



SCHAEFFLER

Sustainability Report 2017

Responsibility for tomorrow

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Our Progress

To the Schaeffler Group, sustainability means enabling a livable future by fostering the growth of the Schaeffler Group with a long-term view and continuity for the benefit of all stakeholders.

In 2017, we made further progress in implementing our considerations for our Sustainability Strategy “Responsibility for tomorrow.” We want to provide more information about our progress in this report.

- Groupwide implementation of the Schaeffler Supplier Code of Conduct
- Integration of sustainability aspects into initial assessments of potential suppliers
- Establishment of a due diligence process for respecting human rights
- Eight series orders for electric axles and hybrid modules
- New concept for a customer satisfaction survey
- Begin constructing a process to collect data on Scope 3 greenhouse gas emissions
- Conception of a selection process to identify Schaeffler sites for climate-neutral production
- Expansion of charging infrastructure for electronic and hybrid vehicles at Schaeffler sites
- Formulation of a holistic diversity concept for the Schaeffler Group
- Starting the initiative “Leadership and Corporate Values” to implement a globally valid management model

We summarize all strategic goals and measures in our Sustainability Roadmap, shown on [page 64](#) et seq.

Sustainable Management

14,021

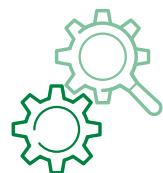
million euros revenue

980

million euros net income

157

potential suppliers were assessed in terms of sustainability aspects



Customers and Products

846

million euros in expenditures for research and development

2,383

successful patent applications

58

awards for customer satisfaction and product quality



Environment and Energy

0.51

GWh of energy consumption per EUR 1 m of added value¹⁾

311

t CO₂ emissions per EUR 1 m of added value²⁾

1,160

m³ water consumption per EUR 1 m of added value³⁾



1) Energy sources include: electricity, natural gas, district heating, propane, and fuel oil.

2) The emission factors of the German Association of the Automotive Industry (VDA) from 2017 are used to ascertain emissions.

3) Water consumption includes city water and company water.

Employees and Society

11

years average employee tenure

12.4%

proportion of women in management⁴⁾

8.0%

proportion of part-time employees at Schaeffler AG



4) Management is defined as employees in a supervisory function.

OUR ASPIRATION.

The Schaeffler Group presents its achievements, ambitions, and goals for responsible corporate management for the second time in its Sustainability Report for 2017.

GERHARD AXMANN
SUPPLIER DEVELOPER



SEBASTIAN WIELGOS
PROJECT MANAGER, "INNOVATION PROJECTS" DEPARTMENT



MATTHIAS BEHR
HEAD OF SUPPLY ENGINEERING



QIAN WANG
VICE PRESIDENT SUPPLY CHAIN MANAGEMENT



In the theme of "Our aspiration," Schaeffler uses brief reports from its four strategic fields of action to show how its employees are implementing and living sustainability.



Georg F. W. Schaeffler

Maria-Elisabeth Schaeffler-Thumann

Beste und herzliche Grüße,

As a globally active business and technology partner, Schaeffler continues to remain faithful to the values of a family-owned company: sustainable, innovative, excellent, and passionate. These values guide the company's manner of conducting business and are the basis for further strengthening the trust of our employees, business partners, and shareholders, for connecting people with each other worldwide, and for working together globally as a family.

In order to ensure that the Schaeffler Group continues to reach its primary goal of growing profitably and creating long-term value, it follows value-oriented management as an integral part of all planning, management, and monitoring processes in the company. In addition to financial factors, nonfinancial factors are increasingly being given more weight in company decisions. This is the only way to bring about further sustainable development of the Schaeffler Group that is characterized by foresight and continuity and in the interest of all of its stakeholder groups.

Motivated by this value-oriented stance, Schaeffler is now publishing its yearly Sustainability Report for the second time in a row. This report sets forth the expectations and goals that the company pursues with regard to sustainable development. Titled "Responsibility for tomorrow," the Sustainability Report explicitly refers to the 17 Sustainable Development Goals, or SDGs, of the United Nations. These were formulated by the world community to advance sustainable social development by 2030.

As a listed company and a family business, the Schaeffler Group also carries obligations from new legal requirements for nonfinancial reporting. For the business year 2017, Schaeffler has prepared – for the first time – a consolidated separate nonfinancial report to meet the CSR Guideline Implementation Law, which is based on a corresponding guideline from the European Union. Under the direction of the Supervisory Board of Schaeffler AG, this nonfinancial report was submitted to an external business audit, which confirmed that the reporting met legal requirements. In publishing this consolidated separate nonfinancial report, Schaeffler is not only fulfilling its legal requirements but also more strongly anchoring the topic of sustainability in the company.

In 2017, we were able to achieve a number of successes in relation to sustainability management at Schaeffler. Responsibility in the supply chain was strengthened by the implementation of a Supplier Code of Conduct across the whole Group, and the charging infrastructure for electric and hybrid vehicles was further expanded across Schaeffler's sites. At the same time, we executed an organizational improvement in the E-Mobility division: A new, independent E-Mobility business division was established at the end of 2017 and beginning of 2018 in order to emphasize and consolidate Schaeffler's competence in the area of E-Mobility. This will also enable sustainable, value-oriented growth in the future.

We thank our employees for their ongoing commitment, passion, and creativity. Our employees are the basis for our successful work together with our business partners and research partners, and for the trust that these partners place in our company.

Yours sincerely,

Maria-Elisabeth Schaeffler-Thumann

Georg F. W. Schaeffler

Maria-Elisabeth Schaeffler-Thumann

Georg F. W. Schaeffler



Klaus Rosenfeld,
Chief Executive Officer

Ladies and gentlemen,

For us, corporate responsibility means sustainably and successfully managing our business. In order to further ensure that the Schaeffler Group reaches its primary goal of growing profitably and creating long-term value, value-oriented management of our business portfolio is required. In 2017, the Schaeffler Group enhanced and expanded its management approach. As part of sustainability management, we defined nonfinancial indicators that are to be used for the operational management of measures relevant to sustainability. In addition to financial performance indicators, the Schaeffler Group's management also monitors important nonfinancial key indicators.

The considerations for a Sustainability Strategy "Responsibility for tomorrow" that we further developed during this report year are based on the guidelines of the Agenda 2030 of the United Nations. The core of this agenda is a catalog with 17 Sustainable Development Goals (SDGs) equally divided into areas of society, environment, and the economy. In basing our Sustainability Strategy on the goals and timeline of the Agenda 2030, we are making clear our aspiration not only to meet legal requirements but also to make a sustainable contribution to society through our business activities. Our actions are driven by the belief that the possibilities and competences of the Schaeffler Group enable us to contribute in making the world a bit "cleaner, safer, and smarter." Just as it is formulated in the vision of the Schaeffler Group.

