Financial statements 2020

Schaeffler AG

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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.

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.

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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.

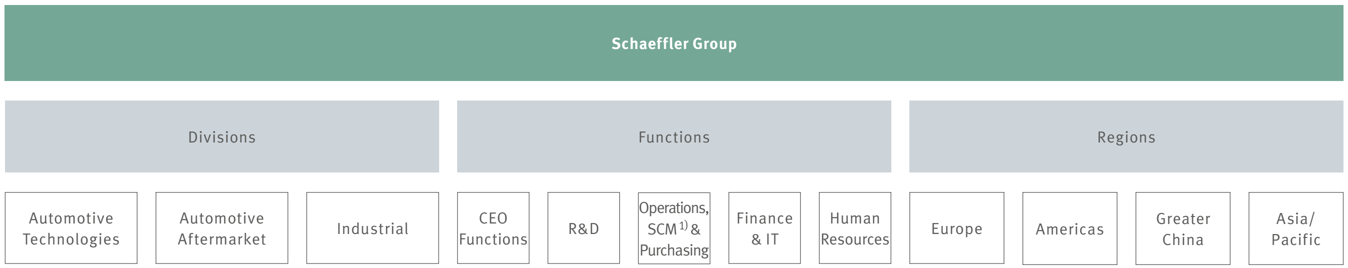
* Part of the group management report.

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

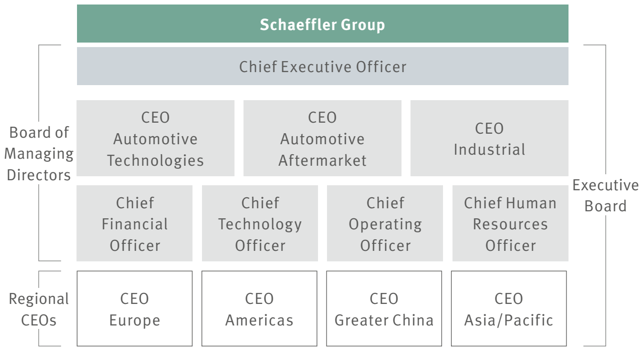


Simplified presentation for illustration purposes.
1) Supply Chain Management.

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.

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

Schaeffler Group functions

Schaeffler Group				
CEO Functions	R&D	Operations, Supply Chain Management & Purchasing	Finance & IT	Human Resources
– 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	– R&D Management – Advanced Research & Innovation – Corporate R&D – R&D Processes, Methods & Tools – Intellectual Property Rights	– Schaeffler Production System, Strategy & Processes – Digitalization & Operations IT – Advanced Production Technology – Production Technology – Special Machinery – Supply Chain Management & Logistics – Purchasing & Supplier Management – Quality Operations, Supply Chain Management & Purchasing	– Finance Strategy, Processes & Infrastructure – Corporate Accounting – Corporate Controlling – Corporate Treasury – Corporate Tax & Customs – Corporate Reporting – Corporate Insurance – Divisional Controlling Automotive Technologies – Divisional Controlling Automotive Aftermarket – Divisional Controlling Industrial – Shared Services – IT & Digitalization	– HR Strategy – HR Policies & Standards – Leadership, Recruiting & Talent Management – Schaeffler Academy – HR Systems, Processes & Reporting – Sustainability, Environment, Health & Safety – HR Functions

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

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:

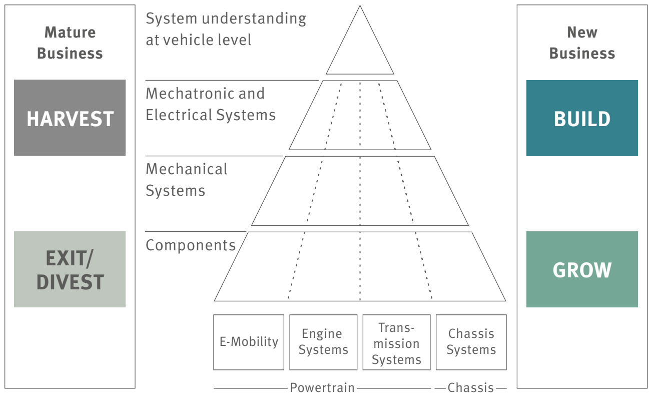
- The **E-Mobility BD** develops and manufactures components and systems for powertrain electrification – from 48-volt mild hybrids and plug-in hybrids through to all-electric drives. The product portfolio includes hybrid modules, electric axle transmissions, electric axle drives, electromechanical and 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.

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.

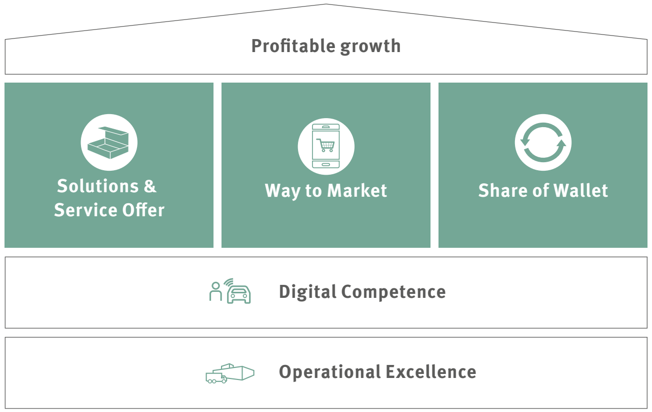
Automotive Aftermarket division

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 REPXPERT.

The management model follows a regional approach using the **regions Europe, Americas, Greater China,** and **Asia/Pacific.** Within each region, products and services are sold via two distribution channels: the Original Equipment Service (OES) and the open (independent) spare parts market, known as the Independent Aftermarket (IAM). The OES comprises the automobile manufacturers' spare parts business 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 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.

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 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 [1].

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.

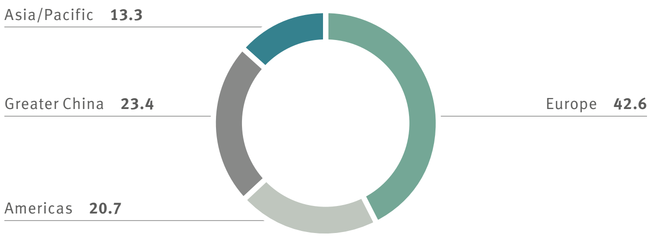
The Buehl location, where the Automotive Technologies division is headquartered, will be developed into a center of excellence for electric mobility and electric-motor mass production. In Schweinfurt, the headquarters of the Industrial division, Schaeffler plans to consolidate and cluster its production 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.

[1] The definition of locations was revised and adapted to the new structure during the year.

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 [2] describes the relation of sales volume manufactured in a region – taking into account procurement flows – to that region's [3] 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.

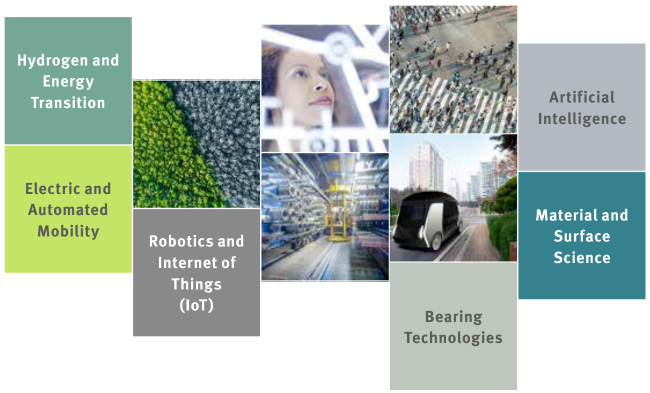
The **Asia/Pacific region** comprises the subregions South Korea, Japan, Southeast Asia, and India. 13.3% (prior year: 13.9%) of group revenue was generated by this region in 2020. The degree of localization amounted to approximately 43% (prior year: 42%) in 2020. The Asia/Pacific region had 5,860 employees 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



[2] Prior year information presented based on 2020 segment structure.
[3] Sales by market view.

In the **innovation cluster Hydrogen and Energy Transition,** the Schaeffler Group relies on the potential of green hydrogen for a CO_2-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 electromechanical 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_2 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.

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).

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

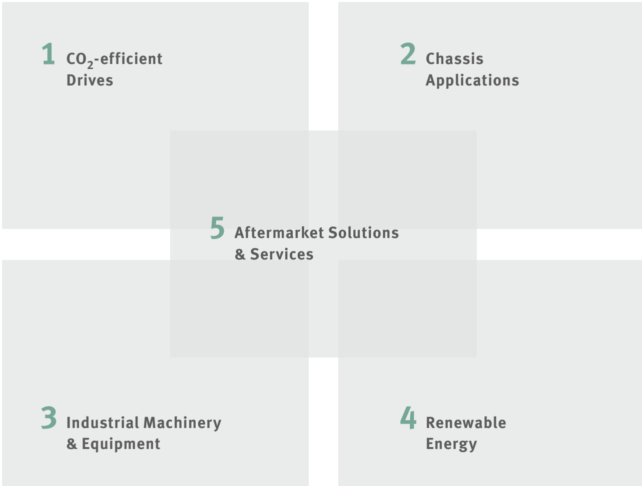
The strategic framework entitled "Roadmap 2025" consists of three main elements: "Strategy 2025", "Execution Program 2025", with its seven subprograms, and "Mid-term Targets 2025". These define the financial framework and reflect the overarching commitment to creating value sustainably.

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

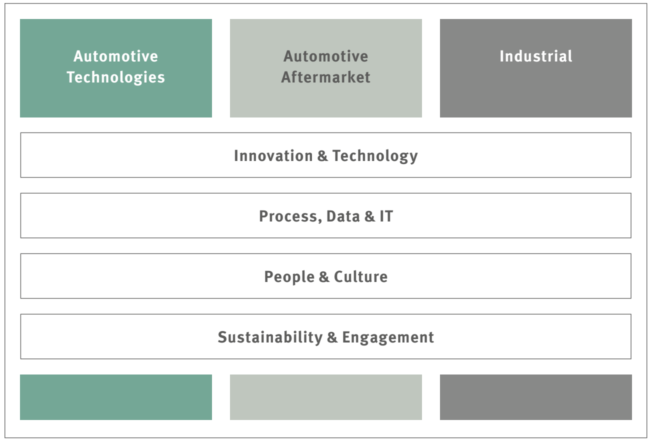


An analysis of which external trends are particularly relevant for Schaeffler, both before and after the coronavirus pandemic, and of how the market environment has changed since 2016 identified five key future trends: sustainability & climate change, new mobility & electrified powertrain, autonomous 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



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 2025

Automotive Technologies	Automotive Aftermarket	Industrial
Outperformance [1] **200** to **500 bps** on average [2]	Constant-currency revenue growth **› Growth in global gross domestic product** on average [2]	Constant-currency revenue growth **› Growth in Industrial production** on average [2]
4 to **6%** EBIT margin before special items [3]	**13** to **15%** EBIT margin before special items [3]	**12** to **14%** EBIT margin before special items [3]

Schaeffler Group

ROCE	FCF-conversion [4]
12 to **15%** based on EBIT reported [3]	**0.3** to **0.5** based on EBIT reported [3] [5]

Group parameters

Capital Structure	Dividend policy
1.2x to **1.7x** Net debt/EBITDA before special items	**30** to **50%** of net Income before special items

[1] Constant-currency revenue growth above global automobile production (IHS Markit).
[2] From 2021 to 2025.
[3] Latest in 2023.
[4] See page 17 for definition of free cash flow conversion.
[5] 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 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.

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.

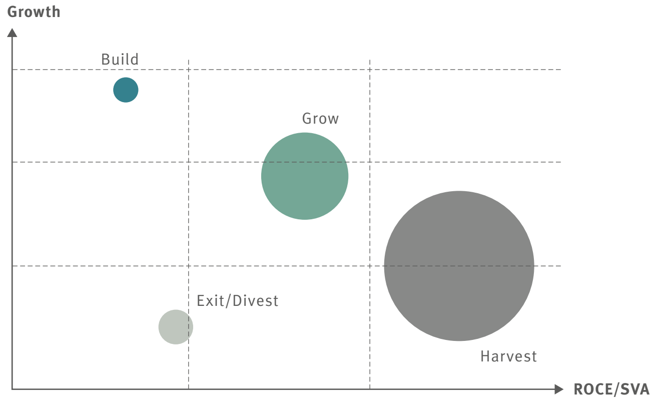
The Automotive Aftermarket division is aiming for average annual revenue growth – excluding the impact of currency translation – to exceed growth in global gross domestic product, and an EBIT margin before special items of 13 to 15%, with the lower end of that range being reached by 2023 at the latest.

