable to various forms of coronavirus pandemic-related disruption reported in nearly all sectors of the manufacturing industry. Containment measures taken worldwide over the course of the first half of 2020, some even including temporary factory closures, led directly to lost production as well as disruptions in national and global supply chains. At the same time, demand for industrial goods fell as well, partly due to containment measures but also, among other factors, as a result of increased uncertainty among companies and consumers. Additionally, travel restrictions imposed due to the coronavirus pandemic led to a worldwide

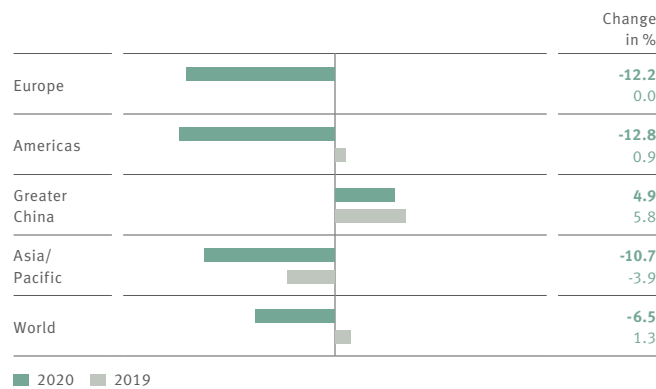
<sup>6</sup> Divisions 28 and 30 as well as group 27.1 of the NACE Rev. 2 classification.

## Report on the economic position

## Economic environment

slump in air passenger traffic that in turn resulted in significant production cuts in the aerospace sector. In the third quarter, containment measures having been eased in numerous countries, a recovery set in throughout the manufacturing industry and continued through to the end of the year. The relevant industrial production levels still fell short of the prior year's, however.

In the Europe region, the relevant industrial production dropped by approximately 12.2%. As in the other regions except for Greater China, declines were reported throughout the reporting period, the most significant one by far in the second quarter. The euro region experienced a contraction of approximately 13.2% that was mainly attributable to considerable production decreases in mechanical engineering. The Americas region saw a decline of approximately 12.8%, while the U.S., the region's most significant sales market, experienced a contraction of approximately 11.9%, primarily due to a heavy decrease in aerospace sector production. The relevant industrial production in the Greater China region rose by approximately 4.9% since a considerable contraction in the first quarter was followed by growth in the remaining quarters of the year. The growth experienced after the first quarter was mainly driven by comparatively early easing of measures to contain the coronavirus pandemic. Measures taken by the government to support the economy contributed to growth as well. In the Asia/Pacific region, the relevant industrial production fell approximately 10.7% short of the prior year level. Japan reported a decline of approximately 13.3%, and India saw a slump by approximately 20.7%; in both countries, but more so in Japan, the extensive decline in mechanical engineering had the most significant impact. Against the background of slight growth in mechanical engineering in South Korea, the country experienced only a slight decline of approximately 0.8%.

Industrial production in the mechanical engineering,  
transport equipment, and electrical equipment sectors

Source: Oxford Economics (December 2020).  
Regions reflect the regional structure of the Schaeffler Group.

## Procurement markets

The Schaeffler Group uses various materials for the manufacturing of its products, 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.

The global economic crisis sparked by the coronavirus pandemic led to massive disruption in the commodity markets. Between January and the low point of the crisis in April, the prices of all input materials significant to the Schaeffler Group declined considerably, a few until mid year. However, given the global economic recovery setting in at the beginning of the third quarter, nearly all prices rose again significantly over the course

of the latter half of the year. As a result, the prices of nearly all input materials significant to the Schaeffler Group closed considerably higher at year-end than before the coronavirus pandemic; only the price of crude oil remained below its opening level for the reporting year. Annual average prices of most, but not all, input materials significant to the Schaeffler Group were lower than in the prior year (Bloomberg; EIA; ICIS; Platts).

Steel is used to manufacture rolling bearings and automotive components. Trends in annual average prices for cold- and hot-rolled steel in the Schaeffler Group's relevant procurement regions compared to prior year varied. Most prices decreased, falling by up to nearly 4%. In China, however, prices rose by between just under 1 and just over 4%.

Aluminum is primarily used for pressure die castings, while copper is mainly required for use in electric motors and mechatronic components. On an annual average basis, the price of aluminum fell by approximately 5% from its prior year level, while copper rose by just under 3%.

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 annual average price of crude oil fell just under 35% short of its prior year level. Based on the ICIS Global Petrochemical Index (IPEX), the average price of processed petrochemical products, including the plastics used by the Schaeffler Group, were approximately 18% lower than in the prior year.

## 2.2 Course of business 2020

### Overall assessment of the 2020 business year by the Board of Managing Directors

The Board of Managing Directors believes that the Schaeffler Group has demonstrated a high degree of agility and resilience in an exceptional and difficult year. Economically, the year turned out to be satisfactory overall, particularly due to the encouraging second half of the year. The coronavirus pandemic held significant challenges for the company in 2020. Especially the automotive sector – already in a structural transition toward electric mobility – was hit hard by the coronavirus pandemic. The number of vehicles produced declined by approximately 16% during the year, resulting in significantly lower revenue for the Automotive Technologies division. The Automotive Aftermarket and Industrial divisions suffered heavy declines in demand due to the coronavirus pandemic, although they lost less revenue in 2020 than the Automotive Technologies division. The Industrial division's results were buoyed by the persistently growing wind business, especially in the Greater China region.

By taking comprehensive measures from the start of the coronavirus pandemic, the Schaeffler Group has been able to keep supply chains intact, safeguard the financial stability of the company, and protect the health of its employees. Measures to adapt expenses to the abrupt change in demand were taken early on, business travel is still reduced to a minimum, and employees are working remotely wherever possible.


Along with these rapidly adopted adjustments to expenses, the structural and efficiency measures of the programs “RACE”, “GRIP”, and “FIT” initiated in the prior year have similarly helped stabilize the Schaeffler Group's earnings during the particularly difficult first half of the year and sequentially improve them again when revenue increased in the second half.

Thanks to the consistent implementation of these measures and to the company's agility, the adjusted guidance issued November 9 for free cash flow before cash in- and outflows for M&A activities was met, and the guidance for revenue growth excluding the impact of currency translation and the EBIT margin before special items was even exceeded.

Despite the adversities 2020 has brought, the company also continued to successfully execute ongoing projects and initiatives. For instance, the Automotive Technologies division won initial nominations for customer projects for the new 3 in 1 electric axle, the Automotive Aftermarket division opened its assembly and packaging center in Halle (Saale) as planned, and the Industrial division made further progress in the strategic Industry 4.0 business field by introducing the condition monitoring system “OPTIME” to the European market.

Despite demand reviving in the last few months, markets and revenue are expected to recover slowly over the coming years, resulting in structural underutilization of existing production capacities. For this reason, and in view of the technological transition, temporary measures must be accompanied by additional structural measures to accelerate the transformation of the Schaeffler Group and strengthen its ability to compete and realize future opportunities for the long term. In light of this, the Board of Managing Directors of Schaeffler AG adopted a package of measures for Europe on September 9, 2020, which has two broad aims: The first is to adjust excess structural capacity by downsizing the workforce and consolidating locations in Europe, especially in Germany. The second aim is to strengthen the company's competitiveness and expand local capabilities. The measures are expected to result in transformation expenses of EUR 700 m, including EUR 580 m recognized within the three programs “RACE”, “GRIP”, and “FIT” during the year.

These three programs will be transferred to the divisional subprograms of the updated corporate strategy “Roadmap 2025” starting in 2021. The Board of Managing Directors of Schaeffler AG presented this strategic framework in November 2020; it is designed to align the company toward the future in order to harness growth potential, realize synergies, and create value sustainably. To this end, the framework is comprised of the three pillars “Strategy 2025”, “Execution Program 2025”, and the financial “Mid-term Targets 2025” that express the planned result of the company's strategy and the execution program in quantitative terms.

 More on the “Roadmap 2025” on pp. 12 et seq.



## Report on the economic position

### Course of business 2020

## Results of operations compared to outlook 2020

On March 24, 2020, the Board of Managing Directors of Schaeffler AG announced that it was suspending the full year guidance for 2020 for the Schaeffler Group and its divisions that had been published on March 10, 2020, due to the world-wide spread of the coronavirus and the resulting measures and restrictions.

Since April 27, 2020, the Schaeffler Group had been expecting its revenue growth at constant currency, EBIT margin before special items, and free cash flow before cash inflows and outflows for M&A activities for the full year 2020 to be below the corresponding prior year level. The unusual circumstances surrounding the coronavirus pandemic were resulting in exceptional uncertainty regarding the course of the company's business and that of its three divisions during the period covered by the outlook.

On November 9, 2020, the Board of Managing Directors of Schaeffler AG agreed on a new full year outlook for 2020 based on current information concerning the course of business in the fourth quarter. The outlook was based on the assumption that the sales markets relevant to the Schaeffler Group would continue to recover in the fourth quarter of 2020 and, specifically, that the coronavirus pandemic would not result in any significant new adverse implications for the company's results of operations. Nevertheless, the environment remained marked by volatility and uncertainty at that time.

## Comparison to outlook 2020 – group

	Actual 2019			Outlook 2020	Actual 2020
		Issued 03/05/2020	Issued 04/27/2020	Issued 11/09/2020	
<b>Schaeffler Group</b>					
Revenue growth <sup>1)</sup>	0.1%	-2 to 0%	below prior year	-13.0 to -11.5%	-10.4%
EBIT margin before special items <sup>2)</sup>	8.1%	6.5 to 7.5%	below prior year	4.5 to 5.5%	6.4%
Free cash flow <sup>3)</sup>	EUR 473 m	EUR 300 to 400 m	below prior year	EUR 500 to 600 m	EUR 539 m

<sup>1)</sup> Compared to prior year; excluding the impact of currency translation.

<sup>2)</sup> Please refer to pp.35 et seq. for the definition of special items.

<sup>3)</sup> Before cash in- and outflows for M&A activities.

At the time, the **Schaeffler Group** expected to generate revenue growth of -13.0 to -11.5% excluding the impact of currency translation, an EBIT margin before special items of 4.5 to 5.5%, and free cash flow before cash in- and outflows for M&A activities of EUR 500 to 600 m for the full year 2020.

The Schaeffler Group generated a revenue decline excluding the impact of currency translation of 10.4% and an EBIT margin before special items of 6.4% in the 2020 business year. The adjusted guidance for these performance indicators was thus exceeded, since the business of the Automotive Technologies division performed better in all four regions over the course of the fourth quarter than had been expected when the guidance was issued. Free cash flow before cash in- and outflows for M&A activities of EUR 539 m was within the adjusted guidance.

## Report on the economic position

Course of business 2020

### Comparison to outlook 2020 – divisions

	Actual 2019			Outlook 2020	Actual 2020
		Issued 03/05/2020	Issued 04/27/2020 <sup>1)</sup>	Issued 11/09/2020	
<b>Automotive Technologies</b>					
Revenue growth <sup>2)</sup>	-0.8%	-2 to 0%	-	-14.5 to -13.0%	-11.6%
EBIT margin before special items <sup>3)</sup>	5.5% <sup>4)</sup>	4.5 to 5.5%	-	1.0 to 2.0%	3.6%
<b>Automotive Aftermarket</b>					
Revenue growth <sup>2)</sup>	-1.1%	0 to 2%	-	-8.0 to -6.5%	-7.0%
EBIT margin before special items <sup>3)</sup>	16.5% <sup>4)</sup>	13 to 14%	-	14.5 to 15.5%	15.8%
<b>Industrial</b>					
Revenue growth <sup>2)</sup>	3.1%	-2 to 0%	-	-10.0 to -9.0%	-9.2%
EBIT margin before special items <sup>3)</sup>	10.2% <sup>4)</sup>	9.5 to 10.5%	-	7.5 to 8.5%	8.5%

<sup>1)</sup> Outlook provided for group only.

<sup>2)</sup> Compared to prior year; excluding the impact of currency translation.

<sup>3)</sup> Please refer to pp. 35 et seq. for the definition of special items.

<sup>4)</sup> Comparative figure presented based on 2020 segment structure.

The company expected its **Automotive Technologies division** to generate revenue growth of -14.5 to -13.0% excluding the impact of currency translation and an EBIT margin before special items of 1.0 to 2.0%. **Automotive Technologies division** revenue declined by 11.6%, excluding the impact of currency translation, and its EBIT margin before special items was 3.6%; both exceeded the relevant adjusted guidance, since the business performed better in all four regions over the course of the fourth quarter than had been expected when the guidance was issued.

For its **Automotive Aftermarket division**, the company anticipated revenue growth of -8.0 to -6.5% excluding the impact of currency translation and an EBIT margin before special items of 14.5 to 15.5%. The decline in revenue of the Automotive Aftermarket division amounted to 7.0% excluding the impact of currency translation, falling within the adjusted guidance. The division's EBIT margin before special items for 2020 was 15.8%, thus slightly exceeding the guidance.

For its **Industrial division**, the company anticipated revenue growth of -10.0 to -9.0% excluding the impact of currency translation and an EBIT margin before special items of 7.5 to 8.5%. The Industrial division met the adjusted revenue guidance, its revenue falling by 9.2% excluding the impact of currency translation. Its EBIT margin before special items for 2020 of 8.5% was within the adjusted guidance as well.

## Report on the economic position

### Earnings

# Schaeffler Group

- // Revenue down significantly by 10.4% at constant currency despite recovery in H2 – H1: -21.8%; H2: +1.0%
- // All divisions' revenue considerably below prior year; Greater China region generates additional revenue, remaining regions considerably below prior year
- // EUR 946 m in special items mainly to expand “RACE”, “GRIP”, and “FIT” and goodwill impairment in Automotive Technologies division
- // EBIT margin before special items at 6.4% (prior year: 8.1%) despite lower revenue; measures initiated under the divisional programs and additional adaptation of expenses during the year are proving effective; H2 earnings improved sequentially and compared to prior year – H1: 1.2%; H2: 10.5% (H2 2019: 8.4%)

Revenue **EUR 12,600 m**

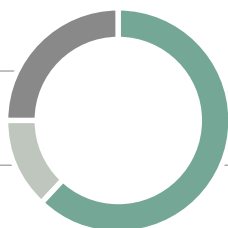
EBIT margin before special items **6.4%**

**24.9%**

Industrial

**13.0%**

Automotive Aftermarket



**62.1%**  
Automotive Technologies

## Schaeffler Group earnings

in € millions	2020	2019	Change in %
<b>Revenue</b>	<b>12,600</b>	<b>14,427</b>	<b>-12.7</b>
• at constant currency			-10.4
<b>Revenue by division</b>			
Automotive Technologies	7,821	9,044	-13.5
• at constant currency			-11.6
Automotive Aftermarket	1,641	1,848	-11.2
• at constant currency			-7.0
Industrial	3,138	3,535	-11.2
• at constant currency			-9.2
<b>Revenue by region <sup>1)</sup></b>			
Europe	5,371	6,506	-17.4
• at constant currency			-17.0
Americas	2,604	3,154	-17.5
• at constant currency			-12.6
Greater China	2,950	2,763	6.8
• at constant currency			8.7
Asia/Pacific	1,675	2,003	-16.4
• at constant currency			-13.2
Cost of sales	-9,691	-10,853	-10.7
<b>Gross profit</b>	<b>2,909</b>	<b>3,574</b>	<b>-18.6</b>
• in % of revenue	23.1	24.8	-
Research and development expenses	-758	-849	-10.8
Selling and administrative expenses	-1,342	-1,533	-12.5
Other income and expense	-953	-401	> 100
<b>Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)</b>	<b>-143</b>	<b>790</b>	<b>-</b>
• in % of revenue	-1.1	5.5	-
Special items <sup>2)</sup>	946	372	> 100
<b>EBIT before special items</b>	<b>803</b>	<b>1,161</b>	<b>-30.9</b>
• in % of revenue	6.4	8.1	-
Financial result	-185	-137	35.3
Income (loss) from equity-accounted investees	-33	-17	> 100
Income taxes	-53	-196	-73.1
Net income (loss) <sup>3)</sup>	-424	428	-
Earnings per common non-voting share (basic/diluted, in €)	-0.63	0.65	-

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

<sup>2)</sup> Please refer to pp. 35 et seq. for the definition of special items.

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

## Report on the economic position

### Earnings

## 2.3 Earnings

### Schaeffler Group earnings

The Schaeffler Group's **revenue** decreased by 12.7% to EUR 12,600 m (prior year: EUR 14,427 m) in 2020. Excluding the impact of currency translation, revenue declined by 10.4%. The revenue trend for the year was significantly impacted by the implications of the coronavirus pandemic. This was particularly the case in the first six months, when revenue was down 21.8% excluding the impact of currency translation, while revenue increased by 1.0% excluding the impact of currency translation in the second half of the year. Demand declined worldwide, especially in the automotive sector, resulting in Automotive Technologies division revenue for 2020 dropping by 11.6%, excluding the impact of currency translation. Having experienced particularly heavy revenue declines in the first half of the year, the division reported a considerable recovery in the latter half of the year. The Automotive Aftermarket and Industrial divisions also suffered heavy declines in demand due to the coronavirus pandemic, although at 7.0% and 9.2%, respectively, their revenue losses were lower than those of the Automotive Technologies division. The Industrial division's results were buoyed by persistent demand for wind turbine products, especially in the Greater China region.

The significant decline in the Schaeffler Group's revenue for 2020 affected all regions except Greater China. In the Europe region, revenue decreased by a considerable 17.4% (-17.0% at constant currency). Following a decline in revenue for the first six months of 27.8% excluding the impact of currency translation, revenue improved considerably in the second half of the year driven by the two Automotive divisions, but still fell by 5.3% compared to the prior year, excluding the impact of currency translation. In the Americas region, revenue declined by 17.5% (-12.6% at constant currency) in 2020. Following a 28.0% revenue decrease for the first half of 2020 excluding the impact of currency translation, revenue for the second half was 3.2% ahead of prior year excluding the impact of currency translation,

buoyed primarily by the business of the two Automotive divisions. Revenue in the Greater China region was up 6.8% (+8.7% at constant currency). Having already generated revenue growth of 3.0% excluding the impact of currency translation in the first six months, this region reported 13.3% in additional revenue for the second half of the year excluding the impact of currency translation. The determining factors for this growth were high demand for wind turbine products in the Industrial division and the considerable recovery of demand in the Automotive Technologies division. Revenue in the Asia/Pacific region declined by 16.4% (-13.2% at constant currency) during the year. Following a 24.6% revenue decrease for the first half of 2020 excluding the impact of currency translation, revenue for the second half was 1.4% below the prior year level, excluding the impact of currency translation, due to a recovery at all three divisions.

**Cost of sales** decreased by 10.7% to EUR 9,691 m (prior year: EUR 10,853 m) during the year. The decrease was driven by the impact of volumes, structural and efficiency measures that are part of the divisional programs – some initiated as early as last year –, and the adaptation of costs to changes in demand, for instance by short-time work. Expenses related to adjusting the capacity of non-current assets and non-personnel provisions had an offsetting effect. **Gross profit** declined by 18.6% to EUR 2,909 m (prior year: EUR 3,574 m). The gross margin fell by 1.7 percentage points to 23.1% (prior year: 24.8%) primarily due to the impact of fixed costs resulting from the heavy decline in volumes.

**Functional costs** fell by 11.9% to EUR 2,099 m (prior year: EUR 2,383 m). The decline was primarily the result of the adaptation of costs to changes in demand, for instance by short-time work. Measures initiated in the prior year to increase efficiency made an additional impact. Functional costs as a percentage of revenue of 16.7% were close to flat with their prior year level (prior year: 16.5%). Research and development expenses of EUR 758 m were 10.8% below the prior year level (prior year: EUR 849 m). Research and development expenses represented an R&D ratio of 6.0% of revenue (prior year: 5.9%).

Selling and administrative expenses declined by 12.5% to EUR 1,342 m (prior year: EUR 1,533 m) due to, along with the factors discussed above, volume-related decreases in logistics expenses.

**EBIT** for the year amounted to EUR -143 m (prior year: EUR 790 m), and the corresponding EBIT margin was -1.1% (prior year: 5.5%). EBIT was adversely affected by EUR 946 m in **special items** (prior year: EUR 372 m), most of which was recognized in other income and expenses with a minor portion included in cost of sales and functional costs. The amount includes EUR 681 m in expenses incurred to expand the programs "RACE", "GRIP", and "FIT", especially in connection with downsizing the workforce to adjust excess structural capacity. EUR 580 m of these expenses relate to the package of measures adopted in September 2020. In addition, the company recognized an impairment of goodwill allocated to the Automotive Technologies division by EUR 249 m as at March 31, 2020, during the year since the coronavirus pandemic has led to increased uncertainty regarding the Schaeffler Group's future course of business and, therefore, to changes in the assumptions used to determine the recoverable amount of groups of cash-generating units. Special items totaling EUR 21 m were recognized for legal risks.

Based on that, **EBIT before special items** declined by 30.9% to EUR 803 m in 2020 (prior year: EUR 1,161 m) with a corresponding drop in EBIT margin before special items by 1.7 percentage points to 6.4% (prior year: 8.1%). The EBIT margin before special items of 10.5% for the second half of 2020 improved compared to both the first six months (H1 2020: 1.2%) and the prior year period (H2 2019: 8.4%), particularly due to the structural and expense adjustments discussed above.

## Report on the economic position

### Earnings

The Schaeffler Group's **financial result** deteriorated by EUR 48 m to EUR -185 m in 2020.

#### Schaeffler Group financial result

in € millions	2020	2019
Interest expense on financial debt <sup>1)</sup>	-100	-103
Gains and losses on derivatives and foreign exchange	-6	-16
Fair value changes on embedded derivatives	-31	23
Interest income and expense on pensions and partial retirement obligations	-22	-42
Other	-26	2
<b>Total</b>	<b>-185</b>	<b>-137</b>

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

Interest expense on financial debt amounted to EUR 100 m in 2020 (prior year: EUR 103 m), which was in line with the prior year level. Interest expense includes a prepayment penalty of EUR 10 m (prior year: EUR 6 m) and EUR 4 m (prior year: EUR 12 m) in deferred transaction costs derecognized.

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to EUR 6 m (prior year: EUR 16 m).

Realized and unrealized fair value changes on embedded derivatives, primarily the prepayment option for the bond series redeemed in November, resulted in net losses of EUR 31 m (prior year: gains of EUR 23 m).

Interest on pensions and partial retirement obligations gave rise to expenses of EUR 22 m (prior year: EUR 42 m).

An impairment of EUR 22 m on an outstanding convertible loan receivable from a joint venture as well as additional tax interest expenses of EUR 5 m were included in Other in the reporting period.

**Income tax expense** amounted to EUR 53 m in 2020 (prior year: EUR 196 m), resulting in an effective tax rate of -14.6% (prior year: 30.8%). The change in the effective tax rate compared to the prior year was primarily the result of an increase in non-deductible expenses that was partly due to the recognition of deferred tax liabilities for dividends to be paid by subsidiaries, as well as the impairment of goodwill, which is not tax-deductible. A shift in the composition of taxable income between countries with higher and lower tax rates had an offsetting effect.

The net loss attributable to shareholders of the parent company for 2020 was EUR -424 m (prior year: net income of EUR 428 m). This net loss was adversely affected by EUR 749 m in special items that were mainly related to the programs "RACE", "GRIP", and "FIT". **Net income** before special items amounted to EUR 325 m (prior year: EUR 686 m). The Board of Managing Directors and the Supervisory Board will propose a dividend for 2020 of EUR 0.24 (prior year: EUR 0.44) per common share and EUR 0.25 (prior year: EUR 0.45) per common non-voting share to the annual general meeting. This represents a dividend payout ratio of 49.7% (prior year: 43.0%) of net income attributable to shareholders before special items.

Basic and diluted **earnings per common share** decreased to EUR -0.64 (prior year: EUR 0.64) in 2020. Basic and diluted earnings per common non-voting share amounted to EUR -0.63 (prior year: EUR 0.65). 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.

Schaeffler Value Added for the year amounted to EUR -862 m (prior year: EUR -88 m); **ROCE** was -1.8% (prior year: 9.0%).

**Schaeffler Value Added (SVA) before special items** declined to EUR 84 m in 2020 (prior year: EUR 284 m); ROCE before special items fell to 10.1% (prior year: 13.2%). The considerable decline in SVA before special items was attributable to the trend in all three divisions' EBIT before special items. The decline in average capital employed had an offsetting favorable effect on SVA.

## Report on the economic position

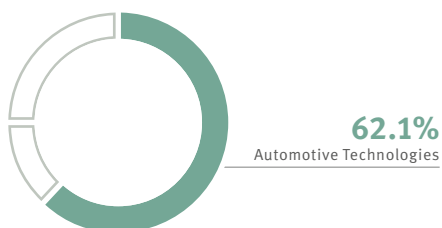
### Earnings

# Automotive Technologies division

- // Revenue down significantly by 11.6% at constant currency despite recovery in H2 – H1: -26.8%; H2: +3.5%; global automobile production 2020 approximately 16% below prior year; outperformance over 4 percentage points
- // All BDs below prior year; Greater China region generates additional revenue, remaining regions below prior year
- // EUR 608 m in special items mainly relating to expansion of “RACE” and goodwill impairment
- // EBIT margin before special items positive at 3.6% (prior year: 5.5%) despite lower revenue; measures initiated as part of “RACE” and additional adaptation of expenses during the year are proving effective; H2 earnings improved sequentially and compared to prior year – H1: -5.5%; H2: 10.0% (H2 2019: 6.1%)

Revenue **EUR 7,821 m**

EBIT margin before special items **3.6%**



## Automotive Technologies division earnings

in € millions	2020	2019	Change in %
<b>Revenue</b>	<b>7,821</b>	<b>9,044</b>	<b>-13.5</b>
• at constant currency			-11.6
<b>Revenue by business division</b>			
E-Mobility BD	657	681	-3.5
• at constant currency			-2.5
Engine Systems BD	2,369	2,793	-15.2
• at constant currency			-13.8
Transmission Systems BD	3,506	4,023	-12.8
• at constant currency			-10.8
Chassis Systems BD	1,289	1,547	-16.7
• at constant currency			-14.8
<b>Revenue by region <sup>1)</sup></b>			
Europe	2,869	3,570	-19.6
• at constant currency			-19.7
Americas	1,775	2,154	-17.6
• at constant currency			-13.7
Greater China	2,033	1,959	3.8
• at constant currency			5.8
Asia/Pacific	1,144	1,360	-15.9
• at constant currency			-13.2
Cost of sales	-6,331	-7,163	-11.6
<b>Gross profit</b>	<b>1,490</b>	<b>1,881</b>	<b>-20.8</b>
• in % of revenue	19.1	20.8	-
Research and development expenses	-597	-672	-11.1
Selling and administrative expenses	-596	-695	-14.3
Other income and expense	-627	-228	> 100
<b>EBIT</b>	<b>-330</b>	<b>286</b>	<b>-</b>
• in % of revenue	-4.2	3.2	-
Special items <sup>2)</sup>	608	209	> 100
<b>EBIT before special items</b>	<b>278</b>	<b>496</b>	<b>-44.0</b>
• in % of revenue	3.6	5.5	-

Prior year information presented based on 2020 segment structure.

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

<sup>2)</sup> Please refer to pp. 35 et seq. for the definition of special items.

## Report on the economic position

### Earnings

## Automotive Technologies division earnings

Automotive Technologies division **revenue** fell by 13.5% to EUR 7,821 m during the year (prior year: EUR 9,044 m). Excluding the impact of currency translation, revenue dropped by 11.6%. In an already declining market environment, the division's revenue trend was massively impacted by the implications of the coronavirus pandemic. The approximately 16% decline in global automobile production led to significantly lower revenue for the Automotive Technologies division. With the market recovering, the division generated revenue growth for the second half of the year of 3.5% – excluding the impact of currency translation – as compared to the prior year period.

The significant decline in global automobile production reduced revenue for all regions except Greater China in 2020. The Europe region was affected particularly severely. With automobile production falling by approximately 21%, the region's revenue decreased by 19.6% (-19.7% at constant currency) due to revenue for the first half of the year slumping by a massive 36.0% excluding the impact of currency translation. Demand recovered perceptibly in the second half of the year, bringing the revenue decline to only 1.5% as compared to the prior year period. The Americas region reported 17.6% less revenue (-13.7% at constant currency) in 2020, while vehicle production fell by approximately 22% over the same period. Revenue was slightly ahead of the prior year level during the first two months of the year due primarily to product ramp-ups, but then fell considerably in the months that followed, resulting in a slump in revenue totaling 32.6% for the first half of the year. As the market recovered during the second half of 2020, the region generated revenue growth of 5.9% compared to the prior year period, excluding the impact of currency translation. In the Greater China region, revenue for the year increased by 3.8% (+5.8% at constant currency) despite vehicle production stagnating at approximately -4%. Following the decline in revenue of 2.2% excluding the impact of currency translation in the first six months, revenue rose considerably in the second half of the year, increasing by 11.7% from the prior year period, excluding the impact of currency translation. The Asia/Pacific

region reported a 15.9% decrease in revenue (-13.2% at constant currency) while vehicle production declined by approximately 20%. Although revenue continued to fall slightly in the second half of the year, dropping by 0.7% excluding the impact of currency translation, the decline was considerably less pronounced than in the first six months (-24.9% at constant currency).

**E Mobility BD** revenue for the year declined slightly by 3.5% (-2.5% at constant currency), largely driven by primary components for continuously variable transmissions (CVTs). In contrast, revenue from wet double clutches, driven by a strong revenue trend in Greater China, and electric axle drives in Europe as well as hybrid modules in Americas and Greater China was ahead of the prior year period, growing against the general market trend.

**Engine Systems BD** revenue for the year was 15.2% lower (-13.8% at constant currency) than in the prior year. Revenue for the year from the thermal management module product group grew against the general market trend as a result of projects ramping up.

**Transmission Systems BD** revenue declined by 12.8% (-10.8% at constant currency), which is attributable to all significant product groups' revenue trend. However, components for automated transmissions improved over the prior year period in the second half of the year.

The **Chassis Systems BD** reported a revenue decline of 16.7% (-14.8% at constant currency) with all significant product groups' revenue down from the prior year period.

The division's **cost of sales** decreased by 11.6% to EUR 6,331 m (prior year: EUR 7,163 m) during the year. The decrease was driven by the impact of volumes, structural and efficiency measures that are part of "RACE" – some initiated as early as last year –, and the adaptation of costs to changes in demand, for instance by short-time work. Expenses related to adjusting the capacity of non-current assets and non-personnel provisions had an offsetting effect. **Gross profit** decreased by 20.8% to

EUR 1,490 m (prior year: EUR 1,881 m), mainly driven by volumes. The gross margin declined to 19.1% in 2020 (prior year: 20.8%), primarily due to the impact of fixed costs. The corresponding gross margin for the second half of the year of 23.2% considerably exceeded that of the prior year period (H2 2019: 20.7%) due to rising revenue combined with consistent cost management as well as a favorable impact of short-time work and favorable raw materials prices.

**Functional costs** for the year fell by 12.7% to EUR 1,193 m (prior year: EUR 1,367 m). The decline was primarily the result of the adaptation of costs to changes in demand, for instance by short-time work. Measures initiated in the prior year to increase efficiency as part of "RACE" made an additional impact. Despite the significant decline in revenue, functional costs as a percentage of revenue merely rose to 15.3% (prior year: 15.1%). Research and development expenses decreased to EUR 597 m (prior year: EUR 672 m), partly as a result of the yet stronger focus on significant strategic business areas as well as delays in certain customer projects due to the coronavirus pandemic. Research and development expenses represented an R&D ratio of 7.6% of revenue (prior year: 7.4%). Selling and administrative expenses declined to EUR 596 m (prior year: EUR 695 m), due to, along with the factors discussed above, volume-related decreases in logistics expenses.

Automotive Technologies division **EBIT** for the year amounted to EUR -330 m (prior year: EUR 286 m), and the EBIT margin was -4.2% (prior year: 3.2%). EBIT for the reporting period was adversely affected by a total of EUR 608 m in **special items** (prior year: EUR 209 m), most of which was recognized in other income and expenses with a minor portion included in cost of sales and functional costs. The amount includes EUR 347 m in expenses incurred to expand the program "RACE", especially in connection with downsizing the workforce to adjust excess structural capacity. EUR 294 m of these expenses relate to the package of measures adopted in September 2020. In addition, the company recognized an impairment of goodwill allocated to the Automotive Technologies division by EUR 249 m as at March 31, 2020, during the year since the coronavirus pandemic has led to increased



**Report on the economic position**

## Earnings

uncertainty regarding the Schaeffler Group's future course of business and, therefore, to changes in the assumptions used to determine the recoverable amount of groups of cash-generating units.

Based on that, **EBIT before special items** declined considerably by 44.0% to EUR 278 m (prior year: EUR 496 m) with a drop in EBIT margin to 3.6% (prior year: 5.5%). The EBIT margin before special items of 10.0% for the second half of 2020 improved compared to both the first six months (H1 2020: -5.5%) and the prior year period (H2 2019: 6.1%), particularly due to the structural and expense adjustments discussed above.

## Report on the economic position

### Earnings

# Automotive Aftermarket division

- // Revenue down significantly by 7.0% at constant currency despite recovery in H2 – H1: -14.8%; H2: +0.5%
- // Declining revenue in all regions
- // EUR 30 m in special items mainly relating to expansion of “GRIP”
- // EBIT margin before special items at 15.8% (prior year: 16.5%) despite lower revenue; measures initiated in the prior year as part of “GRIP” are proving effective; H2 earnings improved sequentially and at prior year level – H1: 13.8%; H2: 17.4% (H2 2019: 17.4%)

Revenue **EUR 1,641 m**

EBIT margin before special items **15.8%**

**13.0%**  
Automotive Aftermarket



## Automotive Aftermarket division earnings

in € millions	2020	2019	Change in %
<b>Revenue</b>	<b>1,641</b>	<b>1,848</b>	<b>-11.2</b>
• at constant currency			-7.0
<b>Revenue by region <sup>1)</sup></b>			
Europe	1,183	1,308	-9.6
• at constant currency			-7.8
Americas	301	362	-17.1
• at constant currency			-4.3
Greater China	77	81	-4.8
• at constant currency			-1.9
Asia/Pacific	80	96	-16.7
• at constant currency			-12.3
Cost of sales	-1,078	-1,215	-11.2
<b>Gross profit</b>	<b>562</b>	<b>634</b>	<b>-11.2</b>
• in % of revenue	34.3	34.3	-
Research and development expenses	-21	-26	-18.6
Selling and administrative expenses	-279	-304	-8.4
Other income and expense	-33	-13	> 100
<b>EBIT</b>	<b>229</b>	<b>290</b>	<b>-20.9</b>
• in % of revenue	14.0	15.7	-
Special items <sup>2)</sup>	30	15	98.0
<b>EBIT before special items</b>	<b>259</b>	<b>305</b>	<b>-15.1</b>
• in % of revenue	15.8	16.5	-

Prior year information presented based on 2020 segment structure.

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

<sup>2)</sup> Please refer to pp. 35 et seq. for the definition of special items.

## Report on the economic position

### Earnings

## Automotive Aftermarket division earnings

Automotive Aftermarket division **revenue** fell by 11.2% (-7.0% at constant currency) to EUR 1,641 m during the reporting period (prior year: EUR 1,848 m) driven by volumes. Having declined by 14.8% excluding the impact of currency translation in the first six months, mainly due to the coronavirus pandemic, revenue for the second half of the year improved sequentially compared to the first six months. In total, revenue was slightly ahead of the prior year level (+0.5% at constant currency), driven by the revenue trend in the Americas region.

Revenue in the **Europe region** declined by 9.6% (-7.8% at constant currency) during the year. Following a decline in revenue of 13.3% excluding the impact of currency translation in the first six months, revenue fell by only 2.7%, excluding the impact of currency translation, in the second half of the year compared to the prior year period. The clear recovery tendencies were primarily driven by the revenue trend of the Independent Aftermarket business in the Western Europe and Central and Eastern Europe subregions.

The **Americas region** reported a decrease in revenue for the reporting period by 17.1% (-4.3% at constant currency). Having experienced a 19.5% decline in revenue, excluding the impact of currency translation, in the first half of the year, this region generated 11.1% in additional revenue for the second half of the year, excluding the impact of currency translation, compared to the prior year period. Especially the Independent Aftermarket business in the South America subregion reported considerable revenue growth.

In the **Greater China region**, revenue dropped by 4.8% (-1.9% at constant currency). Following a considerable decline in revenue of 12.3% excluding the impact of currency translation in the first six months, revenue for the second half of the year exceeded that of the prior year period (+8.8% at constant currency), mainly due to the Independent Aftermarket business.

Revenue in the **Asia/Pacific region** declined by 16.7% (-12.3% at constant currency). Having experienced a 27.0% decline in revenue excluding the impact of currency translation in the first six months, this region generated 2.5% in additional revenue for the second half of the year excluding the impact of currency translation, largely resulting from the Independent Aftermarket business in the India subregion.

Automotive Aftermarket division **cost of sales** fell by 11.2% to EUR 1,078 m during the reporting period (prior year: EUR 1,215 m), mainly driven by volumes. Gross profit declined by 11.2% to EUR 562 m (prior year: EUR 634 m). The gross margin of 34.3% was flat with prior year (prior year: 34.3%), due in part to a favorable impact of the revenue mix.

**Functional costs** decreased by 9.2% to EUR 300 m (prior year: EUR 330 m) during the year. Along with volume-related reductions, it was especially measures initiated in the prior year as part of “GRIP” that helped adjust personnel and other costs. Costs currently ramping up as a result of the assembly and packaging center in Halle (Saale) commencing operations had an offsetting impact in the third quarter and fourth quarter of 2020. Functional costs as a percentage of revenue of 18.3% were up from their prior year level (prior year: 17.9%).

Automotive Aftermarket division **EBIT** for the year declined by 20.9% to EUR 229 m (prior year: EUR 290 m), and the EBIT margin dropped to 14.0% (prior year: 15.7%). EBIT for the reporting period was adversely affected by a total of EUR 30 m in **special items** (prior year: EUR 15 m), most of which was recognized in other income and expenses with a minor portion included in functional costs. These special items represented expenses incurred to expand “GRIP”, especially in connection with downsizing the workforce to adjust excess structural capacity. EUR 23 m of these expenses relate to the package of measures adopted in September 2020.

Based on that, **EBIT before special items** decreased by 15.1% to EUR 259 m (prior year: EUR 305 m). Despite the significant decrease in revenue, the division's EBIT margin before special items amounted to 15.8% (prior year: 16.5%). Particularly as a result of the cost adjustments discussed above, the division's EBIT margin before special items for the second half of the year improved to 17.4% compared to the first half of 2020 (H1 2020: 13.8%), returning to the level of the prior year period (H2 2019: 17.4%).

## Report on the economic position

### Earnings

# Industrial division

- // Revenue down significantly by 9.2% at constant currency; improvement in H2 – H1: -12.8%; H2: -5.4%
- // Greater China region generates additional revenue, remaining regions considerably below prior year; especially Industrial Distribution and industrial automation sector cluster report significantly lower volumes; wind sector cluster generates considerable additional revenue
- // EUR 309 m in special items mainly relating to expansion of program “FIT”
- // EBIT margin before special items at 8.5% (prior year: 10.2%); H1: 9.0%; H2: 8.0% (H2 2019: 9.6%)

## Industrial division earnings

in € millions	2020	2019	Change in %
<b>Revenue</b>	<b>3,138</b>	<b>3,535</b>	<b>-11.2</b>
• at constant currency			-9.2
<b>Revenue by region <sup>1)</sup></b>			
Europe	1,319	1,627	-19.0
• at constant currency			-18.4
Americas	528	638	-17.2
• at constant currency			-13.5
Greater China	840	723	16.3
• at constant currency			18.1
Asia/Pacific	451	547	-17.6
• at constant currency			-13.6
Cost of sales	-2,282	-2,476	-7.8
<b>Gross profit</b>	<b>856</b>	<b>1,059</b>	<b>-19.2</b>
• in % of revenue	27.3	30.0	-
Research and development expenses	-140	-152	-7.9
Selling and administrative expenses	-467	-534	-12.6
Other income and expense	-292	-160	82.7
<b>EBIT</b>	<b>-43</b>	<b>214</b>	<b>-</b>
• in % of revenue	-1.4	6.0	-
Special items <sup>2)</sup>	309	147	> 100
<b>EBIT before special items</b>	<b>266</b>	<b>361</b>	<b>-26.3</b>
• in % of revenue	8.5	10.2	-

Prior year information presented based on 2020 segment structure.

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

<sup>2)</sup> Please refer to pp. 35 et seq. for the definition of special items.

Revenue **EUR 3,138 m**

EBIT margin before special items **8.5%**

**24.9%**

Industrial



## Report on the economic position

### Earnings

## Industrial division earnings

Industrial division **revenue** for the reporting period decreased by 11.2% (-9.2% at constant currency) to EUR 3,138 m (prior year: EUR 3,535 m), driven by volumes. Having declined by 12.8% excluding the impact of currency translation in the first six months largely due to the coronavirus pandemic, revenue trended somewhat more robustly in the second half of the year. Revenue for the last six months of 2020 was down 5.4% from the prior year period, excluding the impact of currency translation. Particularly the still considerable revenue growth in the Greater China region's wind sector cluster and the revenue trend of the Americas and Asia/Pacific regions contributed to this change.

Revenue for the reporting period in the **Europe region** was down by 19.0% (-18.4% at constant currency), mainly driven by Industrial Distribution and the industrial automation sector cluster. Except for wind, which reported revenue growth, revenue for the remaining sector clusters dropped considerably as well. Having already slumped by 20.6% in the first six months, revenue decreased further in the second half of the year. Although, at 16.0%, the percentage decrease compared to the prior year was less pronounced in the second half of the year, this was attributable to a base effect, since demand had already been low in the second half of 2019. Along with the main revenue decline in the industrial automation cluster, the decrease in the second half of 2020 was also attributable to slowing momentum in wind sector cluster revenue.

The **Americas region** reported a heavy decrease in revenue for the year of 17.2% (-13.5% at constant currency). The revenue trend was primarily affected by the considerable decline experienced by Industrial Distribution and the raw materials and aerospace sector clusters. Additionally, revenue also declined in all other sector clusters except wind. Although, following a decline in revenue of 16.8% excluding the impact of currency translation in the first six months, revenue for the second half of the year saw a slight sequential improvement across all sector clusters and Industrial Distribution, revenue fell by 10.1% excluding the impact of currency translation compared to the

prior year period, which had already been marked by weaker momentum.

**Greater China region** revenue rose by 16.3% (+18.1% at constant currency) during the reporting period, mainly due to the encouraging performance of the wind and power transmission sector clusters. On the other hand, declining revenue in the railway sector cluster, in particular, had an adverse impact on the region's revenue trend. Following revenue growth of 17.6% excluding the impact of currency translation in the first six months, this region's revenue for the second half of the year increased by 18.5% excluding the impact of currency translation, once more rising significantly compared to the prior year period primarily due to strong demand for wind turbine products.

In the **Asia/Pacific region**, revenue was down by a considerable 17.6% from the prior year (-13.6% at constant currency). The decline is mainly attributable to Industrial Distribution and the two wheelers sector cluster. Following a decline in revenue of 23.4% excluding the impact of currency translation in the first six months, revenue fell by only 3.6%, excluding the impact of currency translation, in the second half of the year compared to the prior year period. The improved revenue trend in the second half of the year is mainly attributable to Industrial Distribution and the two wheelers sector cluster.

The Industrial division's **cost of sales** decreased by 7.8% to EUR 2,282 m (prior year: EUR 2,476 m) during the year. The decrease was driven by the impact of volumes, structural and efficiency measures that are part of "FIT" – some initiated as early as last year –, and the adaptation of costs to changes in demand, for instance by short-time work. Expenses related to adjusting the capacity of non-current assets and non-personnel provisions had an offsetting effect. **Gross profit** declined by 19.2% to EUR 856 m (prior year: EUR 1,059 m). The gross margin fell by 2.7 percentage points to 27.3% (prior year: 30.0%) primarily due to the impact of fixed costs related to the decline in volumes.

**Functional costs** for the year fell by 11.5% to EUR 606 m (prior year: EUR 686 m). The decline was primarily the result of the

adaptation of costs to changes in demand, for instance by short-time work. Functional costs as a percentage of revenue of 19.3% were close to flat with their prior year level (prior year: 19.4%). Research and development expenses amounted to EUR 140 m (prior year: EUR 152 m). Selling and administrative expenses declined by 12.6% to EUR 467 m (prior year: EUR 534 m), due to, along with the factors discussed above, volume-related decreases in logistics expenses.

Industrial division **EBIT** for the year amounted to EUR -43 m (prior year: EUR 214 m), and the EBIT margin was -1.4% (prior year: 6.0%). EBIT was adversely affected by a total of EUR 309 m in **special items** (prior year: EUR 147 m), most of which was recognized in other income and expenses with a minor portion included in cost of sales. These special items represented expenses incurred to expand the program "FIT", especially in connection with downsizing the workforce to adjust excess structural capacity. EUR 263 m of these expenses relate to the package of measures adopted in September 2020.

Based on that, EBIT before special items decreased by 26.3% to EUR 266 m (prior year: EUR 361 m). The division's **EBIT margin before special items** declined by 1.7 percentage points to 8.5% (prior year: 10.2%). The EBIT margin before special items of 8.0% for the second half of 2020 decreased compared to both the first six months (H1 2020: 9.0%) and the prior year period (H2 2019: 9.6%), particularly due to the impact of volumes as discussed above.

**Report on the economic position**  
Earnings

## 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, ROCE, and SVA. The key indicators used in evaluating the company's operations are EBIT and the EBIT margin. **EBIT** is defined as earnings before financial result, 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 **ROCE** as well as **SVA**, which is closely linked to ROCE.

In 2020, the company uses a long-term cost of capital of 9% to calculate SVA based on the last twelve months. For periods up to the end of 2019, the calculation is based on a long-term cost of capital of 10%. The annual average of average capital employed is determined as the arithmetic mean of the balance at the end of each of the four quarters.

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.



More on group management on pp. 15 et seq.

## Report on the economic position

### Earnings

### 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 FCF-conversion, which represents the ratio of FCF before cash in- and outflows for M&A activities to EBIT.

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. The Other category comprises an impairment of goodwill recognized in accordance with IAS 36 during the reporting period.

### Reconciliation

	2020	2019	2020	2019	2020	2019	2020	2019
<b>Income statement</b> (in € millions)		Total	Automotive Technologies		Automotive Aftermarket		Industrial	
<b>EBIT</b>	<b>-143</b>	<b>790</b>	<b>-330</b>	<b>286</b>	<b>229</b>	<b>290</b>	<b>-43</b>	<b>214</b>
• in % of revenue	-1.1	5.5	-4.2	3.2	14.0	15.7	-1.4	6.0
<b>Special items</b>	<b>946</b>	<b>372</b>	<b>608</b>	<b>209</b>	<b>30</b>	<b>15</b>	<b>309</b>	<b>147</b>
• Legal cases	21	-13	12	0	3	0	6	-13
• Restructuring	676	384	347	209	26	15	303	160
- Program "RACE"	350	204	350	204	0	0	0	0
- Program "GRIP"	27	15	0	0	27	15	0	0
- Program "FIT"	304	137	0	0	0	0	304	137
- Other restructurings	-5	28	-3	5	-1	0	-1	23
• Other	249	0	249	0	0	0	0	0
<b>EBIT before special items</b>	<b>803</b>	<b>1,161</b>	<b>278</b>	<b>496</b>	<b>259</b>	<b>305</b>	<b>266</b>	<b>361</b>
• in % of revenue	6.4	8.1	3.6	5.5	15.8	16.5	8.5	10.2

Prior year information presented based on 2020 segment structure.



## Report on the economic position

### Earnings

#### Reconciliation

	2020	2019
<b>Income statement</b> (in € millions)		Total
<b>EBIT</b>	<b>-143</b>	<b>790</b>
• in % of revenue	-1.1	5.5
<b>Special items</b>	<b>946</b>	<b>372</b>
• Legal cases	21	-13
• Restructuring	676	384
- Program "RACE"	350	204
- Program "GRIP"	27	15
- Program "FIT"	304	137
- Other restructurings	-5	28
• Other	249	0
<b>EBIT before special items</b>	<b>803</b>	<b>1,161</b>
• in % of revenue	6.4	8.1
<b>Net income (loss) <sup>1)</sup></b>	<b>-424</b>	<b>428</b>
<b>Special items</b>	<b>946</b>	<b>372</b>
• Legal cases	21	-13
• Restructuring	676	384
• Other	249	0
- Tax effect <sup>2)</sup>	-197	-115
<b>Net income before special items <sup>1)</sup></b>	<b>325</b>	<b>686</b>
<b>Statement of financial position</b> (in € millions)	<b>12/31/2020</b>	<b>12/31/2019</b>
Net financial debt	2,312	2,526
/ EBITDA	1,116	1,769
<b>Net financial debt to EBITDA ratio</b>	<b>2.1</b>	<b>1.4</b>
Net financial debt	2,312	2,526
/ EBITDA before special items	1,793	2,116
<b>Net financial debt to EBITDA ratio before special items</b>	<b>1.3</b>	<b>1.2</b>

	2020	2019
<b>Statement of cash flows</b> (in € millions)		
<b>EBITDA</b>	<b>1,116</b>	<b>1,769</b>
<b>Special items</b>	<b>677</b>	<b>347</b>
• Legal cases	21	-13
• Restructuring	656	360
• Other	0	0
<b>EBITDA before special items</b>	<b>1,793</b>	<b>2,116</b>
<b>Free cash flow (FCF)</b>	<b>552</b>	<b>372</b>
-/+ Cash in- and outflows for M&A activities	-13	101
<b>(FCF) before cash in- and outflows for M&amp;A activities</b>	<b>539</b>	<b>473</b>
(FCF) before cash in- and outflows for M&A activities	539	473
/ EBIT	-143	790
<b>FCF-conversion <sup>3)</sup></b>	<b>-</b>	<b>0.6</b>
<b>Value-based management</b> (in € millions)		
EBIT	-143	790
/ Average capital employed	7,982	8,778
<b>ROCE (in %)</b>	<b>-1.8</b>	<b>9.0</b>
EBIT before special items	803	1,161
/ Average capital employed	7,982	8,778
<b>ROCE before special items (in %)</b>	<b>10.1</b>	<b>13.2</b>
EBIT	-143	790
- Cost of capital	718	878
<b>Schaeffler Value Added (SVA)</b>	<b>-862</b>	<b>-88</b>
EBIT before special items	803	1,161
- Cost of capital	718	878
<b>SVA before special items</b>	<b>84</b>	<b>284</b>

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

<sup>2)</sup> Based on the group's effective tax rate of 28.7% or the company-specific tax rates reflecting country-specific tax-related circumstances; calculated on the special items in the "legal cases" and "restructuring" categories (the goodwill impairment included in "other" is not tax-deductible).