With this in mind, we defined 24 material topics of sustainability at Schaeffler. Four of these are focal topics that have a high priority for us: Responsibility in the supply chain, the development of sustainable products, climate protection, and the fostering and utilization of the diversity of our workforce. To achieve these priorities, we have set ourselves corresponding goals: We will continue to require and monitor compliance with Schaeffler's Supplier Code of Conduct, to further develop our innovative portfolio of products, to further increase the energy efficiency of our production, and to further foster the diversity of our workforce. A brief magazine-style report is dedicated to each of these four focus areas in the Sustainability Report 2017 under the theme of "Our aspiration." We thus show by means of examples how our employees are implementing and living sustainability in different ways.

We know we live in a world shaped by enormous changes. The topic of sustainability is therefore becoming increasingly important. That's a good thing! This is true for the financial sector as well. More and more institutional investors are expressing their support for the United Nations' principles of responsible investment, and they are committing themselves to considering environmental and social aspects in addition to financial aspects when making investment decisions. In the future, it will accordingly become even more important for Schaeffler to also communicate these additional nonfinancial aspects credibly and transparently. With this in mind, we have – for the second time – based the Schaeffler Sustainability Report 2017 on the recognized reporting guidelines of the Global Reporting Initiative in order to comply with the principles of good sustainability reporting. I hope you enjoy reading this report.

Yours sincerely,

Klaus Rosenfeld

Klaus Rosenfeld,
Chief Executive Officer



Responsibility in the Supply Chain

SETTING STANDARDS.

SUSTAINABLE FROM THE START: PUTTING SUPPLIERS TO THE TEST

Responsibility begins here, in our company. But is this also where it ends? For Schaeffler, the answer is a clear no. The company is taking action to ensure social and ecological standards are upheld at its more than 34,000 suppliers worldwide. For Gerhard Axmann, this is a full-time job. He takes a close look at new suppliers, sometimes making unexpected discoveries.

Gerhard Axmann is a qualified mechanical engineer who has worked for the company since 1989. Since 2004, he has worked in central purchasing in the division of Corporate Supplier Development Quality, where he has been responsible for the development of suppliers of turned, milled, and extruded parts.



Taking a Closer Look

Our network spans the globe: 34,000 suppliers from around 80 countries provide Schaeffler with the products, processes, and services that the company needs to produce its products. Gerhard Axmann gets involved when new suppliers are to be added to this network. At the age of 56, he knows that Schaeffler depends on good cooperation with its suppliers to be successful. With many of them, the company has maintained multiyear partnerships. Doing this successfully depends decisively on making the right first choice. "Since we are suppliers ourselves, we know that it is not always easy to meet customers' demands," Axmann explains. "We must nevertheless be strict with our own suppliers, too, because we have demanding standards and norms when it comes to meeting obligations for sustainability. This requires a good mix of monitoring and trust toward our suppliers."



In addition to requirements for the quality of products, processes, and services, or for project management for a potential business partner, the selection of new suppliers must also consider aspects of sustainability. Does the supplier observe the environmental and social standards

that Schaeffler has specified in its Supplier Code of Conduct? Does the supplier work with data and information carefully? Axmann and his colleagues find answers to these questions in a multistep selection process that includes an on-site assessment of suppliers in what are called initial assessments (formerly potential analyses).

Following a supply request – from a Schaeffler site, for example – the application process begins. Potential suppliers are accepted into the selection process only after they have sent or approved requested certificates as well as various contractual documents to our quality and environmental management systems and thus signaled their interest in working together. The application then leads to the initiation of an on-site assessment, which is where Gerhard Axmann takes over. For the engineer, this means packing his bags. He travels around 100 to 120 days a year. In order to thoroughly inspect new business partners, he visits the production sites directly. Things don't always turn out as planned. "Unfortunately, especially earlier, we sometimes also experienced dangerous and almost bizarre things," he recalls. "In the production site of a supplier of forged components, we once witnessed how little consideration was being given to occupational safety. The employees were wearing sandals, used no ear protection, and transported the glowing pieces of steel from one forming press to another without any kind of protective measures. We had arrived only for an initial discussion, which we then immediately ended."

Today, Axmann and his colleagues increasingly often make use of the records of such initial discussions. If a business area needs a new supplier, a purchaser or a supplier developer is sent to carry out a first, structured quick assessment, or pre-assessment. This allows them to get an overview of the supplier. And it saves a lot of time, since a comprehensive assessment, the initial assessment, takes at least two days. In the process, Axmann goes through an extensive questionnaire, examines processes and documentation, and visits the entire production site. "We have eyes and ears everywhere," he says with a grin. "And we don't limit our discussions to our main point of contact but also speak with employees from the various areas of expertise. This allows us to find out how the company really works."

In the evaluation that follows, Axmann gives a score of one to ten for each topic area that was assessed. A ten means that the supplier can completely meet requirements. If this is not the case in one area, a plan of action is subsequently prepared and then worked through.

Transparency

The supplier is thus given the opportunity to improve. For strike-out questions, a score of less than ten points means the preliminary end of the selection process. In other words, the process is placed “on hold” until the open issues have been remedied by immediate action. These include the question of whether the supplier can guarantee that water, air, and soil will not be polluted or negatively impacted by its business activities.

Observing social and ecological criteria all along the value chain is an important part of corporate responsibility for Schaeffler. These aspects are therefore specified in the company’s guiding principles and its Supplier Code of Conduct. Companies that sign the Code commit to respecting human rights, treating the environment responsibly, and making efforts to support the safety and health of their workers.

On the one hand, sustainable supply management means recognizing risks in business relationships early on. And on the other hand, it is also a response to growing expectations from outside the company – national governments are making increasingly strong demands of companies to take responsibility for what happens outside their own plants. We have thus been providing reports for years in accordance with

requirements about conflict minerals, enabling our customers to fulfill the legal requirements they face. As part of their own sustainability programs, Schaeffler’s customers also increasingly require proof of how their precursor products were made.

In order to make supplier evaluations more comparable to each other and achieve more transparency in the supply chain, Schaeffler works together with other companies in our industry, for example, with members of the working group “Sustainability in the supply chain” of the German Association of the Automotive Industry. In this working group, sustainability experts from producers and suppliers develop standardized, industry-specific sustainability questionnaires for on-site assessments, among other things.