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

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

1) Capital expenditures on capacity expansion and new products.

The 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.

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_2-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

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.

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.

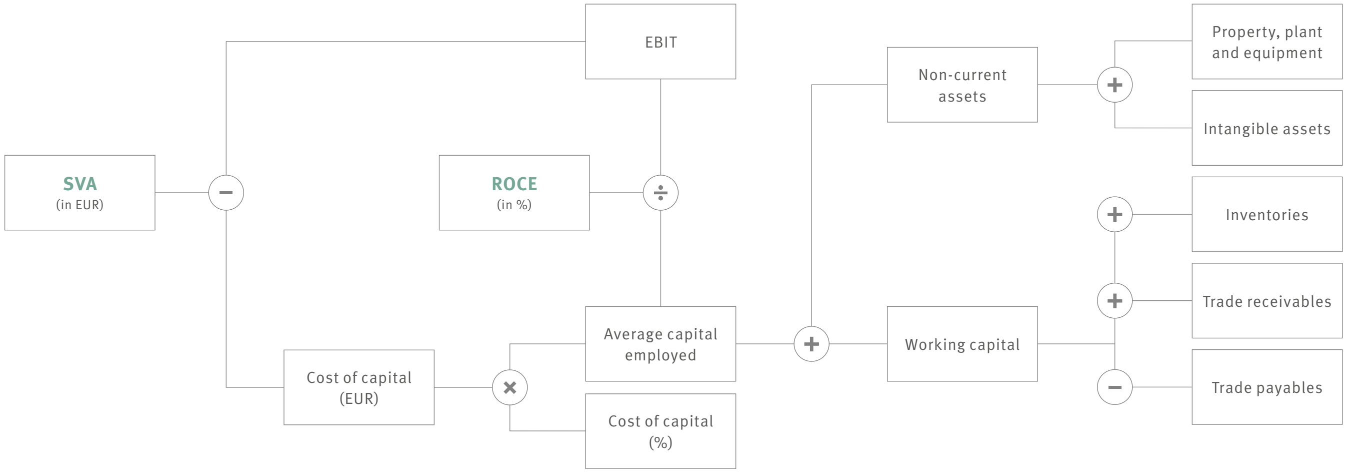
Strategic financial performance indicators

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.

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.

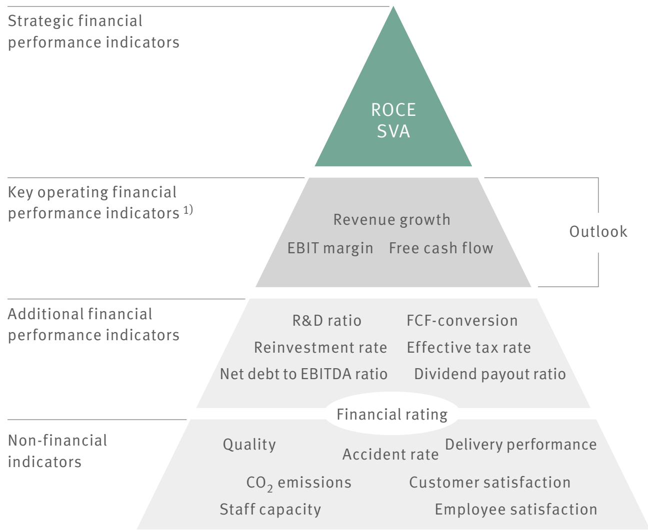
Revenue growth is also analyzed in comparison to relevant market indicators in order to evaluate the development of the company's market position and competitive position.

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



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

Additional financial performance indicators

In addition to the three key operating financial performance indicators, the Board of Managing Directors also continually tracks additional financial performance indicators including, among others, the reinvestment rate [4], R&D ratio, FCF-conversion [5], 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.

[4] 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).
[5] The FCF-conversion is the ratio of free cash flow before cash in- and outflows for M&A activities to EBIT.

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_2 emissions.

More in the sustainability report under:
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 economics 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.

Sector-specific environment

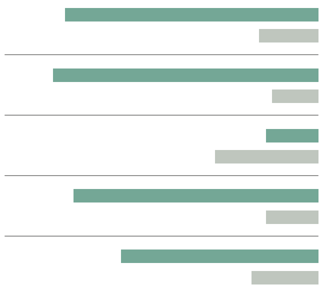
The trend in automobile production significantly affects the results of operations of the Schaeffler Group's Automotive Technologies division. The global trend in industrial production in the mechanical engineering, transport equipment, and electrical equipment provides an indication of the development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

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	2020	**-20.8**	**18.0**
	2019	-4.9	22.8
Americas	2020	**-21.8**	**15.2**
	2019	-3.8	19.4
Greater China	2020	**-4.3**	**23.7**
	2019	-8.5	24.8
Asia/Pacific	2020	**-20.1**	**17.5**
	2019	-4.3	21.9
World	2020	**-16.2**	**74.5**
	2019	-5.5	89.0

2020 2019

Source: IHS Markit (January 2021).
Regions reflect the regional structure of the Schaeffler Group.

Industrial production

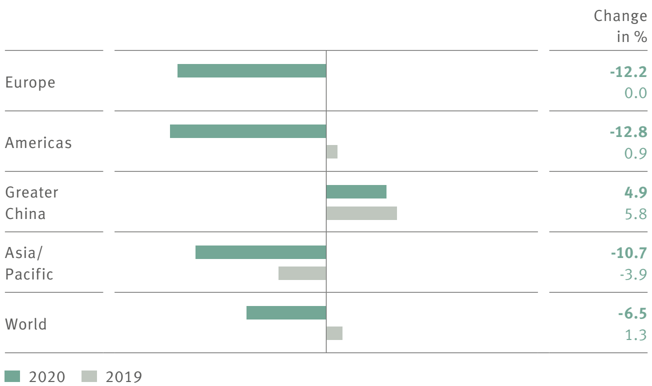
Based on preliminary estimates, global industrial production for the year was down approximately 3.8% from the prior year level (Oxford Economics, December 2020). The sectors particularly relevant to the Schaeffler Group – mechanical engineering, transport equipment, and electrical equipment – experienced 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

[6] Divisions 28 and 30 as well as group 27.1 of the NACE Rev. 2 classification.

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.

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

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp.35 et seq. for the definition of special items.
[3] 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.

Comparison to outlook 2020 – divisions

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

[1] Outlook provided for group only.
[2] Compared to prior year; excluding the impact of currency translation.
[3] Please refer to pp. 35 et seq. for the definition of special items.
[4] 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.

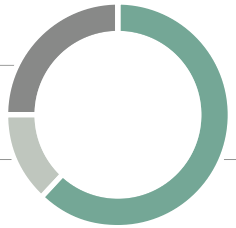
For its **Industrial division**, the company anticipated revenue growth of -10.0 to -9.0% excluding the impact of currency translation and an EBIT margin before special items of 7.5 to 8.5%. The Industrial division met the adjusted revenue guidance, its revenue falling by 9.2% excluding the impact of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

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%**



Schaeffler Group earnings

in € millions	2020	2019	Change in %
Revenue	**12,600**	**14,427**	**-12.7**
• at constant currency			-10.4
Revenue by division			
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
Revenue by region [1]			
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
Gross profit	**2,909**	**3,574**	**-18.6**
• 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
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)	**-143**	**790**	**-**
• in % of revenue	-1.1	5.5	-
Special items [2]	946	372	> 100
EBIT before special items	**803**	**1,161**	**-30.9**
• 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) [3]	-424	428	-
Earnings per common non-voting share (basic/diluted, in €)	-0.63	0.65	-

[1] Based on market (customer location).
[2] Please refer to pp. 35 et seq. for the definition of special items.
[3] Attributable to shareholders of the parent company.

2.3 Earnings

Schaeffler Group earnings

The Schaeffler Group'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.

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 [1]	-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
Total	**-185**	**-137**

[1] 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.

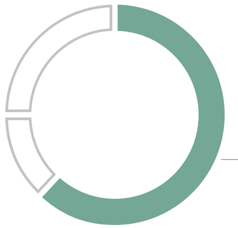
Schaeffler Value Added for the year amounted to EUR -862 m (prior year: EUR -88 m); **ROCE** was -1.8% (prior year: 9.0%). **Schaeffler Value Added (SVA) before special items** declined to EUR 84 m in 2020 (prior year: EUR 284 m); ROCE before special items fell to 10.1% (prior year: 13.2%). The considerable 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.

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 %
Revenue	**7,821**	**9,044**	**-13.5**
• at constant currency			-11.6
Revenue by business division			
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
Revenue by region [1]			
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
Gross profit	**1,490**	**1,881**	**-20.8**
• 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
EBIT	**-330**	**286**	**-**
• in % of revenue	-4.2	3.2	-
Special items [2]	608	209	› 100
EBIT before special items	**278**	**496**	**-44.0**
• in % of revenue	3.6	5.5	-

Prior year information presented based on 2020 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 35 et seq. for the definition of special items.

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 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.

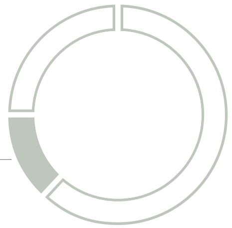
Based on that, **EBIT before special items** declined considerably by 44.0% to EUR 278 m (prior year: EUR 496 m) with a drop in EBIT margin to 3.6% (prior year: 5.5%). The EBIT margin before special items of 10.0% for the second half of 2020 improved compared to both the first six months (H1 2020: -5.5%)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

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%**



Automotive Aftermarket division earnings

in € millions	2020	2019	Change in %
Revenue	**1,641**	**1,848**	**-11.2**
• at constant currency			-7.0
Revenue by region [1]			
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
Gross profit	**562**	**634**	**-11.2**
• 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
EBIT	**229**	**290**	**-20.9**
• in % of revenue	14.0	15.7	-
Special items [2]	30	15	98.0
EBIT before special items	**259**	**305**	**-15.1**
• in % of revenue	15.8	16.5	-

Prior year information presented based on 2020 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 35 et seq. for the definition of special items.

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%).

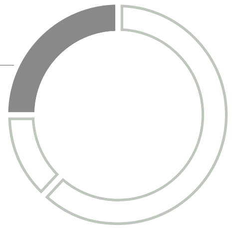
Industrial division

// 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%)

Revenue **EUR 3,138 m**

EBIT margin before special items **8.5%**

24.9%
Industrial



Industrial division earnings

in € millions	2020	2019	Change in %
Revenue	**3,138**	**3,535**	**-11.2**
• at constant currency			-9.2
Revenue by region [1]			
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
Gross profit	**856**	**1,059**	**-19.2**
• 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
EBIT	**-43**	**214**	**-**
• in % of revenue	-1.4	6.0	-
Special items [2]	309	147	> 100
EBIT before special items	**266**	**361**	**-26.3**
• in % of revenue	8.5	10.2	-

Prior year information presented based on 2020 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 35 et seq. for the definition of special items.

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.

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.

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
Income statement (in € millions)	Total		Automotive Technologies		Automotive Aftermarket		Industrial	
EBIT	**-143**	**790**	**-330**	**286**	**229**	**290**	**-43**	**214**
• in % of revenue	-1.1	5.5	-4.2	3.2	14.0	15.7	-1.4	6.0
Special items	**946**	**372**	**608**	**209**	**30**	**15**	**309**	**147**
• 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
EBIT before special items	**803**	**1,161**	**278**	**496**	**259**	**305**	**266**	**361**
• 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.

Reconciliation

	2020	2019
Income statement (in € millions)		Total
EBIT	**-143**	**790**
• in % of revenue	-1.1	5.5
Special items	**946**	**372**
• 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
EBIT before special items	**803**	**1,161**
• in % of revenue	6.4	8.1
Net income (loss) [1]	**-424**	**428**
Special items	**946**	**372**
• Legal cases	21	-13
• Restructuring	676	384
• Other	249	0
– Tax effect [2]	-197	-115
Net income before special items [1]	**325**	**686**
Statement of financial position (in € millions)	**12/31/2020**	**12/31/2019**
Net financial debt	2,312	2,526
/ EBITDA	1,116	1,769
Net financial debt to EBITDA ratio	**2.1**	**1.4**
Net financial debt	2,312	2,526
/ EBITDA before special items	1,793	2,116
Net financial debt to EBITDA ratio before special items	**1.3**	**1.2**

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

[1] Attributable to shareholders of the parent company.
[2] 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).
[3] Reported only if free cash flow before cash in- and outflows for M&A activities and EBIT is positive.