<sup>3)</sup> Reported only if free cash flow before cash in- and outflows for M&A activities and EBIT is positive.

## Report on the economic position

### Financial position and finance management

## 2.4 Financial position and finance management

### Cash flow and liquidity

#### Cash flow

in € millions	2020	2019	Change in %
Cash flows from operating activities	1,254	1,578	-20.5
Cash used in investing activities	-642	-1,147	-44.0
• including cash in- and outflows for the acquisition of subsidiaries and interests in joint ventures	15	-105	-
• including cash in- and outflows for the disposal of subsidiaries and interests in joint ventures	-3	4	-
Cash provided by (used in) financing activities	526	-572	-
• including principal repayments on lease liabilities	-60	-60	0.1
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,138</b>	<b>-140</b>	<b>-</b>
Effects of foreign exchange rate changes on cash and cash equivalents	-50	8	-
Change in cash and cash equivalents due to changes in the scope of consolidation	1	0	-
Cash and cash equivalents as at beginning of period	668	801	-16.6
<b>Cash and cash equivalents</b>	<b>1,758</b>	<b>668</b>	<b>&gt; 100</b>
<b>Free cash flow (FCF)</b>	<b>552</b>	<b>372</b>	<b>48.4</b>
<b>Free cash flow (FCF) before cash in- and outflows for M&amp;A activities</b>	<b>539</b>	<b>473</b>	<b>14.0</b>

**Cash flows from operating activities** for 2020 of EUR 1,254 m (prior year: EUR 1,578 m) were significantly lower than in the prior year. This decline is primarily attributable to decreased EBITDA and cash outflows for restructurings. Non-cash additions to provisions had an offsetting effect, however. Driven by declining results of operations, cash outflows for working capital of EUR 8 m also fell considerably short of the prior year amount of EUR 224 m. The working capital ratio, defined as working capital as a percentage of revenue, was 19.8% as at December 31, 2020 (prior year: 18.4%). A reduction of the volume of the ABCP program (asset-backed commercial paper program) in the second quarter resulted in a cash outflow of EUR 50 m.

**Capital expenditures** on property, plant and equipment and intangible assets (capex) declined by EUR 412 m to EUR 632 m during the year (prior year: EUR 1,045 m). In addition to measures initiated in the prior year to increase the company's capital efficiency, investing activities were also adapted to the results of operations during the reporting period.

The company had net cash inflows of EUR 13 m for **M&A activities** in 2020 (prior year: net cash outflows of EUR 101 m).

EUR 40 m (prior year: EUR 26 m) used in other investing activities represented loans granted to joint ventures.

EUR 526 m in cash was provided by (prior year: EUR 572 m used in) **financing activities** during the year, primarily in connection with the issuance of EUR 1.5 bn in new bonds, the placement of EUR 557 m in Schuldschein loans, and the issuance of EUR 30 m in commercial paper. These cash inflows were partially offset by cash outflows made to redeem EUR 795 m in bonds and to repay the capital investment loan of EUR 250 m in full. Additionally, EUR 167 m was used to repay short-term financial debt obtained in the prior year. EUR 295 m of the dividends paid in 2020 represented the dividends paid to Schaeffler AG's shareholders in the second quarter of 2020. Principal repayments on lease liabilities of EUR 60 m were flat with prior year.

**Cash and cash equivalents** increased by EUR 1,090 m to EUR 1,758 m as at December 31, 2020 (prior year: EUR 668 m). Part of this balance is available for the redemption of the bond series with a principal of EUR 545 m that is due in 2022.

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 the year amounted to EUR 552 m (prior year: EUR 372 m). **Free cash flow before cash in- and outflows for M&A activities** amounted to EUR 539 m (prior year: EUR 473 m).

At December 31, 2020, cash and cash equivalents consisted primarily of bank balances and short-term deposits. EUR 253 m (prior year: EUR 413 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 1.8 bn) and other bilateral lines of credit totaling EUR 285 m (prior year: EUR 246 m) of which EUR 13 m was drawn as at December 31, 2020. In addition, EUR 38 m of these revolving credit facilities was utilized (prior year: EUR 74 m) in the form of letters of credit and overdrafts on current accounts. Deducting bank balances in countries with foreign exchange restrictions and other legal and contractual restrictions results in total available liquidity of EUR 3,478 m.






## Report on the economic position

### Financial position and finance management

## Capital expenditures

**Capital expenditures** on property, plant and equipment and intangible assets (capex) declined considerably, dropping EUR 412 m or 39.5% to EUR 632 m in 2020 (prior year: EUR 1,045 m). Capital expenditures amounted to 5.0% (prior year: 7.2%) of revenue (capex ratio). By far the largest share of total capital expenditures related to the Europe region.

### Capital expenditures by region (Additions to property, plant and equipment and intangible assets)

		in € millions	Change in € millions
Europe		378 531	-153
Americas		73 137	-64
Greater China		147 191	-44
Asia/ Pacific		41 73	-32
Schaeffler Group		639 933	-294

■ 2020 ■ 2019

Regions reflect the regional structure of the Schaeffler Group.

Total additions to intangible assets and property, plant and equipment amounted to EUR 639 m (prior year: EUR 933 m). Approximately 58% of these additions related to the **Automotive Technologies division**, approximately 4% to the **Automotive Aftermarket division**, and approximately 38% to the **Industrial division**. In order to strengthen its competitive position, the Schaeffler Group primarily invested in strategically aligning its logistics activities as well as in expanding capacity and in equipment and machinery for product start-ups.

The largest share of additions to intangible assets and property, plant and equipment related to the **Europe region**, where the company invested, inter alia, in the assembly and packaging center “AKO” in Halle (Saale). Additionally, the Automotive Technologies division used funds for new product start-ups and to expand capacity, including for customer orders in the field of 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 mainly to equipment and machinery for new product start-ups and to expanding capacity in the Transmission Systems and E-Mobility business divisions. The Industrial division invested in expanding production capacity and new product start-ups, inter alia.

In the **Greater China region**, the company invested largely in expanding capacity and new product start-ups. Investments related mainly to the Transmission and Engine Systems business divisions of the Automotive Technologies division. The Industrial division mainly invested in its rolling bearing business.

In the **Asia/Pacific region**, the Schaeffler Group invested primarily to expand the Industrial division's production capacity in Vietnam and India in 2020. The Automotive Technologies division primarily invested in the Transmission, Chassis, and Engine Systems business divisions.

The group's **reinvestment rate** for the reporting period amounted to 0.67 (prior year: 1.01). The Schaeffler Group is targeting an average reinvestment rate of close to 1 in the medium term.

## Financial debt

The group's net financial debt decreased by EUR 213 m to EUR 2,312 m (prior year: EUR 2,526 m) in 2020.

### Net financial debt

in € millions	12/31/2020	12/31/2019	Change in %
Bonds	3,476	2,781	25.0
Schuldschein loans	554	0	-
Revolving Credit Facility	-3	48	-
Capital investment loan	0	249	-100
Commercial paper	30	115	-73.9
Other financial debt	13	1	> 100
<b>Total financial debt</b>	<b>4,071</b>	<b>3,194</b>	<b>27.4</b>
Cash and cash equivalents	1,758	668	> 100
<b>Net financial debt</b>	<b>2,312</b>	<b>2,526</b>	<b>-8.4</b>

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 2.1 as at December 31, 2020 (prior year: 1.4). The net debt to EBITDA ratio before special items was 1.3 (prior year: 1.2).

The gearing ratio, defined as the ratio of net financial debt to shareholders' equity including non-controlling interests, increased to 125.8% as at December 31, 2020 (prior year: 86.6%).

Rating agency Moody's downgraded Schaeffler Group's ratings from previously “Baa3” to “Ba1” (outlook stable) on June 15, 2020. On July 20, 2020, rating agency Standard & Poor's lowered its ratings for the Schaeffler Group from previously “BBB-” to “BB+” (outlook stable). Fitch continues to assign an investment grade rating of BBB- to the Schaeffler Group, but changed the outlook to negative on March 20, 2020.

**Report on the economic position**

Financial position and finance management

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, 2020:

**Schaeffler Group ratings**

as at December 31

	2020	2019	2020	2019
	Company		Bonds	
Rating agency	Rating/Outlook		Rating	
Fitch	BBB-/negative	BBB-/stable	BBB-	BBB-
Moody's	Ba1/stable	Baa3/stable	Ba1	Baa3
Standard & Poor's	BB+/stable	BBB-/negative	BB+	BBB-

The Schaeffler Group had the following syndicated loans outstanding as at December 31, 2020:

**Schaeffler Group syndicated loans**

Tranche	Currency	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019	
		Principal in millions		Carrying amount in € millions		Coupon		Maturity
Revolving Credit Facility <sup>2)</sup>	EUR	1,800	1,800	-3	48	Euribor <sup>1)</sup> + 0.65%	Euribor <sup>1)</sup> + 0.50%	09/30/2023
Capital investment loan <sup>3)</sup>	EUR	0	250	0	249	Euribor <sup>1)</sup> + 1.15%	Euribor <sup>1)</sup> + 1.00%	12/15/2022
<b>Total</b>				<b>-3</b>	<b>297</b>			

<sup>1)</sup> Euribor floor of 0.00%.<sup>2)</sup> EUR 27 m were drawn down in the form of letters of credit as at December 31, 2020 (December 31, 2019: EUR 74 m, including EUR 21 m in the form of letters of credit).<sup>3)</sup> The capital investment loan was prepaid in full on October 14, 2020.

In the second quarter of 2020, the Schaeffler Group placed its first Schuldschein loans with a total principal of EUR 507 m (December 31, 2019: EUR 0 m) due in 2023, 2025, and 2028. Thereof EUR 300 m will be used to refinance a portfolio of sustainable projects in accordance with the Schaeffler Group's "Green Finance Framework". In the third quarter of 2020, the Schaeffler Group placed additional Schuldschein loans with a principal of EUR 50 m due in 2030.

On October 5, 2020, the Schaeffler Group placed bonds with an aggregate volume of EUR 1.5 bn in the capital markets. The bond issue comprised two tranches of EUR 750 m each. The 5-year bonds carry a coupon of 2.750% and the 8-year bonds carry a coupon of 3.375%. The proceeds from the issuance were largely used to refinance existing debt. On October 14, 2020, the company prepaid the capital investment loan of EUR 238 m in full and redeemed a EUR 205 m portion of Schaeffler AG's bond series due in 2022.

Additionally, the company redeemed the last outstanding EUR 600 m bond series issued by Schaeffler Finance B.V. in full on November 4, 2020.

The group had additional bilateral lines of credit in the equivalent of EUR 285 m (prior year: EUR 246 m), primarily in Germany, the U.S., and South Korea. EUR 262 m of these facilities were unutilized as at December 31, 2020 (prior year: EUR 234 m). <sup>7</sup>

The Schaeffler Group's bonds outstanding at December 31, 2020, are set out below. The bonds issued by Schaeffler AG are listed on the regulated market of the Luxembourg Stock Exchange. The bond series issued via Schaeffler Finance B.V., Barneveld, Netherlands, was traded on the Euro MTF market of the Luxembourg Stock Exchange until its full redemption on November 4, 2020.

<sup>7</sup> See Note 4.12 to the consolidated financial statements for further details.

## Report on the economic position

Financial position and finance management

### Schaeffler Group bonds

ISIN	Currency	12/31/2020	12/31/2019	12/31/2020	12/31/2019	Coupon	Maturity
		Principal in millions	Principal in millions	Carrying amount in € millions	Carrying amount in € millions		
DE000A2YB699 <sup>1)</sup>	EUR	545	750	543	747	1.125%	03/26/2022
DE000A2YB7A7	EUR	800	800	795	793	1.875%	03/26/2024
XS1212470972 <sup>2)</sup>	EUR	-	600	-	597	3.250%	05/15/2025
DE000A289Q91 <sup>3)</sup>	EUR	750	-	747	-	2.750%	10/12/2025
DE000A2YB7B5	EUR	650	650	645	644	2.875%	03/26/2027
DE000A3H2TA0 <sup>3)</sup>	EUR	750	-	746	-	3.375%	10/12/2028
<b>Total</b>		<b>3,495</b>	<b>2,800</b>	<b>3,476</b>	<b>2,781</b>		

<sup>1)</sup> Principal outstanding: EUR 544,668,000 (since October 14, 2020).

<sup>2)</sup> The bond series was redeemed in full on November 4, 2020.

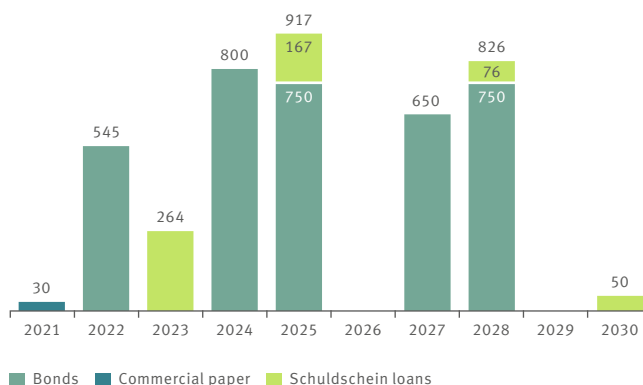
<sup>3)</sup> The bond series was issued on October 12, 2020.

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 2020 as stipulated in the debt agreements.

The company's maturity profile, which consists of commercial paper, Schuldschein loans, and the bonds issued by Schaeffler AG, was as follows as at December 31, 2020:

### Maturity profile

Principal outstanding as at December 31, 2020, in € millions



## Finance management

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

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

External group financing is primarily provided by capital and money market instruments, Schuldschein loans, as well as syndicated and bilateral lines of credit from international banks. One such line of credit is a contractually agreed Revolving Credit Facility of EUR 1.8 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 150 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.

## Report on the economic position

### Net assets and capital structure

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 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 group-wide management of financial risk (foreign exchange and interest) on a net basis.

## 2.5 Net assets and capital structure

The Schaeffler Group's **total assets** increased by EUR 337 m to EUR 13,207 m as at December 31, 2020 (prior year: EUR 12,870 m).

### Consolidated statement of financial position (abbreviated)

in € millions	12/31/2020	12/31/2019	Change in %
<b>ASSETS</b>			
Non-current assets	6,785	7,387	-8.2
Current assets	6,422	5,483	17.1
<b>Total assets</b>	<b>13,207</b>	<b>12,870</b>	<b>2.6</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity	1,838	2,917	-37.0
Non-current liabilities	7,688	6,273	22.6
Current liabilities	3,680	3,680	0.0
<b>Total shareholders' equity and liabilities</b>	<b>13,207</b>	<b>12,870</b>	<b>2.6</b>

**Non-current assets** fell by EUR 602 m to EUR 6,785 m as at December 31, 2020 (prior year: EUR 7,387 m). The reduction was primarily attributable to decreases in property, plant and equipment by EUR 490 m and in intangible assets by EUR 258 m (see "Capital expenditures", page 39). The decline in intangible assets was mainly due to an impairment of goodwill allocated to the Automotive Technologies segment of EUR 249 m (see Note 4.1 to the consolidated financial statements for further details). In addition, other financial assets declined by EUR 49 m and investments in joint ventures and associated companies by EUR 34 m. These decreases were partially offset by an increase in deferred tax assets by EUR 245 m.

**Current assets** increased by EUR 939 m to EUR 6,422 m (prior year: EUR 5,483 m) in 2020. The increase was mainly attributable to an increase in cash and cash equivalents by EUR 1,090 m (see "Cash flow and liquidity", pp. 38 et seq.). In addition, other financial assets rose by EUR 62 m and trade receivables by EUR 31 m. As at December 31, 2020, trade receivables with a carrying amount of EUR 127 m (prior year: EUR 178 m) net of retained credit risk had been sold under the ABCP program (asset-backed commercial paper). This increase was partially offset by a reduction in inventories by EUR 229 m.

**Shareholders' equity** including non-controlling interests fell by EUR 1,079 m to EUR 1,838 m as at December 31, 2020 (prior year: EUR 2,917 m). The net loss of EUR 415 m, which was adversely affected by restructuring expenses in particular, and the EUR 295 m in dividends paid to Schaeffler AG's shareholders reduced shareholders' equity. The decrease in accumulated other comprehensive income resulted mainly from the impact of translating the net assets of foreign group companies of EUR 297 m and the impact of adjustments to provisions for pensions and similar obligations of EUR 101 m. In addition, cash flow hedges had a favorable impact of EUR 43 m on accumulated other comprehensive income. The equity ratio was 13.9% as at December 31, 2020 (December 31, 2019: 22.7%).



**Report on the economic position**

Net assets, financial position, and earnings of Schaeffler AG

**Non-current liabilities** rose by EUR 1,415 m to EUR 7,688 m as at December 31, 2020 (prior year: EUR 6,273 m). The increase was mainly attributable to an increase in financial debt by EUR 1,002 m (see “Financial debt”, pp. 39 et seq.). Additionally, provisions rose by EUR 342 m particularly in connection with the programs “RACE”, “GRIP”, and “FIT”. Provisions for pensions and similar obligations were up EUR 163 m as well. These increases were partially offset by a reduction in income tax payables by EUR 93 m.

**Current liabilities** amounted to EUR 3,680 m as at December 31, 2020 (prior year: EUR 3,680 m). The increases in provisions by EUR 154 m and in other financial liabilities by EUR 48 m were mainly related to the programs “RACE”, “GRIP”, and “FIT”. A decrease in financial debt by EUR 125 m and in other liabilities by EUR 77 m had an offsetting effect.

The Schaeffler Group’s off-balance sheet commitments include mainly contingent liabilities (see Note 5.3 to the consolidated financial statements for further details).

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

Schaeffler AG is a stock 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 headquarters.

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	2020	2019	Change in %
Revenue	15	15	0.0
Cost of sales	-14	-14	0.0
<b>Gross profit</b>	<b>1</b>	<b>1</b>	<b>0.0</b>
General and administrative expenses	-124	-134	-7.5
Net other operating income	-61	32	-
Income from equity investments	500	725	-31.0
Interest result	-134	-148	-9.5
Income taxes	-28	-22	27.3
<b>Earnings after income taxes</b>	<b>154</b>	<b>454</b>	<b>-66.1</b>
<b>Net income for the year</b>	<b>154</b>	<b>454</b>	<b>-66.1</b>
Retained earnings brought forward	0	0	0.0
Withdrawal from other revenue reserves	15	0	0.0
<b>Retained earnings</b>	<b>169</b>	<b>454</b>	<b>-62.8</b>

In performing its function as management holding company of the Schaeffler Group, Schaeffler AG incurred EUR 124 m (prior year: EUR 134 m) in general and administrative expenses. The decrease was largely due to savings attributable to short-time work and lower variable remuneration.

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.

**Report on the economic position**

Net assets, financial position, and earnings of Schaeffler AG

Interest result improved over prior year despite a write-down of the investment in Schaeffler Immobilien AG & Co. KG of EUR 17 m. Total interest expense of EUR 156 m (prior year: EUR 188 m) includes EUR 78 m (prior year: EUR 78 m) related to bonds and the intercompany loan payable to Schaeffler Finance B.V. that was outstanding until November 2020.

Income taxes amounted to EUR 28 m in 2020 (prior year: EUR 22 m) and consisted exclusively of current income taxes. 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 2020.

Retained earnings consist of net income for the year of EUR 154 m (prior year: EUR 454 m) and a withdrawal from other revenue reserves of EUR 15 m (prior year: EUR 0 m).

The Board of Managing Directors and the Supervisory Board will propose to the annual general meeting to pay a dividend for 2020 of EUR 0.24 (prior year: EUR 0.44) per common share and EUR 0.25 (prior year: EUR 0.45) per common non-voting share and to carry forward the remaining retained earnings of EUR 7.3 m to the following year.

The Board of Managing Directors considers the results of operations of Schaeffler AG, which are highly dependent on the course of business of the Schaeffler Group, to be satisfactory overall, particularly due to the encouraging second half of the year.

## Schaeffler AG financial position and net assets

### Balance sheet of Schaeffler AG (abbreviated)

in € millions	12/31/2020	12/31/2019	Change in %
<b>ASSETS</b>			
Fixed assets	14,115	14,215	-0.7
Current assets	9,990	8,765	14.0
Prepaid expenses and deferred charges	30	0	-
Excess of plan assets over post-employment benefit liability	4	5	-20.0
<b>Total assets</b>	<b>24,138</b>	<b>22,985</b>	<b>5.0</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity	7,149	7,290	-1.9
Provisions	273	278	-1.8
Liabilities	16,716	15,415	8.4
Deferred income	0	2	-100
<b>Total shareholders' equity and liabilities</b>	<b>24,138</b>	<b>22,985</b>	<b>5.0</b>

Fixed assets consisted primarily of shares in Schaeffler Technologies AG & Co. KG. The carrying amount of the investment in Schaeffler Immobilien AG & Co. KG was written down by EUR 17.4 m in 2020.

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 500 m (prior year: EUR 725 m) that had not yet been paid as at December 31, 2020. Schaeffler Technologies AG & Co. KG paid EUR 725 m in respect of the prior year's net income to Schaeffler AG in 2020, and Schaeffler AG used these funds entirely to pay off existing liabilities due to Schaeffler Technologies AG & Co. KG.

Schaeffler AG manages the Schaeffler Group's cash pool and held bank balances of EUR 979 m (prior year: EUR 46 m) at the end of the reporting period.

On May 8, 2020, Schaeffler AG's annual general meeting passed a resolution to pay a dividend of EUR 295 m (prior year: EUR 361 m) to Schaeffler AG's shareholders for 2019 and to add the remaining retained earnings of EUR 159 m (prior year: EUR 138 m) to revenue reserves.

The decrease in provisions was mainly attributable to the utilization of tax provisions for trade and corporation taxes, partially offset by an increase in provisions for pending losses on forward exchange contracts.

The company issued two bond series denominated in euros with an aggregate principal of EUR 1,500 m as well as, for the first time, Schuldschein loans totaling EUR 557 m in 2020. A portion of the proceeds was used to repay in full the final loan payable to Schaeffler Finance B.V. as well as a capital investment loan of EUR 238 m. In addition, the company redeemed a EUR 205 m portion of a bond series due in 2022.

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.

**Report on the economic position**

Other components of the group management report

## 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 Verwaltungen 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 declaration including the corporate governance report” beginning on page 62 et. seq.,
- “Governance structure” beginning on page 78 et. seq.,
- “Remuneration report” beginning on page 83 et. seq., and
- “Governing bodies of the company” beginning on page 109 et. seq.

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



Corporate governance declaration including the corporate governance report in accordance with sections 289f HGB and 315d HGB including the declaration of conformity pursuant to section 161 AktG at: [www.schaeffler.com/ir](http://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/2020](http://www.schaeffler-sustainability-report.com/2020)

## 3. Supplementary report

No material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2020.

## 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.

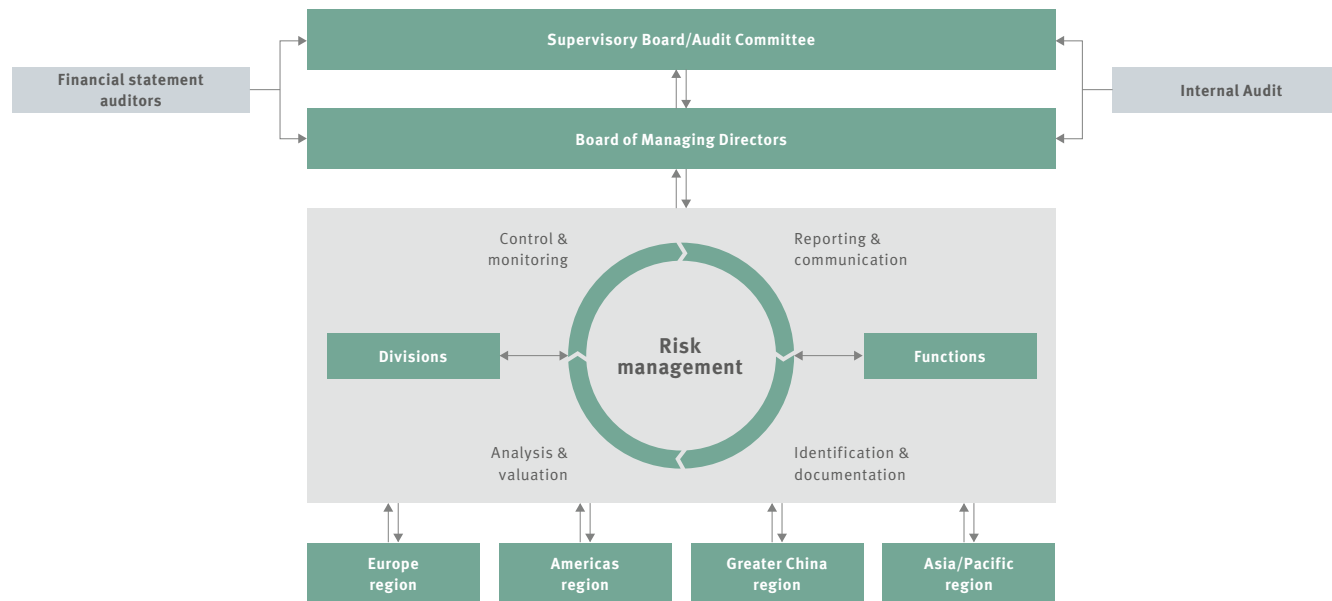
The objective of the risk management system is to identify these risks on a timely basis and to manage them in accordance with the company's risk strategy. This applies particularly to risks to the company's continued existence as a going concern and to its development, which are responded to with appropriate action. Consciously addressing identified risks and regularly monitoring risk factors is designed to increase risk awareness and ensure a continuous improvement process.

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

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

**Report on opportunities and risks**

Risk management system

**Structure of risk management system**

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 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 timeframe 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/2020](http://www.schaeffler-sustainability-report.com/2020)

The guideline also defines – as a further component of the risk management system – a group-wide 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 2020, 41 of 151 Schaeffler Group entities were included, representing 95% of revenue. The remaining 110 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 with a potential amount of damage above EUR 5 m on a gross basis. Risks are assessed based on their amount of damage and their probability of occurrence. The assessment classifies the amount of damage of each risk in one of four categories: very low, low, medium, and high. Classification is performed based on the amount of damage for one year. The probability of occurrence is assessed using percentages and is classified in the four categories improbable, possible, probable, and highly probable. The combination of estimated amount of damage and probability of occurrence determines the risk class, which is classified as either low, medium, or high based on its impact on net assets, the financial position, and earnings. Risks are assigned to the various risk classes using the risk matrix. In assessing risks, the Schaeffler Group differentiates between gross exposures and net exposures. Measures already in place can reduce the gross

**Report on opportunities and risks**

## Internal control system

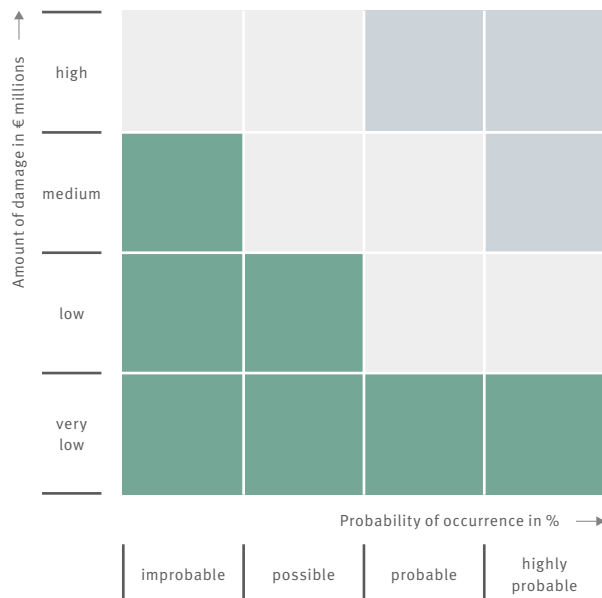
exposure with respect to both amount of damage and probability of occurrence. The net exposure represents the amount of damage and the probability of occurrence after taking into account any risk mitigation measures in place at the reporting date.

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 changes 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.

**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
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Impact on net assets, financial position, and earnings.

**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.



**Report on opportunities and risks**

## Risks

The financial statement information reported by Schaeffler AG and its subsidiaries via a uniform group-wide 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 effectiveness of the Schaeffler Group's internal control system, the effectiveness of any internal control system is inherently limited. No control system, no matter how effective, can prevent or detect all inaccuracies.

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

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 the 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 strategic 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.

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 relevant 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.

## Report on opportunities and risks

### Risks

### Structural measures

In 2020, the Board of Managing Directors of Schaeffler AG adopted additional structural measures to further transform the Schaeffler Group and improve its ability to compete and realize future opportunities as well as its cost structure for the long term and to strengthen its profitability. The measures consist of adjusting capacity and consolidating locations as well as expanding local capabilities. Adapting the organization and production footprint could potentially not proceed as planned, the benefits turn out to be fewer than originally expected, or the impact occur later than expected. 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 transformation process is closely monitored and its impact is constantly reviewed in order to ensure it is executed in a targeted manner and to prevent negative deviations.

### Strategic market risks

The Schaeffler Group operates in a highly competitive and technologically fast-paced environment. The Automotive Technologies 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 powertrains is coming under pressure. Firstly, further increases in the efficiency of conventional powertrains 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 powertrains 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.

There is significant uncertainty beyond the 10-year risk-identification timeframe as to what technologies and what customers will prevail in the market for electric mobility. In contrast to the traditional components business, revenue in the systems business with electric mobility is heavily concentrated on individual customer projects. As a result, Schaeffler is more dependent on the market success of individual customer projects in this business. As no set standards have become established in electric mobility to date, customers are trying out a variety of technological solutions. Therefore, there is a risk of developing technological approaches for customers that fail to succeed in the market in the long term, which could result in assets becoming impaired before they are fully amortized. The company strives to diversify these risks by maintaining a balanced portfolio of customers and product technologies and supplying components to programs where Schaeffler does not necessarily act as system integrator.

### Changes in the automobile manufacturer environment

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 Technologies division also tries to offer each 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 automotive and industrial supplier, demand for Schaeffler products is to a large extent driven by global economic conditions. 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 Technologies 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. A change in forecasted market

**Report on opportunities and risks**

## Risks

trends could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings.

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.

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 slow-downs. Should prices deteriorate unexpectedly, the amount of damage arising from this risk is reduced by renegotiating with suppliers.

**Procurement risks and 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 and Automotive Aftermarket divisions operate high-performance distribution centers to better supply the market with only a few logistics locations. The Schaeffler Group's purchasing organization is responsible for the continuous supply of goods and services to the company, focusing on quality, cost, and delivery performance. Extensive cooperation with suppliers increases the quality of goods and services supplied. Improving logistics connections to suppliers helps secure supply.

An inability to ensure stable delivery performance and ensuring that contractual delivery dates are met could result in increased expenses in the supply chain and have a medium impact on the Schaeffler Group's financial position and earnings.

Additionally, unusual circumstances could lead to failures or bottlenecks at suppliers and service providers, which in turn may lead to supply shortages. These could have a medium impact on the Schaeffler Group's financial position and earnings.

**Production risk**

As the Schaeffler Group's production is very capital-intensive, a large proportion of its costs are fixed. 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. Improving the global footprint could require plants or parts of plants to be relocated. Remaining spare capacity and unused non-current assets can lead to additional costs.

At several locations, facilitating full 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, especially in the Automotive Technologies division. The period between failure of the bottleneck machine and when alternative means of production are set up is key here. 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 here. 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.

**Coronavirus pandemic**

The coronavirus pandemic has been the prime influence on the 2020 business year. Particularly in the first half of the year, the resulting containment measures and restrictions put in place worldwide decreased demand, affected supply chains, and reduced the volume of global trade, impacting especially the automotive sector.

Despite government efforts to stimulate the economy, a continuation of the coronavirus pandemic is likely to continue to adversely affect consumer confidence and lead to a general market decline or delay recovery of the markets. This trend is taken into account in the assumptions underlying the company's budget and is reflected in the budget adopted.

The future implications and duration of the coronavirus pandemic cannot yet be predicted, and neither can the success of the vaccination strategy just begun. A failure of these and other "lockdown measures" can be expected to have an adverse impact on the results of operations as well as on the sales markets relevant to the Schaeffler Group.

**Report on opportunities and risks**

## Risks

Depending on the future course of the pandemic as well as the duration, extent, and effectiveness of worldwide containment measures, a medium adverse impact on the Schaeffler Group's net assets, financial position, and earnings could result.

The course and implications of the coronavirus pandemic are continually being analyzed to facilitate taking targeted measures to safeguard the company's profitability and liquidity position.

**Change in market share**

The Schaeffler Group competes with numerous companies in a wide variety of business areas. 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 Technologies 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.

**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 professionalism 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.

**Report on opportunities and risks**

## Risks

**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 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 investigations of possible instances of non-compliance and responds appropriately to weaknesses identified.



More on the company's compliance management system on pp. 79 et seq.

Using a material compliance management system, the company works to ensure that components and raw materials used comply with 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.

**Pension risks**

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

**Currency risks**

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

Currency 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.

**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 medium impact on the Schaeffler Group's financial position.

**Impairments**

In addition to a regular annual test, assets or groups of assets including goodwill are tested for impairment when there is an indication that they may be impaired (i.e., a triggering event).

**Report on opportunities and risks**

## Risks

Future unfavorable results of operations can be an indication of impairments that could have a medium adverse impact on the group's earnings and financial position. Especially in the Automotive Technologies and Industrial divisions, an adverse trend in the market environment can precipitate a triggering event.

**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 2020 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 creditors are entitled to call the debt prior to maturity under certain circumstances, including if financial 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, especially in the Automotive Technologies division, this could have a medium impact on the Schaeffler Group's financial position.

## Report on opportunities and risks

## Opportunities

## Risk assessment

	Amount of damage in €	Probability of occurrence in %	Risk class	Change from prior year
<b>Strategic risks</b>				
• Country risks	high	improbable	medium	↘
• Structural measures	high	improbable	medium	↗
• Strategic market risks	medium	possible	medium	→
• Electric mobility	medium	possible	medium	→
• Change in the automobile manufacturer environment	medium	possible	medium	→
<b>Operating risks</b>				
• Market development	high	possible	medium	→
• Procurement risks and delivery performance	medium	probable	medium	↗
• Production risk	high	improbable	medium	→
• Failure of bottleneck machines	high	improbable	medium	→
• Coronavirus pandemic	high	improbable	medium	new
• Change in market share	high	improbable	medium	→
• Warranty and liability risks	high	improbable	medium	→
• Product piracy risks	low	probable	medium	→
• Information security risks	low	probable	medium	→
<b>Legal risks</b>				
• Compliance risks	high	improbable	medium	→
<b>Financial risks</b>				
• Pension risks	high	possible	medium	→
• Currency risks	high	possible	medium	↗
• Tax risks	medium	probable	medium	↘
• Impairments	high	improbable	medium	new
• Liquidity risk	high	improbable	medium	→
• Working capital 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



**Report on opportunities and risks**  
Opportunities

enable the Schaeffler Group to benefit from this trend and to supply vehicle manufacturers 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.

**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 in the long term. 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 powertrain 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. Despite temporary restrictions of public transportation of passengers and goods due to the coronavirus pandemic, transport volumes are expected to expand again in the long term as the economy recovers.

**Private mobility**

The coronavirus pandemic can lead to a lasting change in mobility behavior. The current increase in private mobility at the expense of public transit, mobility service providers, and flexible mobility concepts such as car sharing may continue. The influence of the pandemic can turn out to be positive for the

Automotive Aftermarket division in two respects. Firstly, rediscovery of private mobility can lead to a favorable development of the vehicle fleet, which represents a key driver of the aftermarket. Secondly, more extensive use of private vehicles can result in increased wear and tear or require more maintenance.

**Climate change**

In the context of global climate change and as a result of climate policy, worldwide demand for renewable energy is growing. The Schaeffler Group supports the expansion of renewable energy generation with the necessary components and solutions, including bearing solutions for wind turbines through to solutions for solar and water power. One example of this are the asymmetric spherical roller bearings for wind turbines. With these bearings, Schaeffler helps make wind turbines more reliable and reduce the cost of generating renewable energy.

**Electric mobility in the Automotive Aftermarket**

Driven by the key role of the alternative drive system in connection with the efforts of society as a whole to move toward a more sustainable mobility, electric mobility is increasingly gaining significance. In this context, the electronics product segment could become one of the most important drivers of growth in the aftermarket. Correspondingly expanding the portfolio toward becoming a comprehensive provider of electric mobility components, solutions, and systems would demonstrate immense capability for the coming technological challenges, thus strengthening the company's own position in this as yet unstructured market for the long term and accessing new business areas.

**Fleet management**

Demand for full service leasing and the related fleet management has increased significantly in recent years. Fleet management services are evolving from basic financing services and vehicle-related services into services focusing on the driver. The implications of fleet management relate not only to more extensive use of the car, but also to more standardized decisions, such as those regarding acquisition or repairs. These new players in the automotive aftermarket place much more emphasis on the "Total Cost of Ownership (TCO)". This could provide significant potential for a channel shift toward the independent aftermarket or for the creation of new use-based business models.

**Operational opportunities****Digitalization**

The global digital transition and interconnectedness of components and systems are increasing the efficiency of companies' machines and plants. The Schaeffler Group offers numerous Industry 4.0 solutions. Its systems and components are situated within machines exactly where important data are generated and captured using intelligent sensors. Condition-monitoring solutions and cloud-based digital services for predictive maintenance provide customers with information about the condition of their machines and plants on a continuous basis. Processes are improved and machines and plants made more efficient by gathering important process parameters and condition-related information using interconnected Schaeffler products and services. The aim is to, firstly, increase the efficiency of the company's internal processes, use available data more intensively, and more effectively link production locations, machines, and buildings. The second aim is to expand on customers' existing business models and develop new business models.

**Report on opportunities and risks**

Overall assessment of Schaeffler Group opportunities and risks

## 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<sub>2</sub> 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.

### Increasing technological standards in the truck market

Increasing regulation in the truck market renders it necessary to make the powertrain more efficient and reduce the emissions it produces. This trend results in potential from increasing electrification (including the use of fuel cell technology) in this segment as well. The Schaeffler Group specifically offers its customers technologically advanced solutions to enable them to comply with the stricter standards.

## 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 is nearly unchanged compared to the prior year. The assessment of certain risks has shifted; these shifts have not changed the overall assessment.

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.

## Report on expected developments

Expected economic and sales market trends

## 5. Report on expected developments

### 5.1 Expected economic and sales market trends

The performance of the global economy in 2021 will primarily depend on the future course of the coronavirus pandemic and, as a result, will continue to be subject to increased risk. In a pessimistic scenario, Oxford Economics (Oxford Economics, February 2021) implies that **global gross domestic product** will grow by 0.9% in 2021, while the base scenario anticipates growth of 5.8% (2020: -3.6%).

Additional risks to global economic growth worth mentioning stem from, along with the coronavirus pandemic, particularly the escalation of ongoing trade conflicts and disruptions in the international financial markets.

A pessimistic scenario by IHS Markit (IHS Markit, February 2021) implies that **global automobile production** will expand by 7.2% in 2021, while the base scenario anticipates a growth rate of 13.4% (2020: -16.2%).

A pessimistic scenario by Oxford Economics (Oxford Economics, December 2020) implies that **global industrial production** will increase by 2.1% in 2021, while the base scenario anticipates growth of 6.1% (2020: -3.8%). For the sectors particularly relevant to the Schaeffler Group – mechanical engineering, transport equipment, and electrical equipment – a pessimistic

scenario by Oxford Economics (Oxford Economics, December 2020) implies global growth of 3.0% in 2021, while the base scenario anticipates global growth of 7.0% (2020: -6.5%).

### 5.2 Schaeffler Group outlook

The Schaeffler Group expects its revenue to grow considerably in 2021, rising by more than 7% excluding the impact of currency translation. This lower limit is based on a conservative assessment of the market in terms of global growth in the production of passenger cars and light commercial vehicles.

In addition, the company expects to generate an EBIT margin before special items of 6 to 8% in 2021.

The Schaeffler Group also anticipates free cash flow before cash in- and outflows for M&A activities for 2021 to amount to approximately EUR 100 m. This expectation reflects a volume-driven increase in working capital, normalization of capital expenditures, and higher restructuring expenditures compared to the prior year.

#### Outlook 2021 – group

	Actual 2020	Actual 2020 adjusted comparative figure	Outlook 2021
<b>Schaeffler Group</b>			
Revenue growth <sup>1)</sup>	-10.4%	-10.5%	> 7%
EBIT margin before special items <sup>2)</sup>	6.4%	6.3%	6 to 8%
Free cash flow <sup>3)</sup>	EUR 539 m	EUR 539 m	~ EUR 100 m

<sup>1)</sup> Compared to prior year; excluding the impact of currency translation.

<sup>2)</sup> Please refer to pp. 35 et seq. for the definition of special items.

<sup>3)</sup> Before cash in- and outflows for M&A activities.

## Report on expected developments

### Schaeffler Group outlook

#### Outlook 2021 – divisions

	Actual 2020	Actual 2020 adjusted comparative figure	Outlook 2021
<b>Automotive Technologies</b>			
Revenue growth <sup>1)</sup>	-11.6%	-11.7%	positive growth, 2 to 5%-age points above LVP growth <sup>3)</sup>
EBIT margin before special items <sup>2)</sup>	3.6%	3.4%	> 4.5%
<b>Automotive Aftermarket</b>			
Revenue growth <sup>1)</sup>	-7.0%	-6.9%	5 to 7%
EBIT margin before special items <sup>2)</sup>	15.8%	15.7%	> 11.5%
<b>Industrial</b>			
Revenue growth <sup>1)</sup>	-9.2%	-9.4%	4 to 6%
EBIT margin before special items <sup>2)</sup>	8.5%	8.8%	> 8.5%

<sup>1)</sup> Compared to prior year; excluding the impact of currency translation.

<sup>2)</sup> Please refer to pp. 35 et seq. for the definition of special items.

<sup>3)</sup> LVP growth: global growth in production of passenger cars and light commercial vehicles.

appropriately over the period of volume production. Revenue is similarly accrued as a contract liability and realized over the period of volume production as well.

These changes have also been reflected in the outlook for 2021 presented above.

Herzogenaurach, February 22, 2021

The Board of Managing Directors

The group anticipates that its **Automotive Technologies division** will grow by 2 to 5 percentage points more than global automobile production of passenger cars and light commercial vehicles. On that basis, the company expects the Automotive Technologies division to generate revenue growth that is considerably positive, excluding the impact of currency translation, and to slightly improve its EBIT margin before special items over the prior year by raising it to more than 4.5%.

For the **Automotive Aftermarket division**, the group anticipates revenue growth, excluding the impact of currency translation, of 5 to 7% and an EBIT margin before special items slightly lower than in the prior year at more than 11.5% in 2021. This expectation reflects higher product expenses, a temporary increase in logistics expenses related to the assembly and packaging center in Halle (Saale) commencing operations, expenses for digitalization, and an adverse impact of currency translation.

Given the range of estimates Oxford Economics and others have made regarding growth in global industrial production, the company expects its **Industrial division** to generate revenue growth of 4 to 6%, excluding the impact of currency translation, and an EBIT margin before special items in the high single-digits above 8.5% in 2021.

Reasons for the adjustment to the comparative figures for the prior year are twofold: the first is further divisionalization, which will strengthen the divisions' management of the business. The second is a slight impact of a change in the accounting policy for development services effective January 1, 2021. The new accounting treatment, which is being applied retrospectively, reflects the relationship between development services and future volume production in a different manner. Under the new model, development costs for all customer projects are capitalized as costs to fulfill a contract starting when a volume contract with the customer becomes highly probable, and then amortized

# Corporate Governance

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\* Part of the group management report.

# 1. Corporate governance declaration including corporate governance report

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. In the following corporate governance declaration, the Supervisory Board and the Board of Managing Directors report on the corporate governance of Schaeffler AG in accordance with Principle 22 of the German Corporate Governance Code.

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.



Corporate governance declaration including corporate governance report, including the declaration of conformity pursuant to section 161 AktG at: [www.schaeffler.com/ir](http://www.schaeffler.com/ir)

## 1.1 Declaration of conformity pursuant to section 161 AktG

In December 2020, 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 making its last Declaration of conformity in December 2019, Schaeffler AG has complied with all the recommendations of the Government Commission on the German Corporate Governance Code in the version of February 7, 2017, ("2017 Code") published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette ("Bundesanzeiger"), with the exception described below:

Schaeffler AG has not complied with the recommendation in section 5.4.1 para. 2 of the 2017 Code. According to this recommendation, the Supervisory Board shall specify concrete objectives regarding its composition and also set an age limit for the members of the Supervisory Board.

Schaeffler AG complies, and will continue to comply, with all the recommendations of the Government Commission on the German Corporate Governance Code in the version of December 16, 2019 ("2019 Code") published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger), with the following exception:

Schaeffler AG has not complied with the recommendation in section C.2 of the 2019 Code. According to this recommendation, an age limit shall be set for the members of the Supervisory Board and stated in the declaration on corporate governance.

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 2020

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-sustainability-report.com](http://www.schaeffler-sustainability-report.com)

## 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, oversees, 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, including appropriate protection, to report violations of the law within the company; this opportunity is also provided to third parties.



More on compliance on pp. 78 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



## Corporate governance declaration including corporate governance report

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 2020. 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 2020.

- **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 2020.
- **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.

Together with the Board of Managing Directors, the Supervisory Board ensures that long-term succession planning is performed. To this end, the Supervisory Board considers potential candidates for the Board of Managing Directors on a regular basis. The Supervisory Board takes into account the diversity criteria described above when reviewing these candidates. The Supervisory Board involves the Chief Executive Officer except where his own succession is concerned.

At the reporting date, no member of the Board of Managing Directors held more than two 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. 109 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. 83 et seq.

## Corporate governance declaration including corporate governance report

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 co-determination 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 seven female members, with four 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 Recommendation C.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 considered appropriate by the shareholder representatives on the Supervisory Board, 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.
- 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.
- The Supervisory Board shall include at least five shareholder representatives that are independent of the company and its Board of Managing Directors, and independent from any controlling shareholder (according to Recommendation C.6 of the German Corporate Governance Code).

The Supervisory Board currently considers eight shareholder representatives to be independent from the company, its Board of Managing Directors, and its controlling shareholders; 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.

According to Recommendation C.7 of the German Corporate Governance Code, more than half of the shareholder representatives shall be independent from the company and the Board of Managing Directors. The Supervisory Board currently considers all shareholder representatives to be independent of the

company and its Board of Managing Directors. Certain members of the Supervisory Board hold senior positions with other companies or hold shares, in some cases indirectly, in companies with which the Schaeffler Group maintains relationships in the course of its ordinary business activities. The Supervisory Board believes that none of these relationships are significant.

According to Recommendation C.9 of the German Corporate Governance Code, if the company has a controlling shareholder and the Supervisory Board has more than six members, at least two of the shareholder representatives shall be independent from the controlling shareholder. The Supervisory Board currently considers eight shareholder representatives to be independent from the controlling shareholders, namely 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.

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.

## Corporate governance declaration including corporate governance report

- **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 seven female members, with four 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.
- **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](http://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 2020.

No member of the Supervisory Board currently serves on a governing body or in a consulting role with respect to a key competitor or has a personal relationship with a key competitor. No member of the Supervisory Board is a former member of the Board of Managing Directors.



More on avoiding conflicts of interest on page 68

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 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 suggested in Suggestion A.3 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 Georg F. W. Schaeffler, Salvatore Vicari, 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

## Corporate governance declaration including corporate governance report

Georg F. W. Schaeffler, Salvatore Vicari, 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. The audit committee mainly deals with the review of the company's financial reports, monitoring the financial reporting process, effectiveness of the internal control system, the risk management system, and the internal audit system, as well as with the financial statement audit and compliance. 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 (including CSR reporting), the proposals for the appropriation of earnings, and for discussing the long-form audit report with the auditors. It is also responsible for the preliminary review of the report on relations with affiliated companies and the non-financial report as well as for preparing the Supervisory Board's nomination of the auditors to be appointed by the annual general meeting.

The audit committee makes a recommendation to the Supervisory Board regarding auditors to be appointed, together with its reasons for the recommendation; where the audit has been put

out to tender, the recommendation includes at least two candidates. The audit committee engages the auditors, determines the areas of focus for the audit, and agrees the audit fees with the auditors. In addition, the audit committee monitors the independence of the external auditors, and, as such, is responsible for approving engagements for non-audit services. The audit committee also monitors the qualifications and efficiency of the auditors as well as the rotation of audit team members and evaluates the quality of the financial statement audit. 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 particularly knowledgeable about and experienced in the application of accounting principles and internal control procedures as well as familiar with financial statement audits and independent. The Chairman of the Supervisory Board may not chair the audit committee. 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 Andrea Grimm, Dr. Holger Engelmann, Thomas Höhn, Georg F. W. Schaeffler, and Jürgen Wechsler.

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, Georg F. W. Schaeffler, Jürgen Schenk, Salvatore Vicari, Jürgen Wechsler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, Prof. Dr.-Ing. Tong Zhang, and Markus Zirkel. Prof. Dr. Hans-Jörg Bullinger chairs the committee.

In certain cases, the Supervisory Board may establish a committee for transactions with related parties in accordance with section 107 (3) (4) AktG to decide on the approval of transactions with related parties in accordance with sections 111a to 111c AktG in place of the Supervisory Board. The committee for transactions with related parties consists of six members, of which half are elected based on nominations by the shareholder representatives and half based on nominations by the employee representatives on the Supervisory Board.

## Self-assessment of the Supervisory Board and its committees

The Supervisory Board assesses, at regular intervals, how effectively the Supervisory Board as a whole and its committees fulfill their tasks. In 2020, this self-assessment took place internally. To this end, the members of the Supervisory Board were asked to provide assessments regarding issues relating to the categories structure and function, meetings, preliminary discussions, supply of information, role of the Chairman of the Supervisory Board, working on committees, and issues regarding the Board of Managing Directors. Individual assessments were consolidated by an independent party. At its meeting on March 6, 2020, the Supervisory Board dealt extensively with the results, which were presented by the Chairman of the Supervisory Board.

The results did not indicate a need for any fundamental changes, although certain suggestions were acted on and implemented.

## 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.

## Corporate governance declaration including corporate governance report

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 Supervisory Board are required to immediately disclose any conflict of interest to the Chairman of the Supervisory Board. The members of the Board of Managing Directors are required to disclose any conflicts of interest to the Chairman of the Supervisory Board and the Chief Executive Officer and to inform the other members of the Board of Managing Directors. 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. Material conflicts of interest involving a member of the Supervisory Board that are not merely temporary shall result in the termination of that member's Supervisory Board mandate. Neither the members of the Board of Managing Directors nor those of the Supervisory Board have experienced any conflicts of interest in 2020.