Gerhard Axmann sees many advantages to this cooperation: “We all face similar challenges in selecting suppliers. This is why it is important that we address structural problems together and learn from each other.” This might not only make his work easier but also create better conditions for the people and the environment in production countries.



“For us, responsibility doesn’t stop at the factory gates.”

GERHARD AXMANN
SUPPLIER DEVELOPER

Green Products

TRANSFORMING MOBILITY.

ON THE PATH TO THE DRIVE TRAIN OF THE FUTURE

How will we get around in the future? And how can mobility be as environmentally friendly as possible? Schaeffler already has answers to these questions and is setting standards with its innovative product portfolio. One example is its electric wheel hub drive, which is enabling entirely new mobility concepts. Sebastian Wielgos and his team advanced the development of this drive train over the course of five years, bringing it to series production.

Sebastian Wielgos studied electrical engineering and information technology in Mannheim and Munich and has worked as a project leader in the “Innovation Projects” department at Schaeffler in Herzogenaurach since 2013.



Pioneering Work

Developing a new technology from the very start, being part of the process as an idea becomes a concept, and, finally, a product ready for market – that's what Sebastian Wielgos loves about his work. The thirty-two-year-old is a project manager in the "Innovation Projects" department of the "Innovation and Applied Research" unit at Schaeffler. In the unit, which was founded quite recently, Wielgos and his team get exactly what they need: lots of freedom to do real pioneering work. "The path to a new technical solution is never clearly laid out beforehand," Wielgos explains. "It is the result of many creative minds observing current trends and using them to develop new solutions."

One of these trends is sustainable mobility. Above all in cities and urban centers, how people get from A to B in a way that is environmentally friendly is becoming increasingly important. "Even early on, it was clear to us that we wanted to play a part in shaping urban mobility," Wielgos says. Over the last five years, Wielgos has worked with his colleagues to develop an innovative electric wheel hub drive. What makes it special: The entire drive technology of a car – including the electric motor, power electronics, brakes, and cooling systems – has been compactly built into the rim of a wheel. This saves space and enables entirely new spatial concepts. For example, for "people movers" – autonomously driven microbuses that may be deployed in urban spaces in the near future.



"The wheel hub drive is the key to entirely new vehicle concepts. It has the potential to fundamentally change mobility in cities."

SEBASTIAN WIELGOS

PROJECT MANAGER, "INNOVATION PROJECTS" DEPARTMENT

Ready for Series Production

Schaeffler Group @SchaefflerGroup – April 3

Our expert for **#eMobility** Sebastian Wielgos:
“We turned an idea into a marketable product!”
#wheelhubdrive #4tomorrow #csr

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The advantages have been further confirmed in a study that Schaeffler carried out in cooperation with the carmaker Ford. The study showed that the wheel hub drive affords passengers in a vehicle the size of a Ford Ka as much interior space as in the larger Ford Fiesta, which has a conventional internal combustion engine. The wheel hub drive is entirely electric. If the batteries are charged with green electricity, the car can be operated in a way that is climate neutral.

After years of intensive development, Wielgos and his team handed off the wheel hub drive project to the newly founded E-Mobility business division in 2018. This division is responsible for bringing the drive to series production. The road for Wielgos has been a long one. Again and again, he and his team had to optimize individual components of the drive and work meticulously to find the best solution. “In this innovation project, we had to balance different parameters such as performance, efficiency, or weight. But, in the end, we were able to find the right balance.”

Now, Wielgos – who grew up in Herzogenaurach – is already thinking ahead: about an electric drive for lightweight vehicles, for example, or visionary topics like urban air mobility. “No one says that urban mobility has to take place only on the streets.” For Schaeffler, sustainable mobility offers many opportunities. That’s why the company is researching how fuel cells can be used for various mobility applications. “With our knowledge in the area of material and surface technology and our competence in production technology, we can make a contribution to the development and supply of innovative components and systems for fuel cells with increased efficiency,” Wielgos says. This certainly won’t be the last time that this pioneer develops a new idea to market readiness.

- Interactive graphic about the wheel hub drive available in the online report:
www.schaeffler-sustainability-report.com/2017/wheelhub



Commitment to Climate Protection

PROTECT THE CLIMATE.

MULTITALANTED FOR MORE ENERGY EFFICIENCY

Our aspiration aims high: Schaeffler intends to continuously improve its own energy efficiency. This is a goal Matthias Behr is working toward. The engineer and his team have built a total of four cogeneration plants over the past two years at the production sites of Herzogenaurach and Homburg. The power plants are not only capable of producing electricity and heat but are also used for cooling. They are thus one of the most efficient ways of supplying Schaeffler sites with energy.

Matthias Behr studied heating, ventilation, and climate engineering in Regenstauf. He has worked at Schaeffler since 2000, and since 2013, he has been Head of Supply Engineering (Building & Processes) in Corporate Construction, Energy Management & Maintenance in Herzogenaurach.



SCHAFFLER

Triple Benefit



“Cogeneration units are truly multitalented.”

MATTHIAS BEHR

HEAD OF SUPPLY ENGINEERING

“Cogeneration units are truly multitalented,” says Matthias Behr. For the last four years, Behr, an engineer, has worked at Schaeffler as Head of Supply Engineering (Building & Processes). In this role, he has spent the last two years directing the construction of four cogeneration units (also called combined heat and power units, or CHP) in Herzogenaurach and Homburg. “What’s innovative about our CHPs is that we don’t just use them to generate electricity and heat but also cold water that we use to cool our buildings and production facilities,” he explains with excitement. This triple benefit is made possible thanks to the principle of cogeneration, which links the production of power, heat, and cooling. In the process, the heat generated in a CHP is used, among other things, to operate what are called absorption chillers. These are used in turn to cool office and production buildings at the three production sites. “In this way, we were able to increase the security of our energy supply and also replace some of the existing cooling units that used much more energy,” Behr happily reports. “That makes complete sense not only in terms of efficiency but also for business.”

The CHPs were put into service in Herzogenaurach and Homburg at the end of 2016. It was in Herzogenaurach that Matthias Behr and his team conducted the first studies in

2014 to determine the feasibility and profitability of on-site CHPs. “The positive results of our studies convinced everyone. Between 2016 and 2017, we then installed two units on-site.” Pretty fast – especially if you consider that no less than 8,300 meters of heat pipes and 5,600 meters of cold-water pipes for cooling had to be installed, and that the buildings being connected to the system had to be transitioned from steam supply to hot water supply. In order to supply the buildings in Herzogenaurach, these pipes carry as much as 155,000 liters of water an hour in the heating system and 459,000 liters of water an hour for cooling operations. That is approximately as much as 333 50-meter swimming pools.