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
Net increase (decrease) in cash and cash equivalents	**1,138**	**-140**	**-**
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
Cash and cash equivalents	**1,758**	**668**	**> 100**
Free cash flow (FCF)	**552**	**372**	**48.4**
Free cash flow (FCF) before cash in- and outflows for M&A activities	**539**	**473**	**14.0**

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.

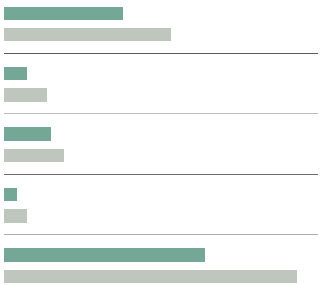
Free cash flow is calculated as the sum of cash flows from operating activities and cash flows from investing activities as well as principal repayments on lease liabilities. Free cash flow for the year amounted to EUR 552 m (prior year: EUR 372 m). **Free cash flow before cash in- and outflows for M&A 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.

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
Total financial debt	**4,071**	**3,194**	**27.4**
Cash and cash equivalents	1,758	668	> 100
Net financial debt	**2,312**	**2,526**	**-8.4**

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.

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

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

[1] Euribor floor of 0.00%.
[2] 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).
[3] 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 addtional 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). [7]

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.

[7] See Note 4.12 to the consolidated financial statements for further details.

Schaeffler Group bonds

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

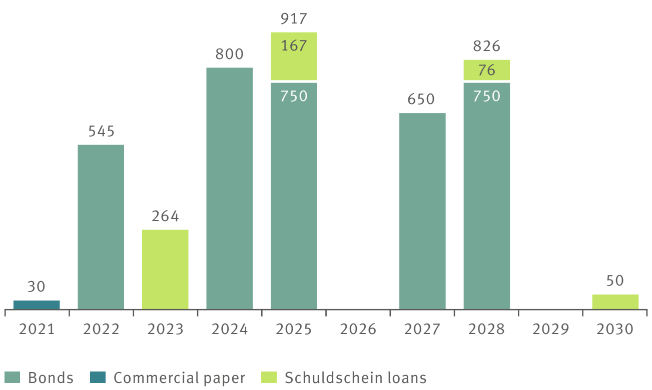
1) Principal outstanding: EUR 544,668,000 (since October 14, 2020).
2) The bond series was redeemed in full on November 4, 2020.
3) The bond series was issued on October 12, 2020.

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.

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 %
ASSETS			
Non-current assets	6,785	7,387	-8.2
Current assets	6,422	5,483	17.1
Total assets	**13,207**	**12,870**	**2.6**
SHAREHOLDERS' EQUITY AND LIABILITIES			
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
Total shareholders' equity and liabilities	**13,207**	**12,870**	**2.6**

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%).

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
Gross profit	**1**	**1**	**0.0**
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
Earnings after income taxes	**154**	**454**	**-66.1**
Net income for the year	**154**	**454**	**-66.1**
Retained earnings brought forward	0	0	0.0
Withdrawal from other revenue reserves	15	0	0.0
Retained earnings	**169**	**454**	**-62.8**

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.

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 %
ASSETS			
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
Total assets	**24,138**	**22,985**	**5.0**
SHAREHOLDERS' EQUITY AND LIABILITIES			
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
Total shareholders' equity and liabilities	**24,138**	**22,985**	**5.0**

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.

Closing statement on the dependency report

Closing statement on the report on relations with affiliated companies prepared by the Board of Managing Directors in accordance with section 312 AktG.

Schaeffler AG has been a company dependent on IHO Verwaltungs GmbH, Herzogenaurach, in accordance with section 312 AktG since October 24, 2014. Therefore, the Board of Managing Directors of Schaeffler AG has prepared a report on relations with affiliated companies by the Board of Managing Directors in accordance with section 312 (1) AktG which contains the following closing statement:

"In the legal transactions and measures listed in the report on relations with affiliated companies, our company has in each legal transaction received appropriate compensation in the circumstances known to us at the time the legal transactions were executed or the measures were executed or not executed, and has not been disadvantaged by the fact that such measures were executed or not executed".

2.7 Other components of the group management report

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

- "Corporate governance declaration including the corporate governance report" beginning on page 62 et. seq.,
- "Governance structure" beginning on page 70 et. seq.,
- "Remuneration report" beginning on page 75 et. seq., and
- "Governing bodies of the company" beginning on page 101 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

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

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

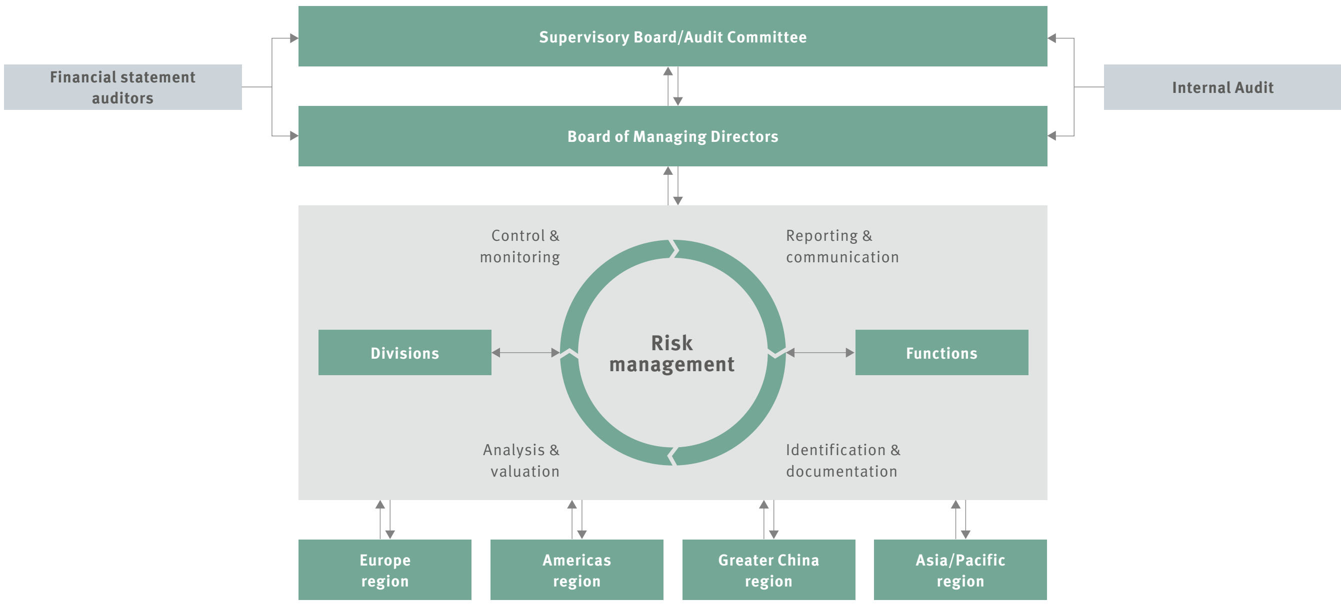
The Schaeffler Group intentionally takes risks in order to meet its corporate objectives.

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.

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

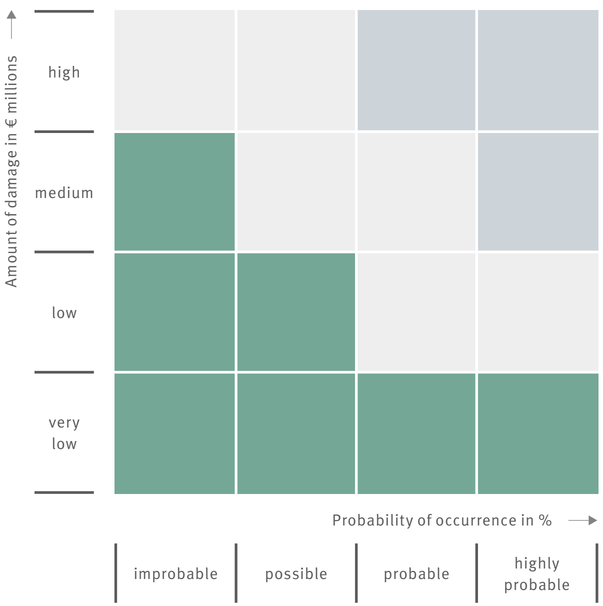
The guideline also defines – as a further component of the risk management system – a group-wide catalog of risk categories to ensure that all risks along the value chain are identified. Identified risks have to be assigned to the predefined risk categories. This catalog must be completely reviewed by 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 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 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 occurence in %	
‹ 25%	improbable
25% – ‹ 50%	possible
50% – 75%	probable
› 75%	highly probable

Risk classes

low medium high

Impact on net assets, financial position, and earnings.

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.

4.2 Internal control system

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

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

The financial statement information reported by Schaeffler AG and its subsidiaries via a uniform 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.

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 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.

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 professionality of criminal attacks, an information security risk with a medium impact on the Schaeffler Group's net assets, financial position, and earnings cannot be entirely ruled out.

Legal risks

The Schaeffler Group's operations give rise to legal risks, for instance those resulting from non-compliance with relevant regulations. Legal risks are reflected in provisions recognized in accordance with financial reporting standards.

Compliance risks

As a company with operations worldwide, Schaeffler has to comply with varying laws and regulations around the globe. It is possible that violations of existing law occur despite careful observance of such legal requirements. Circumstances identified as not meeting the requirements of the compliance management system are immediately addressed with appropriate action. The consequences of 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. 71 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).

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.

Risk assessment

	Amount of damage in €	Probability of occurrence in %	Risk class	Change from prior year
Strategic risks				
• 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	→
Operating risks				
• 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	→
Legal risks				
• Compliance risks	high	improbable	medium	→
Financial risks				
• 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 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.

Legal opportunities

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

Increased standards due to new legislation

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

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.

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.

Outlook 2021 – group

Schaeffler Group	**Actual 2020**	**Actual 2020** adjusted comparative figure	Outlook 2021
Revenue growth [1]	-10.4%	-10.5%	› 7%
EBIT margin before special items [2]	6.4%	6.3%	6 to 8%
Free cash flow [3]	EUR 539 m	EUR 539 m	~ EUR 100 m

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 35 et seq. for the definition of special items.
[3] Before cash in- and outflows for M&A activities.

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 – divisions

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

1) Compared to prior year; excluding the impact of currency translation.
2) Please refer to pp. 35 et seq. for the definition of special items.
3) LVP growth: global growth in production of passenger cars and light commercial vehicles.

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 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

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

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.

Schaeffer 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

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. 70 et seq.

The internal rules of procedure of the Board of Managing Directors set out the activities of the Board of Managing Directors, the issues that are the responsibility of the Board of Managing Directors, the majorities required to pass resolutions, and the areas of responsibility of the various members of the Board of Managing Directors. Based on the Schaeffler Group's organizational structure, the Board of Managing Directors consists of the Group CEO and the CEOs of the divisions and corporate functions. Under the internal rules of procedure, specific management responsibilities are assigned to each member of the Board of Managing Directors. Their responsibility for jointly managing the company remains unaffected. Each member of the Board of Managing Directors is directly responsible for his or her assigned area of responsibility, taking into account the joint responsibility of the Board of Managing Directors.

The Schaeffler Group is managed using a three-dimensional matrix consisting of the divisions, the functions, and the regions. The Regional CEOs report directly to the CEO. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board.

Membership of the Board of Managing Directors

In accordance with the "Act on Equal Access for Men and Women to Leadership Positions in the Private and Public Sectors", Schaeffler AG's Supervisory Board has set a target for the proportion of women on the Board of Managing Directors and a deadline for meeting this target. At its meeting on May 10, 2017, the Supervisory Board established that the Board of Managing Directors of Schaeffler AG has to have at least one female member. The deadline for meeting this target is June 30, 2022, and the Board of Managing Directors has already met this target since Corinna Schittenhelm was appointed to the Board of Managing Directors on January 1, 2016.

Consistent with the group's international stature and wide variety of sectors, the Board of Managing Directors considers diversity when making appointments to leadership positions. It aims to give appropriate consideration to women and has set targets for the proportion of women within Schaeffler AG at the two levels of management immediately below the Board of Managing Directors in accordance with sections 76 (4) and 111 (5) AktG. At its meeting on June 19, 2017, the Board of Managing Directors set targets for the proportion of women of 8% at the first level of management and of 12% at the second level of management immediately below the Board of Managing Directors for the period ending June 30, 2022.

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

- **Gender:** The Board of Managing Directors should have at least one female member. This target was met in 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. 101 et seq.