## 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.

**Corporate governance declaration including corporate governance report**

It was agreed with Schaeffler AG's auditors that the Chairman of the Supervisory Board and the chairman of the audit committee would be informed promptly of any grounds for disqualification or indications of bias arising during the audit to the extent they are not remedied immediately. It was also agreed that the auditors would report on all findings and events coming to their attention during the performance of their audit that are significant to the responsibilities of the Supervisory Board. Under the agreement, the auditors have to inform the Supervisory Board and note in their long-form audit report if, during the course of the audit, they become aware of any facts rendering the declarations on the German Corporate Governance Code issued by the Board of Managing Directors and the Supervisory Board inaccurate. The audit committee monitors the auditors' independence. In a letter dated March 4, 2020, the auditors have issued a binding independence letter for the year ended December 31, 2020.



**Report of the Supervisory Board**



**Georg F. W. Schaeffler**  
Chairman of the Supervisory Board



## 2. Report of the Supervisory Board

*Ladies and Gentlemen,*

Schaeffler AG's year 2020 was a year very much marked by crisis management, transformation, and honing the strategy. Our employees have impressively overcome the challenges posed by the coronavirus pandemic. Our explicit thanks go to them. Meanwhile, the company continues to drive its transformation and lay key technological and structural groundwork. The strategic enhancement of the automotive and industrial supplier set out in the "Roadmap 2025" describes in detail how to create value sustainably. Despite its great challenges, the year 2020 ended with better results at the operating level than had been anticipated at times during the year, bolstered especially by the strong final quarter.

The Supervisory Board has fully performed its duties as mandated by law, the company's articles of association, and its internal rules of procedure during the year. We have advised and overseen the Board of Managing Directors in managing the company. In doing so, the Supervisory Board was directly involved on a timely basis in all decisions that were of fundamental importance to the company and the group.

The Board of Managing Directors regularly informed the Supervisory Board in written and oral reports about the company's results of operations. The Board of Managing Directors briefed the Supervisory Board on an ongoing basis and in detail about the development of revenue and earnings of the group and the divisions, the financial position,

short- and long-term plans and budgets, as well as compliance and risk management matters. The Board of Managing Directors briefed the Supervisory Board in a timely fashion on any important developments concerning the business. Transactions that either the law, the company's articles of association, or the internal rules of procedure require to be approved by the Supervisory Board were provided, along with any necessary information and documents, to the Supervisory Board in due time for such approval. In addition, the Board of Managing Directors and the Supervisory Board discussed and refined the Schaeffler Group's strategy in detail.

The members of the Supervisory Board were also available for discussions with the Board of Managing Directors between meetings. The Chairman of the Supervisory Board regularly kept in contact with the Board of Managing Directors, and particularly with the Chief Executive Officer, and conferred with him on an ongoing basis on issues related to the company's current results of operations, strategy, risk situation, risk management, and compliance in particular.

⊞ Further information in the corporate governance report

### Members of the Supervisory Board and its committees

On March 17, 2020, the employee representatives on the Supervisory Board were elected. Representatives elected were Andrea Grimm, Thomas Höhn, Susanne Lau, Barbara Resch, Jutta Rost, Jürgen Schenk, Helga Schönhoff, Salvatore Vicari, Jürgen Wechsler, and Markus Zirkel. The newly elected employee representatives on the Supervisory Board took office following the end of the annual general meeting on May 8, 2020.

In connection with the election of the employee representatives on the Supervisory Board, Jürgen Wechsler was re-elected Deputy Chairman of the Supervisory Board pursuant to section 27 (3) of the German Co-Determination Act ("Mitbestimmungsgesetz" – MitbestG) – at the meeting of the Supervisory Board on May 8, 2020. The new employee representatives on the committees were elected as well. Salvatore Vicari was elected to the mediation committee. Jürgen Wechsler's position as Deputy Chairman of the Supervisory Board makes him a member of the mediation committee by law. Barbara Resch and Salvatore Vicari were elected to the executive committee, of which Jürgen Wechsler is a member by virtue of his position as Deputy Chairman of the Supervisory Board. Andrea Grimm, Thomas Höhn, and Jürgen Wechsler were elected to the audit committee. Furthermore, Jürgen Schenk, Salvatore Vicari, Jürgen Wechsler, and Markus Zirkel were elected to the technology committee.

## Report of the Supervisory Board

The standing committees established by the Supervisory Board are now made up as follows:

- Mediation committee established in accordance with section 27 (3) German Co-Determination Act:  
Georg F. W. Schaeffler (Chairman),  
Maria-Elisabeth Schaeffler-Thumann, Salvatore Vicari,  
and Jürgen Wechsler
- Executive committee:  
Georg F. W. Schaeffler (Chairman),  
Barbara Resch, Maria-Elisabeth Schaeffler-Thumann,  
Salvatore Vicari, Jürgen Wechsler, and  
Prof. TU Graz e.h. KR Ing. Siegfried Wolf
- Audit committee:  
Robin Stalker (Chairman),  
Dr. Holger Engelmann, Andrea Grimm, Thomas Höhn,  
Georg F. W. Schaeffler, and Jürgen Wechsler
- Technology committee:  
Prof. Dr. Hans-Jörg Bullinger (Chairman),  
Georg F. W. Schaeffler, Jürgen Schenk, Salvatore Vicari,  
Jürgen Wechsler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf,  
Prof. Dr.-Ing. Tong Zhang, and Markus Zirkel
- Nomination committee:  
Georg F. W. Schaeffler (Chairman),  
Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk,  
and Maria-Elisabeth Schaeffler-Thumann

There were no conflicts of interest related to members of the Supervisory Board in 2020.

## Appointments to the Board of Managing Directors

The company's Board of Managing Directors consists of Klaus Rosenfeld (Chief Executive Officer), Matthias Zink, Michael Söding, Dr. Stefan Spindler, Dr. Klaus Patzak, Andreas Schick, Corinna Schittenhelm, and Uwe Wagner.

Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG effective July 31, 2020. The Supervisory Board has appointed Dr. Klaus Patzak an ordinary member of the Board of Managing Directors for a three-year term of office beginning on August 1, 2020. On March 6, 2020, Michael Söding was reappointed to the Board of Managing Directors for a further three-year term of office beginning on January 1, 2021. On March 8, 2020, Andreas Schick was reappointed to the Board of Managing Directors for a further five-year term of office beginning on April 1, 2021.

In accordance with the internal rules of procedure of the Board of Managing Directors, Klaus Rosenfeld is responsible for the CEO functions, Matthias Zink for the Automotive Technologies division, Michael Söding for the Automotive Aftermarket division, Dr. Stefan Spindler for the Industrial division, Dr. Klaus Patzak for Finance and IT, Andreas Schick for Operations, Supply Chain Management and Purchasing, Corinna Schittenhelm for Human Resources as Labor Relations Director, and Uwe Wagner is responsible for Research and Development.

## Topics of Supervisory Board plenary meetings

The Supervisory Board held four regular meetings, one strategy meeting, and four extraordinary meetings in 2020.

The subject of the regular plenary discussions were the Schaeffler Group's results of operations and financial indicators. The Supervisory Board also ensured that it was briefed on the

work of the committees on a regular basis in the plenary sessions. The personnel decisions regarding the Board of Managing Directors also represented an important aspect of the work of the Supervisory Board. The Supervisory Board also met regularly without the Board of Managing Directors being present. These meetings dealt with matters relating to either the Board of Managing Directors itself or the Supervisory Board.

In an extraordinary meeting held via conference call on February 4, 2020, the Supervisory Board discussed and passed a resolution approving the amendments to the employment contracts of members of the Board of Managing Directors with a term of office extending beyond July 31, 2020. The amendments to the employment contracts mainly consisted of the change in retirement benefits to a defined contribution commitment, introduction of an obligation to hold shares, adjustments to certain performance criteria for the long-term variable remuneration, and the addition of malus clauses and claw-back provisions. Additionally, the Supervisory Board discussed preliminary target achievement for the variable remuneration of the Managing Directors as well as target values for 2020. A resolution was passed to include a sustainability target in the short-term bonus 2020. Target achievement and the target values for 2020 were then finalized at the regular meeting on March 6, 2020. The Supervisory Board was briefed on larger capital expenditure projects planned for in the budget for 2020 and on the long-range plan for the years 2020 to 2024.

At its first regular meeting of the year on March 6, 2020, the Supervisory Board dealt with the remuneration system for members of the Board of Managing Directors in accordance with section 87a of the German Stock Corporations Act (AktG) in order to implement the requirements of the Law on the Implementation of the Second Shareholders' Rights Directive (ARUG II). The remuneration system for members of the Board of Managing Directors of Schaeffler AG was discussed with the involvement of independent external consultants. The Supervisory Board approved the remuneration system retroactively effective January 1, 2020, and proposed its approval to the annual general meeting in accordance with section 124 (3) AktG. At this

## Report of the Supervisory Board

meeting, the Supervisory Board specified the targeted total remuneration for each member of the Board of Managing Directors and passed resolutions regarding the reappointment of members of the Board of Managing Directors.

The meeting also discussed the separate and consolidated financial statements of the Schaeffler Group for 2019. This also involved KPMG reporting to the Supervisory Board on the audit of the separate financial statements, the consolidated financial statements, and the dependency report, as well as on the limited assurance engagement performed on the combined separate group non-financial report 2019 included in the sustainability report. Also at this meeting, the Supervisory Board adopted the separate financial statements and approved the consolidated financial statements, the closing statement of the Board of Managing Directors on the dependency report, and the proposal for the appropriation of earnings. In addition, it approved the report of the Supervisory Board to the annual general meeting 2020 and the Supervisory Board's proposed resolutions on the items on the agenda of the annual general meeting 2020. Further, the Supervisory Board dealt with and approved the planned increase in the volume of a Schuldschein loan to be placed by EUR 300 m. Plans for the implementation of the S/4HANA ERP software were presented to the Supervisory Board. Finally, the Supervisory Board dealt with the results of the self-assessment of the Supervisory Board and its committees. The results did not indicate a need for any fundamental changes, although certain suggestions were acted on and implemented.

At its extraordinary meeting on April 9, 2020, the Supervisory Board was briefed on the implications of the coronavirus pandemic for the company, the structure of global crisis management, and measures taken to protect employees. At this meeting, the Supervisory Board approved the decision of the Board of Managing Directors to hold the annual general meeting on May 8, 2020, in the form of a virtual annual general meeting.

The second regular meeting of the Supervisory Board, which was the first attended by the newly elected employee representatives, was held following the annual general meeting on

May 8, 2020. As discussed above, the Deputy Chairman of the Supervisory Board and the employee representatives on the committees were elected at this meeting. In addition, resolutions were passed regarding reappointment of members of the Board of Managing Directors. The meeting heard reports on the Schaeffler Group's most recent results of operations and its management of the coronavirus crisis. The Supervisory Board dealt with the revisions made to the German Corporate Governance Code 2020 and the regulatory requirements for transactions with related persons under the Law on the Implementation of the Second Shareholders' Rights Directive (ARUG II). The Supervisory Board adopted a revised version of the internal rules of procedure for the Supervisory Board effective May 8, 2020, and approved its publication on Schaeffler AG's website.

At the extraordinary meeting on July 20, 2020, Dr. Klaus Patzak was appointed as a member of the Board of Managing Directors of Schaeffler AG for a 3-year term of office effective from August 1, 2020. The Supervisory Board further approved external activities of Dr. Klaus Patzak and came to a decision regarding deduction of the compensation for a position on a non-group supervisory board from the remuneration for the position on the Board of Managing Directors.

At its extraordinary meeting on August 19, 2020, the Supervisory Board approved the decision of the Board of Managing Directors to hold an extraordinary general meeting in the form of a virtual general meeting. As an agenda item, the Supervisory Board proposed to the general meeting the creation of authorized capital and the corresponding change to the company's articles of association. At the extraordinary general meeting on September 15, 2020, the Board of Managing Directors was authorized, subject to approval by the Supervisory Board, to increase Schaeffler AG's share capital in one or more installments by August 31, 2025, by a total of up to EUR 200 m (corresponding to up to 200,000,000 common non-voting shares) by issuing new common non-voting bearer shares; shareholders must be given subscription rights.

On October 1, 2020, the Supervisory Board held its annual strategy meeting, in which the Board of Managing Directors presented the strategic direction for the Schaeffler Group under the "Roadmap 2025". Strategy considerations for the Automotive Technologies, Automotive Aftermarket, and Industrial divisions were explained. The proposals were discussed in detail and at length. Further discussions addressed the macro-economic environment and geopolitical risks and their implications for the Schaeffler Group. The Supervisory Board also dealt with the Schaeffler Group's sustainability program, strategic issues related to hydrogen technology, and plans for the implementation of the S/4HANA ERP software.

At its third regular meeting on October 2, 2020, the Supervisory Board heard a report on the Schaeffler Group's most recent results of operations and the results of the first half of 2020. Also at this meeting, the Supervisory Board approved the plan to issue bonds under the debt issuance program with an issuance volume of up to EUR 1.5 bn and the terms and conditions of a placement.

At its fourth and final regular meeting during the reporting period on December 11, 2020, the Supervisory Board was briefed on the Schaeffler Group's most recent results of operations and the results of the third quarter of 2020. The preliminary budget for 2021 and the long-range plan for the years 2021 to 2025 was presented as well. The Supervisory Board discussed the new and revised recommendations of the German Corporate Governance Code and issued an updated declaration of conformity with the German Corporate Governance Code (section 161 AktG). Additionally, the Supervisory Board was briefed on preparations for the compilation of a company history for the 75th anniversary of the Schaeffler Group in 2021. The Supervisory Board further dealt with the indicative target achievement for 2020 and specified the performance criteria and their weights for the variable remuneration of the Board of Managing Directors for 2021. The Supervisory Board also set the total target remuneration for each member of the Board of Managing Directors for 2021.

## Report of the Supervisory Board

## Topics of Supervisory Board committee meetings

The executive committee of the Supervisory Board held a total of four regular meetings during the reporting period. In addition, one resolution was passed in writing. Executive committee meetings were used to prepare the plenary meetings of the Supervisory Board, especially the personnel decisions to be made by the Supervisory Board. The executive committee also approved external activities of members of the Board of Managing Directors at its meetings on March 5, 2020, May 7, 2020, December 10, 2020, and in a resolution dated May 26, 2020, that was passed in writing. At its meeting on September 30, 2020, the committee came to a decision regarding deduction of the compensation for positions on non-group supervisory boards from the remuneration for the position on the Board of Managing Directors.

The audit committee held four regular meetings and two extraordinary meetings in 2020. In addition, one resolution was passed in writing. The audit committee addressed the interim reports and the separate and consolidated financial statements including the non-financial report as well as the dependency report. Compliance, internal audit, risk management, the internal control system, information and cyber security, as well as accounting were reported on at audit committee meetings on a regular basis. The process for approving non-audit services performed by the auditor was discussed and approved. Specific non-audit services provided by the auditor were discussed and approved. Additionally, the audit committee was regularly briefed on crisis management related to the coronavirus pandemic and implications for the Schaeffler Group's liquidity situation. The review of the appropriateness of the tax compliance management system was reported on, and the process for M&A transactions was evaluated using an acquisition as an example. The interim financial report as at March 31, 2020, was approved in a resolution passed in writing dated April 29, 2020.

The Supervisory Board recommended to the annual general meeting 2020 that it appoint KPMG AG Wirtschaftsprüfungsgesellschaft auditors of the separate and consolidated financial statements and auditors for purposes of reviews of interim financial statements and financial information. The audit committee engaged KPMG AG Wirtschaftsprüfungsgesellschaft as auditors and determined areas of focus for the audit. The audit committee also proposed to the Supervisory Board that it engage KPMG AG Wirtschaftsprüfungsgesellschaft to perform a limited assurance engagement on the non-financial report.

The technology committee held two regular meetings during the reporting period. At its first meeting, the technology committee was briefed on the strategic direction of the Schaeffler Group's product development. Additionally, the cross-divisional innovation clusters defined as part of the "Roadmap 2025" were presented and discussed in detail. The second meeting of the technology committee was held in Kappelrodeck, one of the Schaeffler Group's tool manufacturing locations. At this meeting, the significance to the Schaeffler Group of tool development and tool manufacturing in the fields of robotics, electric mobility, and hydrogen was presented from a product and production technology perspective and then demonstrated during a tour of the premises.

The nomination and mediation committees did not hold any meetings during the reporting period.

At its meeting on December 13, 2019, the Supervisory Board had established an ad hoc committee consisting of three shareholder representatives and three employee representatives for the purpose of approving the terms and conditions of Schuldschein loans. The ad hoc committee held one meeting via conference call during the reporting period, at which members were briefed on and approved the terms and conditions of the placement of Schuldschein loans. Additionally, the terms and conditions of the placement of the Schuldschein loans were agreed to in two resolutions passed in writing.

## Disclosure of attendance at meetings by individual

Members' attendance rate at meetings of the Supervisory Board or its committees was 98%. Due to circumstances related to the coronavirus pandemic, some meetings were held in a virtual format or as in-person meetings with an option to attend remotely. The attendance of members of the Supervisory Board at meetings of the Supervisory Board or its committees are disclosed by individual as follows:

## Report of the Supervisory Board

## Meeting attendance

Number of meetings/attendance in %	Full Supervisory Board		Executive committee		Audit committee		Technology committee		Nomination committee		Mediation committee	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Georg F. W. Schaeffler Chairman	9/9	100	4/4	100	6/6	100	2/2	100				
Maria-Elisabeth Schaeffler-Thumann Deputy Chairperson	9/9	100	4/4	100								
Jürgen Wechsler Deputy Chairperson	9/9	100	4/4	100	3/3	100	2/2	100				
Sabine Bendiek	8/9	89										
Prof. Dr. Hans-Jörg Bullinger	9/9	100					2/2	100				
Dr. Holger Engelmann	7/9	78			6/6	100						
Prof. Dr. Bernd Gottschalk	8/9	89										
Andrea Grimm	8/9	89			3/3	100						
Thomas Höhn (since May 8, 2020)	6/6	100			3/3	100						
Susanne Lau	8/9	89										
Norbert Lenhard (until May 8, 2020)	3/3	100	2/2	100			1/1	100				
Dr. Reinold Mittag (until May 8, 2020)	3/3	100			3/3	100						
Barbara Resch	9/9	100	4/4	100								
Jutta Rost (since May 8, 2020)	6/6	100										
Jürgen Schenk (since May 8, 2020)	6/6	100					1/1	100				
Helga Schönhoff (since May 8, 2020)	6/6	100										
Sabrina Soussan	8/9	89										
Robin Stalker	9/9	100			6/6	100						
Dirk Spindler (until May 8, 2020)	3/3	100										
Jürgen Stolz (until May 8, 2020)	3/3	100										
Salvatore Vicari	9/9	100	2/2	100	3/3	100	2/2	100				
Prof. TU Graz e.h. KR Ing. Siegfried Wolf	9/9	100	4/4	100			1/2	50				
Jürgen Worrlich (until May 8, 2020)	3/3	100			3/3	100	1/1	100				
Prof. Dr.-Ing. Tong Zhang	9/9	100					2/2	100				
Markus Zirkel (since May 8, 2020)	6/6	100					1/1	100				
		97		100		100		95				

## Report of the Supervisory Board

## Training and continuing education

The members of the Supervisory Board are responsible for obtaining any training or continuing education necessary to fulfill their duties, such as training on changes in the legal environment and on new technologies. The company assists them in this. Internal training is offered as needed. In this vein, members of the Supervisory Board were briefed on regulatory requirements regarding remuneration of members of the Board of Managing Directors, transactions with related persons, as well as the revised recommendations of the German Corporate Governance Code at meetings of the Supervisory Board during the reporting period. New members of the Supervisory Board had the opportunity to meet members of the Board of Managing Directors and managers responsible for technical areas to share information on fundamental as well as current matters, thus learning about issues relevant to the Schaeffler Group as part of an onboarding process. The strategy meeting of the Supervisory Board included a tour of the plant in Herzogenaurach, with other manufacturing locations connected remotely. This gave the members of the Supervisory Board the opportunity to gain a general understanding of current developments in the fields of production technology for electric mobility, robotics, machining of gears, and digital solutions.

## Separate and consolidated financial statements 2020

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the separate financial statements, the consolidated financial statements, and the combined management report as at December 31, 2020, prepared by the Board of Managing Directors in accordance with German commercial law, including the accounting records and the accounting-related internal control system as well as the early warning risk identification system. The consolidated financial statements of Schaeffler AG as at and for the year ended December 31, 2020, were prepared in accordance with International Financial Reporting Standards

(IFRS) as adopted by the European Union and the additional requirements of German commercial law pursuant to section 315e (1) German Commercial Code.

KPMG AG Wirtschaftsprüfungsgesellschaft has also audited the report on relations with affiliated companies ("dependency report") prepared by the Board of Managing Directors in accordance with section 312 German Stock Corporations Act. The report covers the period from January 1, 2020, to December 31, 2020.

The auditors have issued unqualified audit opinions on the separate financial statements and the consolidated financial statements. They also found that the Board of Managing Directors has made the arrangements required by section 91 (2) 312 German Stock Corporations Act for the timely identification of risks, and that the early warning risk identification system is suitable for identifying on a timely basis any developments jeopardizing the existence of the company as a going concern.

KPMG AG Wirtschaftsprüfungsgesellschaft has issued the following unqualified audit opinion on the dependency report in accordance with section 313 (3) AktG:

"In accordance with our conscientious audit and assessment, we confirm that the statements of fact in the report are correct, the consideration given by the company in the course of the transactions listed in the report was not unreasonably high, and the measures listed in the report are not an occasion for an assessment substantially different from that of the Board of Managing Directors".

The Schaeffler Group has prepared a combined separate group non-financial report for 2020 that is included in the sustainability report. KPMG AG Wirtschaftsprüfungsgesellschaft performed a limited assurance engagement on the non-financial report. KPMG AG Wirtschaftsprüfungsgesellschaft found that, based on the limited review procedures performed, nothing has come to its attention that causes it to believe that the combined separate

group non-financial report has not been prepared, in all material respects, in accordance with legal requirements.

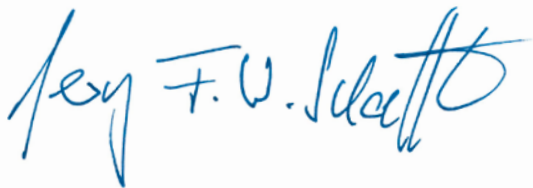
The audit committee discussed the financial statement documents, the combined separate group non-financial report, the dependency report, the long-form audit reports, and the report on the limited assurance engagement with the Board of Managing Directors and the auditors on February 24, 2021. The audit committee scrutinized the development of earnings for 2020, the financial position and net assets as at the reporting date, and, particularly, provisions for risks. The financial statement documents, the combined separate group non-financial report included in the sustainability report, the dependency report, and the long-form audit reports were also dealt with in the Supervisory Board meeting convened to approve the financial statements on February 26, 2021. The required documents had been distributed to all members of the audit committee and the Supervisory Board in due time before these meetings to give members sufficient opportunity to examine them. The auditor was present during the discussion. He reported on significant findings of the financial statement audit and the limited assurance engagement and was available to provide additional information to the audit committee and the Supervisory Board. Based on its own examinations of the separate financial statements, the dependency report (including the closing statement of the Board of Managing Directors), the combined separate group non-financial report, and the consolidated financial statements together with the combined management report, and based on recommendations made by the audit committee, the Supervisory Board concurs with the result of the auditors' audits. There was no cause for objection, including objection to the closing statement on the dependency report prepared by the Board of Managing Directors. The Supervisory Board has approved the separate financial statements and the consolidated financial statements. The separate financial statements have thus been adopted.

**Report of the Supervisory Board**

The Supervisory Board has reviewed the appropriation of retained earnings proposed by the Board of Managing Directors and will, together with the Board of Managing Directors, propose to the annual general meeting the payment of a dividend of EUR 0.24 per common share and EUR 0.25 per common non-voting share in respect of 2020.

On behalf of the Supervisory Board, I would like to express my sincere gratitude to the members of the Board of Managing Directors, to management, and to all other employees of Schaeffler AG and the group companies for their commitment and dedication and their constructive teamwork in 2020.

For the Supervisory Board



Georg F. W. Schaeffler  
Chairman

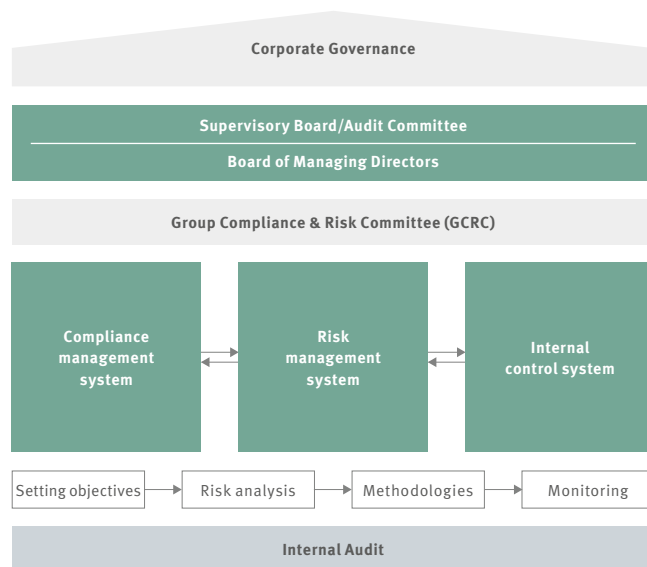
Herzogenaurach, February 26, 2021



### 3. Governance structure

The Schaeffler Group's governance structure serves to responsibly manage and oversee the company. The components of the **governance structure** support the operating business units in effectively identifying and managing risk.

#### Schaeffler Group governance structure



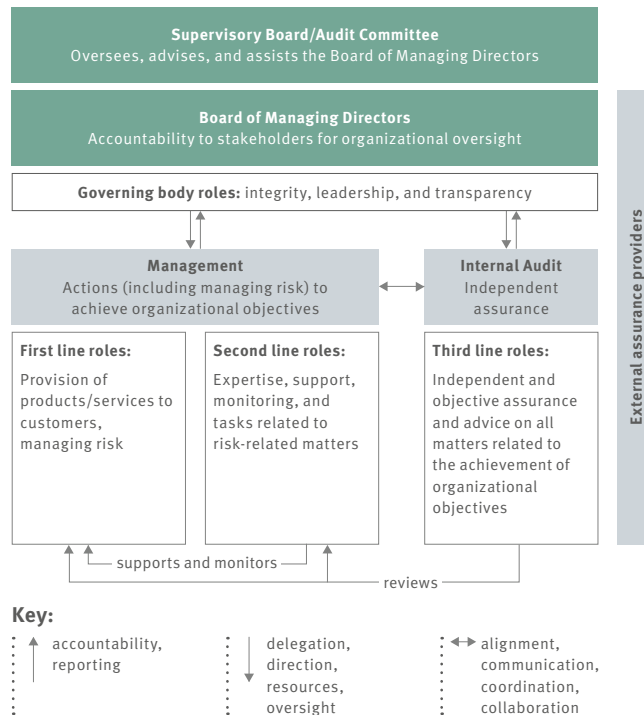
In 2020, the Schaeffler Group has continued to improve the processes within its governance structure with a view to meeting the needs of its customers while at the same time protecting the company. The governance structure is aimed at promoting the coordinated operation of the subsystems and, hence, the early identification of risks to the continued existence and development of the Schaeffler Group. Clearly assigned responsibilities and an 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 Group Chief Compliance Officer of the Schaeffler Group chairs the GCRC, which 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.

## Governance structure

The activities of the subsystems within the governance structure are coordinated based on the internationally recognized **Three Lines Model** of the Institute of Internal Auditors.

## Three Lines Model



It is designed to identify and establish structures and processes that best assist the company in executing its strategy and taking advantage of the related opportunities. The model is used to structure the interactions and responsibilities of management, Internal Audit, and the other corporate governance functions with the objective of effective alignment, collaboration, and reporting. The model also defines the roles of managers and their functions within the Schaeffler Group.

**First line:** The operating business units are responsible for establishing measures required to achieve objectives. Examples are 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 managers and employees of the Schaeffler Group's operating units represent the first line. They are responsible for managing the risks within the responsibilities assigned to them. Individual risks potentially jeopardizing the continued existence of the company are not accepted. Additionally, 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 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:** The 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 to the governing bodies. They support the first line in fulfilling its responsibilities. The Risk Management function is also responsible for regular and independent risk assessment.

**Third line:** Internal Audit is responsible for independent and objective assurance and advice on all matters related to the achievement of objectives.

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

## 3.1 Compliance management system

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 in order to turn rules into values that are being lived.

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 within the Schaeffler Group's governance structure. 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 the seven core components of IDW AsS 980: compliance culture, compliance objectives, vulnerability analysis, compliance program, compliance organization, communication, and monitoring and improvement.

## Governance structure

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. These criteria range 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. Country-specific risks are summarized in a compliance country risk report that is updated annually.

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 experts 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 headquarters 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, preventing money laundering and terrorist financing, as well as on avoiding and dealing with conflicts of interest; 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 information relevant to the company, employees and co-workers, and requirements regarding the environment, health, and safety. In accordance with the corporate values, bribery or any form of corruption are not tolerated. All Schaeffler Group employees are expressly prohibited from engaging in corruption in any way. The same applies to conduct violating competition or antitrust laws. The Schaeffler Group stays away from any transactions that cannot be effected or continued without unacceptable conduct.

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. Training sessions are continually refined and updated and adapted to the employees' areas of responsibility. During the year, the mandatory web-based training program on fundamentals was extensively revised and

rolled out worldwide. In addition to the common compliance issues such as corruption, antitrust and competition law, as well as money laundering, training with respect to other Schaeffler Code of Conduct-related subjects has been expanded. These subjects include data protection, information, and cybersecurity, as well as human rights. 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 2020.

The digital Competitor Contacts and Associations Register was rolled out worldwide. It contributes to transparency and supports the process for approving contacts with competitors in advance. The IT-based workflow on business partner due diligence has been rolled out worldwide as well. This 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 addition, Schaeffler introduced a new process for assessing the reliability of candidates for sensitive positions within the company worldwide. A separate new company guideline on preventing money laundering and terrorist financing has further improved management of the related risks and raised employee awareness of these issues. Additionally, manuals covering the identification of and the requirements on dealing with conflicts of interest were revised and made more concrete to further increase confidence regarding identifying and dealing with conflicts of interest.

## Governance structure

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.

## 3.2 Risk management system

Like the compliance management system, the risk management system is part of the second line 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. 47 et seq.

## 3.3 Internal control system

The second line also comprises the Schaeffler Group's internal control system (ICS). The ICS consists of guidelines, procedures, and measures designed to ensure the effectiveness and efficiency of financial reporting, to ensure the propriety of financial reporting, and to ensure compliance with relevant legal requirements. Schaeffler's ICS has its basis in the globally recognized framework of the Committee of Sponsoring Organizations of the Treadway Commission – Internal Control – Integrated Framework. The ICS consists of the following five

components, which are interrelated with one another: 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. 49 et seq.

## 3.4 Internal Audit

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

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

- direct organizational link to the Chief Executive Officer to ensure there are no gaps in audit coverage
- neither the head of Internal Audit nor audit staff have any operational responsibilities
- reports annually on potential impairment of independence to the Chief Executive Officer, the Board of Managing Directors, and the audit committee
- the Board of Managing Directors has to approve and appropriately document the 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

**Governance structure**

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

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

In its audit reports, Internal Audit communicates its findings, identifies the individuals responsible for implementation, and agrees remediation measures, including a 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 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.

## 4. 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 amounts. In addition, the report provides disclosures about benefits granted to the members of the Board of Managing Directors (referred to as Managing Directors below) upon termination of their service as well as disclosures on the remuneration of the Supervisory Board.

On March 6, 2020, Schaeffler AG's Supervisory Board decided to amend the remuneration system for the Board of Managing Directors originally introduced in connection with the listing in October 2015 effective January 1, 2020. The new remuneration system for the Board of Managing Directors, which was enhanced by the Supervisory Board with the support of independent external consultants, implements the change in regulatory requirements on remuneration of boards of managing directors pursuant to the Law on the Implementation of the Shareholders' Rights Directive II (ARUG II). The remuneration system for the Board of Managing Directors was approved by the annual general meeting of Schaeffler AG on May 8, 2020.

The new remuneration system applies to all Managing Directors with a term of office extending beyond July 31, 2020, for all service contract to be entered into or renewed, as well as for reappointments. This remuneration report relates to the revised and approved remuneration system for the Board of Managing Directors.

The remuneration report is part of the group management report and is in accordance with the requirements of the German Commercial Code (HGB) and International Financial Reporting Standards (IFRS). Furthermore, it reflects, on a voluntary basis, the recommendations of the German Corporate Governance Code (GCGC) contained in the version dated February 7, 2017, which have been eliminated in the current version. Additionally, the remuneration report includes, on a voluntary basis, selected information that is consistent with the requirements of section 87a of the German Stock Corporations Act (AktG) in the version of the Law on the Implementation of the Shareholders' Rights Directive II (ARUG II) dated December 12, 2019 (German Federal Law Gazette Part I 2019, No. 50 dated December 19, 2019) with respect to the remuneration of boards of managing directors. Specifically, information on the details of the remuneration system for the Board of Managing Directors and the performance criteria applied is already provided for 2020.

### 4.1 Main features of the remuneration system for the Board of Managing Directors in 2020

As stipulated in the GCGC and section 87 AktG, the Supervisory Board sets the total remuneration and regularly reviews the remuneration system. 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 benchmark) and the wage and salary structure within the enterprise itself (vertical benchmark of remuneration of Board of Managing Directors against the company's workforce).

For the horizontal benchmark, the amount and structure of both the various components and the total target remuneration of the Chief Executive Officer and the ordinary Managing Directors are compared to remuneration market data of peer companies. For 2020, appropriateness of the remuneration of the Chief Executive Officer and the ordinary Managing Directors was assessed based on companies included in the MDAX as at December 31, 2019 as well as an individually defined peer group. The individual peer group comprises the following publicly listed international companies: Continental AG, Copart Inc., Deutz AG, ElringKlinger AG, Gestamp Automoción S.A., Goodyear Tire & Rubber Co., KAP AG, Leoni AG, Michelin AG & Co. KGaA, Plastic Omnium S.A., Rheinmetall AG, SGL Carbon SE, TI Fluid Systems plc., and The Timken Company.

The vertical benchmark is based on the average remuneration of the Schaeffler Group's employees (total workforce), which addresses the company's international footprint. The ratio of the amount of remuneration of the Managing Directors to average employee remuneration is compared to the corresponding ratios of MDAX companies.

## Remuneration report

The Supervisory Board of Schaeffler AG has engaged Ernst & Young Wirtschaftsprüfungsgesellschaft (EY) to review the appropriateness of the remuneration of the Board of Managing Directors. In their 2020 report, EY concluded that the total remuneration of the Managing Directors lies within the common market range and is 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.

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. Remuneration is based on the following principles:

## Linking performance and remuneration:

The variable performance-based remuneration components should exceed the fixed remuneration components relative to total target remuneration in order to ensure remuneration is performance-based.

## Value creation and free cash flow:

Remuneration should promote the achievement of Schaeffler AG's overarching objectives of creating value sustainably and generating free cash flow. The related strategic and operating performance indicators should serve as performance criteria embedded in the variable remuneration of the Managing Directors.

## Variable remuneration focused on long-term and sustainable appreciation of shareholder value:

Variable remuneration should be largely long-term in nature and linked to appreciation of shareholder value. In order to reflect the growing importance of sustainability within the company's strategy, sustainability targets should be addressed in variable remuneration.

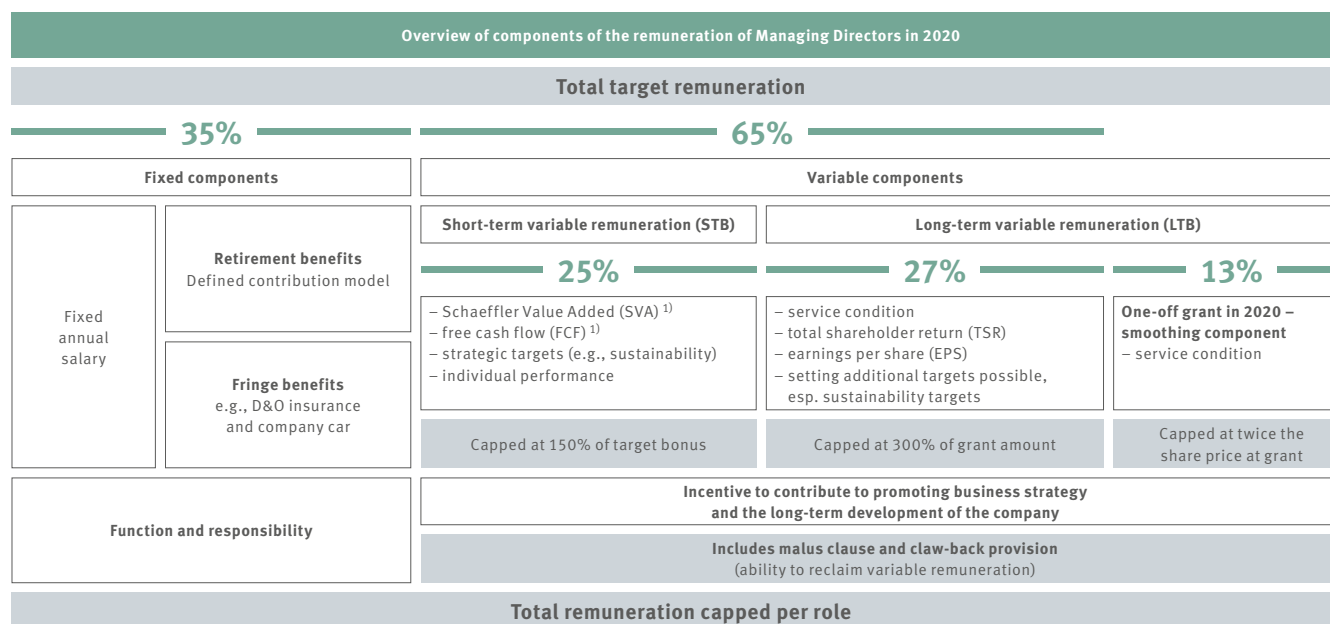
## Strengthening orientation toward the capital markets and more extensively aligning interests with those of shareholders:

Managing Directors are obligated to purchase a set amount of shares in Schaeffler AG and to hold them until the end of their service on the Board of Managing Directors of Schaeffler AG (obligation to purchase and hold shares).

The remuneration of each Managing Director consists of fixed remuneration as well as short- and long-term variable components. The variable component is largely long-term in nature. In addition, the Managing Directors receive pension commitments and the customary fringe benefits. Additionally, the Managing Directors were awarded a one-off smoothing component to compensate for any financial disadvantages resulting from the restructuring of the retirement benefit plan effective January 1, 2020.

## Non-performance-based components

## Features of the remuneration system



The information on the proportion of the total target remuneration represented by the various components can vary by a few percentage points between Managing Directors since amounts of fringe benefits vary between individuals.

<sup>1)</sup> Performance criteria for the divisional CEOs are supplemented by the division-specific measures divisional Schaeffler Value Added (SVA Division) and divisional cash flow (DCF Division).



Remuneration report

Fringe benefits

Fringe benefits include the use of a company car, including for private purposes, and common 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 Managing Director. No loans were granted to Managing Directors in 2020.

Performance-based components

Variable remuneration consists of short- and long-term components. An obligation to hold shares is a mandatory feature of long-term variable remuneration and is a condition for payout of the long-term bonus starting with the 2020-2024 tranche.

Short-term variable component – short-term bonus

All Managing Directors receive an annual short-term bonus provided the relevant targets are achieved. The service contracts of the Managing Directors set out the individual target bonus based on achievement of 100% of the target values (individual target bonus).

For each performance target, the Supervisory Board sets the performance scale each year by defining a minimum value (0%) that must be exceeded for payout to occur and a maximum value (150%) representing a cap. The target value (100%) is based on the budgeted value of the relevant performance target. If, at year-end, the value of the performance target falls between the values defined in the performance scale, target achievement is determined by linear interpolation.

The short-term bonus paid out to the CEO and the Chief Officers of the functions is determined based on the target achievement rate for the performance targets free cash flow (FCF Group) of the Schaeffler Group and Schaeffler Value Added (SVA Group) of the Schaeffler Group, which are weighted equally.

For the divisional CEOs, the target achievement rate is determined based on the performance targets free cash flow of the Schaeffler Group (FCF Group) and Schaeffler Value Added of the Schaeffler Group (SVA Group) as well as divisional Schaeffler Value Added (SVA Division) and divisional cash flow (DCF Division), again weighted equally.

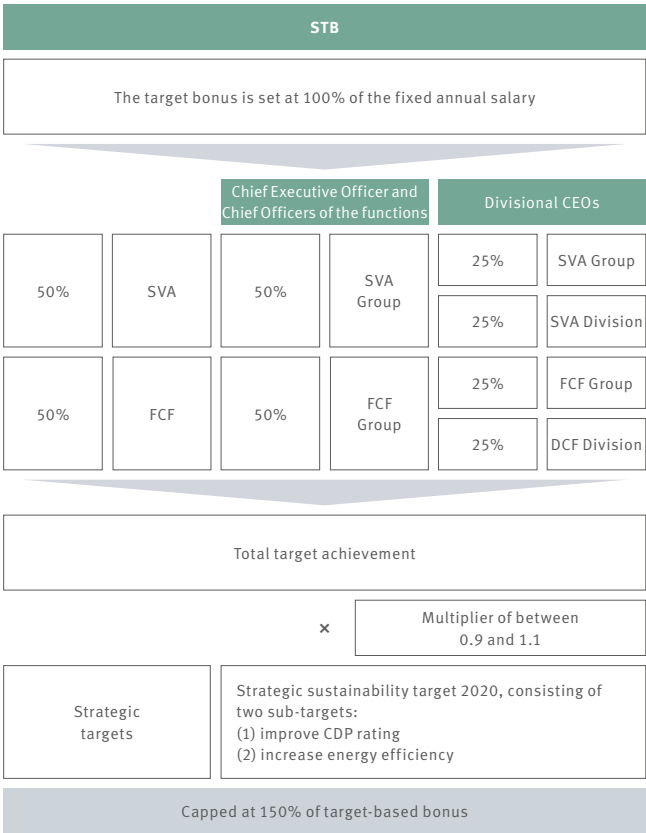
FCF Group is generally calculated based on the Schaeffler Group’s cash flows from operating activities and from investing activities for the relevant year. SVA Group is generally based on the Schaeffler Group’s EBIT less its cost of capital. SVA Division is determined in the same manner based on measures 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 and less additions to property, plant and equipment and intangible assets.

By embedding the performance targets in the remuneration of the Managing Directors, the latter is linked to key measures of the Schaeffler Group’s value creation. As a result, remuneration contributes significantly to successfully executing the strategy and investing in growth areas while maintaining the focus on profitability and cash flow generation. The performance measures support the Schaeffler Group’s long-term growth by reflecting profitable growth, capital allocation, and capital efficiency, which are part of the company’s value-based management approach.

The remuneration system allows for the Supervisory Board to set further strategic targets in addition to the FCF-, SVA-, and DCF-based performance targets. For 2020 and 2021, the Supervisory Board has set a sustainability target that functions as an additional performance criterion.

Furthermore, the Supervisory Board can adjust, using equitable discretion, the total target achievement rate by a factor ranging from 0.8 to 1.2 to reflect a Managing Director’s individual performance. In exercising its equitable discretion, the Supervisory Board particularly takes into account whether a Managing Director has temporarily assumed additional responsibilities.

Features of the short-term bonus (STB)



## Remuneration report

The short-term bonus may lapse in its entirety if the minimum target values are not met. In the event that maximum target values are exceeded, payout of the short-term bonus is capped at 150% of the individual target bonus, regardless of whether an additional strategic target is set or a multiplier reflecting a Managing Director's individual performance is applied. Once actual target achievement has been determined, the short-term bonus earned during a year is paid out in euros in one lump sum.

## Actual target achievement for the STB 2020

The target values (100%) for the various performance targets were derived based on internal budgets and correspond to the relevant budgeted value. The following summary sets out financial performance targets for 2020 and the related target achievement rates:

## Actual target achievement for the STB 2020 – Schaeffler Group

Schaeffler Group (in € millions)	Performance scale			Target achievement rate for 2020	
				absolute (in € millions)	relative (in %)
	0%	100%	150%		
Free cash flow	≤ 0	415	≥ 623	646	150.0%
Schaeffler Value Added	≤ -85	368	≥ 595	72	34.7%
<b>Total target achievement rate – Schaeffler Group</b>					<b>92.4%</b>

The financial indicators underlying the performance targets have been adjusted for certain items in order to ensure that these financial indicators reflect operating performance. These items include, inter alia, the impact of acquisitions and disposals and the impact of certain restructuring programs.

The performance scales for divisional cash flow and Schaeffler Value Added that are relevant for determining target achievement of the divisional CEOs were set in a similar manner for 2020. The performance scales relevant to 2020 and the resulting target achievement can be summarized as follows:

## Actual target achievement for the STB 2020 – divisions

Automotive Technologies (in € millions)	Performance scale			Target achievement rate for 2020	
				absolute (in € millions)	relative (in %)
	0%	100%	150%		
Divisional cash flow	≤ 0	739	≥ 1,109	692	93.6%
Schaeffler Value Added	≤ -207	-4	≥ 97	-211	0.0%
<b>Total target achievement rate – Automotive Technologies</b>					<b>46.8%</b>

Automotive Aftermarket (in € millions)	Performance scale			Target achievement rate for 2020	
				absolute (in € millions)	relative (in %)
	0%	100%	150%		
Divisional cash flow	≤ 0	210	≥ 315	255	121.4%
Schaeffler Value Added	≤ 94	196	≥ 247	202	105.9%
<b>Total target achievement rate – Automotive Aftermarket</b>					<b>113.7%</b>

Industrial (in € millions)	Performance scale			Target achievement rate for 2020	
				absolute (in € millions)	relative (in %)
	0%	10 %	150%		
Divisional cash flow	≤ 0	210	≥ 315	243	115.7%
Schaeffler Value Added	≤ 28	177	≥ 251	82	36.2%
<b>Total target achievement rate – Industrial</b>					<b>76.0%</b>

## Special target for the STB 2020 – sustainability target

In order to embed the sustainability strategy and the related company initiatives in remuneration, the Supervisory Board has set an additional performance criterion for 2020 in the form of a sustainability target. This sustainability target is applied to the target achievement rate of each Managing Director in the form of a multiplier ranging from 0.9 to 1.1. However, the maximum payout is capped at 150% of the individual target bonus.

The sustainability target consists of the following equally-weighted sub-targets that can be either achieved or not achieved:

- Improve the Schaeffler Group's CDP rating 2020 to at least "B"
- Implement measures in 2020 to increase energy efficiency by at least 25 GWh annually.

The scoring level ("CDP 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<sup>8</sup> annually. These measures prioritize increasing the energy efficiency of 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.

<sup>8</sup> Estimated impact.

## Remuneration report

With respect to improving the CDP climate protection rating, progress has been made in all relevant assessment categories. The targeted integration of the issue of climate management in all relevant functions with an influence on improving the company's carbon footprint deserves particular notice. The results of the CDP rating were published on December 8, 2020. Schaeffler has achieved an "A-" rating.

100 measures aimed at increasing energy efficiency were taken worldwide, contributing a total of 27.4 GWh as verified by an external and independent expert. Along with intelligent LED-based lighting systems, other measures included, for instance, improving heating and compressed air systems as well as production equipment.

## Final target achievement rate for the STB 2020

Total target achievement rates for the performance targets and final target achievement rates for 2020 can be summarized by individual Managing Director as follows:

## Final target achievement rates for the STB 2020

	Performance criteria	Weight in %	Total target achievement rate in %	Special target multiplier	Final target achievement rate
<b>Klaus Rosenfeld</b> (Chief Executive Officer)	FCF	50%			
	SVA	50%	92.4%	1.1	101.64%
	FCF	25%			
	SVA	25%			
<b>Matthias Zink</b> (Automotive Technologies)	DCF	25%			
	DSVA	25%	69.6%	1.1	76.56%
	FCF	25%			
	SVA	25%			
<b>Michael Söding</b> (Automotive Aftermarket)	DCF	25%			
	DSVA	25%	103.0%	1.1	113.30%
	FCF	25%			
	SVA	25%			
<b>Dr. Stefan Spindler</b> (Industrial)	DCF	25%			
	DSVA	25%	84.2%	1.1	92.62%
	FCF	50%			
	SVA	50%	92.4%	1.1	101.64%
<b>Dr. Klaus Patzak</b> (Finance & IT)	FCF	50%			
	SVA	50%	92.4%	1.1	101.64%
<b>Andreas Schick</b> (Operations, Supply Chain Management & Purchasing)	FCF	50%			
	SVA	50%	92.4%	1.1	101.64%
<b>Corinna Schittenhelm</b> (Human Resources and Labor Relations Director)	FCF	50%			
	SVA	50%	92.4%	1.1	101.64%
<b>Uwe Wagner</b> (Research and Development)	FCF	50%			
	SVA	50%	92.4%	1.1	101.64%
<b>Dietmar Heinrich</b> (formerly Finance & IT)	FCF	50%			
	SVA	50%	92.4%	1.1	101.64%

## Remuneration report

The individual performance factor for 2020 has been set at 1.0.