Another reason the construction was challenging for Matthias Behr was the need to ensure that all connected production systems would be provided with energy. An outage in the energy supply would have resulted in a production stop that would have then been very costly. “But the team was fantastic in how they planned and worked,” he says. “Everything worked out seamlessly.”

Interactive graphic about the CHP available in the online report: www.schaeffler-sustainability-report.com/2017/chp

Climate Goal

The new units are impressive even from the outside: a bright building with ten futuristic-looking reservoirs on one side. Inside, the buildings house state-of-the-art technology. "Thanks to their use for cooling, the units achieve an efficiency rate of more than 87%," Matthias Behr reports. This high degree of efficiency confirms that the technology operates extremely efficiently in comparison to the conventional forms of generating power.

This kind of modern and efficient energy supply is an important building block in Schaeffler's climate strategy. It's obvious that large production sites use a lot of energy – which is why Schaeffler believes it has the responsibility as a global manufacturing company to find solutions for dealing with climate change. Yet the operation of cogeneration units is just one of many steps that Schaeffler is taking to reach the

climate goal it has set for itself. By 2025, it intends to reduce its emissions by a total of 360,000 t of CO₂ in comparison to the base year of 2015. Other measures also contribute to reaching this goal – for example, the introduction of comprehensive energy management or the networking of machines by means of Industry 4.0 technology so that they work even more efficiently.

Matthias Behr knows, "We are also engaged with other energy generation technologies and carefully assess which technologies make sense for which production sites. For example, it's easy for me to imagine that we will more heavily employ renewable energy in the future – perhaps the same kind of photovoltaic systems you find on the roofs of private houses. This technology offers a lot of potential."



Outside the CHP in Herzogenaurach, charging stations can provide electric vehicles with green energy from municipal sources.

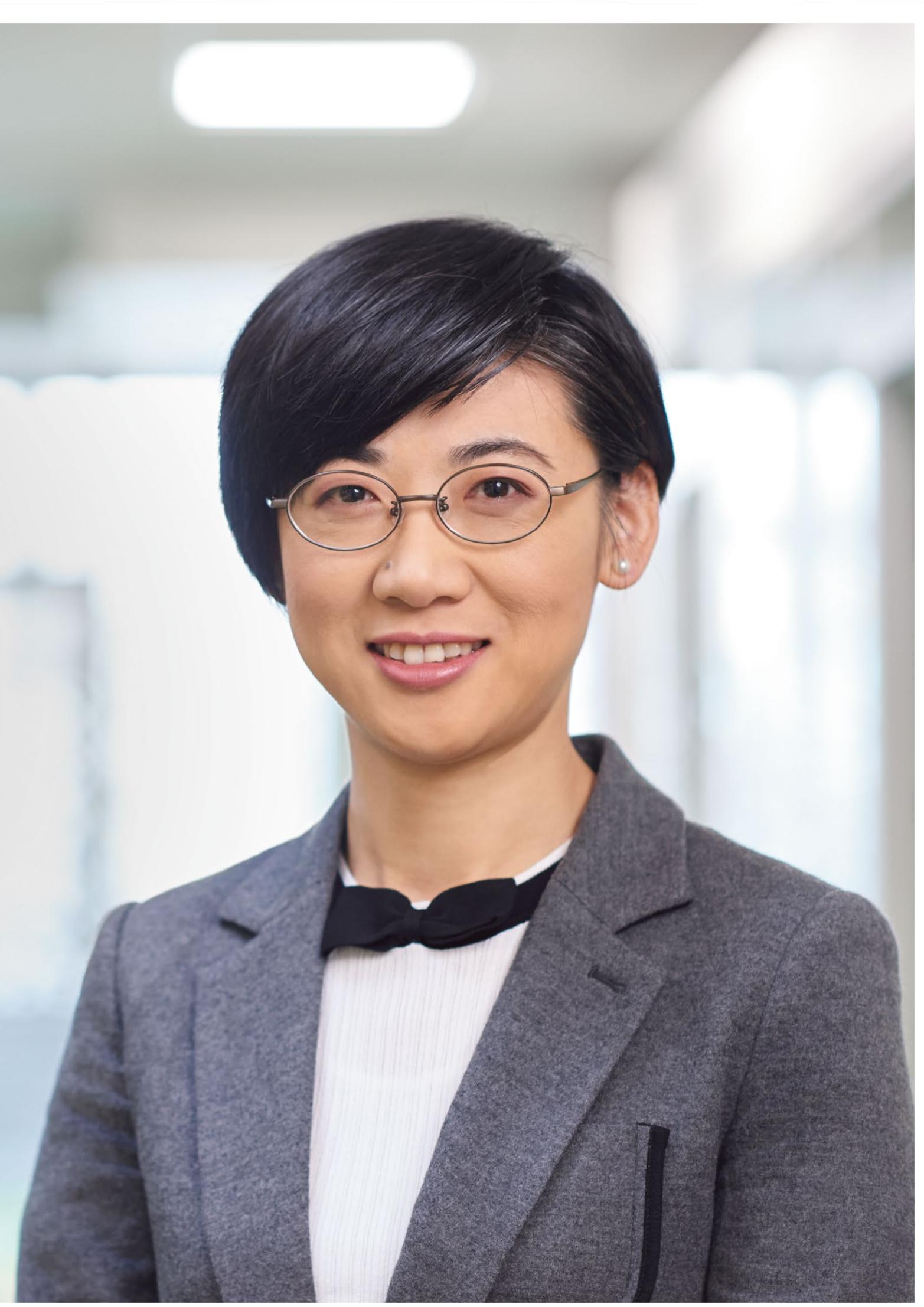
Diversity

LIVE DIVERSITY.

INTERNATIONAL WORK ENVIRONMENT IN HERZOGENAURACH

In a globalized world, diversity and internationality are true factors for success. They make companies more innovative and help them attract new talents. That's why Schaeffler actively encourages international exchange among its employees and supports them in moving from one location to another. Qian Wang came to our company headquarters in Herzogenaurach from China – an assignment full of contrasts.

Qian Wang completed a master's degree in business administration at Soochow University in China. Since 2015, she has worked at Schaeffler in Herzogenaurach as Vice President Supply Chain Management in the Engine Systems business division.