Supervisory Board

The Supervisory Board is responsible for advising and monitoring the Board of Managing Directors in managing the company. The Board of Managing Directors has to involve the Supervisory Board in any decisions that are fundamental to the company. Specifically, the Supervisory Board's internal rules of procedure set out which legal transactions and measures taken by the Board of Managing Directors require approval by the Supervisory Board or the executive committee. The Supervisory Board fulfills its responsibilities in accordance with the requirements of the law, the company's articles of association, and the internal rules of procedure. The internal rules of procedure of the Supervisory Board govern the Board's organization and activities.

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

More on the remuneration of the Board of Managing Directors on pp. 75 et seq.

The Supervisory Board holds a minimum of two meetings during each of the first and second six months of the calendar year to discuss current issues and pass any resolutions required. Additional meetings are held when and if the interests of the company require. For reasons of effectiveness, resolutions are at times passed in writing or by telephone.

Membership of the Supervisory Board

The Supervisory Board of Schaeffler AG, which is subject to co-determination on the basis of parity, consists of 20 members. Ten of these members are appointed by the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act.

Since Schaeffler AG is a publicly listed company subject to 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.

- **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

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

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.

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.

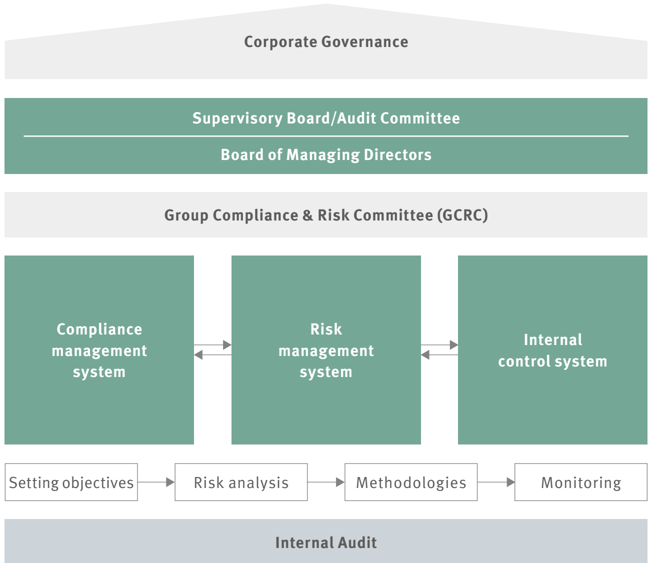
In addition, the consolidated financial statements include a discussion of transactions with shareholders considered related parties under applicable financial reporting standards.

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.

2. 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

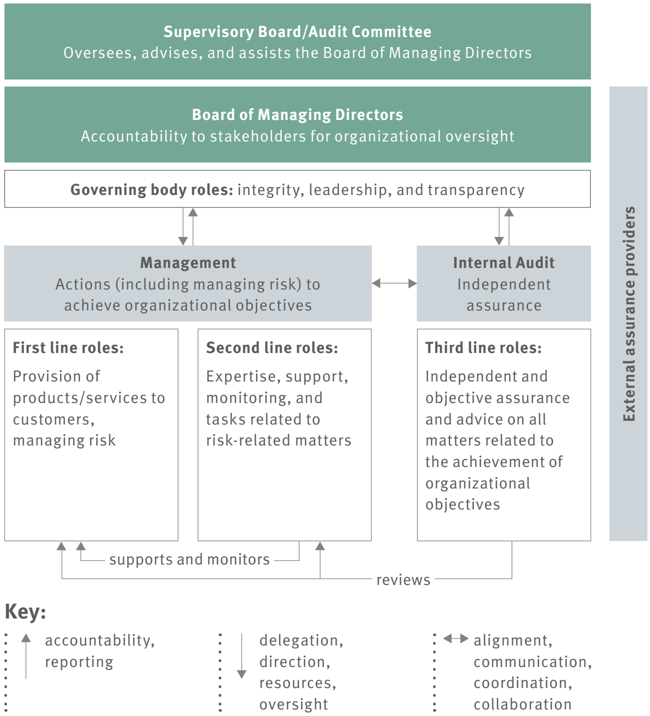


In 2020, the Schaeffler Group has continued to improve the processes within its governance structure with a view to meeting the needs of its customers while at the same time protecting the company. The governance structure is aimed at promoting the coordinated operation of the subsystems and, hence, 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.

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.

2.1 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.

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.

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

2.2 Risk management system

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

2.3 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.

2.4 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

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.

3. Remuneration report

This remuneration report describes the main features of the remuneration system for the Board of Managing Directors, i.e., the remuneration structure and 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.

3.1 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.

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

Overview of components of the remuneration of Managing Directors in 2020

Total target remuneration

35%		65%		
Fixed components		**Variable components**		
Fixed annual salary	**Retirement benefits** Defined contribution model **Fringe benefits** e.g., D&O insurance and company car	**Short-term variable remuneration (STB)**	**Long-term variable remuneration (LTB)**	
		25%	27%	13%
		– Schaeffler Value Added (SVA) [1] – free cash flow (FCF) [1] – strategic targets (e.g., sustainability) – individual performance	– service condition – total shareholder return (TSR) – earnings per share (EPS) – setting additional targets possible, esp. sustainability targets	**One-off grant in 2020 – smoothing component** – service condition
		Capped at 150% of target bonus	Capped at 300% of grant amount	Capped at twice the share price at grant
Function and responsibility		**Incentive to contribute to promoting business strategy and the long-term development of the company**		
		Includes malus clause and claw-back provision (ability to reclaim variable remuneration)		

Total remuneration capped per role

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.

[1] 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).

Fixed remuneration

Each ordinary Managing Director receives an identical amount of fixed remuneration; the Chief Executive Officer receives twice this amount. Fixed remuneration is paid in twelve equal installments each month. No separate remuneration is paid for positions held on supervisory or similar boards of group companies.

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.

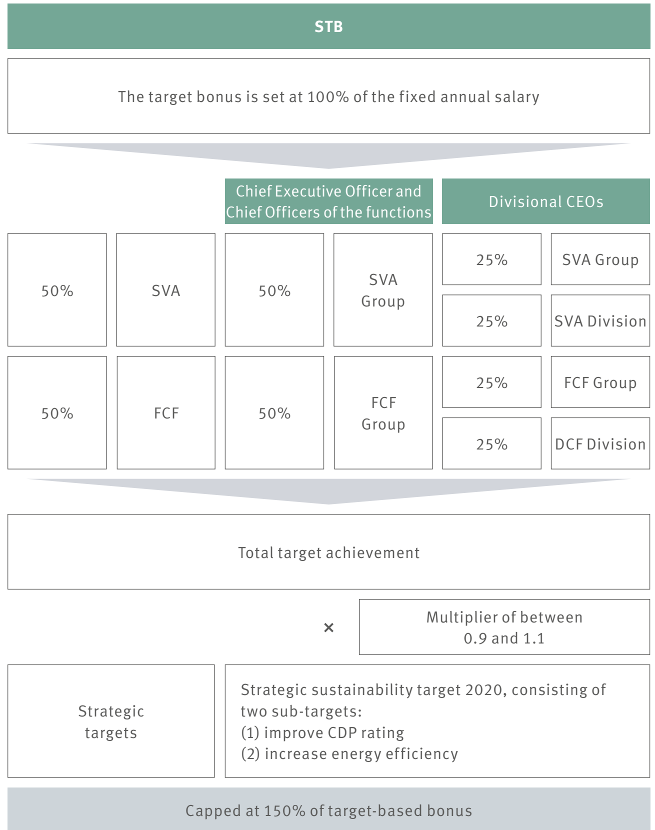
FCF Group is generally calculated based on the Schaeffler Group's cash flows from operating activities and from investing activities for the relevant year. SVA Group is generally based on the Schaeffler Group's EBIT less its cost of capital. SVA Division is determined in the same manner based on measures 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)



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	
	0%	100%	150%	absolute (in € millions)	relative (in %)
Free cash flow	≤ 0	415	≥ 623	646	150.0%
Schaeffler Value Added	≤ -85	368	≥ 595	72	34.7%
Total target achievement rate – Schaeffler Group					**92.4%**

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	
	0%	100%	150%	absolute (in € millions)	relative (in %)
Divisional cash flow	≤ 0	739	≥ 1,109	692	93.6%
Schaeffler Value Added	≤ -207	-4	≥ 97	-211	0.0%
Total target achievement rate – Automotive Technologies					**46.8%**

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

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

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 [8] 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.

[8] Estimated impact.

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

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:

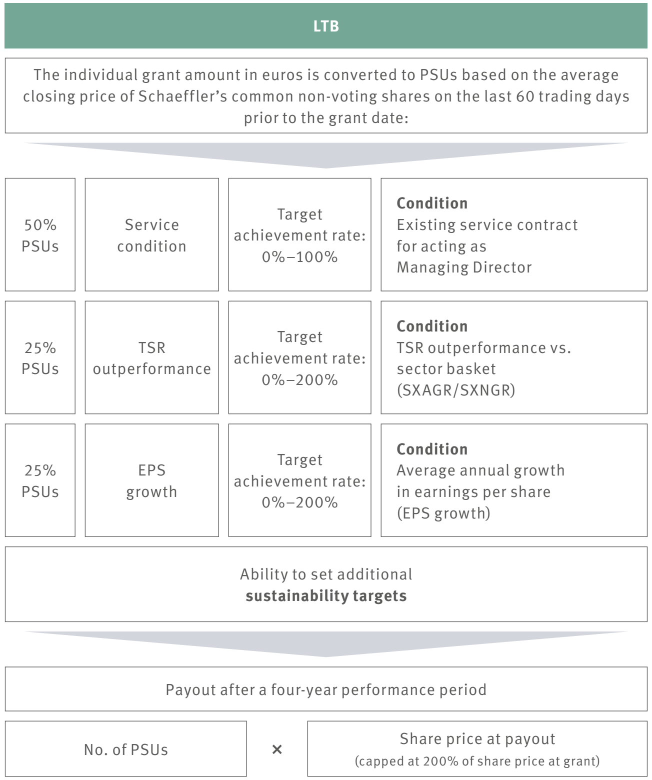
Payout of STB 2020

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

1) 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.
2) 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 [9].
- 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.

9 Taking into account the applicable leaver rules.

- 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 [10]) 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.

[10] CAGR EPS = $(EPS_{year\,4} / EPS_{year\,0})^{(1/years)} - 1$, with $EPS_{year\,0}$ equaling EPS for the year immediately preceding the relevant performance period and $EPS_{year\,4}$ equaling EPS for the final year of the relevant performance period.

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 › ~ 6.01%	100%
2.01% ‹ cumulative FCF compared to target FCF ‹ ~ 6.00%	75%
-2.00% ‹ cumulative FCF compared to target FCF ‹ ~ 2.00%	50%
-6.00% ‹ cumulative FCF compared to target FCF ‹ ~ -2.01%	25%
Cumulative FCF compared to target FCF ‹ ~ -6.01%	0%

PSUP performance targets (4)

TSR outperformance over the performance period	Number of TSR PSUs vested in %
› 25%	100%
5% ‹ TSR outperformance ≤ 25%	75%
-5% ‹ TSR outperformance ≤ 5%	50%
-25% ‹ TSR outperformance ≤ -5%	25%
≤ -25%	0%

The 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 [1]	Grant date fair value per PSU (in €)	Grant date fair value (in € thousands)
Klaus Rosenfeld (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
Matthias Zink	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136
Michael Söding	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136
Dr. Stefan Spindler	800			
Base number of PSUs		44,543	7.37	328
EPS PSUs		22,272	7.37	328
TSR PSUs		22,272	7.53	168
Dr. Klaus Patzak [2]	271			
Base number of PSUs		15,080	5.03	76
EPS PSUs		7,540	5.03	76
TSR PSUs		7,540	4.46	34
Andreas Schick	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136
Corinna Schittenhelm	650			
Base number of PSUs		36,191	7.37	267
EPS PSUs		18,096	7.37	267
TSR PSUs		18,096	7.53	136
Uwe Wagner	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				
Dietmar Heinrich [3]	379			
Base number of PSUs		21,111	7.55	159
FCF PSUs		10,556	7.55	80
TSR PSUs		10,556	4.60	49
Total	**6,000**	**668,151**		**5,985**

[1] 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.
[2] 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.
[3] 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.

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

[1] Equals the number of PSUs granted on January 1, 2019.
[2] Uwe Wagner has been a Managing Director of Schaeffler AG since October 1, 2019.
[3] Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His 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).

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

[1] No payout under the 2016-2019 tranche in connection with activities on the Board of Managing Directors.

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

[1] No payout under the 2017-2020 tranche in connection with activities on the Board of Managing Directors.
[2] PSUs granted on a prorated basis (43/48).
[3] 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.