## Payout of STB 2020

The resulting individual payouts of the STB 2020 were as follows:

## Payout of STB 2020

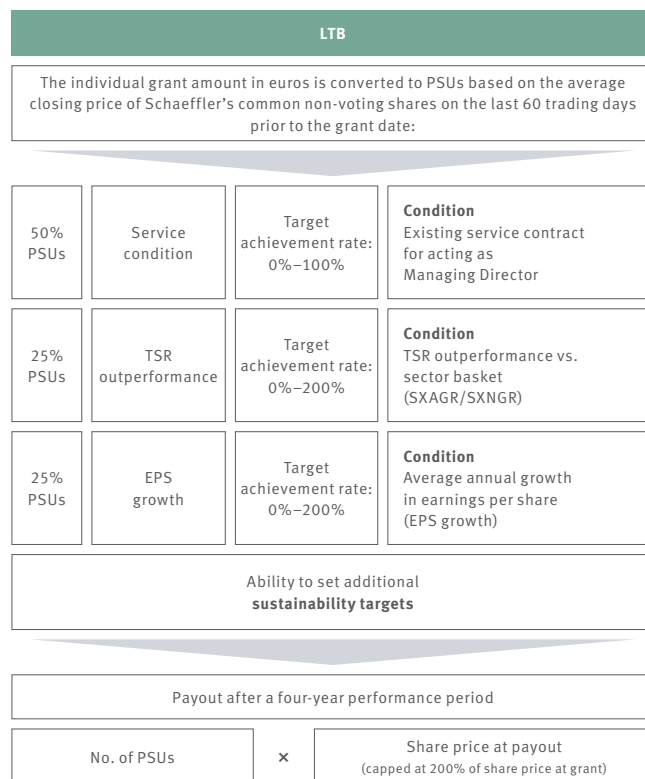
Managing Directors in office as at December 31, 2020	Annual target bonus (in € thousands)	Corresponding payout (in € thousands)
<b>Klaus Rosenfeld</b> (CEO)	1,200	1,220
<b>Matthias Zink</b>	600	459
<b>Michael Söding</b>	600	680
<b>Dr. Stefan Spindler</b>	750	695
<b>Dr. Klaus Patzak<sup>1)</sup></b>	250	254
<b>Andreas Schick</b>	600	610
<b>Corinna Schittenhelm</b>	600	610
<b>Uwe Wagner</b>	600	610
Managing Directors who left the company in 2020		
<b>Dietmar Heinrich<sup>2)</sup></b>	350	356
<b>Total</b>	<b>5,550</b>	<b>5,493</b>

<sup>1)</sup> Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020. The STB granted to him was prorated to 5/12.

<sup>2)</sup> Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG as at July 31, 2020. The amount of his payout under the STB was prorated to 7/12.

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

## Features of the long-term bonus (LTB)



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 PSUP has been enhanced with the help of an external remuneration consultant and the enhancement was implemented as part of the new remuneration system in 2020.

The service contracts of the Managing Directors set out a grant amount in euros that is based on each Managing Director's duties and responsibilities. To ensure the remuneration structure is largely oriented toward the long term, this grant amount exceeds the individual target bonus under the variable short-term remuneration. For all Managing Directors, including those appointed during the year, the grant amount is converted to performance share units (PSUs) at the average price of Schaeffler's common non-voting shares on the last 60 trading days before the beginning of the performance period (share price at grant) and is granted on a pro-rata temporis basis. 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 subject to the following three conditions:

- 50% of the PSUs (base number) are granted subject to a service condition. The base number is only paid out if the Managing Director remains in the role as a Managing Director of Schaeffler AG and is not under notice of termination at the end of the performance period<sup>9</sup>.
- 25% of the PSUs are granted subject to a performance target based on relative 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 over the performance period. In order to reflect the company's sector-specific market environment – Automotive Technologies, 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.

<sup>9</sup> Taking into account the applicable leaver rules.

## Remuneration report

- 25% of the PSUs are granted subject to a long-term EPS-based performance target based on average annual growth in earnings per share during the four-year performance period.

Embedding the targets set out above in the remuneration system ensures that the interests of the Managing Directors are aligned with those of the shareholders and that the Managing Directors support the company's long-term growth strategy. Additionally, it incentivizes the Managing Directors to commit to the company on a long-term basis, which provides planning reliability. Implementing a relative performance measure creates an additional incentive to remain competitive in the market environment in the long term through sustainable organic growth.

The Supervisory Board sets the target values (100%) derived from the medium-term plan for each tranche when PSUs are granted, along with a minimum value (0%) and a maximum value (200%) for each performance target. If the minimum value is not achieved, the target achievement rate is 0% and no PSUs vest. If the maximum value is exceeded, the target achievement rate is limited to 200% (cap).

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 of the performance period. Payout for a PSU is capped at twice the share price at grant. Starting with the 2020 tranche, payout of the LTB is conditional on proof that the obligation to hold shares has been fulfilled as at the end of the relevant performance period (see "Obligation to hold shares" below for a detailed description).

## PSUs granted in 2020

The following performance scales have been set for vesting of PSUs with TSR- and EPS-based performance targets for 2020:

## PSUP performance targets (1)

TSR outperformance over the performance period	Number of TSR PSUs vested in %
> 25%	200%
5% < TSR outperformance ≤ 25%	150%
-5% < TSR outperformance ≤ 5%	100%
-25% < TSR outperformance ≤ -5%	50%
≤ -25%	0%

## PSUP performance targets (2)

EPS growth over the performance period	Number of EPS growth PSUs vested in %
CAGR EPS ≥ +7.5%	200%
+5% ≤ CAGR EPS < +7.5%	150%
+2.5% ≤ CAGR EPS < +5%	100%
0% ≤ CAGR EPS < +2.5%	50%
CAGR EPS < 0%	0%

Target achievement for the TSR-based performance target is calculated as the absolute difference between the TSR of Schaeffler AG and the TSR of the sector basket. Target achievement for the EPS growth-based performance target is calculated as the geometric mean (CAGR<sup>10</sup>) over the four-year performance period.

PSUs granted to Dietmar Heinrich in 2020 were still granted under the old PSUP plan. Under this plan, vesting of PSUs is subject to the following three conditions:

- 50% of the PSUs (base number) are granted subject to a service condition. The features of these PSUs are the same as those of the new plan.
- 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 performance target based on relative total shareholder return (TSR) compared to performance of the MDAX.

<sup>10</sup> CAGR EPS =  $(\text{EPS}_{\text{year 4}} / \text{EPS}_{\text{year 0}})^{(1/\text{years})} - 1$ , with EPS<sub>year 0</sub> equaling EPS for the year immediately preceding the relevant performance period and EPS<sub>year 4</sub> equaling EPS for the final year of the relevant performance period.

## Remuneration report

PSUs with FCF- and TSR-based performance targets vest based on the following performance scales:

**PSUP performance targets (3)**

Cumulative FCF for the performance period	Number of FCF PSUs vested in %
Cumulative FCF compared to target FCF $\geq -6.01\%$	100%
$-2.01\% < \text{cumulative FCF compared to target FCF} < -6.00\%$	75%
$-2.00\% < \text{cumulative FCF compared to target FCF} < -2.00\%$	50%
$-6.00\% < \text{cumulative FCF compared to target FCF} < -2.01\%$	25%
Cumulative FCF compared to target FCF $< -6.01\%$	0%

**PSUP performance targets (4)**

TSR outperformance over the performance period	Number of TSR PSUs vested in %
$\geq 25\%$	100%
$5\% < \text{TSR outperformance} \leq 25\%$	75%
$-5\% < \text{TSR outperformance} \leq 5\%$	50%
$-25\% < \text{TSR outperformance} \leq -5\%$	25%
$\leq -25\%$	0%

## Remuneration report

The underlying share price of the 2020 tranche is EUR 8.98. The PSUs granted to each individual and the related fair values in 2020 are as follows:

## PSUs granted in 2020

Managing Directors in office as at December 31, 2020	Grant amount (in € thousands)	Number of PSUs outstanding on December 31, 2020 <sup>1)</sup>	Grant date fair value per PSU (in €)	Grant date fair value (in € thousands)
<b>Klaus Rosenfeld</b> (CEO)	1,300			
Base number of PSUs		72,382	7.37	533
ESP PSUs		36,192	7.37	533
TSR PSUs		36,192	7.53	273
<b>Matthias Zink</b>	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136
<b>Michael Söding</b>	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136
<b>Dr. Stefan Spindler</b>	800			
Base number of PSUs		44,543	7.37	328
EPS PSUs		22,272	7.37	328
TSR PSUs		22,272	7.53	168
<b>Dr. Klaus Patzak</b> <sup>2)</sup>	271			
Base number of PSUs		15,080	5.03	76
EPS PSUs		7,540	5.03	76
TSR PSUs		7,540	4.46	34
<b>Andreas Schick</b>	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136

<b>Corinna Schittenhelm</b>	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136
<b>Uwe Wagner</b>	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136
Managing Directors who left the company in 2020				
<b>Dietmar Heinrich</b> <sup>3)</sup>	379			
Base number of PSUs		21,111	7.55	159
FCF PSUs		10,556	7.55	80
TSR PSUs		10,556	4.60	49
<b>Total</b>	<b>6,000</b>	<b>668,151</b>		<b>5,985</b>

<sup>1)</sup> Equals the number of PSUs granted in 2020. The amended PSU plan was approved by the Supervisory Board on February 4, 2020. Therefore, February 4th is considered the grant date in 2020.

<sup>2)</sup> Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020. The LTB granted to him was prorated to 5/12. The grant date is August 1, 2020.

<sup>3)</sup> Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG as at July 31, 2020. The LTB granted to him was prorated to 7/12. This grant was made on January 1, 2020 based on the terms of the previous LTB plan.



## Remuneration report

## PSUs granted in 2019

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

Managing Directors in office as at December 31, 2019	Grant amount (in € thousands)	Number of PSUs outstanding on December 31, 2019 <sup>1)</sup>	Grant date fair value per PSU (in €)	Grant date fair value (in € thousands)
<b>Klaus Rosenfeld</b> (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
<b>Matthias Zink</b>	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60
<b>Michael Söding</b>	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60
<b>Dr. Stefan Spindler</b>	800			
Base number of PSUs		47,058	5.36	252
FCF PSUs		23,530	5.36	126
TSR PSUs		23,530	3.12	73
<b>Andreas Schick</b>	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60

<b>Corinna Schittenhelm</b>	650			
Base number of PSUs		38,235	5.36	205
FCF PSUs		19,118	5.36	102
TSR PSUs		19,118	3.12	60
<b>Uwe Wagner <sup>2)</sup></b>	163			
Base number of PSUs		9,558	5.37	51
FCF PSUs		4,780	5.37	26
TSR PSUs		4,780	2.17	10
<b>Dietmar Heinrich</b>				
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				
<b>Prof. Dr. Peter Gutzmer <sup>3)</sup></b>	950			
Base number of PSUs		55,883	5.36	300
FCF PSUs		27,941	5.36	150
TSR PSUs		27,941	3.12	87
<b>Total</b>	<b>6,463</b>	<b>760,297</b>	<b>-</b>	<b>3,645</b>

<sup>1)</sup> Equals the number of PSUs granted on January 1, 2019.

<sup>2)</sup> Uwe Wagner has been a Managing Director of Schaeffler AG since October 1, 2019.

<sup>3)</sup> Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His service contract remained in effect until December 31, 2019.

The PSUs granted are classified and accounted for as cash-settled share-based compensation. A Monte Carlo simulation was used to determine the fair value of PSUs granted subject to the TSR-based performance target under the new PSUP plan. The fair value of PSUs granted subject to a TSR-based performance target under the previous PSU plan was calculated based on a binomial model, as was the case in the prior year. The fair value of the base number and of the PSUs subject to the EPS- and FCF-based performance targets was determined based on the price of the company's common non-voting shares as at the relevant valuation date using a binomial model. The valuation models take into account the terms of the contract under which the PSUs were granted (conditions for payout, performance scales, expected dividend payments, as well as the expected volatility of the company's common non-voting shares and of the benchmark index).

## Remuneration report

The valuation as at the relevant grant date of the 2020 tranche reflects the following input parameters:

## Valuation input parameters as at the grant date (2020 tranche)

	Grant date January 1, 2020	Grant date February 4, 2020	Grant date August 1, 2020
Risk-free interest rate for the remaining performance period	-0.55%	-0.72%	-0.80%
Expected dividend yield of Schaeffler AG common non-voting shares	4.67%	4.83%	5.90%
Expected volatility of Schaeffler AG common non-voting shares	34.29%	33.87%	38.49%
Expected volatility of the SXAGR benchmark index	-	20.53%	26.84%
Expected volatility of the SXNGR benchmark index	-	15.07%	20.27%
Expected correlation coefficient between the SXAGR benchmark index and Schaeffler AG common non-voting shares	-	0.62	0.69
Expected correlation coefficient between the SXNGR benchmark index and Schaeffler AG common non-voting shares	-	0.50	0.58
Expected correlation coefficient between the SXAGR and SXNGR benchmark indexes	-	0.77	0.84
Expected volatility of the MDAX benchmark index	14.67%	-	-
Expected correlation coefficient between the MDAX benchmark index and Schaeffler AG common non-voting shares	0.51	-	-

The valuation as at the relevant grant date of the 2019 tranche reflects the following input parameters:

## Valuation input parameters as at the grant date (2019 tranche)

	Grant date January 1, 2019	Grant date October 1, 2019
Risk-free interest rate for the remaining performance period	0.07%	-0.82%
Expected dividend yield of Schaeffler AG common non-voting shares	7.37%	7.81%
Expected volatility of Schaeffler AG common non-voting shares	36.83%	36.28%
Expected volatility of the MDAX benchmark index	14.80%	15.65%
Expected correlation coefficient between the MDAX benchmark index and Schaeffler AG common non-voting shares	0.53	0.50

## Payout of LTB 2016-2019

The LTB 2016-2019, which was paid out to the Managing Directors by Schaeffler AG in 2020, is based on the previous LTB plan. 50% of the LTB is based on embedded performance criteria representing a service condition and 25% each on the performance criteria cumulative FCF and TSR outperformance. At the end of the performance period 2016-2019, both TSR outperformance compared to the MDAX and cumulative FCF fell short of the agreed targets. The PSUs subject to meeting the service condition vested.

Payout of the 2016-2019 tranche was received in March 2020. Based on the target achievement rate determined by the Supervisory Board for the above performance targets and on the service condition, the payout amounts for the 2016-2019 tranche are calculated by multiplying the number of PSUs vested with the average share price of the last 60 trading days of EUR 8.98 as follows:

## Payout of LTB 2016-2019

	Target achieve- ment rate in %	Number of PSUs vested	Payout (in € thousands)
Managing Directors in office as at December 31, 2020			
<b>Klaus Rosenfeld</b> (CEO)	50%	44,581	400
<b>Matthias Zink</b> <sup>1)</sup>	-	-	-
<b>Michael Söding</b> <sup>1)</sup>	-	-	-
<b>Dr. Stefan Spindler</b>	50%	27,434	246
<b>Dr. Klaus Patzak</b> <sup>1)</sup>	-	-	-
<b>Andreas Schick</b> <sup>1)</sup>	-	-	-
<b>Corinna Schittenhelm</b>	50%	22,290	200
<b>Uwe Wagner</b> <sup>1)</sup>	-	-	-
Former Managing Directors			
<b>Dietmar Heinrich</b> <sup>1)</sup>	-	-	-
<b>Prof. Dr. Peter Pleus</b>	50%	32,578	293
<b>Prof. Dr. Peter Gutzmer</b>	50%	32,578	293
<b>Dr. Ulrich Hauck</b>	50%	27,434	246
<b>Oliver Jung</b>	50%	32,578	293
<b>Norbert Indlekofer</b>	50%	32,578	293
<b>Total</b>			<b>2,263</b>

<sup>1)</sup> No payout under the 2016-2019 tranche in connection with activities on the Board of Managing Directors.

## Remuneration report

## Payout of LTB 2017-2020

The LTB 2017-2019 is also based on the previous LTB plan. Only the PSUs subject to meeting a service condition vested upon the end of the performance period 2017-2020. Payout of the 2017-2020 tranche will be received in March 2021. Based on the target achievement rate determined by the Supervisory Board for the above performance targets and on the service condition, the payout amounts for the 2017-2020 tranche are calculated by multiplying the number of PSUs vested with the average share price of the last 60 trading days of EUR 6.07 as follows:

## Payout of LTB 2017-2020

	Target achieve- ment rate in %	Number of PSUs vested	Payout (in € thousands)
Managing Directors in office as at December 31, 2020			
<b>Klaus Rosenfeld</b> (CEO)	50%	49,316	299
<b>Matthias Zink</b>	50%	24,659	150
<b>Michael Söding</b> <sup>1)</sup>	-	-	-
<b>Dr. Stefan Spindler</b>	50%	30,348	184
<b>Dr. Klaus Patzak</b> <sup>1)</sup>	-	-	-
<b>Andreas Schick</b> <sup>1)</sup>	-	-	-
<b>Corinna Schittenhelm</b>	50%	24,659	150
<b>Uwe Wagner</b> <sup>1)</sup>	-	-	-
Former Managing Directors			
<b>Dietmar Heinrich</b> <sup>2)</sup>	50%	9,205	56
<b>Prof. Dr. Peter Pleus</b>	50%	36,039	219
<b>Prof. Dr. Peter Gutzmer</b> <sup>3)</sup>	50%	36,039	219
<b>Dr. Ulrich Hauck</b>	50%	30,348	184
<b>Oliver Jung</b> <sup>3)</sup>	50%	36,039	219
<b>Total</b>			<b>1,679</b>

<sup>1)</sup> No payout under the 2017-2020 tranche in connection with activities on the Board of Managing Directors.

<sup>2)</sup> PSUs granted on a prorated basis (43/48).

<sup>3)</sup> The amount of the payout determined for the 2017-2020 tranche and presented in the table is offset against the EUR 300 thousand advance committed to and paid in 2017. Since the payout amount determined for the 2017-2020 tranche is less than the amount of the advance, EUR 82 thousand are refundable to the company.

Long-term variable remuneration – one-off  
smoothing component

## One-off grant in 2020

To compensate them for the reduction in retirement benefits effective January 1, 2020, Schaeffler AG's Managing Directors with a term of office extending beyond July 31, 2020, were granted a one-off smoothing component equal to half their annual fixed remuneration (grant amount) in 2020 in the form of PSUs payable in three tranches in 2021, 2022, and 2023. The number of PSUs was determined based on the grant amount in euros and the price of Schaeffler AG common non-voting shares at grant based on input parameters aligned with those underlying the LTB 2020-2023. Their underlying share price at grant was EUR 8.98.

The payout amount depends on the trend in the price of Schaeffler AG common non-voting shares, further strengthening the focus of the remuneration of Managing Directors on the company's sustainable and long-term development. The share price is capped at twice the share price at grant. Further, cash settlement of a given tranche is conditional on the service condition being met. For 2020 only, the cap on total remuneration has been increased by the maximum amount of the smoothing component.

## Remuneration report

## Smoothing component granted in 2020

Managing Directors in office as at December 31, 2020	Grant amount (in € thousands)	Number of PSUs out- standing on December 31, 2020	Grant date fair value per PSU <sup>2)</sup> (in €)	Grant date fair value (in € thousands)
<b>Klaus Rosenfeld</b> (CEO)	600			
Tranche 1 (2020)		22,272	8.89	198
Tranche 2 (2021)		22,272	8.34	186
Tranche 3 (2022)		22,272	7.83	174
<b>Matthias Zink</b>	300			
Tranche 1 (2020)		11,136	8.89	99
Tranche 2 (2021)		11,136	8.34	93
Tranche 3 (2022)		11,136	7.83	87
<b>Michael Söding</b>	300			
Tranche 1 (2020)		11,136	8.89	99
Tranche 2 (2021)		11,136	8.34	93
Tranche 3 (2022)		11,136	7.83	87
<b>Dr. Stefan Spindler</b>	300			
Tranche 1 (2020)		11,136	8.89	99
Tranche 2 (2021)		11,136	8.34	93
Tranche 3 (2022)		11,136	7.83	87
<b>Dr. Klaus Patzak <sup>1)</sup></b>	125			
Tranche 1 (2020)		4,640	6.12	28
Tranche 2 (2021)		4,640	5.73	27
Tranche 3 (2022)		4,640	5.37	25
<b>Andreas Schick</b>	300			
Tranche 1 (2020)		11,136	8.89	99
Tranche 2 (2021)		11,136	8.34	93
Tranche 3 (2022)		11,136	7.83	87

<b>Corinna Schittenhelm</b>	300			
Tranche 1 (2020)		11,136	8.89	99
Tranche 2 (2021)		11,136	8.34	93
Tranche 3 (2022)		11,136	7.83	87
<b>Uwe Wagner</b>	300			
Tranche 1 (2020)		11,136	8.89	99
Tranche 2 (2021)		11,136	8.34	93
Tranche 3 (2022)		11,136	7.83	87
<b>Total</b>	<b>2,525</b>	<b>281,183</b>		<b>2,312</b>

<sup>1)</sup> Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020. He was granted the smoothing component on a pro-rata basis (5/12) to offset financial disadvantages he incurred as a result of joining Schaeffler AG. The grant date is August 1, 2020.

<sup>2)</sup> The Supervisory Board of Schaeffler AG approved the one-off smoothing component in its final form on February 4, 2020.

The fair value of the PSUs underlying the smoothing component was determined based on the price of the company's common non-voting shares as at the valuation date using a binomial model. The valuation model takes into account the terms of the contract under which the PSUs were granted (including expected dividend payments as well as the expected volatility of the company's common non-voting shares).

The valuation as at the grant date of the 2020 smoothing component reflects the following input parameters:

## Valuation input parameters as at the grant date (smoothing component)

	Tranche 1 (2020)	Tranche 2 (2021)	Tranche 3 (2022)
	Grant date February 4, 2020/ August 1, 2020		
Risk-free interest rate for the remaining performance period	-0.62%/ -0.65%	-0.65%/ -0.7%	-0.69%/ -0.75%
Expected dividend yield of Schaeffler AG common non-voting shares	4.83%/ 5.90%	4.83%/ 5.90%	4.83%/ 5.90%
Expected volatility of Schaeffler AG common non-voting shares	37.05%/ 52.99%	36.14%/ 45.93%	34.86%/ 41.36%

## Payout of smoothing component – tranche 1 (2020)

The payout amounts for tranche 1 (2020) are based on the service condition being met and will be received by the Managing Directors as part of the first regular payroll run following approval of the consolidated financial statements in March 2021. The average share price for the last 60 trading days of EUR 6.07 results in the following payout amounts:

## Payout of smoothing component – tranche 1 (2020)

Managing Directors in office as at December 31, 2020	Target achieve- ment rate in %	Number of PSUs vested	Payout (in € thousands)
<b>Klaus Rosenfeld</b> (CEO)	100%	22,272	135
<b>Matthias Zink</b>	100%	11,136	68
<b>Michael Söding</b>	100%	11,136	68
<b>Dr. Stefan Spindler</b>	100%	11,136	68
<b>Dr. Klaus Patzak <sup>1)</sup></b>	100%	4,640	28
<b>Andreas Schick</b>	100%	11,136	68
<b>Corinna Schittenhelm</b>	100%	11,136	68
<b>Uwe Wagner</b>	100%	11,136	68
<b>Total</b>		<b>93,728</b>	<b>569</b>

<sup>1)</sup> Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020. The smoothing component granted to him was prorated to 5/12.

## Share Ownership Guidelines

To increase orientation toward the capital markets and to more extensively align the interests of the Board of Managing Directors and the shareholders of Schaeffler AG, Managing Directors are obligated to acquire common non-voting shares in the company and to hold them throughout the period of their service. Introducing these share ownership guidelines is also aligned with the wide-spread practice of implementing shareholder requirements for managing directors among international peers.

The amount of shares Managing Directors are obligated to hold is based on their annual fixed remuneration and will be built up over the period to December 31, 2023 (or, for new Managing Directors, over the first four-year performance period of the LTB); common non-voting shares of the company already owned by a Managing Director can be used to fulfill the obligation. Ordinary Managing Directors are obligated to hold an amount equivalent to their current annual fixed remuneration at any given time. The corresponding obligation of the CEO is equivalent to twice his current annual fixed remuneration at any given time. Meeting the obligation to hold shares is a prerequisite for payout of the 2020-2023 LTB tranche and of future LTB tranches.

## Malus clause and clawback provision

With a view to the requirements of the GCGC, the company has introduced a malus clause and clawback provision for variable remuneration. Especially in the event of a severe violation of the duty of care in managing the company, the Supervisory Board can decide to reduce, cancel, or reclaim the variable remuneration. Should a violation be discovered or become known, variable components previously paid can be clawed back within five years of payment. As the Supervisory Board is not aware of any matters triggering a malus clause that would impede payment of the variable remuneration for 2020, this clause has not been applied.

## Retirement benefits

### Retirement benefit commitment for 2020 and subsequent years

All current Managing Directors hold retirement benefit commitments. Until 2019, retirement benefits were granted to Managing Directors in the form of defined benefit commitments. These defined benefit commitments were replaced with defined contribution commitments effective January 1, 2020. The defined benefits earned by each Managing Director as at 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 Managing Director each year and invested in a reimbursement insurance policy for the life of the Managing Director. The annual benefit contributions amount to EUR 195,000 for ordinary Managing Directors and EUR 390,000 for the Chief Executive Officer.

The Managing Director is then entitled to retirement or disability benefits in the amount of the balance in the benefit account, floored at no less than the sum of the benefit contributions made as a lump-sum amount. Retirement benefits are paid if the service ends upon attainment of the age of 65. Disability benefits are paid if the service ends due to disability. Beneficiaries are entitled to claim retirement benefits early upon termination of the service starting at age 62. 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).

In the event a Managing Director dies before becoming eligible to receive benefits due to age or disability, the Managing Director's survivors including children eligible for family allowance are entitled to the balance on hand in the benefit account. If the Managing Director passes away while receiving an annuity, the survivor receives a life annuity of 60% of the most recent annuity payments, provided the Managing Director had chosen

the annuity option including cover for surviving dependants. If cover for surviving dependants has been chosen, such cover is subject to a minimum 15-year period of receiving retirement benefits. If both the Managing Director and the survivor who is the beneficiary of the cover for surviving dependants die earlier, any children of the Managing Director that are eligible for family allowance receive a lump-sum payment of 15 times the annual amount of the annuity, less total annuity payments already paid.

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

The following summary sets out the defined benefit obligations for benefits earned under the pension commitment in effect until 2019. Amounts shown under service cost represent the amounts attributable to 2020 under the current system.

## Remuneration report

Service cost for 2020 and defined benefit obligations as at  
December 31, 2020, in accordance with IAS 19

in € thousands	Year	Service cost	Defined benefit obligation
<b>Klaus Rosenfeld (CEO)</b>	2020	390	15,435
<b>Matthias Zink</b>	2020	195	962
<b>Michael Söding</b>	2020	195	645
<b>Dr. Stefan Spindler</b>	2020	195	1,240
<b>Dr. Klaus Patzak <sup>1)</sup></b>	2020	81	0
<b>Andreas Schick</b>	2020	195	562
<b>Corinna Schittenhelm</b>	2020	195	1,242
<b>Uwe Wagner</b>	2020	195	81
Managing Directors who left the company in 2020			
<b>Dietmar Heinrich <sup>2)</sup></b>	2020	-652	0
<b>Total</b>		<b>989</b>	<b>20,166</b>

<sup>1)</sup> Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020.

<sup>2)</sup> Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG as at July 31, 2020.

children were entitled to 10% or 20% of the pension as a half- or full-orphan's pension, respectively.

The pension increased by 1.0% each year beginning at retirement. This also applied to disability, widows', and orphans' pensions.

The following table summarizes 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 age and years of service. As a result of the change in the company's retirement benefits for the Managing Directors with a term of office extending beyond July 31, 2020, the benefits earned by each Managing Director under the pension commitments in effect until 2019 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 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
<b>Klaus Rosenfeld (CEO)</b>	2019	1,244	14,255
<b>M. Zink</b>	2019	324	882
<b>M. Söding</b>	2019	288	602
<b>Dr. S. Spindler</b>	2019	254	1,159
<b>A. Schick</b>	2019	328	514
<b>C. Schittenhelm</b>	2019	322	1,142
<b>U. Wagner <sup>1)</sup></b>	2019	74	75
<b>D. Heinrich</b>	2019	283	652
Managing Directors who left the company in 2019			
<b>Prof. Dr. Peter Gutzmer <sup>2)</sup></b>	2019	0	5,878
<b>Total</b>		<b>3,118</b>	<b>25,160</b>

<sup>1)</sup> Uwe Wagner has been a Managing Director of Schaeffler AG since October 1, 2019. Per the actuary, the DBO additionally includes interest expense on the service cost.

<sup>2)</sup> 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.

## Retirement benefit commitment for years until 2019

Under the system in place until 2019, the pension was calculated as a percentage of pensionable remuneration based on the duration of the individual's service as a Managing Director. This percentage amounts to 2.5% per year of serving on the Board of Managing Directors, and, for one Managing Director, between 1.5% and 3%, gradually increasing over time. Pension commitments were tailored individually for each Managing Director.

Under the previous system, pension payments commenced in the form of retirement benefits if the service ended before or upon attainment of the age of 65 and in the form of disability benefits if service ended due to disability. Beneficiaries were entitled to claim a reduced pension early as a retirement benefit beginning at age 60. Upon the death of the Managing Director, the spouse was entitled to between 50% and 60% of the pension as a surviving dependants' pension. Surviving dependent

## Remuneration report

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

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

In the event the service is terminated for due cause, no severance benefits are paid to the Managing Director.

Following termination of the service, Managing Directors are generally subject to a non-competition clause for a period of two years following termination of their service contract. During this period, Managing Directors are entitled to compensation in the amount of 50% of the average contractual remuneration granted to the Managing Director for the last 12 months before the end of their service. Such contractual remuneration includes both performance-based and non-performance-based remuneration components. For certain Managing Directors, the compensation payment is based on the fixed annual salary and the short-term bonus. Income from other employment or service of the Managing Director is deducted from the compensation payment in accordance with section 74c HGB. Where the service ends on grounds of age, a non-competition clause for a period following termination of the service contract does not apply.

Dietmar Heinrich's position as a Managing Director ended effective July 31, 2020. His compensation payment is based on his fixed annual salary and short-term bonus as described above.

Prof. Dr.-Ing. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG early as at October 1, 2019. His service contract remained in effect until December 31, 2019. In connection with the post-contract non-competition clause, the company has made monthly payments to him starting in January 2020 which are expected to continue until December 2021. This payment amounts to 50% of the average monthly contractual remuneration granted for the last 12 months before the end of Prof. Dr.-Ing. Gutzmer's service.

The cap on remuneration for 2020 amounts to EUR 8,590 thousand for the Chief Executive Officer and EUR 4,345 thousand for each ordinary Managing Director. The amount for Dr. Spindler differs due to existing contractual commitments: The cap on his remuneration for 2020 is EUR 5,020 thousand.

## External activities of Managing Directors

The 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".

## Cap on remuneration

In accordance with the new legal requirements of section 87a AktG, the Supervisory Board caps the total remuneration per year per Managing Director (cap on remuneration) effective January 1, 2020, as part of its amendments to the company's remuneration system for the Board of Managing Directors. The cap on remuneration for the relevant year is calculated based on the maximum amounts of the various components of remuneration (base remuneration for the year, STB, LTB) as well as retirement benefits and other fringe benefits. The cap on remuneration limits the total amount of remuneration that can be granted to a Managing Director for a given year, regardless of whether this remuneration is paid during that year or at a later date.



## Remuneration report

## 4.2 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 to and received by the Managing Directors for 2019 and 2020.

### Benefits granted for 2020

	Klaus Rosenfeld				Matthias Zink				Michael Söding				Dr. Stefan Spindler			
	Chief Executive Officer				CEO Automotive Technologies				CEO Automotive Aftermarket				CEO Industrial			
	since October 24, 2014				since January 1, 2017				since January 1, 2018				since May 1, 2015			
in € thousands	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2020 (Min)	2020 (Max)
Fixed remuneration	1,200	1,200	1,200	1,200	600	600	600	600	600	600	600	600	600	600	600	600
Fringe benefits	32	29	29	29	42	31	31	31	31	30	30	30	28	27	27	27
<b>Total</b>	<b>1,232</b>	<b>1,229</b>	<b>1,229</b>	<b>1,229</b>	<b>642</b>	<b>631</b>	<b>631</b>	<b>631</b>	<b>631</b>	<b>630</b>	<b>630</b>	<b>630</b>	<b>628</b>	<b>627</b>	<b>627</b>	<b>627</b>
One-year variable remuneration	1,200	1,200	0	1,800	600	600	0	900	600	600	0	900	750	750	0	1,125
Multi-year variable remuneration																
• Long-term bonus: PSUP (4 years) – 2019 tranche	734	-	-	-	367	-	-	-	367	-	-	-	452	-	-	-
• Long-term bonus: PSUP (4 years) – 2020 tranche	-	1,339	0	3,900	-	670	0	1,950	-	670	0	1,950	-	824	0	2,400
• One-off smoothing component	-	558	0	1,200	-	279	0	600	-	279	0	600	-	279	0	600
<b>Total</b>	<b>3,166</b>	<b>4,326</b>	<b>1,229</b>	<b>8,129</b>	<b>1,609</b>	<b>2,180</b>	<b>631</b>	<b>4,081</b>	<b>1,598</b>	<b>2,179</b>	<b>630</b>	<b>4,080</b>	<b>1,830</b>	<b>2,480</b>	<b>627</b>	<b>4,752</b>
Pension expense	1,244	390	390	390	324	195	195	195	288	195	195	195	254	195	195	195
<b>Total remuneration</b>	<b>4,411</b>	<b>4,718</b>	<b>1,619</b>	<b>8,519</b>	<b>1,934</b>	<b>2,375</b>	<b>826</b>	<b>4,276</b>	<b>1,886</b>	<b>2,374</b>	<b>825</b>	<b>4,275</b>	<b>2,084</b>	<b>2,675</b>	<b>822</b>	<b>4,974</b>

## Remuneration report

	Dr. Klaus Patzak <sup>1)</sup>				Andreas Schick				Corinna Schittenhelm				Uwe Wagner			
	Chief Financial Officer				Chief Operating Officer				Chief Human Resources Officer				Chief Technology Officer			
	since August 1, 2020				since April 1, 2018				since January 1, 2016				since October 1, 2019			
in € thousands	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2020 (Min)	2020 (Max)
Fixed remuneration	-	250	250	250	600	600	600	600	600	600	600	600	150	600	600	600
Fringe benefits	-	9	9	9	34	29	29	29	27	24	24	24	13	22	22	22
<b>Total</b>	<b>-</b>	<b>259</b>	<b>259</b>	<b>259</b>	<b>634</b>	<b>629</b>	<b>629</b>	<b>629</b>	<b>627</b>	<b>624</b>	<b>624</b>	<b>624</b>	<b>163</b>	<b>622</b>	<b>622</b>	<b>622</b>
One-year variable remuneration	-	250	0	375	600	600	0	900	600	600	0	900	150	600	0	900
Multi-year variable remuneration																
• Long-term bonus: PSUP (4 years) – 2019 tranche	-				367	-	-	-	367	-	-	-	87	-	-	-
• Long-term bonus: PSUP (4 years) – 2020 tranche	-	185	0	813	-	670	0	1,950	-	670	0	1,950	-	670	0	1,950
• One-off smoothing component	-	80	0	250	-	279	0	600	-	279	0	600	-	279	0	600
<b>Total</b>	<b>-</b>	<b>774</b>	<b>260</b>	<b>1,696</b>	<b>1,601</b>	<b>2,178</b>	<b>629</b>	<b>4,079</b>	<b>1,594</b>	<b>2,173</b>	<b>624</b>	<b>4,074</b>	<b>401</b>	<b>2,171</b>	<b>622</b>	<b>4,072</b>
Pension expense	-	81	81	81	328	195	195	195	322	195	195	195	74	195	195	195
<b>Total remuneration</b>	<b>-</b>	<b>885</b>	<b>341</b>	<b>1,777</b>	<b>1,929</b>	<b>2,373</b>	<b>824</b>	<b>4,274</b>	<b>1,916</b>	<b>2,369</b>	<b>819</b>	<b>4,269</b>	<b>475</b>	<b>2,366</b>	<b>817</b>	<b>4,267</b>

<sup>1)</sup> Upon joining the Board of Managing Directors, Dr. Klaus Patzak was granted a sign-on bonus of EUR 775 thousand by INA-Holding Schaeffler GmbH & Co. KG, payable in two equal tranches, to offset financial disadvantages he incurred as a result of joining Schaeffler AG. The first tranche was paid on August 31, 2020. The second tranche is scheduled for payment on March 31, 2021.

## Remuneration report

**Benefits granted for 2020 –  
Managing Directors who left the company in 2020**

Dietmar Heinrich				
Chief Financial Officer				
from August 1, 2017 to July 31, 2020				
in € thousands	2019	2020	2020 (Min)	2020 (Max)
Fixed remuneration	600	350	350	350
Fringe benefits	30	16	16	16
<b>Total</b>	<b>630</b>	<b>366</b>	<b>366</b>	<b>366</b>
One-year variable remuneration	600	350	0	525
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) – 2019 tranche	367	-	-	-
• Long-term bonus: PSUP (4 years) – 2020 tranche		288	0	758
• One-off smoothing component		-	-	-
<b>Total</b>	<b>1,597</b>	<b>1,254</b>	<b>366</b>	<b>2,024</b>
Pension expense	283	-652	-652	-652
<b>Total remuneration</b>	<b>1,880</b>	<b>601</b>	<b>-286</b>	<b>1,372</b>

## Remuneration report

## Benefits received for 2020

	Klaus Rosenfeld		Matthias Zink		Michael Söding		Dr. Stefan Spindler	
	Chief Executive Officer		CEO Automotive Technologies		CEO Automotive Aftermarket		CEO Industrial	
	since October 24, 2014		since January 1, 2017		since January 1, 2018		since May 1, 2015	
in € thousands	2020	2019	2020	2019	2020	2019	2020	2019
Fixed remuneration	1,200	1,200	600	600	600	600	600	600
Fringe benefits	29	32	32	42	30	31	27	28
<b>Total</b>	<b>1,229</b>	<b>1,232</b>	<b>632</b>	<b>642</b>	<b>630</b>	<b>631</b>	<b>627</b>	<b>628</b>
One-year variable remuneration	1,220	1,254	459	534	680	653	695	773
Multi-year variable remuneration								
• Long-term bonus: PSUP (4 years) – 2015 tranche <sup>1)</sup>	0	420	0	0	0	0	0	172
• Long-term bonus: PSUP (4 years) – 2016 tranche <sup>2)</sup>	400	0	0	0	0	0	246	0
• Long-term bonus: PSUP (4 years) – 2017 tranche	0	0	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2018 tranche	0	0	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2019 tranche	0	0	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2020 tranche	0	0	0	0	0	0	0	0
<b>Total</b>	<b>2,849</b>	<b>2,906</b>	<b>1,091</b>	<b>1,176</b>	<b>1,310</b>	<b>1,284</b>	<b>1,568</b>	<b>1,573</b>
Pension expense	390	1,244	195	324	195	288	195	254
<b>Total remuneration</b>	<b>3,239</b>	<b>4,151</b>	<b>1,286</b>	<b>1,501</b>	<b>1,505</b>	<b>1,572</b>	<b>1,763</b>	<b>1,827</b>

<sup>1)</sup> Received in March 2019 for the 2015 tranche, which had a performance period from 2015 to 2018.

<sup>2)</sup> Received in March 2020 for the 2016 tranche, which had a performance period from 2016 to 2019.

## Remuneration report

	Dr. Klaus Patzak		Andreas Schick		Corinna Schittenhelm		Uwe Wagner	
	Chief Financial Officer		Chief Operating Officer		Chief Human Resources Officer		Chief Technology Officer	
	since August 1, 2020		since April 1, 2018		since January 1, 2016		since October 1, 2019	
in € thousands EUR	2020	2019	2020	2019	2020	2019	2020	2019
Fixed remuneration	250	-	600	600	600	600	600	150
Fringe benefits	9	-	29	34	24	27	22	13
<b>Total</b>	<b>259</b>	<b>-</b>	<b>629</b>	<b>634</b>	<b>624</b>	<b>627</b>	<b>622</b>	<b>163</b>
One-year variable remuneration	254	-	610	627	610	627	610	157
Multi-year variable remuneration								
• Long-term bonus: PSUP (4 years) – 2015 tranche <sup>1)</sup>	0	-	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2016 tranche <sup>2)</sup>	0	-	0	0	200	0	0	0
• Long-term bonus: PSUP (4 years) – 2017 tranche	0	-	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2018 tranche	0	-	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2019 tranche	0	-	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2020 tranche	0	-	0	0	0	0	0	0
<b>Total</b>	<b>513</b>	<b>-</b>	<b>1,239</b>	<b>1,261</b>	<b>1,434</b>	<b>1,254</b>	<b>1,232</b>	<b>320</b>
Pension expense	81	-	195	328	195	322	195	74
<b>Total remuneration</b>	<b>594</b>	<b>-</b>	<b>1,434</b>	<b>1,589</b>	<b>1,629</b>	<b>1,576</b>	<b>1,427</b>	<b>394</b>

<sup>1)</sup> Received in March 2019 for the 2015 tranche, which had a performance period from 2015 to 2018.

<sup>2)</sup> Received in March 2020 for the 2016 tranche, which had a performance period from 2016 to 2019.

## Remuneration report

**Benefits received for 2020 –  
Managing Directors who left the company in 2020**

	Dietmar Heinrich Chief Financial Officer	
	from August 1, 2017 to July 31, 2020	
in € thousands	2020	2019
Fixed remuneration	350	600
Fringe benefits	16	30
<b>Total</b>	<b>366</b>	<b>630</b>
One-year variable remuneration	356	627
Multi-year variable remuneration		
• Long-term bonus: PSUP (4 years) – 2015 tranche	-	-
• Long-term bonus: PSUP (4 years) – 2016 tranche <sup>1)</sup>	-	-
• Long-term bonus: PSUP (4 years) – 2017 tranche	-	-
• Long-term bonus: PSUP (4 years) – 2018 tranche	-	-
• Long-term bonus: PSUP (4 years) – 2019 tranche	-	-
• Long-term bonus: PSUP (4 years) – 2020 tranche	-	-
• One-off smoothing component 2020	-	-
<b>Total</b>	<b>722</b>	<b>1,257</b>
Pension expense	-652	283
<b>Total remuneration</b>	<b>69</b>	<b>1,540</b>

<sup>1)</sup> Additionally, further former Managing Directors received payments under the 2016 PSUP tranche in 2020. These payments amounted to EUR 293 thousand for Prof. Dr. Peter Gutzmer, EUR 246 thousand for Dr. Ulrich Hauck, EUR 293 thousand for Norbert Indlekofer, EUR 293 thousand for Oliver Jung, and EUR 293 thousand for Prof. Dr. Peter Pleus.

## Remuneration report

Total remuneration for 2020 and 2019 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 2020 by individual**

in € thousands	Remuneration components			
	fixed	variable, short-term	variable, long-term <sup>1)</sup>	total remunera- tion
<b>Klaus Rosenfeld (CEO)</b>	1,229	1,220	1,897	4,346
<b>Matthias Zink</b>	631	459	949	2,040
<b>Michael Söding</b>	630	680	949	2,259
<b>Dr. Stefan Spindler</b>	627	695	1,103	2,425
<b>Dr. Klaus Patzak <sup>2)</sup></b>	259	254	265	778
<b>Andreas Schick</b>	629	610	949	2,188
<b>Corinna Schittenhelm</b>	624	610	949	2,183
<b>Uwe Wagner</b>	622	610	949	2,181
Managing Directors who left the company in 2020				
<b>Dietmar Heinrich <sup>3)</sup></b>	366	356	288	1,009
<b>Total</b>	<b>5,617</b>	<b>5,493</b>	<b>8,297</b>	<b>19,407</b>

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

<sup>2)</sup> Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020. Upon joining the Board of Managing Directors, Dr. Klaus Patzak was granted a sign-on bonus of EUR 775 thousand by INA-Holding Schaeffler GmbH & Co. KG, payable in two equal tranches, to offset financial disadvantages he incurred as a result of joining Schaeffler AG. The first tranche was paid on August 31, 2020. The second tranche is scheduled for payment on March 31, 2021.

<sup>3)</sup> Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG as at July 31, 2020.

**Total remuneration (HGB)  
for 2019 by individual**

in € thousands	Remuneration components			
	fixed	variable, short-term	variable, long-term <sup>1)</sup>	total remunera- tion
<b>Klaus Rosenfeld (CEO)</b>	1,232	1,254	734	3,220
<b>Matthias Zink</b>	642	534	367	1,543
<b>Michael Söding</b>	631	653	367	1,651
<b>Dr. Stefan Spindler</b>	628	773	452	1,853
<b>Andreas Schick</b>	634	627	367	1,628
<b>Corinna Schittenhelm</b>	627	627	367	1,621
<b>Uwe Wagner <sup>2)</sup></b>	163	157	87	407
<b>Dietmar Heinrich</b>	630	627	367	1,624
Managing Directors who left the company in 2019				
<b>Prof. Dr. Peter Gutzmer <sup>3)</sup></b>	471	784	536	1,792
<b>Total</b>	<b>5,660</b>	<b>6,035</b>	<b>3,645</b>	<b>15,340</b>

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

<sup>2)</sup> Uwe Wagner has been a Managing Director of Schaeffler AG since October 1, 2019.

<sup>3)</sup> Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His service contract remained in effect until December 31, 2019.

The total expenses and income resulting from the PSUP for 2020 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 2020**

in € thousands	Expenses and income (IFRS)
<b>Klaus Rosenfeld (CEO)</b>	511
<b>Matthias Zink</b>	255
<b>Michael Söding</b>	323
<b>Dr. Stefan Spindler</b>	285
<b>Dr. Klaus Patzak <sup>1)</sup></b>	65
<b>Andreas Schick</b>	287
<b>Corinna Schittenhelm</b>	255
<b>Uwe Wagner</b>	260
Managing Directors who left the company in 2020	
<b>Dietmar Heinrich <sup>2)</sup></b>	13
<b>Total</b>	<b>2,254</b>

<sup>1)</sup> Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020.

<sup>2)</sup> Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG as at July 31, 2020.



## Remuneration report

The total expenses 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 Tsd. EUR	Expenses and income (IFRS)
<b>Klaus Rosenfeld (CEO)</b>	723
<b>Matthias Zink</b>	255
<b>Michael Söding</b>	165
<b>Dr. Stefan Spindler</b>	434
<b>Andreas Schick</b>	148
<b>Corinna Schittenhelm</b>	336
<b>Uwe Wagner <sup>1)</sup></b>	7
<b>Dietmar Heinrich</b>	196
Managing Directors who left the company in 2019	
<b>Prof. Dr. Peter Gutzmer <sup>2)</sup></b>	1,091
<b>Total</b>	<b>3,355</b>

<sup>1)</sup> Uwe Wagner has been a Managing Director of Schaeffler AG since October 1, 2019.

<sup>2)</sup> Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His service contract remained in effect until December 31, 2019.

## 4.3 Remuneration of the Supervisory Board

The description of the remuneration of the Supervisory Board includes the disclosures required by German commercial law and is consistent with the recommendations of the GCGC. The remuneration of the Supervisory Board was set by a resolution passed by the general meeting on December 1, 2014.

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

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

Where a member of the Supervisory Board chairs several committees or chairs both the Supervisory Board and one or more committees, no remuneration is paid for the additional chairmanship. Where the term of office of a member of the Supervisory Board or the position entitling the Supervisory Board member to increased remuneration begins or ends during the year, the remuneration or increased remuneration paid to the Supervisory Board member is prorated.

In addition, each member of the Supervisory Board receives an attendance fee of EUR 1,500 for each meeting of the Supervisory Board or its committees he or she attends in person. No attendance fees are paid where meetings of the Supervisory Board or its committees are attended via telephone.

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

The company has obtained directors' and officers' liability insurance (D&O insurance) for all members of the Supervisory Board that includes a deductible provision.

No advances or loans were granted to members of the Supervisory Board in 2020 or 2019. The following tables summarize the amount of remuneration of each member of the Supervisory Board.

Members of the Supervisory Board have not received any remuneration for personal services, especially consulting and agency services, in 2020 or 2019.

## Remuneration report

Supervisory Board remuneration for 2020 <sup>1)</sup>

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees <sup>2)</sup>	Total remuneration
Bendiek, Sabine	50		6	56
Bullinger, Prof. Dr. Hans-Jörg	50		8	58
Engelmann, Dr. Holger	50	20	5	75
Gottschalk, Prof. Dr. Bernd	50		5	55
Grimm, Andrea <sup>3)</sup>	50	13	6	69
Höhn, Thomas <sup>3)</sup> (since May 8, 2020)	33	13	5	50
Lau, Susanne <sup>3)</sup>	50		5	55
Lenhard, Norbert <sup>3)</sup> (until May 8, 2020)	18	7	3	28
Mittag, Dr. Reinold <sup>3)</sup> (until May 8, 2020)	18	7	5	29
Resch, Barbara <sup>3)</sup>	50	20	11	81
Rost, Jutta (since May 8, 2020)	33		5	37
Schaeffler, Georg F. W.	100	40	17	157
Schaeffler-Thumann, Maria-Elisabeth	75	20	0	95
Schenk, Jürgen <sup>3)</sup> (since May 8, 2020)	33		6	39
Schönhoff, Helga (since May 8, 2020)	33		5	37
Soussan, Sabrina	50		5	55
Spindler, Dirk (until May 8, 2020)	18		2	19
Stalker, Robin	50	40	9	99
Stolz, Jürgen <sup>3)</sup> (until May 8, 2020)	18		2	19
Vicari, Salvatore <sup>3)</sup>	50	20	14	84
Wechsler, Jürgen <sup>3)</sup>	75	33	14	122
Wolf, Prof. TU Graz e.H. KR Ing. Siegfried	50	20	3	73
Worrich, Jürgen <sup>3)</sup> (until May 8, 2020)	18	7	5	29
Zhang, Prof. Dr.-Ing. Tong	50		0	50
Zirkel, Markus <sup>3)</sup> (since May 8, 2020)	33		6	39
<b>Total</b>	<b>1.101</b>	<b>260</b>	<b>144</b>	<b>1,505</b>

<sup>1)</sup> 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".

<sup>2)</sup> No attendance fees are paid where meetings of the Supervisory Board or its committees are attended via telephone.

<sup>3)</sup> 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.

## Remuneration report

Supervisory Board remuneration for 2019 <sup>1)</sup>

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees <sup>2)</sup>	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 <sup>3)</sup>	50		6	56
Lau, Susanne <sup>3)</sup>	50		6	56
Lenhard, Norbert <sup>3)</sup>	50	20	18	88
Luther, Dr. Siegfried (until April 24, 2019)	16	6	3	25
Mittag, Dr. Reinold <sup>3)</sup>	50	20	15	85
Resch, Barbara <sup>3)</sup>	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 <sup>3)</sup>	50		9	59
Vicari, Salvatore <sup>3)</sup>	50	20	18	88
Wechsler, Jürgen <sup>3)</sup>	75	20	17	112
Wiesheu, Dr. Otto (until April 24, 2019)	16		2	17
Wolf, Prof. TU Graz e.H. KR Ing. Siegfried	50	20	11	81
Worrich, Jürgen <sup>3)</sup>	50	20	18	88
Zhang, Prof. Dr.-Ing. Tong	50		12	62
<b>Total</b>	<b>1,100</b>	<b>260</b>	<b>236</b>	<b>1,596</b>

<sup>1)</sup> 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".

<sup>2)</sup> No attendance fees are paid where meetings of the Supervisory Board or its committees are attended via telephone.

<sup>3)</sup> 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.