Experience

From Taicang, near the metropolis Shanghai, to quiet Herzogenaurach. Romantic Bavarian timbered houses instead of skyscrapers. A population of 23,000 instead of 24 million. Yet Qian Wang didn't take long to decide when the opportunity presented itself to go to Germany for a number of years. "I was confident that it would work out well," Wang says. As Vice President Supply Chain Management in the Engine Systems business division, she supervises 17 employees. She quickly felt at home in Germany.

"My new superiors supported me from the start and organized meetings with other international colleagues. That was really valuable, since it allowed us to network among ourselves and exchange experiences," the forty-year-old says. The website of the international network in the company intranet, "Schaeffler CONNECT," was also helpful to Wang for getting settled in Herzogenaurach and getting to know other expats.



Qian Wang at the team meeting in special machine construction at the Erlangen-Frauenaurach site, where Schaeffler's "New Work" concept has already been implemented.

For Schaeffler, the advantages of having a diverse workforce are obvious. International employees bring different perspectives and approaches to solving problems to the company and support a management culture based on participation. And what's more: Many of the company's customers are internationally oriented. Having wide diversity among our employees facilitates access to these global players and helps us find new markets. Schaeffler profits from the different experiences and diverse knowledge of its employees when it comes to innovation, as well. Studies show that mixed teams are more innovative and successful than homogeneous ones.

In 2017, a total of 369 employees took advantage of the possibility, as Qian Wang did, to go abroad for up to five years. Whether an employee is posted abroad depends on their technical expertise, their personal interests, and the needs of each respective department. Expats who come to Germany are supported by our Talent Mobility Europe Team, made up of employees from our human resources department who personally advise and support the expat and any family members who have come along. This includes, for example, applying for residency and work permits, or finding suitable accommodations and schools for the children.

A Change in Perspective

For Qian Wang, Schaeffler is familiar terrain. She has been working for the company for more than 15 years at the Chinese Taicang site, which is located about 60 kilometers from the heart of the Shanghai megalopolis. It's a hotspot for German companies. In addition to Schaeffler, around 180 other companies have settled in Taicang. And with them, many Germans. "Even before my time in Herzogenaurach, I visited Germany many times and had many German colleagues in China," Wang says. What she hopes to get from her time in Bavaria is, above all, a fresh perspective and a new way of looking at both her field and the company where she has worked for so long. What does she find especially unique about her German colleagues? "Germans are always very thorough and consistent," she says with a grin. Maybe that's why Wang was able to win over her colleagues with her clear agenda. "In the first months, I mostly listened and tried to gain the trust of the team. Of course they all didn't know me yet, and they wanted to know how I think and what my plan is for the next few years." Later, Wang presented her vision to the team, with concrete projects and goals. That was the cornerstone for the good, trusting cooperation in the team. Looking back, she says, "My advantage is that we Chinese are very flexible and tolerant and, if necessary, always have a plan B. Germans and Chinese people complement each other excellently – that's what I've learned from my experience."

It's been three years since Qian Wang came to Herzogenaurach. Her advice to colleagues interested in working abroad is to make sure they have the support of their own family. "That's the basic prerequisite." Also important: flexibility and the desire for a challenge. "If you're afraid of new things, you'll have a hard time abroad." For Wang, her time in Germany has absolutely been a valuable experience – and one that she will talk about for a long time.



Schaeffler Group @SchaefflerGroup – March 28

Our #Expat Qian Wang: From Shanghai to Herzogenaurach. 24 million vs. 23,000 people. #diversity #4tomorrow #csr

0 2 6



"For us, diversity means recognizing different points of view, experiences, and skills – and utilizing them to create business success."

QIAN WANG

VICE PRESIDENT SUPPLY CHAIN MANAGEMENT

Our Fields of Action

Our strategically oriented sustainability work focuses on four fields of action.

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Corporate management characterized by moral integrity is the basis of all of our business activities. We expect the same of our business partners. Our integrated Sustainability Strategy helps us to continue optimizing social and environmental impacts throughout the value chain on the basis of concretely defined objectives and measures worldwide – even above and beyond legal regulations.

Sustainable Management



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With our product offerings, we create mobility for tomorrow and allow our customers to implement future-oriented, climate-friendly product solutions. Our products and solutions stand out for their high quality and safety. Individual service to the customer and long-term business relationships are always the focus of what we do.

Customers and Products



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We consider ourselves a global pioneer when it comes to implementing sustainable production standards. Using a site-related management system, we work in a structured way to increase our material and energy efficiency and to constantly reduce our emissions and use of resources.

Environment and Energy



54

Our image as a family company includes assuming responsibility for our employees and society. Satisfied, motivated, performance-oriented employees are the basis of our success. With our diversity concept, we are making a commitment to the equal rights of all groups of persons. We also support volunteer work by our employees.

Employees and Society



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Values and Guidelines

The Schaeffler Group is a listed company and a family business with a strong foundation in its values: sustainable, innovative, excellent, and passionate. These values form the basis for the lasting success of the Schaeffler Group and guide how to work together with customers, business partners, and each other.

Fairness, mutual respect, and integrity are the cornerstones in the Schaeffler Group on which the manner of conducting business is based. Through this form of sustainable business conduct, Schaeffler hopes to secure its own viability – and thus create shareholder value. The Code of Conduct of the Schaeffler Group describes the basic principles and practices that should be followed by Schaeffler employees, managers, and the Executive Board, and which Schaeffler also expects of its business partners. This code, which was approved by the entire Executive Board with the support of the Schaeffler family, underscores the importance that Schaeffler attaches to responsible corporate conduct.

In addition to internal guidelines, the Schaeffler Group also turns to national, international, and industry-specific norms and frameworks and coordinates the orientation of the corporate management with national and international sustainability efforts.

Relevant Frameworks and Norms (selection):

- Agenda 2030 and the Sustainable Development Goals of the United Nations
- UN Global Compact
- German National Action Plan for Human Rights
- UK Modern Slavery Act
- German Sustainable Development Strategy
- International Climate Goal Targets

Schaeffler Sustainability Strategy
“Responsibility for tomorrow”

As guidelines for this sustainable orientation, Schaeffler has chosen, among other things, the United Nations Sustainable Development Goals (SDGs), which the international community of states adopted in the framework of the “Agenda 2030 for sustainable development” to meet global challenges by the year 2030. Schaeffler aspires to have a positive influence outside of the company on global economic, social, and ecological development. In 2017, the company’s responsible entrepreneurship contributed to meeting 10 of the 17 UN goals.

Goal 3: Good Health and Well-Being

Through its activities in the areas of health management and occupational safety, the Schaeffler Group is committed to enabling all of its employees to have a healthy life. In the context of its social commitment in the core area of “Health and Social Issues,” the Schaeffler Group also makes contributions on this issue.