Smoothing component granted in 2020

Managing Directors in office as at December 31, 2020	Grant amount (in € thousands)	Number of PSUs outstanding on December 31, 2020	Grant date fair value per PSU [2] (in €)	Grant date fair value (in € thousands)
Klaus Rosenfeld (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
Matthias Zink	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
Michael Söding	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
Dr. Stefan Spindler	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
Dr. Klaus Patzak [1]	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
Andreas Schick	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
Corinna Schittenhelm	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
Uwe Wagner	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
Total	**2,525**	**281,183**		**2,312**

[1] 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.
[2] 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 achievement rate in %	Number of PSUs vested	Payout (in € thousands)
Klaus Rosenfeld (CEO)	100%	22,272	135
Matthias Zink	100%	11,136	68
Michael Söding	100%	11,136	68
Dr. Stefan Spindler	100%	11,136	68
Dr. Klaus Patzak [1]	100%	4,640	28
Andreas Schick	100%	11,136	68
Corinna Schittenhelm	100%	11,136	68
Uwe Wagner	100%	11,136	68
Total		**93,728**	**569**

[1] 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 shareholding 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.

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
Klaus Rosenfeld (CEO)	2020	390	15,435
Matthias Zink	2020	195	962
Michael Söding	2020	195	645
Dr. Stefan Spindler	2020	195	1,240
Dr. Klaus Patzak 1)	2020	81	0
Andreas Schick	2020	195	562
Corinna Schittenhelm	2020	195	1,242
Uwe Wagner	2020	195	81
Managing Directors who left the company in 2020			
Dietmar Heinrich 2)	2020	-652	0
Total		**989**	**20,166**

1) Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020.
2) Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG as at July 31, 2020.

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 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
Klaus Rosenfeld (CEO)	2019	1,244	14,255
M. Zink	2019	324	882
M. Söding	2019	288	602
Dr. S. Spindler	2019	254	1,159
A. Schick	2019	328	514
C. Schittenhelm	2019	322	1,142
U. Wagner 1)	2019	74	75
D. Heinrich	2019	283	652
Managing Directors who left the company in 2019			
Prof. Dr. Peter Gutzmer 2)	2019	0	5,878
Total		**3,118**	**25,160**

1) 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.
2) Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His employment agreement remained in effect until December 31, 2019.

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 contact. 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.

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.

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.

3.2 Amounts of remuneration of the Board of Managing Directors

The fixed and variable components of remuneration are disclosed below. The following tables show the benefits granted to and received by the Managing Directors for 2019 and 2020.

Benefits granted for 2020

	Klaus Rosenfeld			
	Chief Executive Officer			
	since October 24, 2014			
in € thousands	2019	2020	2020 (Min)	2020 (Max)
Fixed remuneration	1,200	1,200	1,200	1,200
Fringe benefits	32	29	29	29
Total	**1,232**	**1,229**	**1,229**	**1,229**
One-year variable remuneration	1,200	1,200	0	1,800
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) – 2019 tranche	734	-	-	-
• Long-term bonus: PSUP (4 years) – 2020 tranche	-	1,339	0	3,900
• One-off smoothing component	-	558	0	1,200
Total	**3,166**	**4,326**	**1,229**	**8,129**
Pension expense	1,244	390	390	390
Total remuneration	**4,411**	**4,718**	**1,619**	**8,519**

	Matthias Zink			
	CEO Automotive Technologies			
	since January 1, 2017			
in € thousands	2019	2020	2020 (Min)	2020 (Max)
Fixed remuneration	600	600	600	600
Fringe benefits	42	31	31	31
Total	**642**	**631**	**631**	**631**
One-year variable remuneration	600	600	0	900
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) – 2019 tranche	367	-	-	-
• Long-term bonus: PSUP (4 years) – 2020 tranche	-	670	0	1,950
• One-off smoothing component	-	279	0	600
Total	**1,609**	**2,180**	**631**	**4,081**
Pension expense	324	195	195	195
Total remuneration	**1,934**	**2,375**	**826**	**4,276**

	Michael Söding			
	CEO Automotive Aftermarket			
	since January 1, 2018			
in € thousands	2019	2020	2020 (Min)	2020 (Max)
Fixed remuneration	600	600	600	600
Fringe benefits	31	30	30	30
Total	**631**	**630**	**630**	**630**
One-year variable remuneration	600	600	0	900
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) – 2019 tranche	367	-	-	-
• Long-term bonus: PSUP (4 years) – 2020 tranche	-	670	0	1,950
• One-off smoothing component	-	279	0	600
Total	**1,598**	**2,179**	**630**	**4,080**
Pension expense	288	195	195	195
Total remuneration	**1,886**	**2,374**	**825**	**4,275**

	Dr. Stefan Spindler			
	CEO Industrial			
	since May 1, 2015			
in € thousands	2019	2020	2020 (Min)	2020 (Max)
Fixed remuneration	600	600	600	600
Fringe benefits	28	27	27	27
Total	**628**	**627**	**627**	**627**
One-year variable remuneration	750	750	0	1,125
Multi-year variable remuneration				
• Long-term bonus: PSUP (4 years) – 2019 tranche	452	-	-	-
• Long-term bonus: PSUP (4 years) – 2020 tranche	-	824	0	2,400
• One-off smoothing component	-	279	0	600
Total	**1,830**	**2,480**	**627**	**4,752**
Pension expense	254	195	195	195
Total remuneration	**2,084**	**2,675**	**822**	**4,974**

	Dr. Klaus Patzak 1)				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
Total	**-**	**259**	**259**	**259**	**634**	**629**	**629**	**629**	**627**	**624**	**624**	**624**	**163**	**622**	**622**	**622**
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
Total	**-**	**774**	**260**	**1,696**	**1,601**	**2,178**	**629**	**4,079**	**1,594**	**2,173**	**624**	**4,074**	**401**	**2,171**	**622**	**4,072**
Pension expense	-	81	81	81	328	195	195	195	322	195	195	195	74	195	195	195
Total remuneration	**-**	**885**	**341**	**1,777**	**1,929**	**2,373**	**824**	**4,274**	**1,916**	**2,369**	**819**	**4,269**	**475**	**2,366**	**817**	**4,267**

1) 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.

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
Total	**630**	**366**	**366**	**366**
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		-	-	-
Total	**1,597**	**1,254**	**366**	**2,024**
Pension expense	283	-652	-652	-652
Total remuneration	**1,880**	**601**	**-286**	**1,372**

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
Total	**1,229**	**1,232**	**632**	**642**	**630**	**631**	**627**	**628**
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 [1]	0	420	0	0	0	0	0	172
• Long-term bonus: PSUP (4 years) – 2016 tranche [2]	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
Total	**2,849**	**2,906**	**1,091**	**1,176**	**1,310**	**1,284**	**1,568**	**1,573**
Pension expense	390	1,244	195	324	195	288	195	254
Total remuneration	**3,239**	**4,151**	**1,286**	**1,501**	**1,505**	**1,572**	**1,763**	**1,827**

1) Received in March 2019 for the 2015 tranche, which had a performance period from 2015 to 2018.
2) Received in March 2020 for the 2016 tranche, which had a performance period from 2016 to 2019.

	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
Total	**259**	**-**	**629**	**634**	**624**	**627**	**622**	**163**
One-year variable remuneration	254	-	610	627	610	627	610	157
Multi-year variable remuneration								
• Long-term bonus: PSUP (4 years) – 2015 tranche [1]	0	-	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) – 2016 tranche [2]	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
Total	**513**	**-**	**1,239**	**1,261**	**1,434**	**1,254**	**1,232**	**320**
Pension expense	81	-	195	328	195	322	195	74
Total remuneration	**594**	**-**	**1,434**	**1,589**	**1,629**	**1,576**	1,427	**394**

[1] Received in March 2019 for the 2015 tranche, which had a performance period from 2015 to 2018.
[2] Received in March 2020 for the 2016 tranche, which had a performance period from 2016 to 2019.

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
Total	**366**	**630**
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 [1]	-	-
• 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	-	-
Total	**722**	**1,257**
Pension expense	-652	283
Total remuneration	**69**	**1,540**

[1] 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.

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

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

[1] Share-based payment in the form of the PSUP.
[2] 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.
[3] Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG as at July 31, 2020.

Total remuneration (HGB) for 2019 by individual

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

[1] Share-based payment in the form of the PSUP.
[2] Uwe Wagner has been a Managing Director of Schaeffler AG since October 1, 2019.
[3] Prof. Dr. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG as at October 1, 2019. His 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)
Klaus Rosenfeld (CEO)	511
Matthias Zink	255
Michael Söding	323
Dr. Stefan Spindler	285
Dr. Klaus Patzak [1]	65
Andreas Schick	287
Corinna Schittenhelm	255
Uwe Wagner	260
Managing Directors who left the company in 2020	
Dietmar Heinrich [2]	13
Total	**2,254**

[1] Dr. Klaus Patzak has been a Managing Director of Schaeffler AG since August 1, 2020.
[2] Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG as at July 31, 2020.

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

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

3.3 Remuneration of the Supervisory Board

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

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

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

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

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

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

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

Supervisory Board remuneration for 2020 [1)]

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees [2)]	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 [3)]	50	13	6	69
Höhn, Thomas [3)] (since May 8, 2020)	33	13	5	50
Lau, Susanne [3)]	50		5	55
Lenhard, Norbert [3)] (until May 8, 2020)	18	7	3	28
Mittag, Dr. Reinold [3)] (until May 8, 2020)	18	7	5	29
Resch, Barbara [3)]	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 [3)] (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 [3)] (until May 8, 2020)	18		2	19
Vicari, Salvatore [3)]	50	20	14	84
Wechsler, Jürgen [3)]	75	33	14	122
Wolf, Prof. TU Graz e.H. KR Ing. Siegfried	50	20	3	73
Worrich, Jürgen [3)] (until May 8, 2020)	18	7	5	29
Zhang, Prof. Dr.-Ing. Tong	50		0	50
Zirkel, Markus [3)] (since May 8, 2020)	33		6	39
Total	**1.101**	**260**	**144**	**1,505**

1) All amounts shown exclude any value-added tax applicable on remuneration. The positions held by the Supervisory Board members are listed in section 5 “Governing bodies of the company”.
2) No attendance fees are paid where meetings of the Supervisory Board or its committees are attended via telephone.
3) These employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation in accordance with the guidelines issued by the German Federation of Trade Unions.

Supervisory Board remuneration for 2019 [1)]

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

1) All amounts shown exclude any value-added tax applicable on remuneration. The positions held by the Supervisory Board members are listed in section 5 “Governing bodies of the company”.
2) No attendance fees are paid where meetings of the Supervisory Board or its committees are attended via telephone.
3) These employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation in accordance with the guidelines issued by the German Federation of Trade Unions.

4. Governing bodies of the company

4.1 Supervisory Board

The Supervisory Board consists of 20 members. Ten of these members are appointed by a resolution of the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act. The term of office of the shareholder representatives on the Supervisory Board ends at the conclusion of the annual general meeting 2024. The term of office of the employee representatives ends at the conclusion of the annual general meeting 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.

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 & 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

*Employee representative on the Supervisory Board.

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 & 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

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, Bamberg

The 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&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.