## 5. Governing bodies of the company

### 5.1 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 2025.

#### 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, technology, and audit committees

#### Sabine Bendiek

Chief People Officer and Labor Relations Director SAP SE

**Appointed:** April 24, 2019

#### Prof. Dr. Hans-Jörg Bullinger

CEO of Fraunhofer Foundation

**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; Chairman of the Supervisory Board of TÜV SÜD AG, Munich, (until July 30, 2020)

#### 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

\*Employee representative on the Supervisory Board.

## Governing bodies of the company

**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; member of the Supervisory Board of Haldex AB, Stockholm, Sweden (until June 30, 2020); member of the Supervisory Board of Benteler International AG, Salzburg, Austria (since November 1, 2020)**Andrea Grimm\***

Deputy Chairperson of the Works Council Schaeffler Technologies AG &amp; Co. KG

**Appointed:** December 1, 2014**Committee memberships:** member of the audit committee (since May 8, 2020)**Thomas Höhn (since May 8, 2020)\***

Trade Union Secretary IG Metall

**Appointed:** May 8, 2020**Committee memberships:** member of the audit committee (since May 8, 2020)**Susanne Lau\***Industrial management assistant  
Chairperson of the Works Council Hamburg  
Chairperson of the Group Works Council of Schaeffler AG  
Chairperson of the General Works Council of Schaeffler Automotive Aftermarket GmbH & Co. KG**Appointed:** August 8, 2018**Barbara Resch\***

Wage secretary

**Appointed:** November 19, 2015**Committee memberships:** member of the executive committee**Seats on supervisory and similar boards:** member of the Supervisory Board of Rheinmetall AG, Duesseldorf (since July 1, 2020); member of the Supervisory Board of ElringKlinger AG, Dettingen (since May 20, 2020)**Jutta Rost (since May 8, 2020)\***

Senior Vice President HR Functions Schaeffler AG

**Appointed:** May 8, 2020**Jürgen Schenk (since May 8, 2020)\***Chairman of the General Works Council Schweinfurt  
Deputy Chairman of the General Works Council of Schaeffler Technologies AG & Co. KG**Appointed:** May 8, 2020**Committee memberships:** member of the technology committee**Seats on supervisory and similar boards:** member of the Supervisory Board of ACE Auto Club Europa e.V., Stuttgart**Helga Schönhoff (since May 8, 2020)\***

Deputy Chairperson of the Works Council Schaeffler Automotive Bühl GmbH &amp; Co. KG

**Appointed:** May 8, 2020**Sabrina Soussan**

Consultant 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.**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; member of the Supervisory Board of Hugo Boss AG, Metzingen (since May 8, 2020)**Salvatore Vicari\***

Chairman of the Works Council Homburg/Saar

**Appointed:** November 19, 2015**Committee memberships:** member of the mediation, executive, 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 (until April 21, 2020); 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; member of the Supervisory Board of OJSC GAZ Group, Nizhny Novgorod, Russia (since June 19, 2020)**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

\*Employee representative on the Supervisory Board.

## Governing bodies of the company

**Markus Zirkel (since May 8, 2020)\***

Chairman of the Works Council Hirschaid

**Appointed:** May 8, 2020**Committee memberships:** member of the technology committee**Seats on supervisory and similar boards:** member of the Supervisory Board of VR-Bank Bamberg Forchheim eG, BambergThe following members left the  
Supervisory Board in 2020**Norbert Lenhard (until May 8, 2020)\***

Chairman of the Group Works Council of Schaeffler AG

**Appointed:** November 19, 2015**Dr. Reinold Mittag (until May 8, 2020)\***

Trade Union Secretary of IG Metall

**Appointed:** November 19, 2015**Dirk Spindler (until May 8, 2020)\***

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

**Appointed:** November 19, 2015**Jürgen Stolz (until May 8, 2020)\***Member of the Works Council Buehl  
Member of the European Works Council of the Schaeffler Group**Appointed:** November 19, 2015**Jürgen Worrich (until May 8, 2020)\***Chairman of the European Works Council of the Schaeffler Group (until July 20, 2020)  
Member of the Works Council Herzogenaurach (until December 1, 2020)**Appointed:** November 19, 2015

\*Employee representative on the Supervisory Board.

**5.2 Supervisory Board committees****Mediation committee**Georg F. W. Schaeffler (Chairman),  
Maria-Elisabeth Schaeffler-Thumann, Salvatore Vicari,  
and Jürgen Wechsler**Executive committee**Georg F. W. Schaeffler (Chairman),  
Barbara Resch, Maria-Elisabeth Schaeffler-Thumann,  
Salvatore Vicari, Jürgen Wechsler, and  
Prof. TU Graz e.h. KR Ing. Siegfried Wolf**Audit committee**Robin Stalker (Chairman),  
Dr. Holger Engelmann, Andrea Grimm, Thomas Höhn,  
Georg F. W. Schaeffler, and Jürgen Wechsler**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),  
Georg F. W. Schaeffler, Jürgen Schenk, Salvatore Vicari,  
Jürgen Wechsler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf,  
Prof. Dr.-Ing. Tong Zhang, and Markus Zirkel**5.3 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 Technologies, 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 & Public Relations; Branding & Corporate Marketing; 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; member of the board of directors of Siemens Gamesa Renewable Energy S.A., Zamudio, Spain; Supervisor of Schaeffler Holding (China) Co. Ltd., Shanghai, China; member of the board of directors of Schaeffler India Ltd., Mumbai, India; chairman of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (until July 31, 2020)

## Governing bodies of the company

**Dr. Klaus Patzak (since August 1, 2020)**

Chief Financial Officer

**Responsible for:** Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax and Customs; Corporate Reporting; Corporate Insurance; Divisional Controlling Automotive Technologies; Divisional Controlling AAM; Divisional Controlling Industrial; Shared Services; IT & Digitalization

**Appointed:** August 1, 2020**Term of office ends:** July 31, 2023

**Seats on supervisory and similar boards:** member of the Supervisory Board of Bayerische Börse AG, Munich; member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (since August 1, 2020)

**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, 2026

**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; HR 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 shareholders' committee of TÜV SÜD AG, Munich; member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach

**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; Human Resources AAM

**Appointed:** January 1, 2018**Term of office ends:** December 31, 2023

**Seats on supervisory and similar boards:** member of the shareholder committee of Caruso GmbH, Mannheim; member of the shareholder committee of TecAlliance GmbH, Ismaning

**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; HR Industrial

**Appointed:** May 1, 2015**Term of office ends:** April 30, 2023**Uwe Wagner**

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 Ingenieurgesellschaft Auto und Verkehr, Berlin; member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach; chairman of the advisory board of Xtronic GmbH, Boeblingen; member of the advisory board of Compact Dynamics GmbH, Starnberg

**Matthias Zink**

CEO Automotive Technologies

**Responsible for:** Business Development & Strategy Automotive Technologies; Global Key Account Management Automotive Technologies; BD Engine Systems; BD Transmission Systems; BD E-Mobility; BD Chassis Systems; R&D Automotive Technologies; Operations & Supply Chain Management Automotive Technologies; Quality Automotive Technologies; Purchasing & Supplier Management Automotive Technologies; Human Resources Automotive Technologies

**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; chairman of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (since June 22, 2020); member of the Supervisory Board of Schaeffler Savaria Kft., Szombathely, Hungary; Supervisor of Schaeffler (China) Co. Ltd., Shanghai, China; member of the advisory board of Xtronic GmbH, Boeblingen (since June 22, 2020)



## The following member left the Board of Managing Directors in 2020

### Dietmar Heinrich (until July 31, 2020)

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 Supervisory Board of HOMAG Group AG, Schopfloch (since April 21, 2020); chairman of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (until July 31, 2020); member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (until July 31, 2020)

# Consolidated financial statements

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## Consolidated income statement

## 1. Consolidated income statement

in € millions	Note	2020	2019	Change in %
Revenue	3.1	12,600	14,427	-12.7
Cost of sales		-9,691	-10,853	-10.7
<b>Gross profit</b>		<b>2,909</b>	<b>3,574</b>	<b>-18.6</b>
Research and development expenses		-758	-849	-10.8
Selling expenses		-864	-976	-11.5
Administrative expenses		-478	-557	-14.3
Other income	3.3	102	80	27.5
Other expenses	3.4	-1,055	-482	ᵝ 100
<b>Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)</b>		<b>-143</b>	<b>790</b>	<b>-</b>
Financial income	3.6	19	57	-66.9
Financial expenses	3.6	-204	-194	5.2
<b>Financial result</b>	<b>3.6</b>	<b>-185</b>	<b>-137</b>	<b>35.3</b>
Income (loss) from equity-accounted investees		-33	-17	ᵝ 100
<b>Earnings before income taxes</b>		<b>-362</b>	<b>636</b>	<b>-</b>
Income taxes	3.7	-53	-196	-73.1
<b>Net income (loss)</b>		<b>-415</b>	<b>440</b>	<b>-</b>
Attributable to shareholders of the parent company		-424	428	-
Attributable to non-controlling interests		9	12	-19.2
Earnings per common share (basic/diluted, in €)	3.8	-0.64	0.64	-
Earnings per common non-voting share (basic/diluted, in €)	3.8	-0.63	0.65	-

## Consolidated statement of comprehensive income

## 2. Consolidated statement of comprehensive income

in € millions	Note	2020	2019
<b>Net income (loss)</b>		<b>-415</b>	<b>440</b>
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurement of net defined benefit liability	4.13	-141	-419
Changes in scope of consolidation - defined benefit pension and other benefit plans		0	2
Net change in fair value of financial assets at fair value through other comprehensive income	4.16	0	-2
Tax effect	4.5	40	121
<b>Total other comprehensive income (loss) that will not be reclassified to profit or loss</b>		<b>-101</b>	<b>-298</b>
<b>Items that have been or may be reclassified subsequently to profit or loss</b>			
Foreign currency translation differences for foreign operations		-308	65
Net change from hedges of net investments in foreign operations	4.16	0	-1
Effective portion of changes in fair value of cash flow hedges	4.16	60	22
Tax effect	4.5	-17	-6
<b>Total other comprehensive income (loss) that have been or may be subsequently reclassified to profit or loss</b>		<b>-265</b>	<b>80</b>
<b>Total other comprehensive income (loss)</b>		<b>-366</b>	<b>-218</b>
<b>Total comprehensive income (loss)</b>		<b>-781</b>	<b>222</b>
Total comprehensive income (loss) attributable to shareholders of the parent company		-780	212
Total comprehensive income (loss) attributable to non-controlling interests		-1	11

## Consolidated statement of financial position

## 3. Consolidated statement of financial position

in € millions	Note	12/31/2020	12/31/2019	Change in %
<b>ASSETS</b>				
Intangible assets	4.1	470	728	-35.4
Right-of-use assets under leases	4.2	183	193	-5.5
Property, plant and equipment	4.3	4,865	5,355	-9.1
Investments in joint ventures and associated companies	4.4	110	144	-23.5
Contract assets	3.1	0	6	-96.3
Other financial assets	4.8	77	126	-38.7
Other assets	4.8	121	122	-1.4
Income tax receivables	4.5	1	0	> 100
Deferred tax assets	4.5	958	713	34.3
<b>Total non-current assets</b>		<b>6,785</b>	<b>7,387</b>	<b>-8.2</b>
Inventories	4.6	1,904	2,132	-10.7
Contract assets	3.1	57	66	-13.2
Trade receivables	4.7	2,160	2,130	1.4
Other financial assets	4.8	182	120	52.2
Other assets	4.8	290	273	6.1
Income tax receivables	4.5	61	89	-30.9
Cash and cash equivalents	4.9	1,758	668	> 100
Assets held for sale	4.10	8	5	83.4
<b>Total current assets</b>		<b>6,422</b>	<b>5,483</b>	<b>17.1</b>
<b>Total assets</b>		<b>13,207</b>	<b>12,870</b>	<b>2.6</b>

in € millions	Note	12/31/2020	12/31/2019	Change in %
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
Share capital		666	666	0.0
Capital reserves		2,348	2,348	0.0
Other reserves		210	931	-77.5
Accumulated other comprehensive income (loss)		-1,479	-1,124	31.6
<b>Equity attributable to shareholders of the parent company</b>		<b>1,745</b>	<b>2,822</b>	<b>-38.2</b>
Non-controlling interests		93	95	-1.6
<b>Total shareholders' equity</b>	<b>4.11</b>	<b>1,838</b>	<b>2,917</b>	<b>-37.0</b>
Provisions for pensions and similar obligations	4.13	2,800	2,637	6.2
Provisions	4.14	510	168	> 100
Financial debt	4.12	4,028	3,026	33.1
Contract liabilities	3.1	14	7	> 100
Income tax payables	4.5	10	103	-90.3
Other financial liabilities	4.15	18	36	-49.9
Lease liabilities	4.2	135	144	-6.6
Other liabilities	4.15	18	15	20.8
Deferred tax liabilities	4.5	155	137	13.6
<b>Total non-current liabilities</b>		<b>7,688</b>	<b>6,273</b>	<b>22.6</b>
Provisions	4.14	616	462	33.4
Financial debt	4.12	43	168	-74.4
Contract liabilities	3.1	75	60	24.0
Trade payables	4.16	1,704	1,732	-1.6
Income tax payables	4.5	124	101	22.1
Other financial liabilities	4.15	593	545	8.8
Lease liabilities	4.2	50	50	0.4
Refund liabilities	4.16	224	232	-3.7
Other liabilities	4.15	252	329	-23.5
<b>Total current liabilities</b>		<b>3,680</b>	<b>3,680</b>	<b>0.0</b>
<b>Total shareholders' equity and liabilities</b>		<b>13,207</b>	<b>12,870</b>	<b>2.6</b>

## Consolidated statement of cash flows

## 4. Consolidated statement of cash flows

in € millions	Note	2020	2019	Change in %
<b>Operating activities</b>				
EBIT		-143	790	-
Interest paid		-121	-95	26.6
Interest received		12	17	-25.7
Income taxes paid		-316	-222	42.6
Amortization, depreciation, and impairment losses		1,260	980	28.6
(Gains) losses on disposal of assets		6	-8	-
Changes in:				
• Inventories		144	77	86.7
• Trade receivables	5.2	-165	-156	5.9
• Trade payables		13	-145	-
• Provisions for pensions and similar obligations		1	5	-87.2
• Other assets, liabilities, and provisions		564	337	67.5
<b>Cash flows from operating activities</b>		<b>1,254</b>	<b>1,578</b>	<b>-20.5</b>
<b>Investing activities</b>				
Proceeds from disposals of property, plant and equipment		17	25	-31.1
Capital expenditures on intangible assets		-24	-22	6.6
Capital expenditures on property, plant and equipment		-609	-1,023	-40.5
Acquisition of subsidiaries and interests in joint ventures	5.1	15	-105	-
Disposal of subsidiaries and interests in joint ventures	5.1	-3	4	-
Other investing activities	5.5	-40	-26	55.5
<b>Cash used in investing activities</b>		<b>-642</b>	<b>-1,147</b>	<b>-44.0</b>
<b>Financing activities</b>				
Dividends paid to shareholders and non-controlling interests		-298	-364	-18.2
Receipts from bond issuances and loans	5.1	2,100	2,424	-13.3
Redemptions of bonds and repayments of loans	5.1	-1,216	-2,572	-52.7
Principal repayments on lease liabilities		-60	-60	0.1
<b>Cash provided by (used in) financing activities</b>		<b>526</b>	<b>-572</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,138</b>	<b>-140</b>	<b>-</b>
Effects of foreign exchange rate changes on cash and cash equivalents		-50	8	-
Change in cash and cash equivalents due to changes in the scope of consolidation	2.2	1	0	-
Cash and cash equivalents as at beginning of period		668	801	-16.6
<b>Cash and cash equivalents as at December 31</b>	<b>4.9</b>	<b>1,758</b>	<b>668</b>	<b>&gt; 100</b>

## Consolidated statement of changes in equity

## 5. Consolidated statement of changes in equity

	Note	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss)					Equity attributable to shareholders <sup>1)</sup>	Non-controlling interests	Total
					Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasurement reserve	Total			
in € millions												
Balance as at January 01, 2019		666	2,348	866	-285	-27	0	-595	-907	2,973	87	3,060
Net income				428					0	428	12	440
Other comprehensive income (loss)	4.5				65	16	-2	-296	-217	-217	-1	-218
Total comprehensive income (loss)		0	0	428	65	16	-2	-296	-217	212	11	222
Dividends	4.11			-361					0	-361	-3	-364
Total amount of transactions with shareholders				-361					0	-361	-3	-364
Changes in the scope of consolidation				-2					0	-2		-2
Balance as at December 31, 2019		666	2,348	931	-220	-12	-2	-890	-1,124	2,822	95	2,917
Balance as at January 01, 2020		666	2,348	931	-220	-12	-2	-890	-1,124	2,822	95	2,917
Net loss				-424					0	-424	9	-415
Other comprehensive income (loss)	4.5				-297	43	0	-101	-355	-355	-10	-366
Total comprehensive income (loss)		0	0	-424	-297	43	0	-101	-355	-780	-1	-781
Dividends	4.11			-295					0	-295	-3	-298
Total amount of transactions with shareholders				-295					0	-295	-3	-298
Changes in the scope of consolidation	2.2			0					0	0	3	3
Other changes				-3					0	-3	0	-3
Balance as at December 31, 2020		666	2,348	210	-517	31	-2	-991	-1,479	1,745	93	1,838

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

See Note 4.11 to the consolidated financial statements for further details



## 6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

	2020	2019	2020	2019	2020	2019	2020	2019
in € millions	Automotive Technologies		Automotive Aftermarket		Industrial		Total	
Revenue	7,821	9,044	1,641	1,848	3,138	3,535	12,600	14,427
EBIT	-330	286	229	290	-43	214	-143	790
• in % of revenue	-4.2	3.2	14.0	15.7	-1.4	6.0	-1.1	5.5
EBIT before special items <sup>1)</sup>	278	496	259	305	266	361	803	1,161
• in % of revenue	3.6	5.5	15.8	16.5	8.5	10.2	6.4	8.1
Amortization, depreciation, and impairment losses <sup>2)</sup>	-1,037	-766	-38	-34	-185	-180	-1,260	-980
Working capital <sup>3) 4)</sup>	1,218	1,263	326	345	816	922	2,361	2,530
Additions to intangible assets and property, plant and equipment	370	672	22	67	246	193	639	933

Prior year information presented based on 2020 segment structure.

<sup>1)</sup> EBIT before special items for legal cases, restructuring, and other. See Note 5.5 "Segment information" to the consolidated financial statements for further details.

<sup>2)</sup> The 2020 reporting period includes a goodwill impairment of EUR 249 m (prior year: EUR 0 m) in the Automotive Technologies segment. An additional EUR 41 m (prior year: EUR 23 m) in impairments on property, plant and equipment were recognized, comprising EUR 21 m (prior year: EUR 8 m) related to the Automotive Technologies division and EUR 20 m (prior year: EUR 15 m) related to the Industrial division.

<sup>3)</sup> Working capital defined as inventories plus trade receivables less trade payables.

<sup>4)</sup> Amounts as at December 31.



See Note 5.4 to the consolidated financial statements for further details

# Notes to the consolidated financial statements

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# 1. General information

## 1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed stock corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. The company was founded on April 19, 1982, and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated financial statements of Schaeffler AG as at December 31, 2020, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as the “Schaeffler Group”).

The Schaeffler Group is a global automotive and industrial supplier. Employing a workforce of approximately 83,300, 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 global business with spare parts provides repair solutions in original-equipment quality for the automotive spare parts market. The company earns revenue primarily from the sale of goods – in volume production for major customers as well as through its catalog business – and from services. Production of these goods is frequently based on development

services, followed in some cases by the manufacture of tools required to produce the goods. Development services and manufacturing tools generate revenue as well.

Schaeffler AG, Herzogenaurach, is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, which are filed with the operator of the Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Federal Gazette.

## 1.2 Basis of preparation

In accordance with section 315e (1) HGB, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2020, have been compiled in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU) by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards as well as with the additional requirements of German commercial law. The term IFRS includes all International Financial Reporting Standards and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the IFRS Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). Comparative figures for the prior year were also determined based on these standards.

## General presentation

These consolidated financial statements are presented in euros (EUR), the functional and presentation currency of the Schaeffler Group’s parent company. Unless stated otherwise, all amounts are in millions of euros (EUR m). The consolidated statement of financial position is classified using the current/non-current distinction.

The financial statements of all entities included in these consolidated financial statements have been prepared as of the same date as these consolidated financial statements.

As amounts (in EUR m) and percentages have been rounded, rounding differences may occur.

## Estimation uncertainty and management judgment

In compiling financial statements, management exercises judgment in making appropriate estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and the basis on which assumptions are made are reviewed regularly. Changes in estimates are recognized in the

General information  
Basis of preparation

period in which the changes are made as well as in all subsequent periods affected by the changes.

The following significant issues are subject to estimation uncertainty with respect to the application of accounting policies and management judgment:

- determination of the useful life of property, plant and equipment
- assessment of the lease term of leases with extension or termination options
- identification of cash-generating units and determination of recoverable amounts for purposes of impairment tests of goodwill and non-current assets
- evaluation of control over structured entities, associated companies, and joint ventures
- determination of valuation allowances on inventories
- assessment of the recoverability of deferred tax assets
- determination of expected credit losses on financial assets
- accounting for post-employment employee benefits, especially selecting actuarial assumptions
- recognition and measurement of provisions
- assessment of risks related to uncertain tax positions
- share-based payment
- estimating past service cost arising from amendments to and curtailments of pension obligations
- determination of the fair value of financial instruments and
- identification of performance obligations under development contracts and of alternative uses for customer-specific products

Changes in assumptions made in the past and the resolution of previously existing uncertainties did not have a significant impact in 2020, except for the following items:

The interest rate used to discount the estimated future cash flows represents a significant estimate in the calculation of the present value of defined benefit pension obligations. The applicable financial reporting standards require companies to determine this discount rate by reference to market yields on high-quality fixed-interest corporate bonds. For the euro region, the selection of the underlying corporate bonds previously used to determine the discount rate was modified as at December 31, 2020. The modification resulted in the exclusion of mortgage-backed corporate bonds, whose risk-return profile is closer to that of government bonds. The discount rate derived on this basis is 0.7% as at December 31, 2020. Without the modification, the discount rate would amount to 0.4%. The change reduced the defined benefit pension obligation in the euro region by EUR 211 m as at December 31, 2020, and increased accumulated other comprehensive income by the same amount. The average discount rate of the Schaeffler Group as a whole decreased from 1.3% in 2019 to 0.9% as at December 31, 2020, resulting in an increase in the Schaeffler Group's total defined benefit pension obligation and a corresponding decrease in accumulated other comprehensive income by EUR 242 m. Additionally, future salary increases for Germany were adjusted from 3.25% to 2.75% as at December 31, 2020, due to the current environment and the forecast of the future development of the company and the industry. This adjustment has reduced the defined benefit pension obligation in Germany by EUR 28 m and has been accounted for as a change in estimate by recognition as other comprehensive income in accumulated other comprehensive income.

The carrying amounts of personnel-related restructuring provisions and warranty provisions (see Note 4.14) were updated to reflect current information.

The evaluation of the recoverability of deferred tax assets is partly based on an entity's past earnings as well as its expected future earnings for tax purposes as derived from the company's plans and budgets. Accounting for deferred tax assets requires management to make estimates and judgments regarding the amount of taxable profits that will be available in the future. The recoverability of deferred taxes was reassessed based on current company data, plans, and budgets.

The recoverability of goodwill (see Note 4.1) and the convertible loan receivable (see Note 5.6) was reassessed based on current market data as well as current plans and budgets.

In addition, the company has reassessed whether it controls the Unna and Kaltennordheim locations (see Note 2.2).

## General information

Summary of significant accounting policies

### 1.3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently by all Schaeffler Group entities for all periods presented in these consolidated financial statements.

#### Consolidation principles

All significant domestic and foreign subsidiaries of the Schaeffler Group that are directly or indirectly controlled by Schaeffler AG have been consolidated in the company's consolidated financial statements. Subsidiaries are consolidated in the consolidated financial statements from the date the Schaeffler Group obtains control until the date control ceases.

Subsidiaries are consolidated using the acquisition method as at the acquisition date. Non-controlling interests are measured at the non-controlling interests' proportionate share of the fair value of assets acquired and liabilities assumed (partial goodwill method). Balances and transactions with consolidated subsidiaries and any related income and expenses are eliminated in full in compiling the consolidated financial statements. Intercompany profits or losses on intra-group transactions are also eliminated in full. Deferred taxes on temporary differences related to the elimination of such balances and transactions are measured at the tax rate of the acquiring entity.

Investments in joint ventures are jointly controlled by their shareholders. Joint control exists only if decisions about the relevant activities require the unanimous consent of the parties. Parties having joint control hold rights to the net assets of the joint venture. Investments in joint ventures are accounted for using the equity method.

Investments in associated companies are also accounted for under the equity method if the Schaeffler Group has significant influence over the investee.

Carrying amounts of investments in equity-accounted investees are adjusted to reflect changes in the Schaeffler Group's interest in the equity of the investee. Goodwill capitalized in connection with the initial application of the equity method to the company's interest in the investee is not amortized. The carrying amount of the investment is tested for impairment when there is an indication of impairment ("triggering event").

#### Foreign currency translation

The exchange rates between the group's most significant currencies and the euro are as follows:

##### Selected foreign exchange rates

Currencies		12/31/2020	12/31/2019	2020	2019
1 € in		Closing rates		Average rates	
CNY	China	8.02	7.82	7.87	7.73
INR	India	89.66	80.19	84.58	78.85
KRW	South Korea	1,336.00	1,296.28	1,345.10	1,304.75
MXN	Mexico	24.42	21.22	24.52	21.56
USD	U.S.	1.23	1.12	1.14	1.12

#### Foreign currency transactions

Transactions denominated in a currency other than the entity's functional currency are translated at the exchange rate applicable on the date they are first recognized. Since receivables and payables denominated in foreign currencies are monetary items, they are translated into the functional currency of the applicable group company at the exchange rate as at the end of the reporting period and when they are realized. Non-monetary items are translated at historical rates.

Exchange gains and losses on operating receivables and payables and on derivatives used to hedge the related currency risk are presented within earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives obtained to hedge the related currency risk are reflected in financial result.

#### Foreign entities

Assets, including goodwill, and liabilities of subsidiaries whose functional currency is not the euro are translated at the spot rate at the end of the reporting period. The components of equity are translated at historical rates, and items in the consolidated income statement are translated at the weighted average rate for each reporting period. The resulting translation differences are recognized in other comprehensive income and reported in accumulated other comprehensive income. The impact of currency translation recognized in shareholders' equity is reversed to profit or loss when consolidation of the subsidiary ceases.

Items in the consolidated statement of cash flows are translated at the weighted average exchange rate for the period except for cash and cash equivalents, which are translated at the spot rate at the end of the reporting period.

**General information**

Summary of significant accounting policies

## Revenue recognition

Revenue is recognized when the related performance obligation is satisfied, i.e., when the customer obtains control of the promised goods or services. This occurs either at a point in time or over time. The transaction price is the amount of consideration to which the Schaeffler Group expects to be entitled in exchange for transferring the promised goods or services to the customer. The Schaeffler Group recognizes revenue in the amount of the agreed price relating to the relevant performance obligation. The Schaeffler Group's customers are granted rebates, bonuses, discounts, credits, price concessions, or other variable price concessions. These types of variable consideration are recognized as a reduction of revenue during the year based on historical experience, contractually agreed bonus scales, and prior period sales. Since it expects that the period between when control over a promised good or service transfers and when payment is received will be one year or less, the Schaeffler Group applies the practical expedient in IFRS 15.63 and does not adjust the promised amount of consideration for any financing component. Warranties provided in connection with the sale of goods or services are only intended to provide assurance that the product complies with agreed-upon specifications. Therefore, Schaeffler continues to account for warranties under IAS 37.

Customers typically have 30 to 60 days from the date the invoice is issued to pay for performance obligations under contracts with customers. Invoices are normally issued as at the date the performance obligation is satisfied.

Revenue is recognized over time for products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin.

Revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to

consideration under the contract. The related expenses are expensed as cost of sales when revenue is recognized.

Recognition of revenue from the sale of tools depends on whether the customer obtains legal ownership of the tool and the Schaeffler Group has a contractual right to consideration.

The dates on which performance obligations under contracts with customers are satisfied can be summarized as follows:

## General information

Summary of significant accounting policies

## Performance obligations under contracts with customers

Type of revenue	Date performance obligation satisfied
Revenue from the sale of goods	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.  Revenue is recognized over time for customer-specific products for which the Schaeffler Group has an enforceable right to payment for performance completed to date amounting to any costs incurred plus a reasonable profit margin. This will result in revenue being recognized before the date of actual delivery. Revenue for customer-specific finished goods is recognized at the amount of the full price of the finished good in the period in which the customer is obligated to take delivery. For customer-specific goods in progress, the amount of revenue for the period in which the customer is obligated to take delivery is derived from the acquisition cost of the goods in progress rather than being determined as the amount of the full price of the goods when they are finished. The method described above best represents the transfer of customer-specific products to the customer.
Revenue from the sale of customer-specific products	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Revenue from the sale of tools	Revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. This revenue is recognized when the development services have been rendered in full.
Development service revenue	
Other service revenue	Revenue is mostly recognized at a point in time upon completion of the service.

## Functional costs

Income and expenses are allocated to the various functional areas. Depreciation, amortization, and impairment losses on intangible assets and property, plant and equipment are allocated to the functional areas in which the asset is utilized.

In the past, past service cost and settlement gains or losses on pension plans were presented in the consolidated income statement under functional costs. This presentation was changed retrospectively in 2020 such that past service cost and settlement gains or losses are presented under other income or other expenses (see Note 4.13). This approach ensures consistent presentation with restructuring provisions, since the plan curtailments largely arose in connection with restructuring programs.

## Research and development expenses

Expenses incurred for research activities and advance development are expensed immediately.

Expenses for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract are recognized as cost of sales when the completed development service is transferred to the customer.

Development costs are only recognized as intangible assets once the capitalization criteria of IAS 38 are met.

Capitalized development costs are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over a period of six years beginning when the intangible asset is ready for use. Amortization expense is reported in cost of sales.

## Financial result

Interest income and expense are recognized in the period to which they relate.

## Earnings per share

Earnings per share are calculated by dividing net income (loss) attributable to Schaeffler AG's shareholders by the weighted average number of common and common non-voting shares outstanding during the reporting period.



**General information**

Summary of significant accounting policies

## Goodwill

Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually as at December 31 and when there is an indication (“triggering event”).

The goodwill impairment test is performed by comparing the carrying amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated with its recoverable amount. A cash-generating unit is the smallest unit with largely independent cash flows. Recoverable amount is the higher of fair value less costs of disposal and value in use of the cash-generating unit or group of cash-generating units. Unlike in the prior year, recoverable amount is initially determined using fair value less costs of disposal, since restructurings and capacity expansions are not shown separately in current plans and budgets. Both fair value less costs of disposal and value in use are determined using the discounted cash flow method. If circumstances giving rise to an impairment loss subsequently cease to exist, impairment losses on goodwill are not reversed.

Expected cash flows are based on a detailed five year-forecast – unless a longer period is justifiable – and on a perpetuity for the period beyond that timeframe. This detailed forecast is based on specific assumptions regarding macroeconomic trends (currency, interest, and commodity price trends), external sales forecasts and internal assessments of demand and projects, sales prices, and the volume of additions to intangible assets and property, plant and equipment. Please refer to the report on expected developments in the group management report for further details. Past trends and historic experience are also used in developing the forecast. The discount rate reflects current market expectations and specific risks. The key assumptions underlying value in use of a cash-generating unit are EBIT, the discount rate, and the long-term growth rate.

## Other intangible assets and property, plant and equipment

Other intangible assets and property, plant and equipment are recognized at acquisition or production cost plus incidental acquisition costs and, where applicable, subsequent acquisition cost and are amortized or depreciated over their expected useful life on a straight-line basis, provided they have a determinable useful life. The expected useful lives of software and capitalized development costs are 3 and 6 years, respectively, and range from 15 to 25 years for buildings, from 2 to 10 years for technical equipment and machinery, and from 3 to 8 years for other equipment.

The Schaeffler Group tests other intangible assets and property, plant and equipment for impairment when there is an indication that these assets may be impaired (“triggering event”). If it is not possible to attribute to an individual asset cash inflows that are largely independent of those from other assets or groups of assets, the asset is tested for impairment based on the smallest cash-generating unit to which it belongs. The impairment test is performed by comparing the carrying amount of the cash-generating unit with its recoverable amount. The methodology and implications of this test are identical to those of the goodwill impairment test (see discussion of goodwill above). The cash-generating unit is impaired if its carrying amount exceeds its recoverable amount. Impairment losses are recognized for impairments. If circumstances giving rise to an impairment loss subsequently cease to exist, impairment losses recognized on assets are reversed. The revised carrying amount is limited to the amount that would have resulted had amortization or depreciation been charged.

## Leases

Leases for assets with a value of more than EUR 5,000 or with a total lease term of more than 12 months are capitalized as discounted lease liabilities with corresponding right-of-use assets. Right-of-use assets are depreciated on a straight-line basis over the total lease term. Payments for leases of low-value assets, short-term lease payments, and variable lease payments are expensed.

## Financial instruments

Regular-way sales and purchases of financial assets are accounted for using settlement date accounting.

### Primary financial instruments

Primary financial instruments are initially measured at fair value or, in the case of trade receivables without any significant financing component, at the transaction price. Transaction costs directly attributable to the acquisition or issue of a financial instrument are only included in the carrying amount if the financial instrument is not measured at fair value through profit or loss. Subsequent measurement depends on how the financial instrument is categorized.

The Schaeffler Group fundamentally has three categories for the classification of financial instruments: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI), and measured at fair value through profit or loss (FVTPL). Financial assets are classified based on the Schaeffler Group's business model for managing the financial assets and on their contractual cash flow characteristics.

**General information**

Summary of significant accounting policies

**Financial assets at fair value through profit or loss**

This category mainly includes a portion of the trade receivables that is available for sale under the ABCP program (asset-backed commercial paper) (see Note 4.16). Due to the short maturity of these receivables, their transaction price represents their fair value. The fair value of marketable securities, on the other hand, is derived from market prices.

**Financial assets at fair value through other comprehensive income**

Financial investments in strategic long-term minority investments are measured at fair value, and changes in fair value are recognized in other comprehensive income. Accumulated other comprehensive income is not reclassified to the consolidated income statement upon disposal. This category also includes trade receivables that are available for sale under sale programs. Due to the short maturity of these receivables, their transaction price represents their fair value.

**Financial assets at amortized cost**

This category comprises trade receivables (except those that are available for sale under the ABCP program), cash and cash equivalents, and other financial assets. These assets are measured at amortized cost less impairment losses recognized for expected credit losses. Schaeffler uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables. Under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using customer-specific probabilities of default and taking into account information about future conditions. Credit loss allowances for the remaining financial assets, primarily cash and cash equivalents, are measured using the general approach, i.e., at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly, the credit loss allowance recognized has to be based on lifetime expected credit losses. Impairments are initially recognized in an allowance account unless it is clear at the time the impairment loss occurs that the receivable will be either partially or entirely uncollectible. See the “Credit risk” section in the “Financial instruments” chapter for further details.

Trade receivables sold under receivable sale programs as well as the related liabilities are recognized to the extent of the credit risk retained (continuing involvement) (see Note 5.2).

Cash equivalents are liquid funds held for the purpose of meeting short-term cash commitments. Cash equivalents include term deposits and money market funds with an original maturity of generally three months or less, that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. While the majority of cash equivalents, such as term deposits, are measured at amortized cost, money market funds are measured at fair value with changes in value recognized in profit or loss (FVTPL).

**Financial liabilities**

Except for derivative financial instruments, the Schaeffler Group measures its financial liabilities at amortized cost using the effective interest method.

**Derivative financial instruments**

Derivative financial instruments are generally classified and measured at fair value through profit or loss unless they are subject to hedge accounting.

Derivatives embedded in financial liabilities are separated from the host instrument when the economic characteristics and risks of the embedded derivative are considered not closely related to the economic characteristics and risks of the host instrument.

**Hedge accounting**

In accordance with the option provided for hedge accounting in the transition requirements of IFRS 9, the Schaeffler Group will continue to apply the hedge accounting requirements of IAS 39 and intends to initially apply IFRS 9 at a later date.

**General information**

Summary of significant accounting policies

Hedging relationships are accounted for using the cash flow and net investment hedge models. The effective portion of changes in the fair value of the hedging instrument is included in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in profit or loss.

## Inventories

Inventories are measured at the lower of cost and net realizable value. The acquisition cost of raw materials, supplies and purchased merchandise is determined using the moving average cost method. Work in progress and manufactured finished goods are valued at production cost and written down to net realizable value if lower.

## Contract assets

Contract assets mainly result from revenue for customer-specific products recognized over time. This affects products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin. Contract assets are reclassified to trade receivables when they represent an unconditional right to receive the consideration. This is the case when the invoice is issued to the customer. The Schaeffler Group uses the simplified impairment approach for contract assets; under this approach, a credit loss allowance is recognized based on lifetime expected credit losses.

## Income taxes

Deferred income taxes are accounted for using the asset and liability method.

Except where the recognition of deferred taxes is not permitted, deferred taxes are recognized on temporary differences between carrying amounts in the consolidated IFRS statement of financial position and the company's tax balance sheets, on loss and interest carry-forwards, and on tax credits. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which temporary differences and unused tax loss and interest carry-forwards can be utilized. Group entities are assessed individually with respect to whether it is probable that profits will be generated in the future.

Deferred taxes are measured using the future tax rate. Future tax rate changes are reflected in this tax rate when they have been substantively enacted.

Management regularly reviews tax returns, mainly with respect to issues subject to interpretation, and reflects these in income tax payables as appropriate, based on amounts expected to be payable to taxation authorities. Any interest related to income taxes falling in the scope of IAS 37 is recognized at the amount required to settle the current obligation as at the reporting date. Appropriate provisions for potential risks related to uncertain tax positions have been recognized in accordance with IFRIC 23. Depending on which amount best reflects expectations, measurement is based on either the most likely amount or the expected value.

## Assets and liabilities held for sale

Non-current assets or groups of non-current assets (incl. the associated liabilities) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale requires a commitment to a plan to sell the asset or group of assets and the sale must be highly probable within twelve months. Such assets and liabilities are presented separately in the statement of financial position. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

## Provisions for pensions and similar obligations

The Schaeffler Group provides post-employment benefits to its employees in the form of defined benefit plans and defined contribution plans.

The Schaeffler Group's obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions based on market expectations, including those related to anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows. The discount rate is determined by reference to the market yield of senior fixed-rate corporate bonds, with mortgage-backed corporate bonds, whose risk-return profile is closer to that of government bonds, not considered in determining the discount rate in the euro region. The provisions for pensions and similar obligations recognized in the consolidated statement of financial position represent the present value of the defined benefit obligation at the end of the reporting period, net of the related plan assets measured at fair value where applicable. In addition to the pension funds

maintained to fund the obligation, plan assets include all assets and rights under reimbursement insurance policies if the proceeds of the policy can be used only to make payments to employees entitled to pension benefits and are not available to satisfy claims of the company's other creditors. If plan assets exceed the related pension obligation, the net pension asset is presented under other assets to the extent the Schaeffler Group is entitled to a refund or reduction of future contributions to the fund.

Actuarial gains and losses arising from defined benefit plans are recognized in other comprehensive income, and interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and presented in financial result on a net basis.

Past service cost arising from plan amendments or curtailments as well as settlement gains or losses are presented under other income or other expenses. Pension plan amendments, curtailments, and settlements during the year result in recalculation of service cost and net interest for the remainder of the period.

For defined contribution plans, the Schaeffler Group pays fixed contributions to an independent third party. As the Schaeffler Group does not in any way guarantee a return on the assets, neither up to the date pension payments commence nor beyond, the group's obligation is limited to the contributions it makes during the year. The contributions are recognized in personnel expense.

## Provisions

Provisions are recognized when the Schaeffler Group has a present legal or constructive obligation as a result of a past event, it is probable that the outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at best estimate. Non-current provisions are recognized at present value calculated by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense and the impact of any changes in discount rates are presented within financial result.

## Contract liabilities

Contract liabilities partly result from payments received from customers for development services. This revenue is recognized when the customer obtains control of the completed development services.

## Share-based payment

The Schaeffler Group's Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan. The company recognizes a provision in the amount of the fair value of the payment obligation attributable to the period up to the reporting date. The liability is remeasured at the end of each reporting period from the grant date until settlement. The fair value per Performance Share Unit (PSU) is determined in part using a binomial option pricing model and in part based on a Monte Carlo simulation. The fair value is recognized as personnel expense over the period between grant date and settlement date.

## Government grants

Government grants are recognized if there is reasonable assurance that the company will comply with the conditions attaching to the grants and that the grants will be received. Grants related to assets are deducted from the cost of the relevant assets. Grants that are not directly attributable to non-current assets are offset against the corresponding expenses.

## General information

New accounting pronouncements

## 1.4 New accounting pronouncements

### New accounting pronouncements effective in 2020

New standards required to be applied for the first time starting in 2020 have not had any significant impact on these financial statements.

### New accounting pronouncements endorsed by the EU effective in 2021

The Schaeffler Group is not yet required to apply the following amendments to standards issued by the International Accounting Standards Board (IASB) in its financial statements for the financial year 2020, and none were adopted early.

#### New accounting pronouncements endorsed by the EU but not yet effective

Standard/Interpretation	Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to IFRS 4	01/01/2021	Expiry of the temporary exemption from application of IFRS 9 in IFRS 4 was extended to January 1, 2023	none
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	01/01/2021	Interest Rate Benchmark Reform - Phase 2 (issued on August 27, 2020)	none

## General information

New accounting pronouncements

## New accounting pronouncements not endorsed by the EU

In addition, the IASB has issued the following new standards and amendments to existing standards which had not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue. The company has not applied any of them early, and is currently not planning to apply any of them early.

### New accounting pronouncements – not yet endorsed by the EU

Standard/Interpretation	Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to IFRS 3	01/01/2022	Update to a reference to the Conceptual Framework	Under examination <sup>1)</sup>
Amendments to IAS 16	01/01/2022	Clarification that certain proceeds should be recognized in profit or loss rather than deducted from acquisition cost. This applies to proceeds an entity has earned from selling items produced while preparing the asset for its intended use.	Under examination <sup>1)</sup>
Amendments to IAS 37	01/01/2022	Definition of the costs to be included in assessing whether a contract is onerous	Under examination <sup>1)</sup>
Annual improvements 2018–2020	01/01/2022	Minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture, and the illustrative examples accompanying IFRS 16 Leases.	Under examination <sup>1)</sup>
IFRS 17 Insurance Contracts	01/01/2023	Principles for recognition, measurement, and presentation of as well as disclosures about insurance contracts	Under examination <sup>1)</sup>
Amendment to IAS 1	01/01/2023	Classification of liabilities as current or non-current	Under examination <sup>1)</sup>
Amendments to IAS 1, IAS 8	01/01/2023	Amendments to IAS 1: only material accounting policy information shall be disclosed in the notes to the financial statements; amendments to IAS 8: clarification regarding the distinction between changes in estimate and changes in accounting policy	Under examination <sup>1)</sup>
Amendments to IFRS 10, IAS 28	Undefined	Clarification of accounting for gains and losses on the sale or contribution of assets between an investor and its associate or joint venture	Under examination <sup>1)</sup>

<sup>1)</sup> Detailed statements regarding the extent of the impact are not yet possible.

## 2. Principles of consolidation

### 2.1 Scope of consolidation

In 2020, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 150 (prior year: 152) subsidiaries; 52 (prior year: 53) entities are domiciled in Germany and 98 (prior year: 99) in other countries.

The changes are mainly attributable to entities liquidated as well as the sale of Schaeffler Bio-Hybrid GmbH and the initial consolidation of structured entities.

In the consolidated financial statements as at December 31, 2020, four (prior year: three) joint ventures and four associated companies (prior year: four) are accounted for at equity.

 More on the Schaeffler Group's companies in Note 5.9

### 2.2 Acquisitions and disposals of companies

On February 3, 2020, the business of the plants in Unna and Kaltennordheim transferred as a result of the disposal in 2019.

Since the buyer's original plans could not be realized due to the difficult market environment, Schaeffler took further support measures in December 2020 by subordinating receivables from both locations and extending the supplier relationship for the Unna location.

In connection with these measures, Schaeffler is in a position to exercise contractual rights to participate in decision-making regarding impending liquidations, and, as a result, Schaeffler has regained control of the Unna and Kaltennordheim locations disposed of. The assets and liabilities of FZT Kaltennordheim GmbH, FZT Unna GmbH, FZT Unna Grundstücksgesellschaft mbH and FZT Kaltennordheim Grundstücksgesellschaft mbH assumed upon consolidation were consolidated using the acquisition method.

They consisted mainly of land and buildings with a fair value of EUR 2.5 m, bank balances of EUR 1.3 m, and other liabilities of EUR 1 m. The difference of EUR 2.8 m was recognized in non-controlling interests. Schaeffler expects to lose control of the companies once the support measures end.

On October 15, 2020, the Schaeffler Group signed an agreement with Micromobility services and solutions GmbH for the sale of all of its shares in Schaeffler Bio-Hybrid GmbH under a management buyout (MBO). The company has been renamed Bio-Hybrid GmbH.

An impairment loss of EUR 4 m on assets of the sold company that were temporarily held for sale was recognized in other expenses during the reporting period. The disposal resulted in a loss on disposal of EUR 4 m that has been recognized in other expenses. Along with the purchase price, Schaeffler has a contractual right to additional payments that are contingent on the performance of the business over a set period of time.



## 3. Notes to the consolidated income statement

### 3.1 Revenue

Revenue from contracts with customers can be analyzed by category and segment as follows:

#### IFRS 15 – analysis of revenue by category

	01/01-12/31		01/01-12/31		01/01-12/31		01/01-12/31	
	2020	2019 <sup>1)</sup>	2020	2019 <sup>1)</sup>	2020	2019 <sup>1)</sup>	2020	2019
in € millions	Automotive Technologies		Automotive Aftermarket		Industrial		Total	
<b>Revenue by type</b>								
• Revenue from the sale of goods	7,644	8,862	1,641	1,848	3,108	3,492	12,393	14,201
• Revenue from the sale of tools	93	114	0	0	5	8	98	121
• Revenue from development services	34	24	0	0	0	1	35	25
• Revenue from other services	49	44	0	0	24	32	72	77
• Other revenue	0	1	0	0	1	2	1	3
<b>Total</b>	<b>7,821</b>	<b>9,044</b>	<b>1,641</b>	<b>1,848</b>	<b>3,138</b>	<b>3,535</b>	<b>12,600</b>	<b>14,427</b>
<b>Revenue by region <sup>2)</sup></b>								
• Europe	2,869	3,570	1,183	1,308	1,319	1,627	5,371	6,506
• Americas	1,775	2,154	301	362	528	638	2,604	3,154
• Greater China	2,033	1,959	77	81	840	723	2,950	2,763
• Asia/Pacific	1,144	1,360	80	96	451	547	1,675	2,003
<b>Total</b>	<b>7,821</b>	<b>9,044</b>	<b>1,641</b>	<b>1,848</b>	<b>3,138</b>	<b>3,535</b>	<b>12,600</b>	<b>14,427</b>

<sup>1)</sup> Prior year information presented based on 2020 segment structure.

<sup>2)</sup> By market (customer location).

The following overview shows receivables, contract assets, and contract liabilities from contracts with customers.

#### Contract balances

	12/31/2020	12/31/2019
in € millions		
Trade receivables	2,160	2,130
Contract assets	57	72
Contract liabilities	89	67
Revenue recognized in the reporting period <sup>1)</sup>		
• that was included in the contract liability balance at the beginning of the year	20	23
• from performance obligations satisfied in previous years	4	-2

<sup>1)</sup> Amounts for the reporting period from January 1 to December 31

Contract assets on hand as at December 31, 2020, resulted from revenue that has been recognized over time for customer-specific products.

Contract liabilities on hand as at December 31, 2020, represented payments received from customers for development services for which control had not yet been transferred to the customer as well as other advance payments received under contracts with customers.

As at December 31, 2020, the remaining performance obligations mainly represented outstanding performance obligations under development agreements. The related revenue is recognized when the customer obtains control of the development services. The company expects to recognize EUR 77 m (prior year: EUR 60 m) in revenue in connection with these performance obligations, largely over the next three years. Applying the practical expedient provided by IFRS 15.121 (a), the Schaeffler Group is omitting the disclosure of remaining performance obligations that are part of a contract that has an original expected duration of less than one year.

There were no significant changes in the balances of contract assets and contract liabilities during the reporting period.

## 3.2 Government grants

The consolidated income statement includes EUR 68 m (prior year: EUR 20 m) in government grants. In the reporting period, these grants included EUR 34 m in refunds of social security contributions for short-time compensation in connection with the coronavirus pandemic.

## 3.3 Other income

### Other income

in € millions	2020	2019
Gains on reversal of provisions	11	15
Miscellaneous other income	91	65
<b>Total</b>	<b>102</b>	<b>80</b>

**Miscellaneous other income** includes EUR 25 m (prior year: EUR 0 m) in gains on the curtailment of plans underlying defined benefit pension obligations as well as EUR 28 m (prior year: EUR 12 m) in government grants. The prior year included income representing the refund of a penalty of EUR 13 m paid in 2015 in connection with antitrust proceedings in South Korea.

## 3.4 Other expenses

### Other expenses

in € millions	2020	2019
Exchange losses	41	101
Miscellaneous other expenses	1,014	380
<b>Total</b>	<b>1,055</b>	<b>482</b>

**Exchange losses** consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2020, netting foreign exchange gains and losses resulted in a net exchange loss of EUR 41 m (prior year: EUR 101 m).

**Miscellaneous other expenses** included mainly EUR 676 m (prior year: EUR 311 m) in expenses related to personnel measures (termination benefits). Additionally, the company recognized an impairment loss of EUR 249 m on goodwill allocated to the Automotive Technologies segment.

Further, an impairment loss of EUR 4 m (prior year: EUR 14 m) on assets temporarily held for sale was recognized during the reporting period. In addition, disposals of subsidiaries resulted in a loss on disposal of EUR 4 m (prior year: EUR 16 m).

## 3.5 Personnel expense and headcount

### Average number of employees by region

	2020	2019
Europe	55,130	58,769
Americas	11,527	12,596
Greater China	11,889	12,394
Asia/Pacific	5,899	6,020
<b>Total</b>	<b>84,445</b>	<b>89,778</b>

The number of employees as at December 31, 2020, was 83,297, 5.1% below the prior year level of 87,748.