Goal 4: Quality Education

Through its commitment in the areas of training and education, the Schaeffler Group also contributes to making education possible for everyone. The company is also active in the context of its social commitment in the core area of “Education and Science.”

Goal 5: Gender Equality

As early as 2008, the Schaeffler Group signed the German Diversity Charter and thus committed to actively advancing diversity and equal opportunity in the company. With its structured diversity concept, Schaeffler is setting the foundation for gender equality.

Goal 7: Affordable and Clean Energy

The goal of CO₂-neutral mobility can only be achieved through the increased use of renewable energy sources, which is why the Schaeffler Group develops products and solutions for the entire energy chain – focusing technologically on the renewable energy sector – with its clients worldwide.

Goal 8: Decent Work and Economic Growth

The implementation of sustainability-related reviews for potential suppliers in what are called initial assessments shows the ongoing orientation toward a transparent and sustainable value chain. The company also follows a due diligence process in relation to questions of human rights that is based on international norms and guidelines.

Goal 9: Industry, Innovation and Infrastructure

Schaeffler contributes with its activities in the area of digitalization and “Industry 4.0” through its expansion of resilient infrastructure and sustainable industrialization.

Goal 11: Sustainable Cities and Communities

Many of the Schaeffler Group’s products in the focus areas of urban mobility, interurban mobility, E-Mobility, and the energy chain directly contribute to the creation of sustainable cities and communities.

Goal 12: Responsible Consumption and Production

With ideas like the “Factory of the Future” and the continual expansion of its environmental management systems, the Schaeffler Group contributes directly to implementing sustainable forms of consumption and production.

Goal 13: Climate Action

Schaeffler acts to fight climate change and its effects with measures such as the use of renewable energy and thoroughly exhausting the energy potential of energy generation and use. This also includes measures to support the education of its employees on the fight against climate change and its effects. Moreover, bundling of supply streams and traffic streams, developing new, more efficient concepts for logistics, and establishing sustainable mobility for its employees are all areas on which Schaeffler’s sustainability engagement is focused.

Goal 17: Partnerships for the Goals

The long-term cooperation and exchange of knowledge with customers and suppliers – among other things, in the context of the Premium Supplier Circle and Premium Supplier Day – creates the basis on a global level for common, positive economic development.

GRI 102-12 | 102-16

UNGC 1–10

The Sustainable Development Goals of the United Nations at Schaeffler

No. 001



Sustainable Business Conduct

“As a leader in technology, we combine a passion for innovation with the highest standards of quality to shape the future of mobility – for a world that will be cleaner, safer, and smarter.” This is the vision of the Schaeffler Group. Both financial and nonfinancial value drivers thereby contribute to Schaeffler’s long-term success.

— Corporate Strategy “Mobility for tomorrow”

With the strategy of “Mobility for tomorrow,” Schaeffler is setting the foundation for sustainably profitable growth from now on. Based on long-term trends, four fields of action and eight cornerstones for future profitable growth define the corresponding course of action. Implementation is based on the excellence program “Agenda 4 plus One,” covering 20 strategic initiatives. In its mission, the Schaeffler Group describes the task to which it is committed. Underlying this mission are three key concepts: working in partnership with customers and business partners, top-level expertise in manufacturing technology, and advanced systems know-how. The Schaeffler Group’s vision and mission complement and amplify one another, with the vision encompassing the goals and aspirations that will guide its future course of action.

As a base assumption for the future of its markets, the Schaeffler Group has identified four megatrends that will decisively determine the business of the future: climate change, urbanization, globalization, and digitalization. These trends were the basis for formulating four areas of action that create the foundation for the strategic orientation of the company:

- Eco-friendly drives
- Urban mobility
- Interurban mobility
- Energy chain

Eight strategic pillars represent the foundation for the continual further development of the Schaeffler Group, while also describing what Schaeffler wants to achieve or do better in the future. To implement the strategy “Mobility for tomorrow,” the excellence program “Agenda 4 plus One” was started in 2016 with the 16 most important strategic initiatives of the Schaeffler Group. The strategic initiatives can be divided into five categories: customer focus, operational excellence, financial flexibility, leadership and talent management, and – as a “plus One” – securing long-term competitiveness and value creation. All initiatives are united in the goal of preparing the Schaeffler Group for the future

and making it even better. At the end of 2017, four additional initiatives were incorporated into the excellence program, expanding the number of initiatives in the program to 20. The declared goal is to successfully implement all initiatives by the end of 2020.

 You can find additional information about the strategy “Mobility for tomorrow” in the Annual Report 2017, page 23 et seq.

— Anchored in Sustainability

In addition to financial factors, ecological, product-related, knowledge-based, and personnel factors are considered in how the Schaeffler Group conducts business. The Sustainability Strategy “Responsibility for tomorrow” is based on the vision and mission of the Schaeffler Group and serves to secure and promote the long-term value of the company through value-driven corporate management. Another guideline for this sustainable orientation is provided by the SDGs of the United Nations.

Four topics – “Responsibility in the Supply Chain,” “Green Products,” “Commitment to Climate Protection,” and “Diversity” – are at the center of the Sustainability Strategy “Responsibility for tomorrow.” They form the short to medium-term focus topics for orienting Schaeffler’s Sustainability Strategy.

Based on the principles of value-oriented management, the Schaeffler Group records operational financial and non-financial figures in order to track and make clear its sustainability performance. In this report year, the existing set of figures was expanded and strategic performance indicators were defined that will enable the management of these focus topics. These are also the Key Performance Indicators (KPIs) for measuring the success of the Sustainability Strategy “Responsibility for tomorrow.”

Sustainability Roadmap: Strategic and Operational Management

The Schaeffler Group's "Sustainability Roadmap" describes concrete goals and measures relevant to the four focus topics and the 20 additional material topics of sustainability management. The Sustainability Roadmap is the medium-term, dynamic element of the Sustainability Strategy that strategically and operationally guides Schaeffler's sustainability activities. The Sustainability Roadmap is updated and, if needed, expanded every year in cooperation with the responsible departments.

In 2017, the Sustainability Roadmap was restructured. The time frame for the target horizon was expanded, with the focus on achieving these goals lying in the years 2020, 2025, and 2030. This includes the plan to reach increasingly ambitious goals regarding Schaeffler's sustainability performance between 2020 and 2030. In addition, the four focus topics of the Sustainability Strategy "Responsibility for tomorrow" were placed at the beginning of each respective

field of action and the representation of progress was changed from a percentage figure to a qualitative response. It will now show whether the respective goal has already been achieved, is in process, or whether there is a delay in its achievement. There has also been an indicator added regarding which UN Sustainable Development Goal the implementation of each Schaeffler goal is connected to.