4.2 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

4.3 Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors currently has eight members: the Chief Executive Officer (CEO), the CEOs of the Automotive 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)

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 Ingenieursgesellschaft 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)

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1. Balance sheet

in €	12/31/2020	12/31/2019	Change in %
ASSETS			
Intangible assets	**23,003.00**	**56,498.00**	**-59.3**
Property, plant and equipment	**786,523.45**	**208,740.00**	**› 100**
Shares in affiliated companies	14,091,411,258.16	14,108,811,258.16	-0.1
Loans receivable from affiliated companies	22,690,000.00	105,488,974.25	-78.5
Long-term financial assets	14,114,101,258.16	14,214,300,232.41	-0.7
Fixed assets	**14,114,910,784.61**	**14,214,565,470.41**	**-0.7**
Trade receivables	837.52	0.00	-
Receivables from affiliated companies	8,567,927,085.86	8,655,680,942.56	-1.0
Receivables from entities to which the company is linked by equity ownership	25,900.98	3,730.65	› 100
Other assets	42,846,745.99	63,515,895.03	-32.5
Receivables and other assets	8,610,800,570.35	8,719,200,568.24	-1.2
Securities	399,927,206.96	0.00	-
Cash at banks	979,055,382.10	46,371,775.84	› 100
Current assets	**9,989,783,159.41**	**8,765,572,344.08**	**14.0**
Prepaid expenses and deferred charges	29,663,504.66	240,615.33	› 100
Excess of plan assets over post-employment benefit liability	3,609,105.33	4,462,920.30	-19.1
Total assets	**24,137,966,554.01**	**22,984,841,350.12**	**5.0**

in €	12/31/2020	12/31/2019	Change in %
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	666,000,000.00	666,000,000.00	0.0
Capital reserves	2,359,000,000.00	2,359,000,000.00	0.0
Revenue reserves	3,955,224,179.27	3,811,114,756.05	3.8
Retained earnings	168,824,074.22	453,809,423.22	-62.8
Shareholders' equity	**7,149,048,253.49**	**7,289,924,179.27**	**-1.9**
Provisions for pensions and similar obligations	56,919,746.52	51,611,677.81	10.3
Tax provisions	60,564,935.77	120,698,944.15	-49.8
Other provisions	155,847,210.80	105,669,848.71	47.5
Provisions	**273,331,893.09**	**277,980,470.67**	**-1.7**
Bonds	3,494,668,000.00	2,200,000,000.00	58.8
Bank debt	569,550,997.98	319,452,380.50	78.3
Trade payables	10,380,639.29	4,949,367.25	› 100
Amounts payable to affiliated companies	12,564,211,289.48	12,736,423,943.18	-1.4
Other liabilities (including taxes of EUR 2,077,108.44 (prior year: EUR 1,864,921.83))	76,775,480.68	154,011,196.25	-50.1
Liabilities	**16,715,586,407.43**	**15,414,836,887.18**	**8.4**
Deferred income	**0.00**	**2,099,813.00**	**- 100**
Total shareholders' equity and liabilities	**24,137,966,554.01**	**22,984,841,350.12**	**5.0**

2. Income statement

in €	2020	2019	Change in %
1 Revenue	14,571,133.58	14,609,294.36	-0.3
2 Cost of sales	-13,559,701.26	-13,556,646.12	0.0
3 Gross profit	**1,011,432.32**	**1,052,648.24**	**-3.9**
4 General and administrative expenses	-123,480,281.20	-134,342,950.92	-8.1
5 Other operating income	435,604,559.83	391,793,604.66	11.2
6 Other operating expenses	-496,991,839.32	-359,544,690.54	38.2
7 Income from equity investments	500,000,000.00	725,000,000.00	-31.0
• affiliated companies EUR 500,000,000.00 (prior year: EUR 725,000,000.00)			
8 Income from other securities and long-term loans receivable	971,229.22	1,107,853.52	-12.3
• affiliated companies EUR 971,229.22 (prior year: EUR 1,107,853.52)			
9 Other interest and similar income	38,582,615.62	38,760,819.83	-0.5
• affiliated companies EUR 25,434,534.40 (prior year: EUR 35,858,860.43)			
10 Write-downs on long-term financial assets and securities included in current assets	-17,449,616.31	0.00	-
11 Interest and similar expenses	-156,109,986.85	-188,262,141.61	-17.1
• affiliated companies EUR 61,642,865.50 (prior year: EUR 106,384,272.84)			
12 Income taxes	-28,273,309.33	-21,708,586.52	30.2
13 Earnings after income taxes	**153,864,803.98**	**453,856,556.66**	**-66.1**
14 Other taxes	-40,729.76	-47,133.44	-13.6
15 Net income for the year	**153,824,074.22**	**453,809,423.22**	**-66.1**
16 Retained earnings brought forward	0.00	0.00	0.0
17 Withdrawal from other revenue reserves	15,000,000.00	0.00	-
18 Retained earnings	**168,824,074.22**	**453,809,423.22**	**-62.8**

3. Notes to the financial statements

3.1 General information on the financial statements

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

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

3.2 Accounting policies

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

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

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

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

Derivative financial instruments are measured separately using market prices. Fair value is determined using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period as well as risk-adjusted interest and discount rates appropriate to the instruments' terms.

Any resulting unrealized losses are recognized in profit or loss.

Cross-currency swaps with parties external to the group are accounted for using hedge accounting together with intragroup hedging instruments with identical but opposite features. The company uses the net hedge presentation method of hedge accounting.

Securities are measured at the lower of acquisition cost and the price they are quoted at in the capital markets.

Cash at banks is measured at face value.

Prepaid expenses and deferred charges are recognized at the amount that is reasonably attributable to periods subsequent to the balance sheet date.

Excess of plan assets over post-employment benefit liability is the net amount of retirement benefit obligations and assets that are protected from access by all other creditors and whose exclusive purpose is settling liabilities and similar long-term obligations. The assets offset in this balance are valued at fair value or at the price quoted for the plan assets in the capital markets.

Deferred taxes are calculated on temporary differences between amounts recognized for financial reporting and for tax purposes for assets, liabilities, prepaid expenses and deferred charges, as well as deferred income and on interest- and loss carry-forwards. This includes the differences between financial reporting and tax balance sheets of subsidiaries that are part of the same tax group as Schaeffler AG and of partnerships. The tax rate used to calculate deferred taxes is the rate expected to apply when the differences reverse or loss carry-forwards are utilized and amounts to 28.7% (prior year: 28.7%). Deferred tax liabilities are offset against deferred tax assets. The net asset balance is not recognized in the balance sheet.

Provisions for pensions and similar obligations are determined by actuarial calculations using the projected unit credit method (PUC) based on the "Heubeck-Richttafeln 2018 G" (prior year: "Heubeck-Richttafeln 2018 G") mortality tables. The valuation of pension provisions reflects future annual salary increases of 2.75% (prior year: 3.25%), pension increases of 1.0–1.75%, and an employee turnover rate of 2.1%. Pension obligations are discounted at the average of the previous ten years' market interest rate based on an assumed term of 15 years, as published by the German Central Bank (“Deutsche Bundesbank”) as at December 31, 2020. This discount rate is 2.3% (2.71%).

Tax and other provisions are recognized at their expected settlement amount taking into account all known risks, uncertain obligations, and pending losses evaluated using reasonable business judgment. Future increases in prices and costs are reflected in the calculation to the extent sufficient objective evidence of their occurrence exists. Provisions due in more than one year have been discounted at the average of the previous seven years’ market interest rate appropriate to their remaining term to maturity as published by the German Central Bank.

The Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan and the related provision, measured at the fair value of the payment obligation attributable to the period up to the reporting date, is presented under other provisions. The obligations are remeasured as at each balance sheet date. The fair value is determined in part using a binomial option pricing model and in part based on a Monte Carlo simulation. Both models reflect the terms of the relevant contract (including payout floors and caps, performance scale for the TSR-based performance target, expected dividend payments, as well as the volatility of Schaeffler AG common non-voting shares and the benchmark index MDAX or SXAGR and SXNGR). The resulting changes are recognized as personnel expense and presented under administrative expenses.

Bonds, bank debt, trade payables, amounts payable to affiliated companies, and other liabilities are recognized at their settlement amount.

Deferred income is recognized at the amount that is reasonably attributable to periods subsequent to the balance sheet date.

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

3.3 Notes to the balance sheet

Fixed assets

in € thousands	Licenses	**Intangible assets**	Furniture and fixtures	Assets under construction	**Property, plant and equipment**	Shares in affiliated companies	Loans receivable from affiliated companies	**Long-term financial assets**	**Total**
Historical cost									
Balance as at January 01, 2020	211	**211**	852	0	**852**	14,108,811	105,489	**14,214,300**	**14,215,363**
Additions	0	**0**	151	614	**765**	0	12,690	**12,690**	**13,455**
Disposals	-2	**-2**	-206	0	**-206**	0	-95,489	**-95,489**	**-95,697**
Balance as at December 31, 2020	**209**	**209**	**797**	**614**	**1,411**	**14,108,811**	**22,690**	**14,131,501**	**14,133,121**
Accumulated amortization, depreciation, and write-downs									
Balance as at January 01, 2020	154	**154**	643	0	**643**	0	0	**0**	**797**
Additions	33	**33**	185	0	**185**	17,400	0	**17,400**	**17,618**
Disposals	-1	**-1**	-204	0	**-204**	0	0	**0**	**-205**
Balance as at December 31, 2020	**186**	**186**	**624**	**0**	**624**	**17,400**	**0**	**17,400**	**18,210**
Net book values									
as at January 01, 2020	**57**	**57**	**209**	**0**	**209**	**14,108,811**	**105,489**	**14,214,300**	**14,214,566**
as at December 31, 2020	**23**	**23**	**173**	**614**	**787**	**14,091,411**	**22,690**	**14,114,101**	**14,114,911**

The carrying amount of the shares in Schaeffler Immobilien AG & Co. KG, Herzogenaurach, was written down by EUR 17,400 thousand in 2020 due to permanent impairment.

Long-term loans receivable from affiliated companies classified as fixed assets consist of EUR 22,500 thousand (prior year: EUR 10,000 thousand) due from Schaeffler Invest GmbH and EUR 190 thousand (prior year: EUR 0) due from LUK do Brasil Embreagens Ltda.

Receivables and other assets

Receivables and other assets

in € thousands	12/31/2020 Due in up to one year	Due in 1 to 5 years	Due in more than 5 years	12/31/2019 Due in up to one year	Due in 1 to 5 years	Due in more than 5 years
Trade receivables	1	0	0	0	0	0
Receivables from affiliated companies	8,567,927	0	0	8,655,681	0	0
• including short-term loans of	8,024,302	0	0	7,892,762	0	0
• including other financial receivables of	20,647	0	0	13,481	0	0
• including trade receivables of	21,749	0	0	23,547	0	0
• including other receivables of	501,229	0	0	725,891	0	0
Receivables from entities to which the company is linked by equity ownership	26	0	0	4	0	0
Other assets	42,847	0	0	63,516	0	0

Other receivables from affiliated companies largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 500,000 thousand (prior year: EUR 725,000 thousand), which has not yet been paid. Schaeffler Technologies AG & Co. KG paid EUR 725,000 thousand in respect of net income for the prior year to Schaeffler AG in 2020. Schaeffler AG in turn used these funds entirely to pay off existing liabilities due to Schaeffler Technologies AG & Co. KG.

Due to the imparity principle, the company has not capitalized forward exchange contracts with positive market values of EUR 98,934 thousand (prior year: EUR 67,826 thousand) used to hedge currency risk from operations. The notional amount of these contracts is EUR 3,259,691 thousand (prior year: EUR 4,250,032 thousand).

Securities

Securities consist exclusively of EUR 399,927 thousand (prior year: EUR 0 thousand) in other investments in the form of money market funds.

Excess of plan assets over post-employment benefit liability

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

Net amount of pensions and similar obligations

in € thousands	12/31/2020	12/31/2019
Settlement amount of pensions and similar obligations	31,457	29,753
Fair value of plan assets offset	35,066	34,215
Net amount of pensions and similar obligations	**3,609**	**4,462**
Acquisition cost of plan assets offset	**34,352**	**33,507**

in € thousands	2020	2019
Interest income on plan assets offset	870	1,735
Interest expense on pensions and similar obligations [1]	-8,461	-9,191
Net interest income (expense)	**-7,591**	**-7,456**

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

Shareholders' equity

Share capital

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

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

The common shares are held by IHO Verwaltungs GmbH. The common non-voting shares are widely held. Share capital is fully paid up.

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

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

Retained earnings

In 2020, a dividend of EUR 295 m (prior year: EUR 361 m) was paid to shareholders from retained earnings, and the remaining EUR 159 m (prior year: EUR 138 m) was added to other revenue reserves.

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 of EUR 161.5 m and to carry forward the remaining retained earnings of EUR 7.3 m to the following year.

Other provisions

Other provisions

in € thousands	12/31/2020	12/31/2019
Provisions for pending losses on open transactions	120,703	73,295
Provisions for profit sharing, other bonuses, and share-based payments	17,938	20,043
Miscellaneous other provisions	17,206	12,332
Total other provisions	**155,847**	**105,670**

The company has recognized EUR 120,703 thousand (prior year: EUR 73,295 thousand) in provisions for pending losses for negative market values of forward exchange contracts used to hedge currency risk from operations. The notional amount of these contracts is EUR 3,203,285 thousand (prior year: EUR 3,731,518 thousand).