The Schaeffler Group's personnel expense can be analyzed as follows:

### Personnel expense

in € millions	2020	2019
Wages and salaries	3,416	3,833
Social security contributions	654	731
Other personnel expense	845	456
<b>Total</b>	<b>4,914</b>	<b>5,019</b>

The reduction in personnel expense in 2020 was primarily due to downsizing of capacity. Capacity decreased in all regions, primarily in Europe and Americas, mainly in production and production-related areas.

**Other personnel expense** included EUR 170 m (prior year: EUR 141 m) in retirement benefit expenses and EUR 673 m (prior year: EUR 311 m) in expenses related to personnel measures.

Notes to the consolidated income statement  
Financial result

## 3.6 Financial result

## Schaeffler Group financial result

in € millions	2020	2019
Interest expense on financial debt <sup>1)</sup>	-100	-103
Gains and losses on derivatives and foreign exchange	-6	-16
Fair value changes on embedded derivatives	-31	23
Interest income and expense on pensions and partial retirement obligations	-22	-42
Other	-26	2
<b>Total</b>	<b>-185</b>	<b>-137</b>

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

**Interest expense on financial debt** amounted to EUR 100 m in 2020 (prior year: EUR 103 m), which was in line with the prior year level. Interest expense includes a prepayment penalty of EUR 10 m (prior year: EUR 6 m) and EUR 4 m (prior year: EUR 12 m) in deferred transaction costs derecognized.

Net **foreign exchange** losses on financial assets and liabilities and net losses on derivatives amounted to EUR 6 m (prior year: EUR 16 m).

Realized and unrealized **fair value changes on embedded derivatives**, primarily the prepayment option for the bond series redeemed in November, resulted in net losses of EUR 31 m (prior year: gains of EUR 23 m).

**Interest on pensions and partial retirement obligations** gave rise to expenses of EUR 22 m (prior year: EUR 42 m).

An impairment of EUR 22 m on an outstanding convertible loan receivable from a joint venture as well as additional tax interest expenses of EUR 5 m were included in **Other** in the reporting period.

## 3.7 Income taxes

## Income taxes

in € millions	2020	2019
Current income taxes	270	277
Deferred income taxes	-218	-81
<b>Total</b>	<b>53</b>	<b>196</b>

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2020.

The average domestic tax rate was 28.7% in 2020 (prior year: 28.7%). This tax rate consisted of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.8% (prior year: 12.8%).

There was no current income tax benefit or expense related to prior years in 2020 (prior year: benefit of EUR 10 m). Deferred tax expense related to prior years amounted to EUR 13 m (prior year: benefit of EUR 10 m) in 2020.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to income tax expense as reported in the consolidated income statement. The calculation for 2020 is based on the Schaeffler Group's 28.7% (prior year: 28.7%) effective combined trade and corporation tax rate including solidarity surcharge.

## Tax rate reconciliation

in € millions	2020	2019
Earnings before income taxes	-362	636
<b>Expected tax expense</b>	<b>-104</b>	<b>183</b>
Addition/reduction due to deviating local tax bases	5	5
Foreign/domestic tax rate differences	-15	-29
Change in tax rate and law	1	1
Non-recognition of deferred tax assets	2	11
Tax credits and other tax benefits	-8	-13
Non-deductible expenses and non-taxable income	82	57
Impairment loss on goodwill not tax-deductible	72	0
Taxes for previous years	13	-20
Other	5	1
<b>Reported tax expense</b>	<b>53</b>	<b>196</b>

**Foreign/domestic tax rate differences** primarily represent the impact of differences in country-specific tax rates applicable to German and foreign entities.

**Non-deductible expenses and non-taxable income** includes non-deductible operating expenses and non-creditable withholding taxes as well as deferred tax liabilities on dividends expected to be paid by subsidiaries.

**Taxes for previous years** mainly contain the impact of reassessments of tax issues from prior years.

The **non-deductible impairment loss on goodwill** relates exclusively to the Automotive Technologies segment.

## Notes to the consolidated income statement

## Earnings per share

## 3.8 Earnings per share

## Earnings per share

in € millions	2020	2019
Net income (loss)	-415	440
Net income (loss) attributable to shareholders of the parent company	-424	428
Earnings attributable to common shares	-320	320
Earnings attributable to common non-voting shares	-105	108
Average number of common shares issued in millions	500	500
Average number of common non-voting shares issued in millions	166	166
<b>Earnings per common share (basic/diluted, in €)</b>	<b>-0.64</b>	<b>0.64</b>
<b>Earnings per common non-voting share (basic/diluted, in €)</b>	<b>-0.63</b>	<b>0.65</b>

There were no dilutive items as at December 31, 2020, or in the prior year. Diluted earnings per share equal basic earnings per share.

## 4. Notes to the consolidated statement of financial position

### 4.1 Intangible assets

The carrying amounts of goodwill allocated to the groups of cash-generating units to which goodwill has been allocated were EUR 70 m for the Automotive Technologies segment (December 31, 2019: EUR 319 m), EUR 76 m for the Automotive Aftermarket segment (December 31, 2019: EUR 76 m), and EUR 211 m (December 31, 2019: EUR 211 m) for the Industrial segment as at December 31, 2020.

The coronavirus pandemic and the resulting global containment measures and restrictions led to decreased demand and affected supply chains as well as global trade, especially in the automotive sector. These developments made themselves felt significantly in the first quarter in particular and resulted in indications of impairment (triggering event) in Q1 2020; therefore, the Schaeffler Group tested the goodwill of the Automotive Technologies segment for impairment as at March 31, 2020, by comparing the carrying amount of the group of cash-generating units with their recoverable amount. The future course of the pandemic and the resulting impact on the segment's adjusted expected cash flows were subject to great uncertainty. This, along with a general rise in market volatility, led to an increase in the pre-tax discount rate to 12.6% (December 31, 2019: 11.8%). Based on the remaining assumptions made, the recoverable amount of EUR 4,988 m determined for the Automotive Technologies segment was below the corresponding carrying amount. The resulting impairment of goodwill allocated to the Automotive Technologies segment of EUR 249 m was recognized in other

expenses during the period. Following recognition of the impairment, the carrying amount of the Automotive Technologies segment as at March 31, 2020, equaled its recoverable amount. A further impairment test of the goodwill of the Automotive Technologies segment performed as at June 30, 2020, did not result in an additional impairment loss.

The impairment test of the segments' goodwill as at December 31, 2020, was performed by comparing the carrying amount of the group of cash-generating units with its recoverable amount. The recoverable amount corresponded to fair value less costs of disposal and was determined based on unobservable inputs (level 3). In performing the impairment test, the company identified eight cash-generating units based on existing production, sales, and management relationships; these cash-generating units are not directly comparable to the prior year's cash-generating units. The cash flows used to determine fair value less costs of disposal reflect a detailed forecast for the period up to 2025 for the Industrial and Automotive Aftermarket segments and for the period up to 2035 for the Automotive Technologies segment. This extended detailed forecasting period reflects the transformation the Automotive Technologies segment will be subject to in coming years as a result of the transition from the internal combustion engine to the electric motor ("Schaeffler Vision Powertrain 2035"). Cash flows beyond these forecasting horizons were determined based on an annual long-term growth rate of 1.0% (prior year: 1.0%) for the Industrial and Automotive Aftermarket segments. In the Automotive Technologies segment, growth rates applied ranged from 0.0%

to 1.5% (prior year: 1.0% for all cash-generating units within Automotive Technologies). In light of the coronavirus pandemic, the company reflected the risks inherent in the market environment, term, purchasing power, and currency – expressed in terms of cash flows and discount rate – in deriving the cash flows for the detailed forecast, the long-term growth rate, and the discount rate. Depending on the underlying business and its country of operation, the Schaeffler Group used an assumed pre-tax interest rate of 10.7% (prior year: 11.8%) as the weighted average discount rate for the Automotive Technologies segment and 10.9% (prior year: 13.0%) for the Automotive Aftermarket segment as well as 9.9% (prior year: 11.7%) for the Industrial segment. This corresponds to a post-tax interest rate of 7.4% (prior year: 8.7%) for the Automotive Technologies segment and 8.4% (prior year: 9.8%) for the Automotive Aftermarket segment as well as 7.5% (prior year: 8.7%) for the Industrial segment. The decrease in discount rates is partly attributable to a changed assessment of country risk for the three segments.

Based on the assumptions made, the recoverable amount determined for the Automotive Technologies segment of EUR 7,230 m (prior year: EUR 5,940 m) exceeded the carrying amount by EUR 2,985 m (prior year: EUR 740 m). This increase is due, firstly, to a decrease in the carrying amount of the cash-generating units by EUR 955 m that is partly attributable to the impairment of goodwill resulting from the significantly higher level of uncertainty in the first quarter as described above. Secondly, the increase is also attributable to the now considerably higher level of certainty with respect to the forecasted future cash flows of

the group of cash-generating units and generally lower market volatility. Both are reflected in a lower pre-tax discount rate. In the Automotive Aftermarket segment, the recoverable amount of EUR 896 m (prior year: EUR 2,315 m) exceeded the carrying amount by EUR 472 m (prior year: EUR 1,796 m). In the Industrial segment, the recoverable amount of EUR 4,449 m (prior year: EUR 4,032 m) exceeded the carrying amount by EUR 2,795 m (prior year: EUR 2,166 m).

If the post-tax WACC was increased to 15.7% in the Automotive Technologies segment, 14.9% in the Automotive Aftermarket segment, and 15.7% in the Industrial segment, the recoverable amount would continue to equal the carrying amount of the group of cash-generating units or the relevant cash-generating unit. A reduction in the long-term growth rate to 0.0% for the Automotive Technologies, Automotive Aftermarket, and Industrial segments would not result in an impairment of the carrying amount of the group of cash-generating units or the relevant cash-generating unit. If the amount of sustainable EBIT used in the calculation was decreased by 101.4% for the Automotive Technologies segment, 60.6% for the Automotive Aftermarket segment, and 67.6% for the Industrial segment, the recoverable amount would equal the carrying amount of the group of cash-generating units or the relevant cash-generating unit.

As at December 31, 2020, **internally generated intangible assets** consisted largely of development costs with a net carrying amount of EUR 28 m (prior year: EUR 40 m) and did not include any assets not yet available for use that were not yet subject to amortization (prior year: EUR 0 m).

Amortization and impairments of intangible assets totaled EUR 33 m (prior year: EUR 30 m) and was recognized in the following line items in the consolidated income statement: Cost of sales EUR 20 m (prior year: EUR 16 m), research and development expenses EUR 5 m (prior year: EUR 5 m), selling expenses EUR 1 m (prior year: EUR 0 m), and administrative expenses EUR 7 m (prior year: EUR 9 m).

Notes to the consolidated statement of financial position  
Intangible assets

## Intangible assets

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
<b>Historical cost</b>				
<b>Balance as at January 01, 2019</b>	<b>530</b>	<b>1,069</b>	<b>323</b>	<b>1,922</b>
Additions from initial consolidation of subsidiaries	76	35	4	115
Disposals of subsidiaries	0	-1	0	-1
Additions	0	35	1	36
Disposals	0	-30	0	-30
Transfers	0	-21	0	-21
Foreign currency translation	0	2	1	3
<b>Balance as at December 31, 2019</b>	<b>606</b>	<b>1,089</b>	<b>329</b>	<b>2,024</b>
<b>Balance as at January 01, 2020</b>	<b>606</b>	<b>1,089</b>	<b>329</b>	<b>2,024</b>
Additions	0	20	0	20
Disposals	0	-14	0	-14
Transfers	0	5	0	5
Foreign currency translation	0	-4	-2	-6
<b>Balance as at December 31, 2020</b>	<b>606</b>	<b>1,095</b>	<b>327</b>	<b>2,028</b>
<b>Accumulated amortization and impairment losses</b>				
<b>Balance as at January 01, 2019</b>	<b>0</b>	<b>1,020</b>	<b>275</b>	<b>1,295</b>
Disposals of subsidiaries	0	-1	0	-1
Amortization	0	18	12	30
Disposals	0	-30	0	-30
Transfers	0	0	0	0
Foreign currency translation	0	1	1	2
<b>Balance as at December 31, 2019</b>	<b>0</b>	<b>1,008</b>	<b>288</b>	<b>1,296</b>
<b>Balance as at January 01, 2020</b>	<b>0</b>	<b>1,008</b>	<b>288</b>	<b>1,296</b>
Amortization	0	17	12	29
Impairment losses	249	3	0	252
Disposals	0	-14	0	-14
Transfers	0	0	0	0
Foreign currency translation	0	-3	-2	-5
<b>Balance as at December 31, 2020</b>	<b>249</b>	<b>1,011</b>	<b>298</b>	<b>1,558</b>
<b>Net carrying amounts</b>				
<b>As at January 01, 2019</b>	<b>530</b>	<b>49</b>	<b>48</b>	<b>627</b>
<b>As at December 31, 2019</b>	<b>606</b>	<b>81</b>	<b>41</b>	<b>728</b>
<b>As at January 01, 2020</b>	<b>606</b>	<b>81</b>	<b>41</b>	<b>728</b>
<b>As at December 31, 2020</b>	<b>357</b>	<b>84</b>	<b>29</b>	<b>470</b>

## Notes to the consolidated statement of financial position

## Right-of-use assets under leases

## 4.2 Right-of-use assets under leases

## Right-of-use assets under leases

in € millions	Land, land rights, and buildings	Vehicles	Other equipment	Total
<b>Historical cost</b>				
<b>Balance as at January 01, 2019</b>	<b>140</b>	<b>43</b>	<b>9</b>	<b>192</b>
Additions from initial consolidation of subsidiaries	3	0	0	3
Additions	31	21	5	57
Disposals	-2	-3	0	-5
<b>Balance as at December 31, 2019</b>	<b>172</b>	<b>61</b>	<b>14</b>	<b>247</b>
<b>Balance as at January 01, 2020</b>	<b>172</b>	<b>61</b>	<b>14</b>	<b>247</b>
Additions	48	19	3	70
Disposals	-27	-11	-1	-39
Foreign currency translation	-6	0	-1	-7
<b>Balance as at December 31, 2020</b>	<b>187</b>	<b>69</b>	<b>15</b>	<b>271</b>
<b>Accumulated depreciation and impairment losses</b>				
<b>Balance as at January 01, 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Depreciation	32	22	4	58
Disposals	-1	-3	0	-4
<b>Balance as at December 31, 2019</b>	<b>31</b>	<b>19</b>	<b>4</b>	<b>54</b>
<b>Balance as at January 01, 2020</b>	<b>31</b>	<b>19</b>	<b>4</b>	<b>54</b>
Depreciation	34	20	5	59
Disposals	-11	-10	-1	-22
Foreign currency translation	-2	0	-1	-3
<b>Balance as at December 31, 2020</b>	<b>52</b>	<b>29</b>	<b>7</b>	<b>88</b>
<b>Net carrying amounts</b>				
<b>As at January 01, 2019</b>	<b>140</b>	<b>43</b>	<b>9</b>	<b>192</b>
<b>As at December 31, 2019</b>	<b>141</b>	<b>42</b>	<b>10</b>	<b>193</b>
<b>As at January 01, 2020</b>	<b>141</b>	<b>42</b>	<b>10</b>	<b>193</b>
<b>As at December 31, 2020</b>	<b>135</b>	<b>40</b>	<b>8</b>	<b>183</b>

As at December 31, 2020, other equipment consisted of EUR 4 m (prior year: EUR 5 m) in production equipment, EUR 3 m (prior year: EUR 3 m) in technical equipment and machinery, and EUR 1 m (prior year: EUR 1 m) in office equipment.

Liabilities related to lease agreements capitalized are due as follows:

## Lease liabilities

	12/31/2020		12/31/2019	
in € millions	Discounted	Undis- counted	Discounted	Undis- counted
Less than one year	50	52	50	56
Between one and five years	83	89	88	97
More than five years	53	57	56	63
<b>Total</b>	<b>186</b>	<b>198</b>	<b>194</b>	<b>216</b>

The impact on the consolidated income statement and the consolidated statement of cash flows is as follows:

## Impact on consolidated income statement

in € millions	2020	2019
Depreciation	-59	-58
Interest expense	3	4
Expense relating to short-term leases (lease term of up to 12 months)	5	6
Expense relating to leases of low-value assets	3	3
Variable lease payments	0	1



Notes to the consolidated statement of financial position  
Property, plant and equipment

## Impact on consolidated statement of cash flows

in € millions	2020	2019
Variable lease payments, short-term leases (term of up to 12 months), leases of low-value assets recognized in EBIT	8	9
Principal repayments on lease liabilities	60	60
Interest paid	3	4

Future cash outflows for lease payments not capitalized are as follows:

## Future lease payments not capitalized

in € millions	12/31/2020	12/31/2019
Expense for variable lease payments subsequent to the reporting date	1	1
Expense for extension or termination options not reflected in measurement	0	0
Expense relating to leases which have not yet commenced	0	5
Expense relating to short-term leases with a lease term extending beyond the reporting date	0	0
<b>Total</b>	<b>1</b>	<b>5</b>

The Schaeffler Group recognizes the exercise of extension options included in real estate leases only if such exercise is reasonably certain. Exercise is reassessed upon the occurrence of significant events or changes in circumstances that might lead to a change in assessment.

## 4.3 Property, plant and equipment

## Property, plant and equipment

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
<b>Historical cost</b>					
<b>Balance as at January 01, 2019</b>	<b>2,709</b>	<b>9,304</b>	<b>1,176</b>	<b>1,181</b>	<b>14,370</b>
Additions from initial consolidation of subsidiaries	0	0	1	0	1
Disposals of subsidiaries	-7	-45	-10	0	-63
Additions	39	303	59	496	897
Disposals	-18	-194	-50	-2	-265
Transfers	118	577	43	-718	21
Reclassification to IFRS 5	-16	-1	0	-5	-22
Foreign currency translation	10	30	4	5	50
<b>Balance as at December 31, 2019</b>	<b>2,834</b>	<b>9,974</b>	<b>1,223</b>	<b>957</b>	<b>14,988</b>
<b>Balance as at January 01, 2020</b>	<b>2,834</b>	<b>9,974</b>	<b>1,223</b>	<b>957</b>	<b>14,988</b>
Additions from initial consolidation of subsidiaries	2	0	0	0	2
Disposals of subsidiaries	0	0	0	0	0
Additions	41	177	48	353	618
Disposals	-3	-192	-47	-18	-260
Transfers	134	425	94	-658	-5
Reclassification to IFRS 5	-11	0	0	0	-11
Foreign currency translation	-71	-307	-26	-30	-434
<b>Balance as at December 31, 2020</b>	<b>2,926</b>	<b>10,077</b>	<b>1,292</b>	<b>605</b>	<b>14,900</b>

Notes to the consolidated statement of financial position  
Investments in joint ventures and associated companies

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
<b>Accumulated depreciation and impairment losses</b>					
<b>Balance as at January 01, 2019</b>	<b>1,476</b>	<b>6,709</b>	<b>864</b>	<b>3</b>	<b>9,052</b>
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	-8	-45	-7	0	-60
Depreciation	80	689	101	0	870
Impairment losses	1	17	0	4	23
Disposals	-12	-189	-49	0	-250
Transfers	0	0	0	0	0
Reclassification to IFRS 5	-12	-1	0	-4	-17
Foreign currency translation	3	12	3	0	17
<b>Balance as at December 31, 2019</b>	<b>1,527</b>	<b>7,192</b>	<b>911</b>	<b>3</b>	<b>9,634</b>
<b>Balance as at January 01, 2020</b>	<b>1,527</b>	<b>7,192</b>	<b>911</b>	<b>3</b>	<b>9,634</b>
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	0	0	0	0	0
Depreciation	79	700	99	0	878
Impairment losses	0	28	1	12	41
Disposals	-2	-182	-45	-11	-240
Transfers	0	-1	1	0	0
Reclassification to IFRS 5	-3	0	0	0	-3
Foreign currency translation	-32	-222	-19	-1	-274
<b>Balance as at December 31, 2020</b>	<b>1,569</b>	<b>7,515</b>	<b>948</b>	<b>4</b>	<b>10,035</b>
<b>Net carrying amounts</b>					
<b>As at January 01, 2019</b>	<b>1,233</b>	<b>2,596</b>	<b>312</b>	<b>1,177</b>	<b>5,319</b>
<b>As at December 31, 2019</b>	<b>1,307</b>	<b>2,782</b>	<b>312</b>	<b>954</b>	<b>5,355</b>
<b>As at January 01, 2020</b>	<b>1,307</b>	<b>2,782</b>	<b>312</b>	<b>954</b>	<b>5,355</b>
<b>As at December 31, 2020</b>	<b>1,358</b>	<b>2,562</b>	<b>344</b>	<b>601</b>	<b>4,865</b>

EUR 40 m of the impairment losses recognized in the reporting period are included in cost of sales and EUR 1 m in other expenses. EUR 21 m of these impairments affected the Automotive Technologies division and EUR 20 m the Industrial division.

The assets impaired represent primarily production-specific equipment that has become obsolete because of canceled orders. They were written down to fair value less costs of disposal, which was mainly determined based on their scrap value (level 2 of the fair value hierarchy in IFRS 13).

As at December 31, 2020, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 141 m (prior year: EUR 288 m).

## 4.4 Investments in joint ventures and associated companies

Investments in joint ventures and associated companies consisted of EUR 107 m (prior year: EUR 140 m) in investments in joint ventures and EUR 3 m (prior year: EUR 3 m) in investments in associated companies.

The most significant joint venture is Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach, which was established in 2018.

The company is jointly controlled by its two limited partners, Schaeffler Technologies AG & Co. KG and Arnold Verwaltungen GmbH.

90% of its shares are held by Schaeffler Technologies AG & Co. KG and Arnold Verwaltungen GmbH holds a 10% interest. The joint venture's two shareholders have joint control because decisions about the relevant activities require the unanimous consent of both shareholders.

The general partner of Schaeffler Paravan Technologie GmbH & Co. KG is Schaeffler Paravan Management GmbH (no shareholdings).

On October 1, 2018, the joint venture acquired the Space Drive drive-by-wire technology (from Paravan GmbH and Roland Arnold GmbH & Co. KG) and the "Schaeffler Mover" activities from Schaeffler Technologies AG & Co. KG. The objective of the company is the further development of the drive-by-wire technology and the development and sale of mobility systems.

The following summarized financial information can be derived from the financial statements of Schaeffler Paravan Technologie GmbH & Co. KG for 2020 prepared in accordance with IFRS. The summarized financial information is shown at 100%.

#### Schaeffler Paravan Technologie GmbH & Co. KG

in € millions	2020	2019
Current assets	5	6
• Liquid funds	1	0
Non-current assets	170	179
<b>Total assets</b>	<b>175</b>	<b>185</b>
Current liabilities	46	7
• Current financial liabilities	42	5
Non-current liabilities	1	12
• Non-current financial liabilities	0	10
<b>Total liabilities</b>	<b>47</b>	<b>19</b>
Revenue	7	7
Depreciation and amortization	-10	-10
Earnings before income taxes	-37	-20
Other comprehensive income	0	0
Income taxes	0	1
<b>Total comprehensive income after taxes</b>	<b>-37</b>	<b>-19</b>
<b>Net assets</b>	<b>128</b>	<b>166</b>
Proportionate share of net assets	115	149
Elimination of proportionate share of gain on contribution in kind	-8	-9
<b>Carrying amount of investment</b>	<b>107</b>	<b>140</b>

The impact of other equity-accounted joint ventures and of associated companies taken as a whole on the Schaeffler Group's net assets, financial position, and earnings as at the end of the reporting period was insignificant.

In 2019, the company entered into a contractual agreement with a joint venture regarding a convertible loan. In connection with the loan, there are put options outstanding on shares in the joint venture as well as contractually agreed rights to participate in decision-making. Dividend payments are contractually excluded until December 31, 2023.

In 2020, the company entered into a joint venture arrangement with Beijing Advanced Material Technology Co., Ltd., China. The objectives of the arrangement are expanding industrial application activities in the Chinese market and developing new business areas. Completion of the legal process of founding the joint venture following approval by the antitrust authority and payment of the equity contribution to the joint venture is scheduled for 2021, as is commencement of the agreed activities.

#### Deferred tax assets and liabilities

	12/31/2019				12/31/2020		
				Recognized in other comprehensive income		Deferred tax assets	Deferred tax liabilities
in € millions	Net	Recognized in profit or loss	Foreign currency translation		Net		
Intangible assets	-22	13	-1	0	-10	5	-15
Property, plant and equipment	-82	-23	-1	0	-106	88	-194
Financial assets	3	-6	0	5	2	2	0
Inventories	86	19	-1	0	104	115	-11
Trade receivables and other assets	-6	-100	-5	-17	-128	198	-326
Provisions for pensions and similar obligations	493	-2	0	40	531	614	-83
Other provisions and other liabilities	99	134	-6	-5	222	308	-86
Interest- and loss carry-forwards	23	195	0	0	218	218	0
Outside basis differences	-18	-12	0	0	-30	0	-30
<b>Deferred taxes (gross)</b>	<b>576</b>	<b>218</b>	<b>-14</b>	<b>23</b>	<b>803</b>	<b>1,548</b>	<b>-745</b>
Netting						-590	590
<b>Deferred taxes (net)</b>	<b>576</b>	<b>218</b>	<b>-14</b>	<b>23</b>	<b>803</b>	<b>958</b>	<b>-155</b>

## 4.5 Deferred tax assets and liabilities and income tax receivables and payables

### Deferred tax assets and liabilities

The following items gave rise to recognized deferred tax assets and liabilities:

No deferred tax assets were recognized on EUR 92 m (prior year: EUR 0 m) in interest carry-forwards.

## Notes to the consolidated statement of financial position

Deferred tax assets and liabilities and income tax receivables and payables

As at December 31, 2020, the Schaeffler Group had gross loss carry-forwards of EUR 752 m (prior year: EUR 233 m) for corporation tax and EUR 547 m (prior year: EUR 43 m) for trade tax, including EUR 140 m (prior year: EUR 153 m) in corporation tax losses and EUR 35 m (prior year: EUR 35 m) in trade tax losses for which no deferred taxes have been recognized.

EUR 65 m (prior year: EUR 73 m) of the corporation tax loss carry-forwards on which no deferred tax assets were recognized can be carried forward for a limited period. The interest carry-forwards can be utilized indefinitely.

No deferred tax assets were recognized on EUR 35 m (prior year: EUR 30 m) in temporary differences, as it is not considered probable that they will be utilized in the future.

No deferred taxes have been recognized on EUR 3,271 m (prior year: EUR 2,386 m) in undistributed profits of certain subsidiaries, as the company intends to continually reinvest these profits rather than distributing them.

As at the end of the reporting period, certain group companies that have suffered losses have recognized EUR 203 m (prior year: EUR 16 m) in net deferred tax assets on interest and loss carry-forwards. Deferred tax assets were largely assessed as probable of being realized since the losses arose from one-time items as a result of exceptional restructuring measures and since sufficient taxable profits are expected in the future, particularly due to the positive impact of the restructurings.

As at December 31, 2020, the net amount of deferred tax recognized in accumulated other comprehensive income was EUR 428 m (prior year: EUR 405 m). The tax included in other comprehensive income is as follows:

## Income tax recognized in other comprehensive income

in € millions	2020			2019		
	Before tax	Tax	After tax	Before tax	Tax	After tax
<b>Items that will not be reclassified to profit or loss</b>						
Remeasurement of net defined benefit liability	-141	40	-101	-419	122	-297
Changes in scope of consolidation – defined benefit pension and other benefit plans	0	0	0	2	0	2
Net change in fair value of financial assets at fair value through other comprehensive income	0	0	0	-2	0	-2
<b>Total other comprehensive income (loss) that will not be reclassified to profit or loss</b>	<b>-141</b>	<b>40</b>	<b>-101</b>	<b>-419</b>	<b>122</b>	<b>-298</b>
<b>Items that have been or may be reclassified subsequently to profit or loss</b>						
Foreign currency translation differences for foreign operations	-308	0	-308	65	0	65
Net change from hedges of net investments in foreign operations	0	0	0	-1	0	0
Effective portion of changes in fair value of cash flow hedges	60	-17	43	22	-6	16
<b>Total other comprehensive income (loss) that has been or may be subsequently reclassified to profit or loss</b>	<b>-247</b>	<b>-17</b>	<b>-265</b>	<b>86</b>	<b>-6</b>	<b>80</b>
<b>Total other comprehensive income (loss)</b>	<b>-389</b>	<b>23</b>	<b>-366</b>	<b>-333</b>	<b>116</b>	<b>-217</b>

## Income tax receivables and payables

As at December 31, 2020, income tax receivables amounted to EUR 62 m (prior year: EUR 89 m), including non-current balances of EUR 1 m (prior year: EUR 0 m).

As at December 31, 2020, income tax payables amounted to EUR 134 m (prior year: EUR 204 m), including non-current balances of EUR 10 m (prior year: EUR 103 m). In current or future tax audits, the fiscal authorities and the Schaeffler Group may arrive at different conclusions regarding tax laws or tax-related facts. The fiscal authorities may change original tax assessments, increasing the Schaeffler Group's tax charges. Identifiable tax audit-related risks have been recognized as income tax payables in the Schaeffler Group's consolidated financial statements.

Notes to the consolidated statement of financial position  
Inventories

## 4.6 Inventories

## Inventories

in € millions	12/31/2020	12/31/2019
Raw materials and supplies	407	460
Work in progress	529	592
Finished goods and merchandise	965	1,079
Advance payments	3	1
<b>Total</b>	<b>1,904</b>	<b>2,132</b>

EUR 9,524 m (prior year: EUR 10,681 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2020.

The impairment allowance on inventories amounted to EUR 304 m (prior year: EUR 309 m) as at December 31, 2020.

## 4.7 Trade receivables

## Trade receivables

in € millions	12/31/2020	12/31/2019
<b>Trade receivables (gross)</b>	<b>2,199</b>	<b>2,157</b>
Impairment allowances	-39	-27
<b>Trade receivables (net)</b>	<b>2,160</b>	<b>2,130</b>

Movements in impairment allowances on these trade receivables can be reconciled as follows:

## Impairment allowances on trade receivables

in € millions	2020	2019
<b>Impairment allowances as at January 01</b>	<b>-27</b>	<b>-18</b>
Additions	-18	-18
Allowances used to cover write-offs	0	1
Reversals	6	8
<b>Impairment allowances as at December 31</b>	<b>-39</b>	<b>-27</b>

## Aging of trade receivables

in € millions	12/31/2020	12/31/2019
<b>Trade receivables (gross)</b>	<b>2,199</b>	<b>2,157</b>
<b>Not past due</b>	<b>2,061</b>	<b>1,900</b>
<b>Past due</b>		
up to 60 days	86	201
61–120 days	9	12
121–180 days	4	9
181–360 days	11	9
> 360 days	28	26

As at December 31, 2020, trade receivables outstanding with a carrying amount of EUR 127 m (prior year: EUR 178 m) net of retained credit risk had been sold under the ABCP program (see Note 5.2).

ⓘ More on the Schaeffler Group's exposure to credit, currency, and liquidity risk in Note 4.16

Notes to the consolidated statement of financial position  
Other financial assets and other assets

## 4.8 Other financial assets and other assets

### Other financial assets (non-current/current)

in € millions	12/31/2020			12/31/2019		
	Non-current	Current	Total	Non-current	Current	Total
Loans receivable and financial receivables	36	0	36	37	0	37
Derivative financial assets	5	72	77	32	28	60
Miscellaneous other financial assets	37	110	147	57	92	148
<b>Total</b>	<b>77</b>	<b>182</b>	<b>259</b>	<b>126</b>	<b>120</b>	<b>246</b>

As at December 31, 2020, **current derivative financial assets** mainly comprised fair values of derivatives the Schaeffler Group uses to hedge currency risk.

**Non-current miscellaneous other financial assets** included marketable securities.

**Current miscellaneous other financial assets** comprised rights arising from the sale of receivables and loans receivable from joint ventures.



More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.16

### Other assets (non-current/current)

in € millions	12/31/2020			12/31/2019		
	Non-current	Current	Total	Non-current	Current	Total
Pension asset	64	0	64	63	0	63
Tax receivables	1	199	200	1	226	228
Miscellaneous other assets	55	91	146	58	47	105
<b>Total</b>	<b>121</b>	<b>290</b>	<b>411</b>	<b>122</b>	<b>273</b>	<b>396</b>

**Tax receivables** consisted predominantly of value-added tax refunds receivable.

The majority of **miscellaneous other assets** represented the current and non-current portions of prepaid assets and deferred charges.

## 4.9 Cash and cash equivalents

As at December 31, 2020, cash and cash equivalents consisted primarily of bank balances and short-term deposits.

At the end of the reporting period, cash and cash equivalents include EUR 253 m (prior year: EUR 413 m) held by subsidiaries in Argentina, Belarus, Brazil, Chile, China, Colombia, India, Indonesia, Peru, the Philippines, Serbia, South Africa, South Korea, Thailand, Ukraine, Venezuela, Vietnam, and other countries. These subsidiaries are subject to exchange restrictions or other legal or contractual restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

## 4.10 Assets held for sale and liabilities associated with assets held for sale

As at December 31, 2020, the company had recognized assets held for sale totaling EUR 8 m (prior year: EUR 5 m) in connection with the planned disposal of a property and a machine.

## 4.11 Shareholders' equity

### Shareholders' equity

in € millions	12/31/2020	12/31/2019
Share capital	666	666
Capital reserves	2,348	2,348
Other reserves	210	931
Accumulated other comprehensive income (loss)	-1,479	-1,124
<b>Equity attributable to shareholders of the parent company</b>	<b>1,745</b>	<b>2,822</b>
Non-controlling interests	93	95
<b>Total shareholders' equity</b>	<b>1,838</b>	<b>2,917</b>

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.

The extraordinary general meeting held on September 15, 2020, approved the creation of authorized capital. The Board of Managing Directors is authorized, subject to approval by the Supervisory Board, to increase share capital in one or more installments by August 31, 2025, by a total of up to EUR 200 m in return for cash contributions.

Schaeffler AG had neither contingent capital nor any resolutions for the creation of contingent capital as at December 31, 2020.

**Capital reserves** remained unchanged at EUR 2,348 m as at December 31, 2020.

The change in **other reserves** in 2020 was largely attributable to the net loss and dividends.

Distributions to shareholders are limited to Schaeffler AG's retained earnings as determined in accordance with German commercial law. For 2020, a dividend of EUR 162 m will be proposed to the Schaeffler AG annual general meeting. EUR 42 m of these dividends relate to the common non-voting shares. This represents a total dividend of EUR 0.25 (prior year: EUR 0.45) per common non-voting share and EUR 0.24 (prior year: EUR 0.44) per common share. As the proposed dividend is subject to shareholder approval at the annual general meeting, it has not been recognized as a liability in these consolidated financial statements.

**Accumulated other comprehensive income** consisted of the impact of currency translation, changes in the fair value of financial instruments designated as hedging instruments, and remeasurements of pensions and similar obligations. EUR 4 m (prior year: EUR 17 m) in losses were reclassified from the translation reserve to profit and loss during the reporting period.

As at December 31, 2020, non-controlling interests primarily represented interests in the shareholders' equity of Schaeffler India Ltd.

## 4.12 Current and non-current financial debt

### Financial debt (current/non-current)

in € millions	12/31/2020			12/31/2019		
	Due in up to 1 year	Due in more than 1 year	Total	Due in up to 1 year	Due in more than 1 year	Total
Bonds	0	3,476	3,476	0	2,781	2,781
Schuldschein loans	0	554	554	0	0	0
Revolving Credit Facility	0	-3	-3	53	-5	48
Capital investment loan	0	0	0	0	249	249
Commercial paper	30	0	30	115	0	115
Other financial debt	13	0	13	1	0	1
<b>Total</b>	<b>43</b>	<b>4,028</b>	<b>4,071</b>	<b>168</b>	<b>3,026</b>	<b>3,194</b>

The increase in financial debt compared to December 31, 2019, is largely attributable to the issuance of new bonds with a total principal of EUR 1.5 bn and the placement of EUR 557 m in Schuldschein loans. Net proceeds from the issuance were used to redeem the final outstanding EUR 600 m bond series issued by Schaeffler Finance B.V. and to repay the capital investment loan of EUR 250 m in full. The company also redeemed a EUR 205 m portion of Schaeffler AG's bond series due in 2022 and repaid the EUR 53 m utilized under the Revolving Credit Facility as well as EUR 85 m in commercial paper.

As at December 31, 2020, the group's debt consisted of five bond series with a principal of EUR 3.5 bn, Schuldschein loans with a principal of EUR 557 m, and EUR 30 m in short-term commercial paper. In addition, the Schaeffler Group had a committed Revolving Credit Facility of EUR 1.8 bn and further committed bilateral lines of credit in the equivalent of EUR 285 m (prior year: EUR 246 m), primarily in Germany, the U.S., and South Korea. EUR 262 m of these facilities were unutilized as at December 31, 2020 (prior year: EUR 234 m).



The Schaeffler Group had the following loans outstanding as at December 31, 2020:

#### Schaeffler Group syndicated loans

Tranche	Currency	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019	Maturity
		Principal in millions		Carrying amount in € millions			Coupon	
Revolving Credit Facility <sup>2)</sup>	EUR	1,800	1,800	-3	48	Euribor <sup>1)</sup> + 0.65%	Euribor <sup>1)</sup> + 0.50%	09/30/2023
Capital investment loan <sup>3)</sup>	EUR	0	250	0	249	Euribor <sup>1)</sup> + 1.15%	Euribor <sup>1)</sup> + 1.00%	12/15/2022
<b>Total</b>				<b>-3</b>	<b>297</b>			

<sup>1)</sup> Euribor floor of 0.00%.

<sup>2)</sup> EUR 27 m were drawn down in the form of letters of credit as at December 31, 2020 (December 31, 2019: EUR 74 m, including EUR 21 m in the form of letters of credit).

<sup>3)</sup> The capital investment loan was prepaid in full on October 14, 2020.

The Schaeffler Group had the following bonds outstanding as at year-end:

#### Schaeffler Group bonds

ISIN	Currency	12/31/2020	12/31/2019	12/31/2020	12/31/2019	Coupon	Maturity
		Principal in millions		Carrying amount in € millions			
DE000A2YB699 <sup>1)</sup>	EUR	545	750	543	747	1.125%	03/26/2022
DE000A2YB7A7	EUR	800	800	795	793	1.875%	03/26/2024
XS1212470972 <sup>2)</sup>	EUR	-	600	-	597	3.250%	05/15/2025
DE000A289Q91 <sup>3)</sup>	EUR	750	-	747	-	2.750%	10/12/2025
DE000A2YB7B5	EUR	650	650	645	644	2.875%	03/26/2027
DE000A3H2TA0 <sup>3)</sup>	EUR	750	-	746	-	3.375%	10/12/2028
<b>Total</b>		<b>3,495</b>	<b>2,800</b>	<b>3,476</b>	<b>2,781</b>		

<sup>1)</sup> Principal outstanding: EUR 544,668,000 (since October 14, 2020).

<sup>2)</sup> The bond series was redeemed in full on November 4, 2020.

<sup>3)</sup> The bond series was issued on October 12, 2020.

The differences between principal and carrying amount are the result of accounting for these instruments at amortized cost calculated using the effective interest method. The carrying amount of the revolving credit facility in the prior year consisted of the amount drawn and unamortized transaction costs.

An additional EUR 41 m (prior year: EUR 40 m) in interest accrued on the bonds up to December 31, 2020, were reported in other financial liabilities (see Note 4.15).

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the leverage covenant is not met, which would result in the debt becoming due immediately. As in the prior year, the company has complied with the leverage covenant throughout 2020 as stipulated in the debt agreements.

## 4.13 Provisions for pensions and similar obligations

The post-employment benefits the Schaeffler Group provides to its employees include both defined benefit plans and defined contribution plans. While defined contribution plans generally entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are recognized in the consolidated statement of financial position. The provisions also include a minor amount of obligations similar to pensions.

Notes to the consolidated statement of financial position  
Provisions for pensions and similar obligations

## Defined benefit plans

The Schaeffler Group's defined benefit plans include pension plans, termination payments mandatorily payable upon retirement regardless of the reason employment is terminated, and other post-employment benefits. The company's pension obligations mainly relate to Germany, the U.S., and the United Kingdom, with the majority of the obligations attributable to Germany.

### Germany

In Germany, the company grants pension benefits largely in the form of pension commitments based on pension units as well as under deferred compensation arrangements.

For the significant pension plans, pension benefits in the form of pension units largely result from the Schaeffler Company Pension Scheme ("Schaeffler Versorgungsordnung") and similar schemes that base the amount of the pension unit on eligible income and also contain a minimum guarantee. When the Schaeffler Company Pension Scheme was introduced in 2006, the other pension schemes in Germany were closed to new entrants. Benefits are always paid on an annuity basis. The pension obligations arising from these pension commitments are financed by provisions. Pension benefits are paid out of cash flows from operating activities.

In addition, employees have various deferred compensation arrangements to choose from. Some Schaeffler Group subsidiaries offer their staff a company pension model under which the employees contribute a portion of their pre-tax salary in return for a pension commitment. The compensation deferred is invested in equity, fixed-income, and money market funds under a lifecycle model, i.e., plan assets are moved to lower-risk asset classes as the beneficiary's age increases. In addition, the Schaeffler Group guarantees a minimum annual return. As benefits are paid in up to five annual installments starting when the beneficiary reaches retirement age, longevity risk is

minimized. Benefit obligations resulting from the deferral of pre-tax compensation are covered by assets held separately under a contractual trust agreement (CTA).

### U.S. and United Kingdom

Additional significant defined benefit pension plans cover employees in the U.S. and in the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2020, approx. 95% (prior year: 98%) of pension obligations in the U.S. and approx. 123% (prior year: 120%) of pension obligations in the United Kingdom were covered by plan assets. These pension plans were closed to new entrants in 2006 (U.S.) and 2009 (United Kingdom) and replaced with defined contribution plans. As a result, employees can no longer earn additional defined benefits.

### Net defined benefit obligation

The company's obligations under defined benefit plans and the related plan assets are presented as follows in the consolidated statement of financial position as at December 31, 2020:

#### Amounts recognized in the statement of financial position for pensions and similar obligations

in € millions	12/31/2020					12/31/2019				
	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-2,704	-14	-1	-81	-2,800	-2,539	-13	-1	-84	-2,637
Pension asset (plan assets net of related liabilities)	1	2	54	7	64	1	9	46	7	63
<b>Net defined benefit liability</b>	<b>-2,703</b>	<b>-12</b>	<b>53</b>	<b>-74</b>	<b>-2,736</b>	<b>-2,538</b>	<b>-4</b>	<b>45</b>	<b>-77</b>	<b>-2,574</b>

## Notes to the consolidated statement of financial position

Provisions for pensions and similar obligations

At the end of the reporting period, the defined benefit obligations and related plan assets amounted to the following:

## Analysis of net defined benefit liability

	12/31/2020					12/31/2019				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Present value of defined benefit obligations (active members)	-1,732	-59	0	-205	-1,996	-1,636	-69	0	-208	-1,913
Present value of defined benefit obligations (deferred members)	-296	-29	-151	-5	-481	-234	-28	-136	-5	-403
Present value of defined benefit obligations (pensioners)	-904	-129	-80	-29	-1,142	-886	-122	-86	-30	-1,124
<b>Present value of defined benefit obligations (total)</b>	<b>-2,932</b>	<b>-217</b>	<b>-231</b>	<b>-239</b>	<b>-3,619</b>	<b>-2,756</b>	<b>-219</b>	<b>-222</b>	<b>-243</b>	<b>-3,440</b>
Fair value of plan assets	229	205	284	165	883	218	215	267	166	866
Net pension obligation recognized in the statement of financial position	-2,703	-12	53	-74	-2,736	-2,538	-4	45	-77	-2,574
<b>Net defined benefit liability</b>	<b>-2,703</b>	<b>-12</b>	<b>53</b>	<b>-74</b>	<b>-2,736</b>	<b>-2,538</b>	<b>-4</b>	<b>45</b>	<b>-77</b>	<b>-2,574</b>

Movements in the net defined pension benefit liability in 2020 can be reconciled as follows:

## Reconciliation of net defined benefit liability/asset January 01/December 31

	2020					2019				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
<b>Net defined benefit liability (-)/ asset (+) as at January 01</b>	<b>-2,538</b>	<b>-4</b>	<b>45</b>	<b>-77</b>	<b>-2,574</b>	<b>-2,068</b>	<b>-10</b>	<b>38</b>	<b>-87</b>	<b>-2,127</b>
Benefits paid	62	1	0	6	69	61	1	0	4	66
Service cost	-78	0	0	-8	-86	-74	0	0	-13	-87
Net interest on net defined benefit liability	-23	0	1	-1	-23	-41	0	1	-2	-42
Employer contributions	8	0	0	9	17	13	0	0	12	25
Employee contributions	0	0	0	0	0	0	0	0	0	0
Transfers in/out	7	0	0	0	7	-4	0	0	2	-2
Remeasurement of net defined benefit liability	-141	-9	9	-4	-145	-430	6	5	0	-419
Business combinations/disposals of subsidiaries	0	0	0	0	0	5	0	0	0	5
Foreign currency translation	0	0	-2	1	-1	0	-1	1	0	0
<b>Net defined benefit liability (-)/ asset (+) as at December 31</b>	<b>-2,703</b>	<b>-12</b>	<b>53</b>	<b>-74</b>	<b>-2,736</b>	<b>-2,538</b>	<b>-4</b>	<b>45</b>	<b>-77</b>	<b>-2,574</b>

**Movements in defined benefit obligation**

The opening and closing balances of the present value of the defined benefit obligation as at the end of the reporting period can be reconciled as follows:

**Reconciliation of present value of defined benefit obligations January 01/December 31**

	2020					2019				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
<b>Present value of defined benefit obligations as at January 01</b>	<b>-2,756</b>	<b>-219</b>	<b>-222</b>	<b>-243</b>	<b>-3,440</b>	<b>-2,246</b>	<b>-194</b>	<b>-190</b>	<b>-234</b>	<b>-2,864</b>
Benefits paid	67	12	9	13	101	64	11	11	14	100
Current service cost	-100	0	0	-13	-113	-74	0	0	-14	-88
Past service cost	20	0	0	5	25	0	0	0	1	1
Interest cost	-25	-7	-4	-5	-41	-43	-8	-6	-7	-64
Employee contributions	-11	0	0	0	-11	-11	0	0	0	-11
Transfers in/out	7	0	0	0	7	-4	0	0	0	-4
Settlements paid	0	0	0	0	0	0	0	0	4	4
Gains (+)/losses (-) on settlements	0	0	0	0	0	0	0	0	3	3
Gains (+)/losses (-) – changes in financial assumptions	-159	-21	-28	-6	-214	-468	-25	-26	-15	-534
Gains (+)/losses (-) – changes in demographic assumptions	0	2	2	3	7	0	1	0	7	8
Gains (+)/losses (-) – experience adjustments	25	-2	0	0	23	21	0	0	1	22
Business combinations/disposals of subsidiaries	0	0	0	0	0	5	0	0	0	5
Foreign currency translation	0	18	12	7	37	0	-4	-11	-3	-18
<b>Present value of defined benefit obligations as at December 31</b>	<b>-2,932</b>	<b>-217</b>	<b>-231</b>	<b>-239</b>	<b>-3,619</b>	<b>-2,756</b>	<b>-219</b>	<b>-222</b>	<b>-243</b>	<b>-3,440</b>

## Movements in and types of plan assets

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

### Reconciliation of fair value of plan assets January 01/December 31

in € millions	2020					2019				
	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
<b>Fair value of plan assets as at January 01</b>	<b>218</b>	<b>215</b>	<b>267</b>	<b>166</b>	<b>866</b>	<b>178</b>	<b>184</b>	<b>228</b>	<b>147</b>	<b>737</b>
Benefits paid	-5	-11	-9	-7	-32	-3	-10	-11	-10	-34
Interest income on plan assets	2	7	5	4	18	2	8	7	5	22
Employee contributions	11	0	0	0	11	11	0	0	0	11
Employer contributions	10	0	0	9	19	13	0	0	12	25
Transfers in/out	0	0	0	0	0	0	0	0	2	2
Return on plan assets excluding interest income	-7	12	35	-1	39	17	30	31	7	85
Foreign currency translation	0	-18	-14	-6	-38	0	3	12	3	18
<b>Fair value of plan assets as at December 31</b>	<b>229</b>	<b>205</b>	<b>284</b>	<b>165</b>	<b>883</b>	<b>218</b>	<b>215</b>	<b>267</b>	<b>166</b>	<b>866</b>

The Schaeffler Group plans to contribute EUR 21 m (prior year: EUR 13 m) to plan assets in 2021.

Notes to the consolidated statement of financial position  
Provisions for pensions and similar obligations

Plan assets consisted of the following:

## Classes of plan assets

	12/31/2020					12/31/2019				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Equity instruments	105	21	75	4	205	111	22	82	5	220
Debt instruments	46	184	55	81	366	40	193	62	90	385
Real estate	0	0	26	4	30	0	0	33	5	38
Cash	51	0	1	1	53	42	0	1	1	44
(Reimbursement) insurance policies	27	0	0	7	34	25	0	0	7	32
Mixed funds	0	0	127	57	184	0	0	89	58	147
Other	0	0	0	11	11	0	0	0	0	0
<b>Total</b>	<b>229</b>	<b>205</b>	<b>284</b>	<b>165</b>	<b>883</b>	<b>218</b>	<b>215</b>	<b>267</b>	<b>166</b>	<b>866</b>

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments. Except for amounts related to real estate and reimbursement insurance policies, all amounts shown above represent market prices quoted in an active market.

Information on changes in the various classes of plan assets in Germany is provided by the fund manager in the form of performance reports and is regularly reviewed by investment committees. The investment strategy follows a lifecycle model: Plan assets are moved to lower-risk asset classes as the beneficiary's age increases.

Asset-liability studies are prepared for the funded defined benefit plans in the United Kingdom and in the U.S. at regular intervals, and the investment policy of each fund is based on the applicable study and any local legal requirements.