-  More information about the Sustainability Roadmap can be found on page 64 et seq.
-  Interactive illustration of the Sustainability Roadmap available in the online report:
www.schaeffler-sustainability-report.com/2017/roadmap

GRI 102-15 | 201

UNGC 1–10

Sustainability Strategy "Responsibility for tomorrow"

No. 002



Sustainability Management

Schaeffler has anchored the value of sustainability in its corporate strategy. On this basis, aspects of sustainability have also been integrated into the company's decision-making processes and clear responsibilities have been determined.

The Schaeffler Group's Sustainability Governance is responsible for defining, monitoring, and reporting on the Schaeffler Group's sustainability-related performance. In addition, it guides the orientation of the Sustainability Strategy "Responsibility for tomorrow." The Supervisory Board of the Schaeffler Group is at the top of this organization and the Executive Board reports to it on relevant sustainability developments once a year. A key role is held by the Competence Center for Sustainability, which reports to the Executive Board as a source of inspiration, coordinates groupwide sustainability activities, is in charge of performance and issue monitoring, and is responsible for transparent communication and stakeholder dialog.

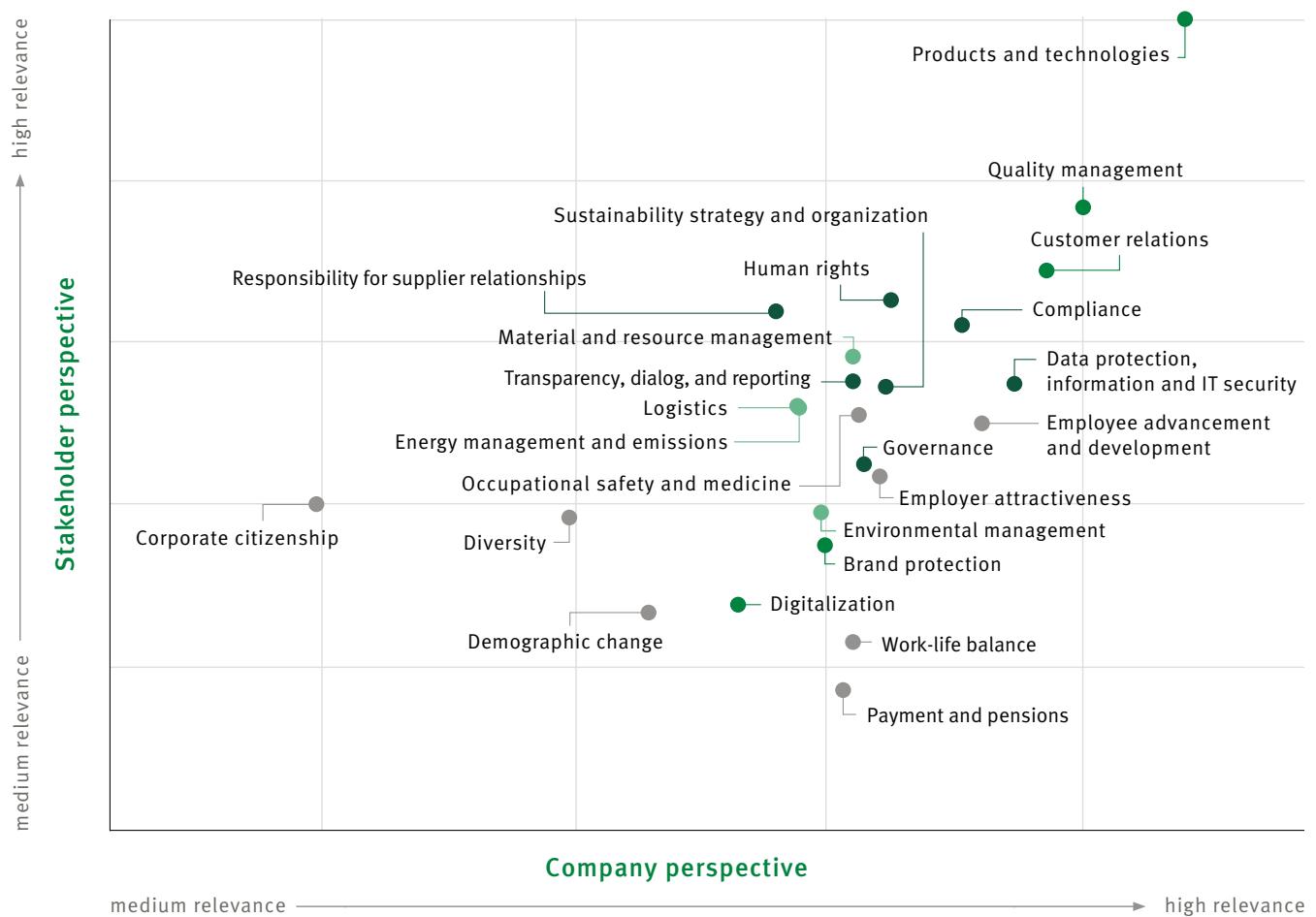
The Steering Committee for Sustainability is a panel of experts comprised of representatives of relevant departments that meets four times a year. Its tasks include cooperation with the Competence Center for Sustainability on determining the content of sustainability reporting, development of strategic sustainability objectives, and KPI definitions.

The Sustainability Office is responsible for operational sustainability work. Working with the Competence Center for Sustainability, it develops measures and projects to implement the Schaeffler Group's 24 material topics.

The Sustainability Governance Structure at Schaeffler

No. 003



Material Topics of Corporate Responsibility at Schaeffler**No. 004****Material Topics of Schaeffler's Sustainability Management**

In the framework of a materiality analysis, the Schaeffler Group identified 24 topics that it adopted into its sustainability management. These topics form the foundation of sustainability at Schaeffler and are each assigned to one of the four fields of action “Sustainable Management,” “Customers and Products,” “Environment and Energy,” and “Employees and Society.” They strategically guide how Schaeffler will meet growing challenges all along the value chain. Within the framework of the materiality analysis, employees, customers, and suppliers were invited to participate in an online survey assessing the relevance of sustainability topics for Schaeffler as a responsible corporation and to formulate sustainability-related expectations towards the company. The results of this materiality analysis were verified by the Schaeffler Group’s Sustainability Governance and used to create a materiality matrix. This matrix helps

in prioritizing the topics of the sustainability work and reporting. In addition, an analysis was conducted regarding the question of at which points in the value chain the Schaeffler Group comes into contact with certain topics and can influence them. This helps determine the reach and limits of Schaeffler’s corporate responsibility.