Liabilities

Liabilities

	12/31/2020			12/31/2019		
in € thousands	Due in up to one year	Due in 1 to 5 years	Due in more than 5 years	Due in up to one year	Due in 1 to 5 years	Due in more than 5 years
Bonds (not convertible)	-	2,094,668	1,400,000	-	1,550,000	650,000
Bank debt	13,051	430,500	126,000	69,452	250,000	-
Trade payables	10,381	-	-	4,949	-	-
Amounts payable to affiliated companies	12,564,211	-	-	12,136,424	600,000	-
• including loans of	9,779,249	-	-	10,909,061	600,000	-
• including other financial debt of	2,722,291	-	-	1,149,522	-	-
• including trade payables of	5,124	-	-	4,667	-	-
• including other liabilities of	57,548	-	-	73,174	-	-
Other liabilities	76,478	297	-	153,734	277	-
• including taxes of	2,077	-	-	1,865	-	-

On October 12, 2020, Schaeffler AG issued two bond series denominated in EUR with terms of five and eight years and an aggregate volume of EUR 1.5 bn. The two bond series are listed on the regulated market of the Luxembourg Stock Exchange. The 5-year bonds have a principal of EUR 750,000 thousand and a coupon of 2.750% and the 8-year bonds have a principal of EUR 750,000 thousand and a coupon of 3.375%.

EUR 600,000 thousand of the bond proceeds received was used to prepay an intragroup loan due to Schaeffler Finance B.V. Additionally, the company prepaid a bank loan of EUR 237,500 thousand in full and redeemed a EUR 205,332 thousand portion of Schaeffler AG’s bond series due in March 2022.

The company issued its first Schuldschein loans in 2020. The tranches have terms ranging from three to ten years and bear both fixed and variable interest. As at December 31, 2020, the company has Schuldschein loans with a total principal of EUR 556,500 thousand outstanding.

There were no liens or similar rights as at the balance sheet date. As in the prior year, amounts payable to affiliated companies do not include any amounts payable to shareholders as at the reporting date.

Hedge accounting

At December 31, 2020, there is a micro-hedge relationship between cross-currency swaps with a notional amount of EUR 35,278 thousand (prior year: EUR 48,707 thousand). The hedging instrument has a positive fair value of EUR 3,530 thousand (prior year: EUR 590 thousand), and the hedged item has a negative fair value of EUR 3,530 thousand (prior year: EUR 590 thousand). The hedge covers the entire term to maturity of the hedged item (up to 2024).

The hedging relationships are considered to be highly effective since the key drivers of the value of the hedged items and the hedging instruments are identical. Effectiveness is tested prospectively using sensitivity analysis and retrospectively using the dollar offset method.

Based on the net hedge presentation method, a total of EUR 3,530 thousand (prior year: EUR 590 thousand) in changes in the value of hedged items and EUR -3,530 thousand (prior year: EUR -590 thousand) in changes in the value of hedging instruments have not been recognized in the balance sheet.

Deferred taxes

Deferred tax liabilities significant in amount result from differences between amounts recognized in financial reporting and tax balance sheets with respect to fixed assets. Deferred tax assets offset against these deferred tax liabilities also result from differences between amounts recognized in financial reporting and tax balance sheets with respect to long-term financial assets and from interest- and loss carry-forwards.

3.4 Notes to the income statement

Analysis of revenue

Analysis of revenue

in € thousands	2020	2019
Domestic	13,144	13,144
Foreign	1,427	1,465
Total revenue	**14,571**	**14,609**

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

Disclosures required for the cost of sales format

Disclosures required for the cost of sales format

in € thousands	2020	2019
Wages and salaries	68,096	80,441
Social security, post-employment, and other employee benefit costs	10,297	8,613
• including post-employment benefits of	3,656	1,196
Personnel expense	**78,393**	**89,054**

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

Other operating income includes foreign exchange gains of EUR 429,779 thousand (prior year: EUR 386,029 thousand). Other operating expenses include foreign exchange losses of EUR 486,024 thousand (prior year: EUR 356,274 thousand).

Other interest and similar income does not include any income from discounting provisions in either the current or the prior year. Other interest and similar expenses includes EUR 16,231 thousand (prior year: EUR 11,771 thousand) in expenses from compounding provisions.

Expenses and income related to prior years

Expenses and income related to prior years

in € thousands	2020	2019
Tax expense and benefits related to prior years	-5,555	13,085
Gains on reversal of provisions	1,359	1,012
Expenses (prior year: income) related to prior years	**-4,196**	**14,097**

3.5 Other disclosures

Contingent liabilities

Contingent liabilities

in € thousands	12/31/2020	12/31/2019	Change in %
From granting security for third-party liabilities	0	607,513	-100
• including amounts secured by liens of	0	607,513	-100
• including security granted for liabilities of affiliated companies of	0	607,513	-100

The company had guarantees outstanding of EUR 156,674 thousand (prior year: EUR 95,384 thousand) at December 31, 2020, largely for the benefit of affiliated companies.

The liens outstanding in the prior year as security for liabilities of affiliated companies expired in November 2020 as a result of the redemption of the final bond series issued by Schaeffler Finance B.V.

Given the earnings of the Schaeffler Group, the company considers the risk of claims under its guarantees for liabilities of others to be low.

The company is the general partner of the following companies:

- Schaeffler Technologies AG & Co. KG, Herzogenaurach,
- Schaeffler Immobilien AG & Co. KG, Herzogenaurach.

Other financial obligations

Other financial obligations

in € thousands	2020	2019	Change in %
Off-balance sheet payment obligations	3,969	3,041	30.5
• including obligations under multi-year leases of	3,292	2,364	39.3
• including obligations to affiliated companies of	677	677	0.0

Average number of employees for the year

Average number of employees

	2020	2019	Change in %
Salaried employees	500	535	-6.5
Temporary staff	12	20	-40.0
Total	**512**	**555**	**-7.7**

Governing bodies of the company

Board of Managing Directors

The members of the Board of Managing Directors of Schaeffler AG, Herzogenaurach, are as follows:

Klaus Rosenfeld
Chief Executive Officer

Responsible for: Quality; Schaeffler Consulting; Communications & 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)

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 Ingenieursgesellschaft 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)

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

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 & 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 & 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.

* Employee representative on the Supervisory Board.

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

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, Bamberg

The 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&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.

Total remuneration of the company's governing bodies

Total remuneration of the Board of Managing Directors in accordance with section 285 (9a) (1 – 3) HGB amounted to EUR 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), 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-off smoothing component: 93,728 PSUs 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 (PSUs) 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 remuneration system for the Board of Managing Directors and the Supervisory Board of Schaeffler AG is outlined in the remuneration report. The remuneration report also includes information on the remuneration of individual members of the Board of Managing Directors and additional information required by section 285 (9) HGB.

Former members of the Board of Managing Directors of Schaeffler AG and its legal predecessors (and their surviving dependants) received remuneration of EUR 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 at December 31, 2020 (prior year: EUR 28 m).

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

The difference between the amount recognized under section 253 (6) HGB for the provision for pensions and similar obligations based on the relevant average market interest rate for the past ten years and the amount that would have been recognized based on the relevant average market interest rate for the past seven years amounts to EUR 12,116 thousand (prior year: EUR 11,706 thousand).

Under section 268 (8) HGB, EUR 714 thousand (prior year: EUR 709 thousand) are not available for distribution, as they relate to assets recognized at fair value. Earnings are only available for distribution to the extent that distributable reserves remaining after such distribution plus any retained earnings brought forward less any losses brought forward are at least equal to the amounts not available for distribution.

Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code pursuant to section 161 AktG in December 2020 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

Auditors' fees

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

Group affiliation

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

Events after the reporting period

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

List of shareholdings

List of shareholdings of Schaeffler AG as at 12/31/2020

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income (loss) in € thousands
A. Affiliated companies					
I. Germany					
CBF Europe GmbH	Wuppertal	DE	100.0	-3,865	0
Compact Dynamics GmbH [2]	Starnberg	DE	100.0	5,855	0
CVT Beteiligungs-verwaltungs GmbH	Buehl	DE	100.0	51	0
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.0	1,624	-12
FZT Kaltennordheim GmbH [1]	Kalten-nordheim	DE	0.0	0	-127
FZT Kaltennordheim Grundstücksgesellschaft mbH [1]	Kalten-nordheim	DE	0.0	0	-58
FZT Unna GmbH [1]	Unna	DE	0.0	0	-270
FZT Unna Grundstücks-gesellschaft mbH [1]	Unna	DE	0.0	0	-87
Industriewerk Schaeffler INA-Ingenieurdienst GmbH [2]	Herzogen-aurach	DE	100.0	558,435	0
K + K Industrieanlagen GmbH [5]	Karben	DE	100.0	6,855	83
LuK Truckparts GmbH & Co. KG	Kalten-nordheim	DE	100.0	29,360	1,336
LuK Unna GmbH & Co. KG	Unna	DE	100.0	3,628	-514
Schaeffler Aerospace Germany Beteiligungs GmbH	Schwein-furt	DE	100.0	50	2
Schaeffler Aerospace Germany GmbH & Co. KG	Schwein-furt	DE	100.0	77,335	-8,374
Schaeffler AS Auslands-holding GmbH [2]	Buehl	DE	100.0	20,369	0
Schaeffler Automotive Buehl GmbH & Co. KG	Buehl	DE	100.0	1,443,495	128,120
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.0	931,019	133,929
Schaeffler Beteiligungs-gesellschaft mbH	Herzogen-aurach	DE	100.0	394	-14
Schaeffler Beteiligungs-verwaltungs GmbH [2]	Herzogen-aurach	DE	100.0	40,841	0
Schaeffler Bühl Auslands-holding GmbH [2]	Buehl	DE	100.0	59,029	0
Schaeffler Bühl Beteiligungs GmbH [2]	Buehl	DE	100.0	56,927	0
Schaeffler Bühl Holding GmbH [2]	Buehl	DE	100.0	34,342	0
Schaeffler Bühl Verwaltungs GmbH [2]	Buehl	DE	100.0	1,809,957	0
Schaeffler Consulting GmbH [2]	Herzogen-aurach	DE	100.0	2,025	0
Schaeffler Digital Solutions GmbH [2]	Chemnitz	DE	100.0	622	0
Schaeffler Elmotec Statomat GmbH	Karben	DE	100.0	3,200	-2,259
Schaeffler Engineering GmbH [2]	Werdohl	DE	100.0	5,348	0
Schaeffler Europa Logistik GmbH [2]	Herzogen-aurach	DE	100.0	25	0
Schaeffler Friction Products GmbH [2]	Morbach	DE	100.0	5,131	0
Schaeffler IAB Beteiligungs GmbH [2]	Herzogen-aurach	DE	100.0	4,567,977	0
Schaeffler IAB Verwaltungs GmbH [2]	Herzogen-aurach	DE	100.0	1,322,859	0
Schaeffler IDAM Beteiligungs GmbH	Herzogen-aurach	DE	100.0	25	0
Schaeffler Immobilien AG & Co. KG	Herzogen-aurach	DE	100.0	158,067	9,780
Schaeffler Industrial Drives AG & Co. KG	Suhl	DE	100.0	2,071	-1,542
Schaeffler Invest GmbH [2]	Herzogen-aurach	DE	100.0	100	0
Schaeffler KWK Verwaltungs GmbH [2]	Langen	DE	100.0	29	0
Schaeffler Monitoring Services GmbH [2]	Herzogen-aurach	DE	100.0	816	0
Schaeffler Paravan Management GmbH	Herzogen-aurach	DE	100.0	27	0
Schaeffler Qualifizierung und Beschäftigung GmbH [2]	Schwein-furt	DE	100.0	122	0
Schaeffler Raytech Verwaltungs GmbH [2]	Morbach	DE	100.0	15,781	0
Schaeffler Schweinfurt Beteiligungs GmbH [2]	Schwein-furt	DE	100.0	726,564	0
Schaeffler Technologies AG & Co. KG	Herzogen-aurach	DE	100.0	11,229,887	-1,133,522
Schaeffler Versicherungs-Vermittlungs GmbH [2]	Herzogen-aurach	DE	100.0	8,282	0
Schaeffler Verwaltungs-holding Drei GmbH [2]	Herzogen-aurach	DE	100.0	1,893,562	0
Schaeffler Verwaltungs-holding Eins GmbH [2]	Herzogen-aurach	DE	100.0	5,910,725	0
Schaeffler Verwaltung-sholding Sechs GmbH [2]	Herzogen-aurach	DE	100.0	1,248,248	0
Schaeffler Verwaltungs-holding Vier GmbH [2]	Herzogen-aurach	DE	100.0	23	0
Schaeffler Verwaltungs-holding Zwei GmbH [2]	Herzogen-aurach	DE	100.0	1,748,118	0
Unterstützungskasse der FAG Kugelfischer e. V.	Schwein-furt	DE	100.0	3,451	-1,313
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogen-aurach	DE	100.0	70	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogen-aurach	DE	100.0	94,509	651
Xtronic GmbH	Boeblingen	DE	100.0	-444	-1,360
II. Foreign					
Schaeffler Middle East FZE	Jebel Ali	AE	100.0	15,493	-79
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.0	-1,224	50
Schaeffler Austria GmbH	Bern-dorf-St. Veit	AT	100.0	86,102	5,421