Notes to the consolidated statement of financial position  
Provisions for pensions and similar obligations

## Comprehensive income

The following table summarizes the various amounts recognized in comprehensive income for defined benefit plans:

## Comprehensive income on defined benefit pension plans

	2020					2019				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Current service cost	100	0	0	13	113	74	0	0	14	88
Past service cost	-20	0	0	-5	-25	0	0	0	-1	-1
• curtailments	-20	0	0	-5	-25	0	0	0	0	0
Gains (-)/losses (+) on settlements	0	0	0	0	0	0	0	0	-3	-3
<b>Service cost</b>	<b>80</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>88</b>	<b>74</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>84</b>
Interest cost	25	7	4	5	41	43	8	6	7	64
Interest income	-2	-7	-5	-4	-18	-2	-8	-7	-5	-22
<b>Net interest on net defined benefit liability/asset</b>	<b>23</b>	<b>0</b>	<b>-1</b>	<b>1</b>	<b>23</b>	<b>41</b>	<b>0</b>	<b>-1</b>	<b>2</b>	<b>42</b>
Gains (-)/losses (+) – changes in financial assumptions	159	21	28	6	214	468	25	26	15	534
Gains (-)/losses (+) – changes in demographic assumptions	0	-2	-2	-3	-7	0	-1	0	-7	-8
Gains (-)/losses (+) – experience adjustments	-25	1	0	0	-24	-21	0	0	-1	-22
Return on plan assets excluding interest income	7	-12	-35	1	-39	-17	-30	-31	-7	-85
Other adjustments	0	0	-3	0	-3	0	0	0	0	0
<b>Remeasurements of net defined benefit liability/asset</b>	<b>141</b>	<b>8</b>	<b>-12</b>	<b>4</b>	<b>141</b>	<b>430</b>	<b>-6</b>	<b>-5</b>	<b>0</b>	<b>419</b>
<b>Total comprehensive (income) loss on defined benefit obligations</b>	<b>244</b>	<b>8</b>	<b>-13</b>	<b>13</b>	<b>252</b>	<b>545</b>	<b>-6</b>	<b>-6</b>	<b>12</b>	<b>545</b>

Notes to the consolidated statement of financial position  
Provisions for pensions and similar obligations

The curtailment gains represent the impact of measures taken under restructuring programs to downsize the workforce (see Note 4.14). The effect of the retrospective change in presentation totaled EUR 4 m (see Note 1.3). Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

## Net pension expense in the consolidated income statement

	2020					2019				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Cost of sales	59	0	0	9	68	43	0	0	9	52
Research and development expenses	20	0	0	1	21	14	0	0	0	14
Selling expenses	8	0	0	2	10	5	0	0	1	6
Administrative expenses	13	0	0	1	14	12	0	0	0	12
<b>Included in EBIT</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>113</b>	<b>74</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>84</b>
Interest expense	25	7	4	5	41	43	8	6	7	64
Interest income on plan assets	-2	-7	-5	-4	-18	-2	-8	-7	-5	-22
<b>Included in financial result</b>	<b>23</b>	<b>0</b>	<b>-1</b>	<b>1</b>	<b>23</b>	<b>41</b>	<b>0</b>	<b>-1</b>	<b>2</b>	<b>42</b>
<b>Total</b>	<b>123</b>	<b>0</b>	<b>-1</b>	<b>14</b>	<b>136</b>	<b>115</b>	<b>0</b>	<b>-1</b>	<b>12</b>	<b>126</b>

## Maturity profile of defined benefit obligations

The weighted average duration of defined benefit obligations is 21.1 years (prior year: 20.7 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 22.5 years (prior year: 22.1 years), 11.9 years (prior year: 11.6 years), and 21.4 years (prior year: 21.2 years), respectively.

Over the next ten years, the company expects to make the following payments for the defined benefit obligations it has as at year-end:

## Payments expected to be made in coming years

in € millions	Payments expected to be made
2021	99
2022	105
2023	110
2024	115
2025	123
2026-2030	613



## Actuarial assumptions

At each reporting date, defined benefit obligations are measured based on certain actuarial assumptions.

The assumptions used, in particular discount rates, future salary increases, and future pension increases, are determined separately for each country.

The weighted averages of the principal actuarial assumptions for the Schaeffler Group are as follows:

### Actuarial assumptions

	2020					2019				
	Germany	U.S.	United Kingdom	Other countries	Total <sup>1)</sup>	Germany	U.S.	United Kingdom	Other countries	Total <sup>1)</sup>
Discount rate as at December 31	0.7%	2.3%	1.4%	1.9%	0.9%	1.0%	3.2%	2.0%	2.1%	1.3%
Future salary increases	2.8%	n.a. <sup>2)</sup>	n.a. <sup>2)</sup>	2.8%	3.2%	3.3%	n.a. <sup>2)</sup>	n.a. <sup>2)</sup>	2.9%	3.2%
Future pension increases	1.8%	2.5%	3.0%	0.0%	1.7%	1.8%	2.5%	3.1%	0.1%	1.8%

<sup>1)</sup> Average discount rate for the Schaeffler Group.

<sup>2)</sup> The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Mortality assumptions are based on published statistics and country-specific mortality tables. Starting in 2018, the “RICHT-TAFELN 2018 G” mortality tables developed by Prof. Dr. Klaus Heubeck and published by HEUBECK-RICHTTAFELN-GmbH are used for the German plans. These tables are generation tables, which specifically include appropriate assumptions to take into account future increases in life expectancy.

## Sensitivity analysis

Selecting the assumptions discussed above is key to the calculation of the present value of the defined benefit obligation. The following table shows the sensitivity of the present value of the defined benefit obligation to changes in one of the key assumptions.

### Sensitivity analysis of present value of defined benefit obligation

		2020					2019				
in € millions		Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0%	-557	-23	-42	-24	-646	-512	-23	-40	-25	-600
	Minus 1.0%	788	28	57	29	902	721	28	53	30	832
Future salary increases	Plus 1.0%	66	n.a. <sup>1)</sup>	n.a. <sup>1)</sup>	17	83	67	n.a. <sup>1)</sup>	n.a. <sup>1)</sup>	18	85
	Minus 1.0%	-57	n.a. <sup>1)</sup>	n.a. <sup>1)</sup>	-14	-71	-58	n.a. <sup>1)</sup>	n.a. <sup>1)</sup>	-15	-73
Future pension increases	Plus 1.0%	284	0	25	3	312	273	0	23	3	299
	Minus 1.0%	-205	0	-22	-3	-230	-199	0	-20	-3	-222

<sup>1)</sup> The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Another key parameter in the measurement of the Schaeffler Group's pension obligations is life expectancy. An increase in life expectancy in the most significant countries by one year would lead to an increase in the present value of the corresponding obligation by EUR 156 m (prior year: EUR 141 m) in Germany, EUR 8 m (prior year: EUR 7 m) in the U.S., and EUR 11 m (prior year: EUR 10 m) in the United Kingdom.

As in the prior year, the above sensitivities were calculated using the same method as for the present value of the pension obligations as at the balance sheet date. The sensitivities presented above do not take into account interaction between assumptions; rather, the analysis assumes that each assumption changes separately. In practice, this would be unusual, as assumptions are frequently correlated.

## Risk and risk management

The existing defined benefit plans expose the Schaeffler Group to the usual actuarial risks.

The existing plan assets are managed independently on a decentralized basis in the various countries.

## Defined contribution pension plans

In 2020, the Schaeffler Group incurred EUR 34 m (prior year: EUR 35 m) in expenses related to defined contribution plans. At EUR 14 m (prior year: EUR 16 m), the majority of this amount relates to plans in the U.S.

Notes to the consolidated statement of financial position  
Provisions

## 4.14 Provisions

## Provisions

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
<b>Balance as at January 01, 2020</b>	<b>281</b>	<b>91</b>	<b>103</b>	<b>9</b>	<b>145</b>	<b>630</b>
Additions	120	600	82	12	85	898
Utilization	-194	-47	-33	-11	-53	-337
Reversals	-28	-5	-9	-1	-12	-55
Interest expense	1	0	0	0	0	1
Foreign currency translation	-2	0	-2	0	-7	-12
<b>Balance as at December 31, 2020</b>	<b>178</b>	<b>639</b>	<b>142</b>	<b>9</b>	<b>158</b>	<b>1,126</b>

Provisions consisted of the following current and non-current portions. Non-current provisions are due in one to five years.

## Provisions (non-current/current)

in € millions	12/31/2020			12/31/2019		
	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	109	68	178	96	185	281
Restructuring	365	273	639	26	65	91
Warranties	0	142	142	0	103	103
Other taxes	0	9	9	0	9	9
Other	35	123	158	47	98	145
<b>Total</b>	<b>510</b>	<b>616</b>	<b>1,126</b>	<b>168</b>	<b>462</b>	<b>630</b>

**Provisions for employee benefits** included EUR 76 m (prior year: EUR 60 m) in provisions for long-time service awards and partial retirement programs primarily classified as non-current. The decrease in provisions for employee benefits compared to the prior year is mainly due to utilization of the voluntary severance schemes in Germany and France that are run as part of the

programs “RACE” in the Automotive Technologies division, “GRIP” in the Automotive Aftermarket division, and “FIT” in the Industrial division. Recognition of a provision of EUR 39 m for a new voluntary severance scheme in South Korea being executed as part of “RACE” had an offsetting effect.

**Restructuring provisions** included EUR 26 m for the reorganization of the indirect functions at various locations under the “Shared Services” initiative for the Europe region. Implementation of these measures is expected to be completed by 2022. In addition, the company has EUR 21 m in restructuring provisions for the program “RACE” recognized in 2019. Additionally, the Board of Managing Directors of Schaeffler AG adopted a further package of measures on September 9, 2020, to accelerate the transformation of the Schaeffler Group and strengthen its ability to compete and realize future opportunities for the long term. The company recognized related restructuring provisions of EUR 600 m under the programs “RACE”, “GRIP”, and “FIT”.

**Warranty provisions** consisted, in particular, of provisions for specific cases for which an outflow of resources within one year is considered probable. The increase compared to the prior year is due to specific cases within the Automotive Technologies and Industrial divisions.

**Other provisions** include, inter alia, EUR 16 m (prior year: EUR 19 m) in provisions for interest and penalties related to income taxes, EUR 15 m (prior year: EUR 21 m) for potential third party claims in connection with antitrust proceedings, and EUR 37 m (prior year: EUR 20 m) for legal and litigation risks.

**Non-current provisions** increased by EUR 342 m to EUR 510 m (prior year: EUR 168 m), primarily due to the recognition of new restructuring provisions.

**Current provisions** rose by EUR 154 m to EUR 616 m (prior year: EUR 462 m). The increase was also due to the recognition of new restructuring provisions.

## 4.15 Other financial liabilities and other liabilities

### Other financial liabilities (non-current/current)

in € millions	12/31/2020			12/31/2019		
	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	1	440	442	14	365	379
Derivative financial liabilities	0	34	35	1	53	54
Miscellaneous other financial liabilities	16	118	135	21	127	148
<b>Total</b>	<b>18</b>	<b>593</b>	<b>611</b>	<b>36</b>	<b>545</b>	<b>581</b>

**Amounts payable to staff** primarily included profit-sharing accruals and liabilities for personnel-related measures.

**Derivative financial liabilities** mainly included forward exchange contracts used to hedge the Schaeffler Group's currency risk. The change was primarily attributable to increased market values.

**Miscellaneous other financial liabilities** mainly consisted of payments received from customers for receivables sold under the ABCP program (see Note 5.2) and accrued interest.

ⓘ More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.16

### Other liabilities (non-current/current)

in € millions	12/31/2020			12/31/2019		
	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	0	73	73	0	97	97
Social security contributions payable	5	48	53	0	43	43
Advance payments received	0	3	3	0	3	3
Other tax payables	0	101	101	0	140	140
Miscellaneous other liabilities	13	27	40	15	46	61
<b>Total</b>	<b>18</b>	<b>252</b>	<b>270</b>	<b>15</b>	<b>329</b>	<b>344</b>

**Amounts payable to staff** primarily contained accrued vacation and overtime accounts.

**Social security contributions payable** consisted mainly of unpaid contributions to social security schemes.

**Other tax payables** included, in particular, value-added taxes payable and payroll withholding taxes payable.

## 4.16 Financial instruments

The carrying amounts and fair values of financial instruments by class of the consolidated statement of financial position and by category per IFRS 7.8 are summarized below. Derivatives designated as hedging instruments are shown as well.

Notes to the consolidated statement of financial position  
Financial instruments

## Financial instruments by class and category in accordance with IFRS 7.8

in € millions	Category per IFRS 7.8	12/31/2020		12/31/2019	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets, by class</b>					
Trade receivables	Amortized cost	1,926	1,926	2,098	2,098
Trade receivables – ABCP program	FVTPL	87	87	32	32
Trade receivables – customer receivables and notes receivable available for sale	FVOCI	147	147	0	0
Other financial assets					
• Other investments	FVOCI	36	36	37	37
• Marketable securities	FVTPL	24	24	23	23
• Derivatives designated as hedging instruments	n.a.	54	54	11	11
• Derivatives not designated as hedging instruments	FVTPL	23	23	49	49
• Miscellaneous other financial assets	Amortized cost, FVTPL	123	123	125	125
Cash and cash equivalents <sup>1)</sup>	Amortized cost, FVTPL	1,758	1,758	668	668
<b>Financial liabilities, by class</b>					
Financial debt	FLAC	4,071	4,301	3,194	3,357
Trade payables	FLAC	1,704	1,704	1,732	1,732
Refund liabilities	n.a.	224	224	232	232
Lease liabilities <sup>2)</sup>	n.a.	185	0	194	0
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	10	10	28	28
• Derivatives not designated as hedging instruments	FVTPL	25	25	27	27
• Miscellaneous other financial liabilities	FLAC	577	577	527	527
<b>Summary by category</b>					
Financial assets at amortized cost (Amortized cost)		3,407	3,407	2,891	2,892
Financial assets at fair value through profit or loss (FVTPL)		534	534	104	104
Financial assets at fair value through other comprehensive income (FVOCI)		183	183	37	37
Financial liabilities at amortized cost (FLAC)		6,351	6,582	5,453	5,616
Financial liabilities at fair value through profit or loss (FVTPL)		25	25	27	27

<sup>1)</sup> Includes EUR 400 m in money market funds categorized as FVTPL.<sup>2)</sup> Disclosure of fair value omitted in accordance with IFRS 7.29 (d).

Notes to the consolidated statement of financial position  
Financial instruments

The carrying amounts of trade receivables, including the receivables available for sale under the ABCP program (asset-backed commercial paper program) as well as other customer receivables and notes receivable available for sale, miscellaneous other financial assets, cash and cash equivalents, trade payables, refund liabilities, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments.

Other investments include the following unconsolidated investments (shares in incorporated companies and cooperatives):

## Investments designated as at FVOCI

in € millions	Fair value as at 12/31/2020	Fair value as at 12/31/2019
Investment in SupplyOn AG	5	5
Investment in Gemeinschaftskraftwerk GmbH	2	2
Investment in IAV GmbH	28	28
Other investments	2	2
<b>Total</b>	<b>37</b>	<b>37</b>

Since these investments are of a strategic long-term nature, they are designated as at fair value through other comprehensive income. Fair value is measured using an EBIT multiple methodology using sector- and size-specific EBIT multiples. All inputs are observable in the market. There were no partial disposals of such investments in 2020, and no accumulated gains or losses were reclassified within equity. Marketable securities consist primarily of debt instruments in the form of money market fund units.

In 2020, trade receivables previously categorized as “at amortized cost (Amortized cost)” were reclassified to “at fair value through other comprehensive income (FVOCI)” following reevaluation of the business model for certain customer receivables and notes receivable. The company plans to either sell these receivables or collect their contractual cash flows.

Hedge accounting is only applied to derivatives designated as hedges of currency risk in cash flow hedges. The Schaeffler Group uses cross-currency swaps and forward exchange contracts as hedging instruments here.

Please refer to the notes on the various balance sheet line items for the amount of financial assets pledged as collateral.

The fair values of financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes to the consolidated financial statements were determined using the following valuation methods and inputs:

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities, money market funds reported as cash equivalents, as well as bonds payable included in financial debt.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period, as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Derivatives embedded in bond agreements are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates (CDS rates).  
The fair value of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.

- Level 3: The derivatives embedded in a convertible loan and the loan issued with a conversion right are measured based on option pricing models. Inputs to the model include data from the company's plans and budgets, market information, and management expectations.

The following table summarizes the fair values and levels of financial assets and liabilities. Financial assets and liabilities whose carrying amount is assumed to represent their fair value have been omitted.

**Financial assets and liabilities  
by fair value hierarchy level**

in € millions	Level 1	Level 2	Level 3	Total
<b>December 31, 2020</b>				
Marketable securities	24	-	-	24
Derivatives designated as hedging instruments	-	54	0	54
Derivatives not designated as hedging instruments	-	23	0	23
Trade receivables – ABCP program	-	87	0	87
Trade receivables – customer receivables and notes receivable available for sale	-	147	0	147
Other investments	-	36	0	36
Miscellaneous other financial assets	-	0	1	1
Cash and cash equivalents	400	0	0	400
<b>Total financial assets</b>	<b>424</b>	<b>347</b>	<b>1</b>	<b>772</b>
Financial debt	3,700	601	0	4,301
Derivatives designated as hedging instruments	0	10	0	10
Derivatives not designated as hedging instruments	0	25	0	25
<b>Total financial liabilities</b>	<b>3,700</b>	<b>636</b>	<b>0</b>	<b>4,336</b>
<b>December 31, 2019</b>				
Marketable securities	23	-	-	23
Derivatives designated as hedging instruments	-	11	0	11
Derivatives not designated as hedging instruments	-	48	1	49
Trade receivables – ABCP program	-	32	0	32
Other investments	-	37	0	37
Miscellaneous other financial assets	-	0	10	10
<b>Total financial assets</b>	<b>23</b>	<b>128</b>	<b>11</b>	<b>162</b>
Financial debt	2,938	419	0	3,357
Derivatives designated as hedging instruments	-	28	0	28
Derivatives not designated as hedging instruments	-	26	1	27
<b>Total financial liabilities</b>	<b>2,938</b>	<b>473</b>	<b>1</b>	<b>3,412</b>

The company reviews its financial instruments at the end of each reporting period for any required transfers between levels. No transfers between levels were made during the period.

### Change in assets and liabilities measured at fair value in level 3

	2020		
in € millions	Financial assets – derivatives not designated as hedging instruments	Miscellaneous other financial assets	Financial liabilities – derivatives not designated as hedging instruments
<b>Balance as at January 01</b>	<b>1</b>	<b>10</b>	<b>1</b>
Additions	0	13	0
• Financial income (unrealized)	0	0	-1
• Financial expenses (unrealized)	1	22	0
<b>Balance as at December 31</b>	<b>0</b>	<b>1</b>	<b>0</b>

Financial assets and liabilities for which fair value is determined based on inputs unobservable in the market (level 3) are continually monitored and reviewed for changes in value. The key factor driving fair value changes is the enterprise value of the debtor of the loan. This enterprise value is determined using data from the company's plans and budgets, management expectations, and market information.



Notes to the consolidated statement of financial position  
Financial instruments

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

## Net gains and losses by category of financial instruments in accordance with IFRS 7.20

	Subsequent measurement				2020	2019
					Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation		
Financial assets at fair value through other comprehensive income	-	0	0	-	0	0
Financial assets and liabilities at fair value through profit or loss	0	-56	-	-	-56	-98
Financial assets at amortized cost	15	-	-33	-19	-37	13
Financial liabilities at amortized cost	-107	-	-	-6	-113	-118
<b>Total</b>	<b>-92</b>	<b>-56</b>	<b>-33</b>	<b>-25</b>	<b>-206</b>	<b>-203</b>

Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and in interest expense on financial debt, respectively (see Note 3.5).

The net loss on financial assets and liabilities at fair value through profit and loss of EUR 56 m (prior year: EUR 98 m) relates primarily to derivatives. EUR 34 m (prior year: EUR 93 m) of this net loss is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 31 m (prior year: gains of EUR 23 m).

## Financial risk management

Its financial instruments expose the Schaeffler Group to various risks.

The Schaeffler Group's Board of Managing Directors has the overall responsibility for establishing and overseeing the group's risk management system. The finance organization is responsible for developing and monitoring this risk management system and regularly reports to the Schaeffler Group's Chief Financial Officer on its activities in this area.

Group-wide risk management policies are in place to identify and analyze the Schaeffler Group's risks, set appropriate risk limits and controls, monitor risks, and adhere to the limits. Risk management procedures and systems are reviewed on a regular basis to reflect changes in market conditions and the Schaeffler Group's activities.

The Schaeffler Group has guidelines for the use of hedging instruments, and compliance with these guidelines is reviewed on a regular basis. Internal execution risk is minimized by strict segregation of duties.

Please refer to the "Report on opportunities and risks" in the combined management report for further details on the group's financial risk management.

The Schaeffler Group distinguishes between liquidity risk, credit risk, and market risk (interest rate, currency, and other price risk).

## Liquidity risk

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's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they come due without incurring unacceptable losses or risking damage to the Schaeffler Group's reputation.

Short- and medium-term liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period of up to twelve months. Both liquidity status and liquidity forecast are reported regularly to the Chief Financial Officer.

The Schaeffler Group uses equity, cash pooling arrangements, intercompany loans, receivable sale programs, and existing lines of credit based on the relevant legal and tax regulations to ensure it can meet the financing requirements of its operations and financial obligations. To this end, the Schaeffler Group has access to a Revolving Credit Facility of EUR 1.8 bn (prior year: EUR 1.8 bn) currently bearing interest at Euribor plus 0.5% as well as other bilateral lines of credit of EUR 289 m (prior year: EUR 246 m).

Notes to the consolidated statement of financial position  
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The Schaeffler Group's contractual payments of interest and principal on financial debt, trade payables, refund liabilities, miscellaneous other financial liabilities, and derivative liabilities are summarized as follows:

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans and bonds. Contractual cash flows for derivative financial liabilities consist of the undiscounted expected cash flows translated at closing rates.

## Cash flows related to non-derivative and derivative financial liabilities

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
<b>December 31, 2020</b>					
<b>Non-derivative financial liabilities</b>	<b>6,575</b>	<b>7,037</b>	<b>2,623</b>	<b>2,818</b>	<b>1,596</b>
• Financial debt	4,071	4,531	136	2,803	1,592
• Trade payables	1,704	1,704	1,703	1	0
• Refund liabilities	224	225	225	0	0
• Miscellaneous other financial liabilities	577	577	559	14	4
<b>Derivative financial liabilities</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>6,610</b>	<b>7,072</b>	<b>2,658</b>	<b>2,818</b>	<b>1,596</b>
<b>December 31, 2019</b>					
<b>Non-derivative financial liabilities</b>	<b>5,685</b>	<b>5,823</b>	<b>2,657</b>	<b>1,907</b>	<b>1,259</b>
• Financial debt	3,194	3,309	188	1,863	1,258
• Trade payables	1,732	1,732	1,725	7	0
• Refund liabilities	232	240	234	6	0
• Miscellaneous other financial liabilities	527	542	510	31	1
<b>Derivative financial liabilities</b>	<b>55</b>	<b>55</b>	<b>54</b>	<b>1</b>	<b>0</b>
<b>Total</b>	<b>5,740</b>	<b>5,878</b>	<b>2,711</b>	<b>1,908</b>	<b>1,259</b>

## Credit risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is referred to as credit risk. Regardless of credit insurance, the maximum credit risk to the Schaeffler Group is represented by the carrying amount of the underlying financial asset.

Credit risk arising on trade receivables is managed by constantly monitoring customers' financial status, creditworthiness, and payment history. Additional measures to manage credit risk include efficient collection procedures and the use of commercial credit insurance. All relevant rules are outlined in a Schaeffler Group guideline. The company considers a receivable impaired when there are substantial objective indications. Objective evidence consists of certain events indicating that a default has occurred, such as involvement of a collection agency, collection procedures, foreclosure, and insolvency proceedings. The company determines an individual impairment percentage based on the nature of the event that has occurred and applies that rate to the relevant receivable. Receivables are not derecognized until either the insolvency proceedings are completed or Schaeffler no longer expects to collect the receivable. As at December 31, 2020, the contractual amount outstanding of receivables subject to enforcement measures amounted to EUR 2 m (prior year: EUR 2 m). For expected credit losses, the Schaeffler Group uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables; under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using rating-specific probabilities of default obtained from an external scoring provider that take into account information about future conditions. Expected credit losses are calculated by applying these term-weighted probabilities of default to receivables with medium credit risk that are not impaired. For countries without credit insurance, the company establishes homogeneous portfolios per country and uses the average country-specific probability of default to calculate expected credit losses.

Notes to the consolidated statement of financial position  
Financial instruments

The company uses the following credit risk rating classes to calculate expected credit losses:

## Expected credit losses on trade receivables by risk class

	12/31/2020		
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
Risk class 1: high credit quality	1,105	4	0%
Risk class 2–3: medium credit quality	1,054	10	1%
Risk class 4: secured	10	0	0%
Risk class 5: negative credit quality and/or insolvent	28	25	89%
	2,197	39	2%

	12/31/2019		
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
Risk class 1: high credit quality	1,113	0	0%
Risk class 2–3: medium credit quality	1,015	6	1%
Risk class 4: secured	7	0	0%
Risk class 5: negative credit quality and/or insolvent	22	21	95%
	2,157	27	1%

Customers with sound credit quality are assigned to **risk class 1**. The Schaeffler Group serves these customers without any restrictions. In light of the economic implications of the coronavirus pandemic, the Schaeffler Group anticipates higher expected credit losses on these receivables.

**Risk classes 2 to 3** contain customers with medium credit quality, partly covered by credit insurance. Due to the coronavirus pandemic, the Schaeffler Group expects credit losses for these classes to increase as well. Expected credit losses are only calculated for receivables that are not insured. **Risk class 4** consists of export customers to whom the company makes deliveries against letters of credit or based on cash against documents. No credit losses are expected for this class.

**Risk class 5** comprises customers that are insolvent or have negative credit quality. Deliveries to customers in this group can only be made upon provision of security or against prepayment with the approval of credit management; as a result, no expected credit losses are recognized for this group of customers. Specific impairment allowances are recognized for receivables in risk class 5 based on objective evidence. As at the reporting date, EUR 25 m (prior year: EUR 22 m) of the receivables in risk class 5 are considered impaired while receivables in the other risk classes are not impaired.

Due to the nature and mix of the Schaeffler Group's customers, the impact of the coronavirus pandemic on the allocation of customers to the various risk classes is generally insignificant.

As at December 31, 2020, 30% (prior year: 35%) of trade receivables were covered by commercial credit insurance. For EUR 656 m (prior year: EUR 749 m) in receivables covered by credit insurance, neither specific impairment allowances nor expected credit losses are recognized, while impairment allowances are recognized on EUR 0 m (prior year: EUR 6 m) in receivables covered by credit insurance.

Trade receivables in the Automotive Technologies division are subject to a concentration of risk on several automobile manufacturers (see Note 5.5) totaling 45.7% (prior year: 35.3%) of trade receivables.

The general approach is used for other financial assets, mainly cash and cash equivalents. Consequently, credit loss allowances should be measured and recognized at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly because the external rating has deteriorated, the credit loss allowance recognized has to be based on lifetime expected credit losses. The carrying amounts of bank deposits and other financial assets can be summarized by rating class as follows:

## Credit rating of cash and cash equivalents

	12/31/2020		
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
BBB- to AAA	1,664	0	0%
B- to BB+	92	0	0%
C to CCC+	2	0	0%
D	0	0	0%
External rating not available	0	0	0%
	1,758	0	0%

	12/31/2019		
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
BBB- to AAA	494	0	0%
B- to BB+	172	1	1%
C to CCC+	0	0	0%
D	0	0	0%
External rating not available	2	0	0%
	668	1	0%

Notes to the consolidated statement of financial position  
Financial instruments

Due to mostly investment grade ratings and the credit risk monitoring system in place, the Schaeffler Group's cash and cash equivalents and other financial assets (of EUR 123 m; prior year EUR 125 m) carry low credit risk, which makes tracking their credit risk unnecessary. For all other financial assets, the company does not consider credit risk to be significantly increased unless financial assets are more than 30 days past due or the probability of default changes (relatively) by more than 20%. No cash and cash equivalents were impaired as at the reporting date. The probabilities of default used to determine expected credit losses for cash and cash equivalents and for other financial assets are based on credit default swap spreads quoted in the market; these credit spreads take into account forward-looking macro-economic factors. Expected credit losses for these items were insignificant as at the reporting date.

Credit risk inherent in derivative financial instruments is the risk that counterparties will fail to meet their payment obligations in full. To mitigate this risk, such contracts are only entered into with selected banks.

The Schaeffler Group's Board of Managing Directors does not have any indications that the debtors will not meet their payment obligations with respect to trade receivables that are neither past due nor impaired. Except for amounts recognized in impairment allowances, there are no indications that the counterparties to other financial assets, i.e., marketable securities, derivative financial assets, and miscellaneous other financial assets, will be unable to meet their future contractual obligation.

## Interest rate risk

Variable interest features give rise to the risk of rising interest rates on financial liabilities and falling interest rates on financial assets. This risk is measured, assessed and, where necessary, hedged using derivative interest rate hedging instruments. The hedged item is the Schaeffler Group's interest-bearing net financial debt.

The Schaeffler Group's financial debt can be summarized by type of interest as follows:

## Variable and fixed interest financial debt

	12/31/2020	12/31/2019
in € millions	Carrying amount	
<b>Variable interest instruments</b>	<b>520</b>	<b>298</b>
• Financial debt	520	298
<b>Fixed interest instruments</b>	<b>3,551</b>	<b>2,896</b>
• Financial debt	3,551	2,896

The sensitivity calculation assumes that all other variables, particularly exchange rates, remain constant and that contractual arrangements prevent interest rates from falling below 0%. With regard to variable interest instruments, a shift in the yield curve of 100 basis points (Bp) as at December 31, 2020, would affect (increase/decrease) net income (loss) and shareholder's equity as follows:

## Sensitivity analysis: Shift in yield curve

in € millions	Net income (loss)		Shareholders' equity	
	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
<b>As at December 31, 2020</b>				
Variable interest instruments	-2	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	0	0	0	0
<b>Total</b>	<b>-2</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>As at December 31, 2019</b>				
Variable interest instruments	-1	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	-25	31	0	0
<b>Total</b>	<b>-26</b>	<b>31</b>	<b>0</b>	<b>0</b>

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge.

## Currency risk

The Schaeffler Group is exposed to currency risk on sales, purchases, loans payable and receivable, as well as financial debt that are denominated in a currency other than the functional currency of the relevant Schaeffler Group entity.

## Currency risk from operations

The international nature of the Schaeffler Group's operations involves the flow of goods and cash in a wide range of currencies. This gives rise to currency risk, as the value of assets denominated in a currency with a falling exchange rate declines while the value of liabilities denominated in a currency whose exchange rate is rising will increase.

Notes to the consolidated statement of financial position  
Financial instruments

The Schaeffler Group's significant currency risk exposures from operations by currency based on face values as of the end of each reporting period are as follows:

## Currency risk from operations

in € millions	USD	CNY	PLN	HUF
<b>December 31, 2020</b>				
Estimated currency risk from operations	852	635	180	-146
Forward exchange contracts	-513	-376	-128	99
<b>Remaining currency risk from operations</b>	<b>339</b>	<b>259</b>	<b>52</b>	<b>-47</b>
<b>December 31, 2019</b>				
Estimated currency risk from operations	911	515	195	-151
Forward exchange contracts	-755	-452	-142	112
<b>Remaining currency risk from operations</b>	<b>156</b>	<b>63</b>	<b>53</b>	<b>-39</b>

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with the Schaeffler Group's finance organization. Thus, this exposure represents the difference between hedged items, both recognized and in the form of expected future foreign currency cash flows that have not yet been recognized, on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (see Note 4.9) is monitored by the Schaeffler Group's finance organization. The most significant currency risk exposures in these countries arise on the Chinese renminbi and the U.S. dollar and amount to an estimated

EUR 51 m and EUR 41 m, respectively (prior year: EUR 52 m and EUR 46 m, respectively).

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risk from operations in respect of forecasted sales and purchases over the next twelve months using mainly forward exchange contracts.

IFRS 7 requires entities to disclose the impact of hypothetical changes in exchange rates on net income (loss) and shareholders' equity using sensitivity analyses. Exchange rate changes are applied to all of the Schaeffler Group's financial instruments as at the end of the reporting date. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk.

The sensitivity analysis for currency risk from operations is based on a hypothetical 10% weakening of the euro against each of the significant foreign currencies as of December 31, 2020, assuming all other variables, particularly interest rates, remain constant.

The following table shows the effect on net income (loss) and shareholders' equity of translating balances at the closing rate and of measuring instruments at fair value:

## Sensitivity analysis: changes in foreign exchange rates – operations

	12/31/2020		12/31/2019	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	14	-55	23	-77
CNY	22	-39	20	-43
RON	-6	10	5	22
HUF	0	20	-2	13
PLN	1	-12	1	-14

Conversely, a 10% rise in the euro against the significant foreign currencies as at December 31, 2020, would have had the same but opposite effect on net income (loss) and shareholders' equity, again holding all other variables constant.

## Currency risk from financing

Loans and deposits between Schaeffler Group companies denominated in a currency other than the functional currency of the entities are fully hedged on a net basis using forward exchange contracts.

The company does not currently have any debt denominated in foreign currency.

## Derivative financial instruments and hedging relationships

Using derivative financial instruments to manage risk is one component of the Schaeffler Group's risk management system. Notional amounts and fair values of derivative financial instruments as at the reporting date were as follows:

### Summary of derivative financial instruments

	12/31/2020		12/31/2019	
	Notional amount	Fair value	Notional amount	Fair value
in € millions				
<b>Financial assets</b>				
<b>Currency hedging</b>				
Forward exchange contracts	2,008	73	1,847	28
• thereof: hedge accounting	1,294	50	980	11
Cross-currency swaps	35	4	49	1
• thereof: hedge accounting	35	4	49	1
<b>Financial liabilities</b>				
<b>Currency hedging</b>				
Forward exchange contracts	1,268	35	2,588	53
• thereof: hedge accounting	422	10	1,209	28

As at December 31, 2020, the Schaeffler Group held the following instruments to hedge its currency risk:

### Hedging instruments

	2020		2019	
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year
<b>Currency risk</b>				
<b>Forward exchange contracts</b>				
Notional amount of hedging instruments (in € millions)	3,253	22	4,435	0
Average rates of forward exchange contracts				
EUR:USD	1.1635	1.1681	1.1372	0.0000
EUR:CNY	8.1103	-	7.9920	0.0000
EUR:HUF	358.2482	-	329.6846	-
EUR:RON	4.9680	-	4.9053	-
<b>Cross-currency swap</b>				
Notional amount of hedging instruments (in € millions)	9	26	10	41
Average rate of currency swap				
EUR:USD	1.1544	1.1544	1.0630	1.0630

The Schaeffler Group measures the effectiveness of the hedging relationship between the hedged item and the hedging instrument using interest rates, terms to maturity, interest repricing dates, maturity dates, and notional and principal amounts. The hedging ratio between the hedged item and the hedging instrument is 100%. The company uses the hypothetical derivative method to test whether the designated derivative effectively hedges the cash flows of the hedged item. Possible sources of ineffectiveness include counterparty credit risk and changes in the timing of hedged transactions. No ineffectiveness occurred during the period.

### Cash flow hedges

A portion of the Schaeffler Group's forward exchange contracts and cross-currency swaps in certain currencies are accounted for as cash flow hedges with perfect effectiveness. Both the majority of the forecasted transactions and the resulting impact on net income (loss) occur within one year of the end of the reporting period.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk from operations changed as follows:

#### Reconciliation of hedging reserve related to currency risk – operations

in € millions	2020	2019
<b>Balance as at January 01</b>	<b>-16</b>	<b>-26</b>
Additions	44	-16
Reclassified to income statement		
• to other income	0	0
• to other expense	16	26
<b>Balance as at December 31</b>	<b>44</b>	<b>-16</b>

As in the prior year, the hedging reserve did not include any amounts related to hedges of currency risk from financing activities as at December 31, 2021. Financial expenses of EUR 12 m were reclassified to profit or loss in the prior year.

#### Other price risk

Other price risk normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IFRS 9, which is not the case for the Schaeffler Group.

Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

#### Offsetting financial assets and financial liabilities

Certain Schaeffler Group companies enter into derivatives based on the German Master Agreement for Financial Forward Transactions ("Deutscher Rahmenvertrag fuer Finanztermingeschaeft" – DRV) or on the master agreement of the International Swaps and Derivatives Association (ISDA). These agreements permit each counterparty to combine all amounts relating to outstanding transactions due on the same date and in the same currency, arriving at one net amount to be paid by one of the parties to the other. In certain cases, for instance when a credit event such as default occurs, all transactions outstanding under this agreement are terminated, their fair value upon termination is determined, and only a single net amount is payable in settlement of all of these transactions.

The German Master Agreements and ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position, as the Schaeffler Group does not currently have a legal right to settle the recognized amounts on a net basis. The right to settle net is only legally enforceable upon the occurrence of future events such as the insolvency of one of the parties to the contract. Hedging transactions entered into directly by Schaeffler Group subsidiaries do not permit net settlement, either.

The carrying amounts of the financial assets and liabilities subject to these agreements, except for the embedded options, are as follows:

#### Offsetting financial assets and financial liabilities

in € millions	12/31/2020	12/31/2019
<b>Financial assets</b>		
Gross amount of financial assets	77	28
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	77	28
Amounts subject to master netting arrangements		
• Derivatives	-28	-25
Net amount of financial assets	49	3
<b>Financial liabilities</b>		
Gross amount of financial liabilities	35	55
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	35	55
Amounts subject to master netting arrangements		
• Derivatives	-28	-25
Net amount of financial liabilities	7	30

### 4.17 Share-based payment

In connection with the Schaeffler AG listing in October 2015, the company implemented its first share-based payment instrument in the form of a Performance Share Unit Plan (PSUP) for members of Schaeffler AG's Board of Managing Directors. The virtual shares granted (known as Performance Share Units, PSUs) entitle the holder to a cash payment equal to the average share price of Schaeffler AG's common non-voting shares on the vesting date. The PSUs are granted in annual tranches. Each tranche has a performance period of four years beginning on January 1 of the year in which the tranche is granted. In October 2016, the Board of Managing Directors decided to extend the PSUP to selected members of the Schaeffler Group's senior management. The performance period of each tranche begins on January 1 of the relevant year. The grant date for the 2020-2024 tranche is February 4 except for members of the Board of Managing Directors and senior management becoming eligible for the PSUP during the year. The grant date for the



## Notes to the consolidated statement of financial position

## Share-based payment

previous tranches is generally January 1. The remuneration system was enhanced effective January 1, 2020, for tranches granted starting in 2020.

Vesting of PSUs granted up to 2019 is linked to the following three conditions:

- 50% of PSUs are granted subject to a service condition (base number). The base number is only paid out if the beneficiary remains employed with the Schaeffler Group and is not under notice of termination at the end of the performance period.<sup>11</sup>
- 25% of the PSUs are granted subject to a long-term performance target based on free cash flow (FCF), which involves a comparison of accumulated FCF for the performance period to the target FCF.
- 25% of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). To determine to what extent these PSUs have vested, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

Vesting of PSUs granted in 2020 is linked to the following three conditions:

- 50% of PSUs are granted subject to a service condition (base number). The base number is only paid out if the beneficiary remains employed with the Schaeffler Group and is not under notice of termination at the end of the performance period.<sup>12</sup>
- 25% of the PSUs are granted subject to a long-term EPS-related performance target based on average annual growth in earnings per share during the four-year performance period.
- 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 over the performance period. The group used for comparison 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.

The number of PSUs actually payable at the end of the performance period depends on the extent to which the performance targets have been achieved and whether the service condition has been met. For PSUs linked to performance targets, the extent to which targets have been met can vary between 0% and 100% for tranches granted up to 2019 and between 0% and 200% for the tranche granted in 2020. Please refer to the remuneration report for further details. The amount payable per PSU is capped at double the underlying price of Schaeffler AG common non-voting shares at the grant date.

Obligations under the PSUP included in non-current provisions as at December 31, 2020, amounted to EUR 8.8 m (prior year: EUR 9.8 m). Current provisions amounted to EUR 3.7 m as at December 31, 2020 (prior year: EUR 4.0 m). Net expenses from the pro-rata addition to provisions for the PSUP for 2020 totaled EUR 2.7 m (prior year: EUR 7.3 m). 1,773,944 PSUs were granted and 891,620 PSUs paid in 2020; 65.683 PSUs were forfeited. There were 5,449,718 PSUs (prior year: 4,633,077 PSUs) in total as at December 31, 2020. These PSUs granted were still outstanding as at December 31, 2020. The share price relevant to payment of the PSUs granted in 2017 and vested at the end of 2020 is EUR 6.07.

The average fair value of a PSU granted was EUR 4.98 (prior year: EUR 7.04) as at December 31, 2020. PSUs included in the base

number as well as those subject to the FCF-based or EPS-based performance targets are measured based on the price of Schaeffler AG common non-voting shares taking into account the present value of dividends, which beneficiaries are not entitled to during the vesting period, as well as the cap.

The fair value of PSUs granted up to 2019 with a TSR-based performance target is determined using a binomial model. The fair value of PSUs granted in 2020 with a TSR-based performance target is determined based on a Monte Carlo simulation, while the remaining PSUs continue to be valued using a binomial model. The valuation models used take into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target range for the TSR-based performance target, dividends expected to be paid on Schaeffler AG common non-voting shares, as well as the volatility of Schaeffler AG common non-voting shares and either the benchmark index MDAX or the benchmark indexes SXAGR and SXNGR).

<sup>11)</sup> Taking into account the rules applicable to leavers.

<sup>12)</sup> Taking into account the rules applicable to leavers.



The valuation using the binomial model reflects the following input parameters:

#### Binomial model – input parameters

	12/31/2020	12/31/2019
Average risk-free interest rate for the remaining performance period	-0.74%	-0.68%
Expected dividend yield of Schaeffler AG common non-voting shares	5.27%	5.71%
Expected volatility of Schaeffler AG common non-voting shares	48.52%	36.56%
Expected volatility of the MDAX benchmark index	22.92%	13.34%
Expected correlation between the MDAX benchmark index and Schaeffler AG common non-voting shares	0.59	0.42

The input parameters reflected in the valuation based on a Monte Carlo simulation are as follows:

#### Monte Carlo simulation – input parameters

	12/31/2020
Average risk-free interest rate for the remaining performance period	-0.74%
Share price (in EUR) of the common non-voting shares of Schaeffler AG as at the valuation date	6.84
Expected dividend yield of Schaeffler AG common non-voting shares	5.27%
Expected volatility of Schaeffler AG common non-voting shares	43.94%
Expected volatility of the SXAGR benchmark index	31.09%
Expected correlation between the SXAGR benchmark index and Schaeffler AG common non-voting shares	0.70
Expected volatility of the SXNGR benchmark index	23.34%
Expected correlation between the SXNGR benchmark index and Schaeffler AG common non-voting shares	0.59
Expected correlation between the SXAGR and SXNGR benchmark indexes	0.85

Expected future volatilities and the correlation between Schaeffler AG common non-voting shares and the benchmark group (either MDAX or SXAGR and SXNGR) were estimated based on the daily closing prices of Schaeffler AG common non-voting shares and the benchmark group (either MDAX or SXAGR and SXNGR) in the XETRA trading system of the German Stock Exchange.

## 4.18 Capital management

The Schaeffler Group has a strategy of pursuing profitable long-term growth. Capital is managed proactively to secure the existence of the company as a going concern for the long term and maintain financial flexibility for profitable growth in order to add long-term value to the company. A further aim is to ensure that a portion of the company's net income is paid out to shareholders in dividends.

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. Further, capital management strives to improve the quality of the Schaeffler Group's balance sheet, measured in terms of the development of the ratio of net financial debt to equity including non-controlling interests (gearing ratio). The gearing ratio was 125.8% as at December 31, 2020 (prior year: 86.6%). Starting in 2021, the Schaeffler Group's capital structure will be monitored using primarily the net debt to EBITDA ratio, defined as the ratio of net financial debt to EBITDA before special items.

The Schaeffler Group has an effective cash management system in place and has diversified its external financing in terms of, for instance, instruments and maturities. The Schaeffler Group can currently utilize cash and cash equivalents, cash flow from operations, a commercial paper program, bank loans, Schuld-schein loans, and debt and equity funding via the capital markets to meet its short-, medium-, and long-term financing

needs. Currency risk is continually monitored and reported at the corporate level. Currency risks are aggregated across the group and hedged using hedging instruments.

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 of revolving sales of trade receivables with a committed volume of EUR 150 m (prior year: EUR 200 m) (see Note 5.2). Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

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. Credit ratings assigned by external rating agencies are key to this ability. In 2020, the Schaeffler Group obtained ratings from rating agencies Standard & Poor's, Moody's, and Fitch. The company intends to regain an investment grade rating from all rating agencies in the medium to long term.

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The inputs to the calculation of the leverage covenant are defined in the debt agreements and cannot be derived directly from amounts in the consolidated financial statements. As in the prior year, the company has complied with the leverage covenant throughout 2020 as stipulated in the debt agreements. Based on its forecast, the Schaeffler Group also expects to comply with the leverage covenant in subsequent years.

In addition to the leverage covenant contained in the debt agreements, the Schaeffler Group regularly calculates further financial indicators, such as the gearing ratio referred to above as well as the net debt to EBITDA ratio. The net debt to EBITDA ratio – 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) – is calculated as follows:

#### Net financial debt to EBITDA ratio

in € millions	12/31/2020	12/31/2019
Current financial debt	43	168
Non-current financial debt	4,028	3,026
<b>Financial debt</b>	<b>4,071</b>	<b>3,194</b>
Cash and cash equivalents	1,758	668
<b>Net financial debt</b>	<b>2,312</b>	<b>2,526</b>
<b>Earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation, amortization, and impairment losses (EBITDA) <sup>1)</sup></b>	<b>1,116</b>	<b>1,769</b>
<b>Net financial debt to EBITDA ratio <sup>2)</sup></b>	<b>2.1</b>	<b>1.4</b>

<sup>1)</sup> Includes special items totaling EUR 677 m (prior year: EUR 347 m).

<sup>2)</sup> Net financial debt to EBITDA ratio incl. special items.

**Other disclosures**

Additional disclosures on the consolidated statement of cash flows

## 5. Other disclosures

### 5.1 Additional disclosures on the consolidated statement of cash flows

Changes in balance sheet items shown in the consolidated statement of cash flows cannot be derived directly from the consolidated statement of financial position as they have been adjusted for the impact of foreign currency translation.

The refund of a portion of the purchase price for the acquisition of the interests in Elmotec Statomat GmbH in 2019 led to a cash inflow of EUR 15 m in 2020. The disposal of Schaeffler Biohybrid GmbH resulted in a cash outflow of EUR 3 m.

EUR 40 m in other investing activities represented loans granted, including EUR 40 m paid to joint ventures.

In the prior year, redemptions of bonds and repayments of loans included a cash inflow of EUR 37 m from the early termination of cross-currency derivatives in connection with the redemption of a USD bond series.

## Other disclosures

Involvement with unconsolidated structured entities

## Summary of changes in financial debt

	Financial debt						Cross-currency swaps held for hedging purposes		Total
in € millions	Bonds	Schuldschein loans	Facilities agreement	Capital investment loan	Commercial paper	Other financial debt	Financial assets	Financial liabilities	
<b>Balance as at January 01, 2020</b>	<b>2,781</b>	<b>0</b>	<b>48</b>	<b>249</b>	<b>115</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>3,194</b>
<b>Cash provided by (used in) financing activities</b>									
Receipts from bond issuances and loans	1,500	557	0	0	30	14	0	0	2,100
Redemptions of bonds and repayments of loans	-798	0	-52	-250	-115	-1	0	0	-1,216
<b>Total changes from cash flows</b>	<b>702</b>	<b>557</b>	<b>-52</b>	<b>-250</b>	<b>-85</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>884</b>
<b>Changes arising from obtaining or losing control of subsidiaries or other businesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Effect of changes in foreign exchange rates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>-1</b>
<b>Changes in fair values</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other non-cash changes</b>	<b>-7</b>	<b>-2</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-6</b>
<b>Balance as at December 31, 2020</b>	<b>3,476</b>	<b>554</b>	<b>-3</b>	<b>0</b>	<b>30</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>4,071</b>

## 5.2 Involvement with unconsolidated structured entities

The Schaeffler Group sells a portion of its trade receivables to a structured entity under an ABCP program (asset-backed commercial paper). The structured entity obtains its funding primarily from the capital markets. The receivables are sold on a revolving basis at their face value less variable reserves and a variable fee discount. The structured entity has engaged the Schaeffler Group to service the receivables in return for an arm's-length fee. The structured entity has the right to remove the Schaeffler Group as the servicer and to engage someone else to service the receivables. The Schaeffler Group has concluded that it does not control the structured entity and, therefore, does not consolidate it.

The sold receivables (see Note 4.7) and the related liabilities are recognized to the extent of the credit risk retained (continuing involvement).

The financing volume committed under the ABCP program is EUR 150 m (prior year: EUR 200 m).

The following balances relate to the Schaeffler Group's involvement with the structured entity as at December 31, 2020:

## Balances – involvement with the structured entity

in € millions	12/31/2020	12/31/2019
Carrying amount of receivables transferred	127	178
Carrying amount of risks and collateral retained in relation to the receivables transferred (recognized as other assets in the statement of financial position)	20	42
Payments received from customers on receivables sold and not yet passed on to the structured entity (recognized as other financial liabilities in the statement of financial position)	44	49
Carrying amount of receivables (classified as trade receivables) and the other liability resulting from the continuing involvement (classified in other financial liabilities in the statement of financial position)	3	4

## 5.3 Contingent liabilities

As at December 31, 2020, the Schaeffler Group had contingent liabilities of EUR 68 m (prior year: EUR 75 m), including EUR 28 m (prior year: EUR 33 m) in contingent liabilities representing tax- and customs-related risks and EUR 28 m (prior year: EUR 28 m) in contingent liabilities related to legal cases. These do not include any items that individually have a material adverse impact on the Schaeffler Group's net assets, financial position, and earnings.

Since 2011, several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts for the automotive sector. The authorities are investigating possible agreements violating antitrust laws. Schaeffler Group companies are among the entities subject to these investigations. In addition, there is a risk that third parties may claim damages in connection with antitrust proceedings that are either ongoing or have been finalized. As at the end of the reporting period, the Schaeffler Group has recognized provisions for a portion of these investigations as well as for potential claims for damages. Additional penalties or claims for damages cannot be ruled out, but can currently not be estimated.

## 5.4 Segment information

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler AG Board of Managing Directors. The Schaeffler Group engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the Schaeffler Group's Board of Managing Directors and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

The Schaeffler Group's business is managed based on the three divisions – **Automotive Technologies**, **Automotive Aftermarket**, and **Industrial** – which also represent the reportable segments.

The Automotive Technologies division business is organized into the four **business divisions E-Mobility, Engine Systems, Transmission Systems**, and **Chassis Systems**. The Automotive Aftermarket and Industrial divisions are managed regionally, based on the **regions Europe, Americas, Greater China, and Asia/Pacific**.