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income (loss) in € thousands
Schaeffler Australia Pty Ltd.	Belrose	AU	100.0	13,210	533
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.0	10,531	1,212
Schaeffler Bulgaria OOD	Sofia	BG	100.0	615	147
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.0	56	-200
Schaeffler Brasil Ltda.	Sorocaba	BR	100.0	137,073	18,178
Schaeffler Belrus OOO	Minsk	BY	100.0	188	348
Schaeffler Aerospace Canada Inc.	Stratford	CA	100.0	55,846	15,177
Schaeffler Canada Inc.	Oakville	CA	100.0	54,020	1,629
Schaeffler Schweiz GmbH	Romanshorn	CH	100.0	3,366	2,105
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.0	1,561	37
ETC Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.0	1,486	-2,433
RepXpert Automotive Aftermarket Services Consulting (Shanghai) LLP	Shanghai	CN	100.0	2,195	-834
Schaeffler Automotive Aftermarket Services Consulting (Shanghai) Co.	Shanghai	CN	100.0	3,228	-4
Schaeffler (China) Co., Ltd.	Taicang	CN	100.0	675,094	178,088
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.0	183,480	33,578
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.0	61,099	7,454
Schaeffler (Xiangtan) Co., Ltd.	Xiangtan	CN	100.0	33,532	905
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.0	594	-827
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.0	52,743	6,084
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.0	658,243	503,846
Schaeffler Intelligent Driving Technology (Changsha) Co., Ltd.	Changsha	CN	100.0	731	-17
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.0	216,536	94,902
Schaeffler Colombia Ltda.	Bogotá	CO	100.0	477	69
Schaeffler CZ s.r.o.	Prague	CZ	100.0	11,490	587
Schaeffler Production CZ s.r.o.	Lanskroun	CZ	100.0	41,994	-1,466
Schaeffler Danmark ApS	Aarhus	DK	100.0	11,862	438
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.0	46,706	213
Schaeffler Finland Oy	Espoo	FI	100.0	11,032	293
Schaeffler Chain Drive Systems SAS	Calais	FR	100.0	3,780	-1,728
Schaeffler France SAS	Haguenau	FR	100.0	84,351	4,321
Schaeffler (UK) Limited	Sheffield	GB	100.0	41,845	8,195
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	GR	100.0	638	30
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.0	32,111	6,861
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.0	386	105
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.0	28,780	1,831
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.0	1,940	804
Schaeffler Savaria Kft.	Szombathely	HU	100.0	150,414	12,351
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.0	2,475	-308
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.0	348	95
Schaeffler India Ltd.	Mumbai	IN	74.13	350,255	34,574
Statomat Special Machines (India) Pvt. Ltd. [6]	Mumbai	IN	79.89	193	-122
INA Invest S.r.l.	Momo	IT	100.0	25,123	14,151
Schaeffler Italia S.r.l.	Momo	IT	100.0	54,697	1,671
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00	26	26
Schaeffler Water Pump Bearing Italia S.r.l.	Momo	IT	100.0	7,886	900
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.0	39,073	7,717
Schaeffler Ansan Corporation	Ansan-shi	KR	100.0	32,285	-1,626
Schaeffler Korea Corporation	Changwon-si	KR	100.0	278,028	5,384
Schaeffler Kazakhstan GmbH	Almatay	KZ	100.0	77	22
SIA "Schaeffler Baltic"	Riga	LV	100.0	791	-4
Rodamientos FAG S.A. de C.V.	Puebla	MX	100.0	646	-82
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Mexico City	MX	100.0	34,875	6,027
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	MX	100.0	162,578	18
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.0	5,595	302
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.0	50,034	-6,446
Schaeffler Transmision, S. de R.L. de C.V.	Puebla	MX	100.0	139,259	33,997
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.0	8,931	423
Radine B.V.	Barneveld	NL	100.0	1,126	210
Schaeffler Finance B.V.	Barneveld	NL	100.0	15,040	-28,155
Schaeffler Nederland B.V.	Barneveld	NL	100.0	13,603	9,268
Schaeffler Norge AS	Sandnes	NO	100.0	5,190	548
Schaeffler Peru S.A.C.	Lima	PE	100.0	671	97
Schaeffler Philippines Inc.	Makati City	PH	100.0	320	-2,006
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	100.0	1,153	936
Schaeffler Polska Sp. z o.o	Warsaw	PL	100.0	32,045	6,535
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.0	32,533	111
Schaeffler Romania S.R.L.	Brasov	RO	100.0	191,796	12,308
Schaeffler SR d.o.o.	Belgrade	RS	100.0	352	89
Schaeffler Rus OOO	Uljanowsk	RU	100.0	6,106	90

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income (loss) in € thousands
Schaeffler Russland GmbH	Moscow	RU	100.0	17,849	3,915
Schaeffler Sverige AB	Arlandastad	SE	100.0	12,105	503
Schaeffler Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.0	-3,280	-127
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.0	22,469	-1,545
Schaeffler Slovenija d.o.o.	Maribor	SI	100.0	360	84
Schaeffler Kysuce, spol. s r.o.	Kysucke Nove Mesto	SK	100.0	214,501	11,626
Schaeffler Skalica spol. s r.o.	Skalica	SK	100.0	134,750	8,138
Schaeffler Slovensko, spol. s.r.o.	Kysucke Nove Mesto	SK	100.0	2,767	48
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	100.0	1,522	0
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.0	3,187	-6
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.0	6,406	-4,655
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.0	3,386	933
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.0	3,257	17
Schaeffler Ukraine GmbH	Kiev	UA	100.0	1,262	1,218
FAG Bearings LLC	Danbury	US	100.0	5,307	493
LMC Bridgeport, Inc.	Danbury	US	100.0	10,783	12
LuK Clutch Systems, LLC	Wooster	US	100.0	121,761	718
LuK-Aftermarket Services, LLC	Valley City	US	100.0	-3,071	0
Schaeffler Aerospace USA Corporation	Danbury	US	100.0	179,953	6,406
Schaeffler Group USA, Inc.	Fort Mill	US	100.0	665,584	-4,412
Schaeffler Holding LLC	Danbury	US	100.0	0	0
Schaeffler Transmission Systems, LLC	Wooster	US	100.0	386,365	39,185
Schaeffler Transmission, LLC	Wooster	US	100.0	137,440	4,898
Schaeffler Venezuela, C.A.	Caracas	VE	100.0	2	5
Schaeffler Vietnam Co., Ltd.	Bien Hoa City	VN	100.0	17,978	-7,819
INA Bearings (Pty) Ltd.	Port Elizabeth	ZA	100.0	103,338	3,833
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.0	31,363	6,300
B. Investments					
I. Germany					
Abt E-Line GmbH [1]	Kempten	DE	0.0	-80	-344
Contitech-INA Beteiligungsgesellschaft mbH	Hannover	DE	50.0	28	-1
Contitech-INA GmbH & Co. KG	Hannover	DE	50.0	210	0
Schaeffler Paravan Technologie GmbH & Co. KG	Herzogenauchrach	DE	90.0	128,328	-21,654
II. Foreign					
Resitec Ltd. [4]	Telford	GB	33.3	-	-
Statec S.r.l. [3] [5]	Turin	IT	35.0	955	377
Eurings Zrt. [3] [5]	Debrecen	HU	37.0	5,496	28
Colinx, LLC [3] [5]	Greenville	US	20.0	2,881	55

1) Entity consolidated due to de facto control.
2) There is a profit and loss transfer agreement.
3) Financial statements for 2020 not yet issued.
4) Insolvent.
5) Information per 2019 financial statements.
6) Information per 2018 financial statements.

3.6 Preparation of financial statements

The Board of Managing Directors of Schaeffler AG prepared the 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 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 Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of Schaeffler AG, which comprise the balance sheet as at December 31, 2020, and the income statement for the financial year from January 1 to December 31, 2020, and notes to the financial statements, including the accounting policies presented therein. In addition, we have audited the management report of Schaeffler AG for the financial year from January 1 to December 31, 2020. In accordance with German legal requirements, we have not audited the content of the parts of the management report which are listed in the "Other information" section of our report.

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

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2020, and of its financial performance for the financial year from January 1 to December 31, 2020, in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the parts of the management report which are listed in the "Other information" section. The management report includes references not provided for by the law that have been marked as unaudited. Our opinion covers neither these references nor any information referred to by these references.

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

Basis for the Opinions

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

Key Audit Matter in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of Long-Term Financial Assets

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

The Financial Statement Risk

Long-term financial assets in Schaeffler AG's annual financial statements include EUR 14,091 m in shares in affiliated companies and EUR 23 m in loans receivable from affiliated companies as at December 31, 2020. The Company's long-term financial assets represent 58.47% of total assets, and therefore have a material impact on the Company's net assets.

Long-term financial assets are stated at acquisition cost or, where impairment is likely to be permanent, at their lower fair value. The Company determines the fair value of shares in affiliated companies using a valuation model based on a discounted cash flow method.

The cash flows used in the discounted cash flow method are based on investment-specific forecasts for the three or five years following the balance sheet date that are extrapolated using company-specific growth rates. The corresponding discount rates are derived from the rate of return for an alternative investment of similar risk. If fair value is lower than the carrying value, qualitative and quantitative criteria are used to determine whether the impairment is likely to be permanent.

The impairment test, including the calculation of fair value using the discounted cash flow method, is complex and depends to a large extent on the Company's estimates and judgments regarding the assumptions made. This applies, inter alia, to the estimation of future cash inflows and the company-specific growth rates, the determination of the discount rates, and the assessment of whether the impairment is permanent. 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.

The company wrote down the shares in Schaeffler Immobilien AG & Co. KG by EUR 17.4 m in 2020. There is a risk to the annual financial statements that long-term financial assets may not be recoverable.

Our audit approach

We assessed whether there are any indications of a need to recognize a write-down on shares in affiliated companies based on evidence obtained in our audit. Our audit procedures included evaluating the forecast of future revenue and earnings trends for the various companies. We discussed the company-specific forecasts with those responsible for the planning process. In addition, we assessed whether the Schaeffler Group's expectations for market growth were within a reasonable range as compared to peer-group industry information and other publicly available information, as well as whether the company-specific budgeted and planned amounts, underlying assumptions, and company-specific growth rates were within a reasonable range. 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 assessed the appropriateness of the assumptions used in determining the discount rate, including the weighted average cost of capital, as well as whether the calculation methodology used was appropriate. We consulted with our internal valuation specialists in order to assess the appropriateness of the method used to calculate the discount rate as well as the Company's plans and budgets.

Our observations

The approach applied in testing shares in affiliated companies for recoverability is appropriate and consistent with valuation principles.

The assumptions and estimates used by the Company are appropriate.

Other Information

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

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

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

The other information does not comprise the annual financial statements, the information within the management report whose content has been audited, or our auditor's report.

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

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

- is materially inconsistent with the annual financial statements, the information within the management report whose content has been audited, or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

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

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

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

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

The Supervisory Board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and of the management report.

Auditors’ Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

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

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

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

- identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates and related disclosures made by management.
- conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors’ report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure, and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position, and financial performance of the Company in compliance with German legally required accounting principles.

- evaluate the consistency of the management report with the annual financial statements, its conformity with law, and the view of the Company’s position it provides.
- perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Annual Financial Statements and of the 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 annual financial statements and the management report (hereinafter the “ESEF documents”) contained in the attached file named „20210218_Einzelabschluss2020_SchaefflerAG_Vorlage_Xhtml_oBV.xhtml“ (SHA256-Hash value: f9b3a7a08834060be405f23f52c3ded27c5d022c5bdaea16db7a41a703cba2d3) 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 annual financial statements and the 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 annual financial statements and the 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 annual financial statements and the accompanying management report for the financial year from January 1, 2020, to December 31, 2020, contained in the “Report on the Audit of the Annual Financial Statements and of the Management Report” above.

We conducted our assurance engagement on the reproduction of the annual financial statements and the 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 annual financial statements and the management report in accordance with section 328 (1) sentence 4 no. 1 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 annual financial statements and audited 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.

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 Intentional or unintentional 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 assessment of 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 Commission 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 annual financial statements and the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected 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 auditors of Schaeffler AG, a publicly-listed company, without interruption since the financial year 2015.

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

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

In addition to the annual financial statements, we have audited the consolidated 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 an audit 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:]

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

Responsibility statement by the company’s legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements provide a true and fair view of the assets, liabilities, financial position, and profit or loss of the company, and the combined management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Herzogenaurach, February 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