The segments offer different products and services and are managed separately because they require different technology and marketing strategies. Each segment focuses on a specific worldwide group of customers, with the spare parts business with automobile manufacturers located in the Automotive Aftermarket segment. Consequently, the amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and impairment losses are reported based on the current allocation of customers to divisions. The allocation of customers to segments and the allocation of indirect expenses was reviewed and adjusted during the year. To ensure that the information on the Automotive Technologies division, Automotive Aftermarket division, and Industrial division segments is comparable, prior year information was also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

The following summary describes the operations of each of the Schaeffler Group's three reportable segments:

### Automotive Technologies

The Automotive Technologies division partners with the global automotive industry in developing and manufacturing components and systems for internal combustion engine, transmission, and chassis applications, as well as for hybrid and electric powertrain systems. Along with technologies for low-emission and emission-free powertrains, this also includes products for autonomous driving. In late October 2020, the Schaeffler Group started the process of renaming the division "Automotive Technologies". The name will be changed gradually at all locations

worldwide, and the change does not affect the organizational structure or existing relationships with customers or suppliers. The new name is designed to convey the company's role as technology partner to all customers requiring components as well as mechanical and mechatronic systems on the basis of comprehensive manufacturing expertise. The Automotive Technologies 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 components and systems for powertrain electrification – from 48-volt mild hybrids and plug-in hybrids through to all-electric drives. The product portfolio includes hybrid modules, electric axle transmissions, electric axle drives, electromechanical and hydraulic actuators, wet double clutches, as well as electric motors. In light of future market requirements, the E-Mobility BD has included in its portfolio products such as thermal management modules and key components for fuel cells that previously came under the Engine Systems BD; the change was effective January 1, 2021. The E-Mobility BD generated EUR 657 m in revenue during the year (prior year: EUR 681 m).
- The **Engine Systems BD** develops and manufactures components and systems for conventional and hybridized internal combustion engines such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems, and products for chain and belt drives. The Engine Systems BD generated EUR 2,369 m in revenue during the year (prior year: EUR 2,793 m).

Other disclosures  
Segment information

- The **Transmission Systems BD** develops and manufactures components and systems for all transmission types. Its portfolio includes products such as torque converters, torsion and vibration dampers, clutches, and transmission bearings. The Transmission Systems BD generated EUR 3,506 m in revenue during the year (prior year: EUR 4,023 m).
- The **Chassis Systems BD** develops and manufactures products including mechanical components and systems for the chassis, such as wheel bearings, bearings for chassis and accessory units, as well as special applications for commercial vehicles. The Chassis Systems BD generated EUR 1,289 m in revenue during the year (prior year: EUR 1,547 m).

## Automotive Aftermarket

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 Technologies division's manufacturing locations. 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 REPERT.

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 as well as the supply of original spare parts to branded repair shops, i.e., those that are authorized by automobile manufacturers. The OES distribution channel's customers include the vehicle 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 Europe region generated EUR 1,183 m in revenue during the year (prior year: EUR 1,308 m), the Americas region generated EUR 301 m in revenue during the year (prior year: EUR 362 m), the Greater China region generated EUR 77 m during the year (prior year: EUR 81 m), and the Asia/Pacific region generated EUR 80 m in revenue during the year (prior year: EUR 96 m).

## Industrial

The Industrial division develops and manufactures components and systems for rotary and linear motion and offers services for various industrial sectors. The management model of the Industrial division follows a regional approach with 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. In addition, the business with distributors is managed by the Industrial Distribution unit. Managing the business on a regional basis allows the division to closely target its response to local customer needs and to strengthen customer loyalty. Transregional issues, such as the global technology and product strategy, are driven forward by the close network linking the regions within the division. Industry 4.0 products and services as well as the hydrogen growth area are each concentrated in a strategic business area 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. Bearing applications include drive technology, production machinery, and wind turbines, as well as the process 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, automated lubrication solutions, as well as new data-based business models for the implementation of Industry 4.0. These include condition monitoring solutions and cloud-based digital services for predictive maintenance facilitating targeted scheduled maintenance of machinery, thus helping to increase machine and equipment availability as well as reduce operating costs.

The Europe region generated EUR 1,319 m in revenue during the year (prior year: EUR 1,627 m), the Americas region generated EUR 528 m in revenue during the year (prior year: EUR 638 m), the Greater China region generated EUR 840 m during the year (prior year: EUR 723 m), and the Asia/Pacific region generated EUR 451 m in revenue during the year (prior year: EUR 547 m).

Information on the operating activities of the three reportable segments is included below. Performance is measured based on EBIT as the Board of Managing Directors believes that this information is most relevant in evaluating the results of the segments in relation to other entities that operate within these industries.

Other disclosures  
Segment information

## Reconciliation to earnings before income taxes

in € millions	2020	2019
EBIT Automotive Technologies <sup>1)</sup>	-330	286
EBIT Automotive Aftermarket <sup>1)</sup>	229	290
EBIT Industrial <sup>1)</sup>	-43	214
<b>EBIT</b>	<b>-143</b>	<b>790</b>
Financial result	-185	-137
Income (loss) from equity-accounted investees	-33	-17
<b>Earnings before income taxes</b>	<b>-362</b>	<b>636</b>

<sup>1)</sup> Prior year information presented based on 2020 segment structure.

In 2020, the Schaeffler Group generated revenue of EUR 1,333 m (prior year: EUR 1,486 m) from one key customer, representing 10.6% (prior year: 10.3%) of total group revenue. In the Automotive Technologies segment, this key customer accounted for 16.4% (prior year: 15.8%) of revenue.

In addition to the divisions and functions, the Schaeffler Group's multi-dimensional organizational structure is also based on the four regions Europe, Americas, Greater China, and Asia/Pacific. The Automotive Technologies division, Automotive Aftermarket division, and Industrial division segments are managed on a global basis and operate production and distribution facilities in all four regions. Revenue and non-current assets of the four regions were as follows in 2020:

## Information about geographical areas

	2020	2019	12/31/2020	12/31/2019
in € millions		Revenue <sup>1)</sup>		Non-current assets <sup>2)</sup>
Europe	5,371	6,506	3,091	3,531
Americas	2,604	3,154	692	843
Greater China	2,950	2,763	1,085	1,193
Asia/Pacific	1,675	2,003	468	516
<b>Total</b>	<b>12,600</b>	<b>14,427</b>	<b>5,335</b>	<b>6,083</b>

<sup>1)</sup> Revenue by market (customer locations); prior year information presented based on 2020 segment structure.

<sup>2)</sup> Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

China, Germany, and the U.S. had revenue of EUR 2,887 m (prior year: EUR 2,703 m), EUR 1,949 m (prior year: EUR 2,430 m), and EUR 1,713 m (prior year: EUR 2,035 m) as well as non-current assets of EUR 1,085 m (prior year: EUR 1,193 m), EUR 1,901 m (prior year: EUR 2,285 m), and EUR 381 m (prior year: EUR 449 m), respectively.

## Reconciliation of EBIT to EBIT before special items

	01/01-12/31		01/01-12/31		01/01-12/31		01/01-12/31	
	2020	2019 <sup>1)</sup>	2020	2019 <sup>1)</sup>	2020	2019 <sup>1)</sup>	2020	2019
in € millions	Automotive Technologies		Automotive Aftermarket		Industrial		Total	
<b>EBIT</b>	<b>-330</b>	<b>286</b>	<b>229</b>	<b>290</b>	<b>-43</b>	<b>214</b>	<b>-143</b>	<b>790</b>
• in % of revenue	-4.2	3.2	14.0	15.7	-1.4	6.0	-1.1	5.5
<b>Special items</b>	<b>608</b>	<b>209</b>	<b>30</b>	<b>15</b>	<b>309</b>	<b>147</b>	<b>946</b>	<b>372</b>
• Legal cases	12	0	3	0	6	-13	21	-13
• Restructuring	347	209	26	15	303	160	676	385
• Other	249	0	0	0	0	0	249	0
<b>EBIT before special items</b>	<b>278</b>	<b>496</b>	<b>259</b>	<b>305</b>	<b>266</b>	<b>361</b>	<b>803</b>	<b>1,161</b>
• in % of revenue	3.6	5.5	15.8	16.5	8.5	10.2	6.4	8.1

<sup>1)</sup> Prior year information presented based on 2020 segment structure.



Other disclosures  
Related parties

## 5.5 Related parties

### Related persons

All common shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler. Under the definitions of IAS 24, Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler and the close members of their family are related parties of the Schaeffler Group.

The Schaeffler Group does not have any significant direct business relations with Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler.

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Schaeffler Group, directly or indirectly. For the Schaeffler Group, the members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG represent key management personnel, making them and the close members of their family related parties of Schaeffler AG.

The remuneration of the Board of Managing Directors of Schaeffler AG for 2020 in accordance with IAS 24 totaled EUR 14 m (prior year: EUR 18 m), including EUR 11 m (prior year: EUR 12 m) in short-term benefits. Expenses of EUR 1 m (prior year: EUR 3 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 0 m (prior year: EUR 0 m), and share-based payments totaled EUR 2 m (prior year: EUR 3 m).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1-3) HGB amounted to EUR 19 m (prior year: EUR 15 m) in 2020.

The following share-based remuneration was granted to members of the Board of Managing Directors in 2020 under the Performance Share Unit Plan (PSUP) implemented in 2015 and amended in 2020: 334,071 Performance Share Units (PSU)

subject to a service condition (fair value at grant date per PSU of EUR 7.37 for grant date February 4, 2020, EUR 7.55 for January 1, 2020, and EUR 5.03 for August 1, 2020), 156,484 PSUs subject to an EPS-based performance target (fair value at grant date per PSU of EUR 7.37 for February 4, 2020, and EUR 5.03 for August 1, 2020), 156,484 PSUs subject to a TSR-based performance target tied to the sector basket (fair value at grant date per PSU of EUR 7.53 for February 4, 2020, and EUR 4.46 for August 1, 2020), and 10,556 PSUs with an FCF-based performance target (fair value at grant date per PSU of EUR 7.55 for January 1, 2020) and 10,556 PSUs with a TSR-based performance target tied to the MDAX (fair value at grant date per PSU of EUR 4.60 for January 1, 2020).

The following PSUs were granted in 2020 in connection with the one-time smoothing component: 93,728 PSU subject to a one year performance period (fair value at grant date per PSU of EUR 8.89 for grant date February 4, 2020, and EUR 6.12 for August 1, 2020), 93,728 PSUs subject to a two-year performance period (fair value at grant date per PSU of EUR 8.34 for February 4, 2020, and EUR 5.73 for August 1, 2020), 93,728 PSUs subject to a three-year performance period (fair value at grant date per PSU of EUR 7.83 for February 4, 2020, and EUR 5.37 for August 1, 2020).

The following share-based remuneration was granted to members of the Board of Managing Directors in the prior year: 380,262 Performance Share Units (PSU) subject to a service condition (fair value at grant date per PSU of EUR 5.36 and EUR 5.37, respectively), 162,135 PSUs subject to an FCF-based performance target (fair value at grant date per PSU of EUR 5.36 and EUR 5.37, respectively), and 162,135 PSUs with a TSR-based performance target (fair value at grant date per PSU of EUR 3.12 and EUR 2.17, respectively).

Short-term benefits paid to members of Schaeffler AG's Supervisory Board amounted to EUR 1.5 m (prior year: EUR 1.6 m).

The company did not pay any other benefits to its key management personnel.

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 314 (1) (6) HGB.

Former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors received remuneration of EUR 3 m in 2020 (prior year: EUR 2 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 29 m as at December 31, 2020 (prior year: EUR 28 m).

At December 31, 2020, members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG and close members of their family held bonds issued by Schaeffler Finance B.V. with a principal totaling EUR 0.0 m (prior year: EUR 0.0 m). Key management personnel and close members of their family received interest of EUR 0.0 m (prior year: EUR 0.0 m) on these bonds. Additionally, bonds issued in prior years with a value of EUR 0.0 m (prior year: EUR 0.0 m) held by key management personnel and close members of their family were redeemed.



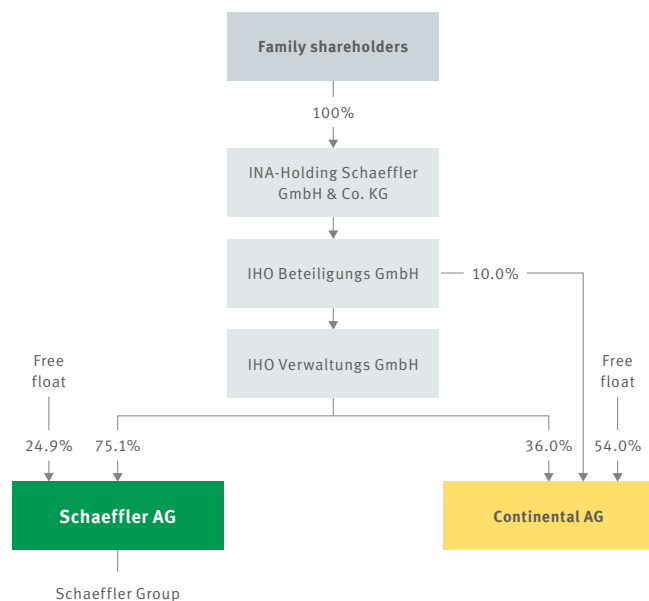
Other disclosures  
Related parties

## Related entities

Pursuant to IAS 24, the Schaeffler Group's related entities consist – along with its joint ventures and affiliated companies – of the entities controlled or jointly controlled by Schaeffler AG's ultimate parent company, INA-Holding Schaeffler GmbH & Co. KG, or over which INA-Holding Schaeffler GmbH & Co. KG has significant influence.

## Simplified ownership structure

as at December 31, 2020



As transactions with significant subsidiaries of Schaeffler AG have been eliminated upon consolidation, they need not be discussed here.

The waiver of loans and receivables of EUR 4 m as part of the management buyout of the shares in Schaeffler Bio-Hybrid GmbH is an exception, since it has increased the loss on disposal rather than being eliminated.

The company has granted interest-bearing loans totaling EUR 42 m (prior year: EUR 15 m) to a joint venture. In total, the loan has resulted in interest income of EUR 2 m (prior year: EUR 0.5 m).

The company has a contractual agreement with a joint venture regarding an interest-bearing convertible loan maturing on December 31, 2023, entered into in November 2019. In connection with the loan, there are put options outstanding on shares in the joint venture that are exercisable under certain conditions or when certain future events occur. The total amount extended under the convertible loan is EUR 23 m (prior year: EUR 10 m). An impairment of EUR 22 m was recognized on the loan in 2020.

Further transactions with associated companies and joint ventures were insignificant in 2020.

In 2020 and 2019, Schaeffler Group companies had various business relationships with the group's related entities.

On May 8, 2020, the Schaeffler AG annual general meeting passed a resolution to pay a total dividend of EUR 295 m in respect of 2019 (prior year: EUR 361 m), consisting of EUR 220 m (prior year: EUR 270 m) on the common shares held by IHO Verwaltungs GmbH and EUR 75 m (prior year: EUR 91 m) on the common non-voting shares.

The following table summarizes all income and expenses from transactions with the Schaeffler Group's other related companies that have been recognized in the Schaeffler Group's consolidated financial statements. The summary also shows receivables and payables related to such transactions included

in the consolidated financial statements as at the end of each reporting period. Transactions with other related entities arose largely from business relationships with the Continental Group.

Receivables and payables from transactions  
with other related entities

	12/31/2020	12/31/2019	12/31/2020	12/31/2019
in € millions	Receivables		Payables	
Other related entities	26	33	19	19

Expenses and income from transactions  
with other related entities

	2020	2019	2020	2019
in € millions	Expenses		Income	
Other related entities	93	98	92	105

Business relationships with Continental Group companies existed in the form of supply of vehicle components and tools, rendering of development and other services, and leases of commercial real estate. The transactions with the Continental Group were entered into at arm's-length conditions.

Receivables from transactions with other related entities include EUR 26 m (prior year: EUR 33 m) in trade receivables.

## 5.6 Auditors' fees

Schaeffler AG incurred the following fees for services rendered by the global network of KPMG and KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG):

### Auditors' fees

	2020	2019	2020	2019
in € millions		KPMG	thereof KPMG AG	
Financial statement audit services	7.1	7.6	4.4	4.9
Other attestation services	0.6	0.6	0.6	0.3
Tax advisory services	0.1	0.1	0.0	0.0
Other services	0.4	0.2	0.4	0.1
<b>Total</b>	<b>8.1</b>	<b>8.5</b>	<b>5.4</b>	<b>5.3</b>

KPMG AG is considered Schaeffler AG's auditor. The fees paid to KPMG AG related to services rendered to Schaeffler AG and its German subsidiaries.

## 5.7 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 2020 and have made it publicly available on the Schaeffler Group's website ([www.schaeffler.com/ir](http://www.schaeffler.com/ir)).

## 5.8 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 the Schaeffler Group occurred after December 31, 2020.

## 5.9 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler AG, which is based in Herzogenaurach.

### List of shareholdings

Entity	Location	Country code	Group ownership interest in %
<b>A. Entities fully consolidated</b>			
<b>I. Germany (52)</b>			
CBF Europe GmbH	Wuppertal	DE	100.00
Compact Dynamics GmbH <sup>2)</sup>	Starnberg	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG <sup>1) 3)</sup>	Buehl	DE	100.00
FZT Kaltennordheim GmbH <sup>4)</sup>	Kaltennordheim	DE	0.00
FZT Kaltennordheim Grundstücks- gesellschaft mbH <sup>4)</sup>	Kaltennordheim	DE	0.00
FZT Unna GmbH <sup>4)</sup>	Unna	DE	0.00
FZT Unna Grundstücksgesellschaft mbH <sup>4)</sup>	Unna	DE	0.00
Industriewerk Schaeffler INA-Ingenieurdienst-, GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
K + K Industrieanlagen GmbH	Karben	DE	100.00
LuK Truckparts GmbH & Co. KG <sup>1) 3)</sup>	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG <sup>1) 3)</sup>	Unna	DE	100.00
Schaeffler Aerospace Germany Beteiligungs GmbH	Schweinfurt	DE	100.00
Schaeffler Aerospace Germany GmbH & Co. KG <sup>1) 3)</sup>	Schweinfurt	DE	100.00
Schaeffler AS Auslandsolding GmbH <sup>2)</sup>	Buehl	DE	100.00
Schaeffler Automotive Buehl GmbH & Co. KG <sup>1) 3)</sup>	Buehl	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG <sup>1) 3)</sup>	Langen	DE	100.00
Schaeffler Beteiligungs- gesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungs- verwaltungs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Buehl Auslandsolding GmbH <sup>2)</sup>	Buehl	DE	100.00
Schaeffler Buehl Beteiligungs GmbH <sup>2)</sup>	Buehl	DE	100.00
Schaeffler Buehl Holding GmbH <sup>2)</sup>	Buehl	DE	100.00
Schaeffler Buehl Verwaltungs GmbH <sup>2)</sup>	Buehl	DE	100.00
Schaeffler Consulting GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler Digital Solutions GmbH <sup>2)</sup>	Chemnitz	DE	100.00
Schaeffler Elmotec Statomat GmbH	Karben	DE	100.00
Schaeffler Engineering GmbH <sup>2)</sup>	Werdohl	DE	100.00
Schaeffler Europa Logistik GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH <sup>2)</sup>	Morbach	DE	100.00
Schaeffler IAB Beteiligungs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler IAB Verwaltungs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Immobilien AG & Co. KG <sup>1) 3)</sup>	Herzogenaurach	DE	100.00
Schaeffler Industrial Drives AG & Co. KG <sup>1) 3)</sup>	Suhl	DE	100.00
Schaeffler Invest GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler KWK Verwaltungs GmbH	Langen	DE	100.00
Schaeffler Monitoring Services GmbH <sup>2)</sup>	Herzogenrath	DE	100.00
Schaeffler Paravan Management GmbH	Herzogenaurach	DE	100.00
Schaeffler Qualifizierung und Beschäftigung GmbH <sup>2)</sup>	Schweinfurt	DE	100.00
Schaeffler Raytech Verwaltungs GmbH <sup>2)</sup>	Morbach	DE	100.00
Schaeffler Schweinfurt Beteiligungs GmbH <sup>2)</sup>	Schweinfurt	DE	100.00
Schaeffler Technologies AG & Co. KG <sup>1) 3)</sup>	Herzogenaurach	DE	100.00
Schaeffler Versicherungs- Vermittlungs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Sechs GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH <sup>2)</sup>	Herzogenaurach	DE	100.00

Entity	Location	Country code	Group ownership interest in %
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungs- gesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG <sup>1) 3)</sup>	Herzogenaurach	DE	100.00
Xtronic GmbH	Böblingen	DE	100.00

### II. Foreign (98)

Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Belrose	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
Schaeffler Belarus OOO	Minsk	BY	100.00
Schaeffler Aerospace Canada Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Schaeffler Schweiz GmbH	Romanshorn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
ETC Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
RepXpert Automotive Aftermarket Services Consulting (Shanghai) LLP	Shanghai	CN	100.00
Schaeffler Automotive Aftermarket Services Consulting (Shanghai) Co.	Shanghai	CN	100.00
Schaeffler (China) Co., Ltd.	Taichang	CN	100.00
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler (Xiangtan) Co., Ltd.	Xiangtan	CN	100.00
Schaeffler Aerospace Bearings (Taichang) Co., Ltd.	Taichang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Intelligent Driving Technology (Changsha) Co., Ltd.	Changsha	CN	100.00

## Other disclosures

List of shareholdings required by section 313 (2) HGB

Entity	Location	Country code	Group ownership interest in %
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogotá	CO	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Production CZ s.r.o.	Lanškroun	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
Schaeffler (UK) Limited	Sheffield	GB	100.00
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	GR	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Savaria Kft.	Szombathely	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
Schaeffler India Ltd.	Mumbai	IN	74.13
INA Invest S.r.l.	Momo	IT	100.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Water Pump Bearing Italia S.r.l.	Momo	IT	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00
Schaeffler Korea Corporation	Changwon-si	KR	100.00
Schaeffler Kazakhstan GmbH	Almatay	KZ	100.00
SIA „Schaeffler Baltic“	Riga	LV	100.00
Rodamientos FAG S.A. de C.V.	Puebla	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Mexico City	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Transmisión, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Finance B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Norge AS	Sandnes	NO	100.00
Schaeffler Peru S.A.C.	Lima	PE	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	100.00
Schaeffler Polska Sp. z o.o.	Warsaw	PL	100.00
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.00
Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler SR d.o.o.	Belgrade	RS	100.00
Schaeffler Rus OOO	Ulyanovsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
Schaeffler Kysuce, spol. s r.o.	Kysucké Nové Mesto	SK	100.00
Schaeffler Skalica spol. s r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol. s r.o.	Kysucké Nové Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	100.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
FAG Bearings LLC	Danbury	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00

Entity	Location	Country code	Group ownership interest in %
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Aerospace USA Corporation	Danbury	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
Schaeffler Holding LLC	Danbury	US	100.00
Schaeffler Transmission Systems LLC	Wooster	US	100.00
Schaeffler Transmission, LLC	Wooster	US	100.00
Schaeffler Venezuela, C.A.	Caracas	VE	100.00
Schaeffler Vietnam Co., Ltd.	Biên Hòa City	VN	100.00
INA Bearings (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00

**B. Joint ventures  
Germany (4)**

Abt E-Line GmbH	Kempton	DE	0.00
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG <sup>3)</sup>	Hanover	DE	50.00
Schaeffler Paravan Technologie GmbH & Co. KG <sup>3)</sup>	Herzogenaurach	DE	90.00

**C. Associated companies  
Foreign (4)**

Resitec Ltd.	Telford	GB	33.30
Statec S.r.l.	Turin	IT	35.00
Eurings Zrt.	Debrecen	HU	37.00
Colinx, LLC	Greenville	US	20.00

**D. Unconsolidated entities  
Foreign (1)**

Statomat Special Machines (India) Pvt. Ltd.	Mumbai	IN	79.89
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<sup>1)</sup> Exemption under section 264b HGB.<sup>2)</sup> Exemption under section 264 (3) HGB.<sup>3)</sup> Schaeffler AG or another consolidated entity is the general partner.<sup>4)</sup> Entity consolidated due to de facto control.

**Other disclosures**

Members of the Supervisory Board and of the Board of Managing Directors

## 5.10 Members of the Supervisory Board and of the Board of Managing Directors

### Members of the Supervisory Board

Georg F. W. Schaeffler (Chairman),  
 Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson),  
 Jürgen Wechsler\* (Deputy Chairperson),  
 Sabine Bendiek, Prof. Dr. Hans-Jörg Bullinger,  
 Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk,  
 Andrea Grimm\*, Thomas Höhn\* (since May 8, 2020),  
 Susanne Lau\*, Barbara Resch\*, Jutta Rost\* (since May 8, 2020),  
 Jürgen Schenk\* (since May 8, 2020), Helga Schönhoff\* (since  
 May 8, 2020), Sabrina Soussan, Robin Stalker, Salvatore Vicari\*,  
 Prof. TU Graz e.h. KR Ing. Siegfried Wolf, Prof. Dr.-Ing. Tong Zhang,  
 Markus Zirkel\* (since May 8, 2020)

**The following members left the Supervisory Board in 2020**

Norbert Lenhard\* (until May 8, 2020)  
 Dr. Reinhold Mittag\* (until May 8, 2020)  
 Dirk Spindler\* (until May 8, 2020)  
 Jürgen Stolz\* (until May 8, 2020)  
 Jürgen Worrich\* (until May 8, 2020)

### Supervisory Board committees

**Mediation committee:**

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

**Executive committee:**

Georg F. W. Schaeffler (Chairman),  
 Barbara Resch, Maria-Elisabeth Schaeffler-Thumann,  
 Salvatore Vicari, Jürgen Wechsler,  
 and Prof. TU Graz e.h. KR Ing. Siegfried Wolf

**Audit committee:**

Robin Stalker (Chairman),  
 Dr. Holger Engelmann, Andrea Grimm, Thomas Höhn,  
 Georg F. W. Schaeffler, and Jürgen Wechsler

**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), Georg F. W. Schaeffler,  
 Jürgen Schenk, Salvatore Vicari,  
 Jürgen Wechsler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf,  
 Prof. Dr.-Ing. Tong Zhang, and Markus Zirkel

### Members of the Board of Managing Directors

Klaus Rosenfeld (Chief Executive Officer),  
 Dr. Klaus Patzak (Chief Financial Officer, since August 1, 2020),  
 Andreas Schick (Chief Operating Officer),  
 Corinna Schittenhelm (Chief Human Resources Officer),  
 Michael Söding (CEO Automotive Aftermarket),  
 Dr. Stefan Spindler (CEO Industrial),  
 Uwe Wagner (Chief Technology Officer),  
 Matthias Zink (CEO Automotive Technologies)

**The following member left the Board of Managing Directors in 2020**

Dietmar Heinrich (Chief Financial Officer; until July 31, 2020)

\*Employee representative on the Supervisory Board

## 5.11 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 22, 2021, 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 consolidated financial statements.

Herzogenaurach, February 22, 2021

Schaeffler Aktiengesellschaft  
The Board of Managing Directors

Klaus Rosenfeld  
Chief Executive Officer

Michael Söding

Dr. Klaus Patzak

Dr. Stefan Spindler

Andreas Schick

Uwe Wagner

Corinna Schittenhelm

Matthias Zink

# Independent Auditors' Report

To Schaeffler AG, Herzogenaurach

## Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

### Opinions

We have audited the consolidated financial statements of Schaeffler AG, Herzogenaurach, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the financial year from January 1 to December 31, 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Schaeffler AG for the financial year from January 1 to December 31, 2020. In accordance with German legal requirements, we have not audited the content of the parts of the group 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 these references refer to.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code ("Handelsgesetzbuch" – HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2020, and of its financial performance for the financial year from January 1 to December 31, 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Our

opinion on the group management report does not cover the content of the parts of the group 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 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

### Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group 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 Consolidated Financial Statements and of the Group Management Report" section of our auditors' report. We are independent

## Independent Auditors' Report

of the group entities 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 consolidated financial statements and on the group management report.

### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

#### Measurement of Warranty Provisions

For the accounting policies used, please refer to Note 1.3 to the consolidated financial statements. Note 4.14 to the consolidated financial statements contains information about the amount of the Group's warranty provisions.

**The Risk for the Financial Statements** The calculation of provisions for warranty and goodwill obligations is associated with unavoidable estimation uncertainties, is complex, and is subject to a high risk of change. Measurement depends, among other things, on the actual amount of damage and other factors within the framework of settlement procedures.

There is a risk to the financial statements that the measurement of provisions for warranty and goodwill obligations may not be appropriate.

**Our Audit Approach** We have inspected the underlying written correspondence and detailed documentation on the events and claims for damages relating to individual material cases. Subsequently, we had the Board of Managing Directors, the Quality Department, and the Finance Department explain to us the assumptions underlying the valuation of the warranty provisions. In this context, we obtained an understanding of the extent of the deliveries affected as well as the estimated cost of replacements and exchanges for the individual warranty cases inspected. In addition, we assessed the quality of the company's projections in prior years by considering the quality of estimates made as at earlier reporting dates.

**Our Observations** The assessments made with regard to warranty and goodwill obligations are appropriate.

#### Recoverability of goodwill, other intangible assets, and property, plant and equipment

For the accounting policies and assumptions used, please refer to Note 1.3 to the consolidated financial statements. Note 4.1 to the consolidated financial statements contains information about the amount of the Group's goodwill, other intangible assets, and property, plant and equipment.

**The Risk for the Financial Statements** The Schaeffler Group reports EUR 357 m in goodwill, EUR 113 m in other intangible assets, and EUR 4,865 m in property, plant and equipment in its consolidated statement of financial position as at December 31, 2020. Adding up to approximately 40% of total assets, these assets represent a significant proportion of the Group's net assets.

Goodwill is tested for impairment annually regardless of whether there is an indication of impairment. The impairment test is performed as at December 31, 2020. If indications of impairment arise during the year, an additional impairment test is performed during the year in response to such triggering event. Similarly, other intangible assets and property, plant and equipment are tested for impairment when there is an indication that these assets may be impaired. The implications of the coronavirus pandemic for the economic environment and the results of operations represent an indication of impairment of goodwill, other intangible assets, and property, plant and equipment.

If it is not possible to attribute to an individual non-current asset cash inflows that are largely independent of those from other assets or groups of assets, the asset is tested for impairment based on the smallest cash-generating unit to which it belongs.

Impairment testing goodwill, other intangible assets, and property, plant and equipment is complex and is based on discretionary assumptions. These include the segments' expected business growth and earnings trend for the next five years and –for selected cash-generating units – for subsequent transition periods, the assumed long-term growth rates, and the discount rate used. The coronavirus pandemic that has been spreading worldwide since January 2020 as well as the technological transition in the automotive industry have increased the level of estimation uncertainty regarding the underlying future cash inflows.



## Independent Auditors' Report

Due to the implications of the coronavirus pandemic, an impairment of EUR 249 m was recognized on the goodwill of the Automotive Technologies segment in the first quarter of 2020. There is a risk to the consolidated financial statements that an impairment existing at the reporting date may not have been identified. There is also a risk that the related note disclosures may not be appropriate.

**Our Audit Approach** With the support of our valuation specialists, we assessed, among other things, the appropriateness of the significant assumptions used in the underlying company plans and budgets and the company's valuation model. This included a discussion of the expected business and earnings growth as well as of the assumed long-term growth rates with those responsible for the planning process. We had the company substantiate to us the need to include transition periods subsequent to the detailed forecasting phase until a steady state has been reached. We also performed reconciliations to the budgets and long-range plans prepared by management and approved by the Supervisory Board. Further, we evaluated the consistency of assumptions with external market assessments.

In addition, we assessed the quality of the company's past plans by comparing projections for previous years with actual results and analyzing deviations. We compared the assumptions and data underlying the discount rate – particularly the risk-free interest rate, the market risk premium, and the beta factor – with our own assumptions and publicly available data.

We tested the company's calculations using items selected based on risk in order to ensure the mathematical accuracy of the valuation model used. To address the level of uncertainty inherent in the projections, we specifically analyzed the

consequences of possible changes in the discount rate and the sustainable EBIT margin on the recoverable amount by calculating alternative scenarios and comparing them to the company's figures (sensitivity analysis).

We then obtained an understanding of the reconciliation of Schaeffler AG's market capitalization to the sum of the recoverable amounts of the cash-generating units prepared by management.

Finally, we assessed whether the note disclosures on the recoverability of goodwill are appropriate. This also included an assessment of the note disclosures pursuant to IAS 36.134(f) regarding sensitivities in the event of a reasonably possible change of key assumptions underlying the valuation.

**Our Observations** The calculation methods used to test goodwill, other intangible assets, and property, plant and equipment for impairment are appropriate and consistent with the applicable valuation principles.

The company's assumptions and inputs underlying the valuation are appropriate. The related note disclosures are appropriate.

### Recognition and measurement of deferred tax assets of group companies that have incurred a loss

For the accounting policies used, please refer to Note 1.2 to the consolidated financial statements. Note 4.5 to the consolidated financial statements contains information about the amount of recognized deferred tax assets.

**The Risk for the Financial Statements** In its consolidated financial statements as at December 31, 2020, the Schaeffler Group reports EUR 203 m in net deferred tax assets on loss and interest carry-forwards of group companies that have incurred a loss.

The recognition of deferred tax assets requires the determination of the differences between the carrying amounts of assets and liabilities under tax law and in IFRS financial statements, as well as the determination of loss carry-forwards. The company then estimates to what extent existing deferred tax assets can be realized in subsequent reporting periods. These assets can only be realized if sufficient taxable profits are earned in the future. If there is reasonable doubt whether the deferred tax assets calculated can be realized in the future, deferred tax assets are not recognized and recognized deferred tax assets are derecognized.

As a result, recognition of deferred tax assets by companies that have incurred a loss depends extensively on management's estimates and assumptions regarding the companies' future results of operations and is therefore subject to discretion, particularly in light of the estimation uncertainty arising from the coronavirus pandemic.

There is a risk to the consolidated financial statements that the Schaeffler Group's estimates and assumptions may not be appropriate and that recognized deferred tax assets may not be recoverable.

**Our Audit Approach** We involved our tax specialists in the audit to evaluate tax matters. First, we critically analyzed the temporary differences between carrying amounts under IFRS and in the tax balance sheets. Additionally, we evaluated the tax calculation for 2020.

## Independent Auditors' Report

Further, we assessed the recoverability of deferred tax assets based on internal projections of future taxable profits prepared by the company and critically evaluated the underlying assumptions. In this regard, we specifically considered the company's assessment of whether there is a history of losses as defined in IAS 12, and reviewed the projection of future taxable profits of the relevant companies for consistency with the Schaeffler Group's long-range plans prepared by management and approved by the Supervisory Board.

**Our Observations** Management's assumptions are appropriate overall.

### Measurement of restructuring provisions

For the accounting policies used, please refer to Note 1.3 to the consolidated financial statements. Note 4.14 to the consolidated financial statements contains information about restructuring measures and restructuring provisions.

**The Risk for the Financial Statements** The company has recognized EUR 639 m in restructuring provisions in its consolidated financial statements as at December 31, 2020.

Recognition of provisions for restructuring measures is required if the general and specific recognition criteria of IAS 37 are met. Measurement of these restructuring provisions, which are significant in terms of their carrying amount, depends extensively on management's estimates and assumptions, particularly those regarding the features of social compensation plans, amounts of termination benefits, and costs to close locations.

There is a risk to the consolidated financial statements that restructuring provisions may be misstated.

**Our Audit Approach** We had management explain to us the assumptions underlying the measurement of the restructuring provisions. We evaluated the consistency of assumptions with the restructuring plans. Additionally, we compared the assumptions with restructuring measures implemented in the past and critically evaluated a risk-based sample of contracts and agreements already entered into as at the reporting date.

**Our Observations** Management's assumptions are appropriate.

### Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following unaudited parts of the group management report:

- the combined separate group non-financial report referred to in the group management report,
- the combined corporate governance declaration referred to in the group management report,
- the disclosures extraneous to management reports which have been included in the group 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 consolidated financial statements, the information within the group management report whose content has been audited, or our auditors' report.

Our opinions on the consolidated financial statements and on the group 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 consolidated financial statements, the information within the group 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 Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

## Independent Auditors' Report

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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.
- 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our opinions.

- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by management in the group 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 consolidated 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

### Report on Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and of the Group Management Report Prepared for Publication Purposes

We have performed an assurance engagement in accordance with section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached file named "SAG\_KA-2020-12-31.zip" (SHA256-hash value:5d60f29c4c5c87d9b86168d220a8093d0f41860d697048b7310d3b43fd116623) and prepared for publication purposes complies in all material respects with the requirements of section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in these reproductions nor any other information contained in the electronic file referred to above.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the accompanying electronic file referred to above and prepared for publication purposes complies, in all material respects, with the requirements of section 328 (1) HGB regarding the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the electronic file referred to above beyond this reasonable assurance opinion and our audit opinions on the attached consolidated financial statements and the accompanying group management report for the financial year from January 1, 2020, to December 31, 2020, contained in the "Report on the Audit of the Consolidated Financial Statements and of the Group Management Report" above.

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the attached electronic file referred to above in accordance with section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: "Assurance in Accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes" (ED IDW AsS 410). Our responsibilities under these requirements are described in further detail below. Our audit firm has applied the requirements for quality management systems set out in IDW Standard on Quality Management 1 "Requirements for Quality Management in Audit Firms" (IDW QS 1).

The company's management is responsible for preparing the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with section 328 (1) sentence 4 no. 1 HGB and for tagging the consolidated financial statements in accordance with section 328 (1) sentence 4 no. 2 HGB.

In addition, the company's management is responsible for such internal controls as they consider necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether due to fraud or error, with the requirements of section 328 (1) HGB regarding the electronic reporting format.

The company's management is also responsible for submitting, to the operator of the Federal Gazette, the ESEF documents together with the auditors' report and the attached audited consolidated financial statements and audited group management report as well as other documents required to be disclosed.

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

## Independent Auditors' Report

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- identify and assess the risks of material non-compliance, whether due to fraud or error, with the requirements of section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- evaluate the technical validity of the ESEF documents, that is, whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version in effect as at the reporting date, regarding the technical specifications for this electronic file.
- evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited group management report.
- evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

## Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected group auditors by the annual general meeting on May 8, 2020. We were engaged by the Supervisory Board on July 8, 2020. We have been the group 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 group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

In addition to the consolidated financial statements, we audited the annual 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 audited parts of the system of internal control over financial reporting, including investigating the authorization concept and testing embedded derivatives. In addition, we performed a review of the interim financial report as at June 30, 2020, as well as further historical financial information, 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), performed preparatory activities for a comfort letter, and issued a comfort letter in connection with the debt issuance program. Further, we performed a review of the Tax CMS as well as TISAX audits, issued an ISAE 3000 report on a Green Bond, and conducted projects related to possible changes in accounting policies and related to the reporting process for performance indicators regarding sustainability.

## German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Matthias Koeplin.

Nuremberg, February 22, 2021

KPMG AG  
Wirtschaftsprüfungsgesellschaft  
[Original German version signed by:]

gez. Alt-Scherer  
Wirtschaftsprüferin  
[German Public Auditor]

gez. Koeplin  
Wirtschaftsprüfer  
[German Public Auditor]

# Responsibility statement by the company's legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Herzogenaurach, February 22, 2021

Schaeffler Aktiengesellschaft  
The Board of Managing Directors

Klaus Rosenfeld  
Chief Executive Officer

Andreas Schick

Michael Söding

Uwe Wagner

Dr. Klaus Patzak

Corinna Schittenhelm

Dr. Stefan Spindler

Matthias Zink

## Multi-year comparison

## Multi-year comparison

in € millions	2016	2017	2018	2019	2020
<b>Income statement</b>					
Revenue	13,338	14,021	14,241	14,427	12,600
EBIT	1,556	1,528	1,354	790	-143
• in % of revenue	11.7	10.9	9.5	5.5	-1.1
EBIT before special items <sup>1)</sup>	1,700	1,584	1,381	1,161	803
• in % of revenue	12.7	11.3	9.7	8.1	6.4
Net income (loss) <sup>2)</sup>	859	980	881	428	-424
Earnings per common non-voting share (basic/diluted, in €)	1.30	1.48	1.33	0.65	-0.63
<b>Statement of financial position</b>					
Total assets	11,564	11,537	12,362	12,870	13,207
Shareholders' equity <sup>3)</sup>	1,997	2,581	3,060	2,917	1,838
• in % of total assets	17.3	22.4	24.8	22.7	13.9
Net financial debt	2,636	2,370	2,547	2,526	2,312
• Net financial debt to EBITDA ratio before special items <sup>1)</sup>	1.1	1.0	1.2	1.2	1.3
• Gearing ratio (Net financial debt to shareholders' equity <sup>3)</sup> , in %)	132.0	91.8	83.2	86.6	125.8
<b>Statement of cash flows</b>					
EBITDA	2,293	2,295	2,175	1,769	1,116
Cash flows from operating activities	1,876	1,778	1,606	1,578	1,254
Capital expenditures (capex) <sup>4)</sup>	1,146	1,273	1,232	1,045	632
• in % of revenue (capex ratio)	8.6	9.1	8.7	7.2	5.0
Free cash flow (FCF) before cash in- and outflows for M&A activities	735	515	384	473	539
• FCF-conversion (ratio of FCF before cash in- and outflows for M&A activities to EBIT) <sup>5)</sup>	0.5	0.3	0.3	0.6	-
<b>Value-based management</b>					
ROCE (in %)	20.4	19.2	16.4	9.0	-1.8
ROCE before special items (in %) <sup>1)</sup>	22.3	19.9	16.7	13.2	10.1
Schaeffler Value Added	795	731	529	-88	-862
Schaeffler Value Added before special items <sup>1)</sup>	939	787	557	284	84
<b>Employees</b>					
Headcount (at end of reporting period)	86,662	90,151	92,478	87,748	83,297

<sup>1)</sup> Please refer to pp. 35 et seq. for the definition of special items.<sup>2)</sup> Attributable to shareholders of the parent company.<sup>3)</sup> Including non-controlling interests.<sup>4)</sup> Capital expenditures on intangible assets and property, plant and equipment.<sup>5)</sup> Only reported if free cash flow before cash in- and outflows for M&A activities and EBIT positive.



# Summary 1<sup>st</sup> quarter 2019 to 4<sup>th</sup> quarter 2020

## Schaeffler Group

in € millions	2019				2020			
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
<b>Income statement</b>								
Revenue	3,622	3,604	3,613	3,588	3,282	2,292	3,396	3,629
• Europe	1,715	1,664	1,590	1,538	1,536	886	1,412	1,536
• Americas	817	777	798	763	771	366	734	733
• Greater China	586	645	728	804	520	737	820	874
• Asia/Pacific	504	518	498	483	455	303	431	486
Cost of sales	-2,708	-2,705	-2,697	-2,743	-2,484	-1,953	-2,586	-2,668
Gross profit	913	899	917	844	799	339	810	961
• in % of revenue	25.2	25.0	25.4	23.5	24.3	14.8	23.8	26.5
Research and development expenses	-229	-215	-202	-204	-208	-179	-187	-184
Selling and administrative expenses	-392	-383	-381	-377	-369	-294	-324	-353
EBIT	230	253	312	-5	-88	-135	-191	270
• in % of revenue	6.3	7.0	8.6	-0.2	-2.7	-5.9	-5.6	7.4
Special items	42	31	15	284	302	-15	511	148
EBIT before special items <sup>1)</sup>	272	284	327	279	215	-150	320	418
• in % of revenue	7.5	7.9	9.1	7.8	6.5	-6.5	9.4	11.5
Net income (loss) <sup>2)</sup>	137	136	212	-56	-184	-168	-172	100
Earnings per common non-voting share (basic/diluted, in €)	0.21	0.21	0.31	-0.08	-0.27	-0.25	-0.26	0.15
<b>Statement of financial position</b>								
Total assets	14,561	12,993	13,127	12,870	12,395	12,301	12,877	13,207
Shareholders' equity <sup>3)</sup>	3,169	2,736	2,757	2,917	2,573	1,883	1,582	1,838
• in % of total assets	21.8	21.1	21.0	22.7	20.8	15.3	12.3	13.9
Net financial debt	2,805	3,167	2,842	2,526	2,414	3,002	2,688	2,312
• Net financial debt to EBITDA ratio before special items <sup>1) 4)</sup>	1.3	1.6	1.4	1.2	1.2	1.8	1.6	1.3
• Gearing ratio (Net financial debt to shareholders' equity <sup>3)</sup> , in %)	88.5	115.8	103.1	86.6	93.8	159.5	169.9	125.8

in € millions	2019				2020			
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
<b>Statement of cash flows</b>								
EBITDA	472	490	558	249	405	107	82	521
Cash flows from operating activities	154	229	610	585	327	-130	533	524
Capital expenditures (capex) <sup>5)</sup>	373	221	229	222	164	136	181	151
• in % of revenue (capex ratio)	10.3	6.1	6.3	6.2	5.0	5.9	5.3	4.2
Free cash flow (FCF) before cash in- and outflows for M&A activities	-235	6	362	340	137	-285	333	355
• FCF-conversion (ratio of FCF before cash in- and outflows for M&A activities to EBIT) <sup>6)</sup>	-	0.0	1.2	-	-	-	-	1.3
<b>Value-based management</b>								
ROCE (in %)	14.2	12.5	11.5	9.0	5.5	1.0	-5.1	-1.8
ROCE before special items (in %) <sup>1) 4)</sup>	15.0	13.4	12.9	13.2	12.8	7.9	8.1	10.1
Schaeffler Value Added	352	211	133	-88	-304	-675	-1,158	-862
Schaeffler Value Added before special items <sup>1) 4)</sup>	422	289	247	284	328	-89	-75	84
<b>Employees</b>								
Headcount (at end of reporting period)	91,837	90,492	89,036	87,748	86,548	84,223	83,711	83,297

<sup>1)</sup> Please refer to pp. 35 et seq. for the definition of special items.

<sup>2)</sup> Attributable to shareholders of the parent company.

<sup>3)</sup> Including non-controlling interests.

<sup>4)</sup> EBIT/EBITDA based on the last twelve months.

<sup>5)</sup> Capital expenditures on intangible assets and property, plant and equipment.

<sup>6)</sup> Only reported if free cash flow before cash in- and outflows for M&A activities and EBIT positive.



## Summary 1st quarter 2019 to 4th quarter 2020

in € millions	2019				2020			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
<b>Automotive Technologies division <sup>1)</sup></b>								
Revenue	2,285	2,232	2,254	2,272	2,008	1,256	2,165	2,392
• E-Mobility BD	147	159	190	186	144	128	180	206
• Engine Systems BD	699	689	700	705	604	384	650	731
• Transmission Systems BD	1,038	987	995	1,002	902	548	988	1,068
• Chassis Systems BD	401	397	369	380	359	196	347	387
• Europe	965	922	851	833	835	367	782	885
• Americas	566	523	553	513	541	190	527	516
• Greater China	412	432	513	602	316	499	567	651
• Asia/Pacific	343	355	338	324	316	200	288	339
Cost of sales	-1,801	-1,771	-1,772	-1,818	-1,625	-1,208	-1,692	-1,806
Gross profit	484	461	482	454	383	48	473	586
• in % of revenue	21.2	20.6	21.4	20.0	19.1	3.8	21.9	24.5
Research and development expenses	-183	-170	-157	-163	-164	-141	-148	-145
Selling and administrative expenses	-179	-175	-172	-169	-169	-131	-141	-155
EBIT	58	90	143	-5	-220	-225	-72	186
• in % of revenue	2.5	4.1	6.3	-0.2	-11.0	-17.9	-3.3	7.8
Special items	55	18	15	122	270	-5	252	91
EBIT before special items <sup>2)</sup>	113	108	158	117	50	-229	180	277
• in % of revenue	4.9	4.9	7.0	5.1	2.5	-18.2	8.3	11.6

in € millions	2019				2020			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
<b>Automotive Aftermarket division <sup>1)</sup></b>								
Revenue	443	461	482	462	446	301	456	438
• Europe	312	320	351	326	329	212	334	309
• Americas	88	95	86	93	81	56	80	84
• Greater China	20	22	22	18	15	21	21	21
• Asia/Pacific	23	25	23	26	21	13	21	24
Cost of sales	-291	-306	-312	-305	-288	-210	-297	-283
Gross profit	152	155	170	157	158	91	159	155
• in % of revenue	34.3	33.6	35.2	33.9	35.4	30.3	34.8	35.3
Research and development expenses	-7	-7	-6	-7	-6	-5	-5	-4
Selling and administrative expenses	-76	-75	-75	-78	-72	-57	-69	-81
EBIT	69	72	87	62	76	27	63	63
• in % of revenue	15.5	15.6	18.1	13.4	17.1	9.0	13.8	14.4
Special items	0	0	0	15	0	0	23	6
EBIT before special items <sup>2)</sup>	69	72	87	77	76	27	86	70
• in % of revenue	15.5	15.6	18.1	16.7	17.1	9.0	18.9	15.9

<b>Industrial division <sup>1)</sup></b>								
Revenue	893	911	877	853	828	734	776	799
• Europe	438	422	388	379	372	308	296	342
• Americas	162	160	159	157	149	120	127	132
• Greater China	155	191	193	184	189	218	231	202
• Asia/Pacific	138	138	138	134	118	89	121	123
Cost of sales	-616	-627	-613	-620	-571	-535	-598	-579
Gross profit	277	284	265	234	257	199	178	221
• in % of revenue	31.0	31.1	30.2	27.4	31.1	27.2	23.0	27.6
Research and development expenses	-40	-38	-39	-34	-38	-33	-34	-35
Selling and administrative expenses	-137	-132	-134	-130	-129	-107	-114	-118
EBIT	103	91	83	-63	56	63	-182	20
• in % of revenue	11.5	10.0	9.4	-7.3	6.8	8.5	-23.4	2.5
Special items	-13	13	0	147	32	-10	236	51
EBIT before special items <sup>2)</sup>	90	104	83	84	88	52	54	71
• in % of revenue	10.1	11.4	9.4	9.9	10.7	7.1	7.0	8.9

<sup>1)</sup> Prior year information presented based on 2020 segment structure.

<sup>2)</sup> Please refer to pp. 35 et seq. for the definition of special items.

# Financial calendar

## March 4, 2021

Publication of annual results 2020

## April 23, 2021

Annual general meeting 2021

## May 12, 2021

Publication of results for the first three months 2021

## August 4, 2021

Publication of results for the first six months 2021

## November 9, 2021

Publication of results for the first nine months 2021

All information is subject to correction and may be changed at short notice.

# Imprint

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## Schaeffler in Social Media



## Forward-looking statements

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond Schaeffler AG's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies, and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. Schaeffler AG does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

## Variances for technical reasons

For technical reasons (e.g., conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette shall be binding.

The reporting period comprises the financial year 2020, which runs from January 1 to December 31, 2020. This report reflects relevant information available by the editorial deadline on February 22, 2021.

Rounding differences may occur.

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

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

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**SCHAEFFLER**