GRI 102-19 | 102-21 | 102-26 | 102-27 | 102-29 | 102-30 | 102-31

102-32 | 102-33 | 102-44 | 102-46 | 102-47 | 201

UNGC 1-10

Stakeholder Dialog and External Recognition

For the business success of the Schaeffler Group, it is highly important to have open and constructive dialog with its central stakeholders and to build relationships based on trust. That also paves the way for external recognition of the company's sustainability performance.

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To define topics that are particularly relevant to the Schaeffler Group's sustainability work, it engages in close exchanges with its most important stakeholders. The expectations of the different stakeholders are not always readily reconcilable. The main thing is to identify common ground, agree on cooperations, or reach compromises that result in win-win situations. An institutional dialog can make a valuable contribution to this process. The Schaeffler Group aspires to include the interests of all stakeholder groups in the process and to implement measures that address their demands. In the time frame covered by this report, representatives of the Schaeffler Group participated in many external events with a thematic focus on sustainability.

— Taking a Look at Sustainable Investment

In addition to rising customer expectations about sustainable management, these growing expectations are also reflected in the investment and financial industry. This can be seen, for example, in the "Principles for Responsible Investment" (PRI), a financial initiative of the United Nations, which was created with the aim of developing principles for the responsible management of securities. Investors who have joined the initiative manage a volume of investments totaling more than USD 60 trillion. Schaeffler is watching this trend carefully with the intention of giving the topic of "Responsible Investment" even more weight in the future in value-driven corporate management.

Investors who are oriented toward sustainability in part follow the ratings of specialized SRI analysts. Various formats are used to keep SRI analysts and investors up to date about Schaeffler's responsible management. One of these is annual sustainability reporting. In the future, special investor roadshows will also be introduced.

— Expanding Opportunities for Dialog

Schaeffler intends to further expand existing dialog formats and, in the future, hold regular stakeholder events on the topic of sustainability. These events will look at specific sustainability-relevant topics from various perspectives and assess their urgency. Increased involvement in external stakeholder events will also help lay the groundwork for sector-wide solutions to social challenges, such as the development of a sustainable supply chain.

Since January 2018, the Schaeffler Group has been a member of the network of companies "econsense," which works to support the practical implementation of corporate sustainability. Founded in June 2000 on the initiative of the Federation of German Industries (BDI), the network sees itself as a dialog partner and expert forum for exchange between politics, science, the media, and society. Schaeffler will gain valuable insight for its own corporate management from its membership in the network.

The company also exchanges opinions and information regularly with political decision-makers and holds memberships in various organizations, such as industrial associations and other interest groups.

💻 Overview of the Schaeffler Group's memberships in associations and organizations available online:
www.schaeffler.com/sustainability/memberships

— Successful Sustainability Ratings

Since 2015, the Schaeffler Group has been registered in the collaborative platform for sustainability ratings in the global supply chain "EcoVadis." With a total rating of 50 points, Schaeffler was among the best 27% overall in the car supplier industry in 2017. Overall, the performance was most improved in the category of environment, in which 70 of 100 points were earned. In 2017, Schaeffler belonged to the top 11% of automotive suppliers in this category.

Schaeffler Stakeholder Groups**No. 005**

Stakeholder group	Dialog formats
Employees	→ Worldwide employee survey, employee development talks, knowledge management, ideas management, internal media
Customers	→ Customer surveys, industry initiatives, fairs, bilateral talks, answering customer requests
Suppliers/Service providers	→ Supplier surveys, industry initiatives, supplier days, bilateral talks, training sessions
NGOs	→ Answering requests
Politics/Agencies	→ Bilateral talks, information events for policy makers, participating in forums and events
Residents	→ Media, neighborhood talks, press conferences, site visits
Associations	→ Participation in a variety of initiatives, forums, and events, memberships in initiatives
Unions	→ Bilateral talks
Investors/Analysts	→ Conferences, media, bilateral talks, roadshows
Universities/Science	→ Partnerships and cooperations, lectures
Media	→ Press conferences, press trips, press releases, information events on products, trade fairs, test drives

Schaeffler was awarded a “Silver Recognition Level” for its successful sustainability management.

EcoVadis’s goal is to rate the quality of a company’s management systems for sustainability according to its guidelines, implementation measures, and results. The rating is concentrated on 21 questions divided into four topic areas of environment, work practices and human rights, fair business practices, and sustainable procurement. The questions and criteria are based on international CSR standards, such as the Global Compact Principles, the Conventions of the International Labour Organisation, the standards of the Global Reporting Initiative (GRI), the norm ISO 26000, and the CERES Principles. In assessing its own sustainability performance, Schaeffler additionally refers to external sustainability ratings and rankings such as that of the CDP.

— Award-Winning Sustainability Reporting

The Schaeffler Group was recognized for its Sustainability Report 2016 with the “Econ Award” in bronze in the category “Sustainability Report/CSR Reports.” The Sustainability Report won points with the expert jury above all because of its content-rich, understandable documentation of the company’s integrated Sustainability Strategy. According to the jury, the publication’s design was striking in its smart, well-structured treatment of informative content that made it possible to gain insight into the operations of the company.

— An Attractive Employer

In 2017, Schaeffler Technologies AG & Co. KG was awarded 88.9 out of 100 possible points in the category automotive supplier in the Study “Germany’s Best Training Companies” by DEUTSCHLAND TEST and FOCUS-MONEY. Moreover, a survey on the “most attractive employers of German students in 2017” voted the Schaeffler Group into the list of the top 100. And in the “trendence Graduate Barometer 2017,” Schaeffler took 29th place in the category “engineering,” placing it among the 30 most attractive employers in Germany. The Schaeffler Group sees these honors as a confirmation of its successful support for new workers and trainees, and of its social and economic contribution to training skilled employees.

GRI 102-21 | 102-40 | 102-42 | 102-43 | 102-44
NFR Transparency, Dialog, and Reporting

Responsibility in the Supply Chain

The Schaeffler Group stands for corporate management characterized by moral integrity that will meet the dynamic challenges of the automotive industry by continually developing in the interests of its stakeholders. Sustainable procurement plays a central role in this process. The company places a high value on combining economic success with responsible action for the environment, people, and society.

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Taking ecological and social criteria into consideration along the entire value chain and conserving resources are both integral parts of the Schaeffler Group's corporate guidelines, and these apply both to the company and to its suppliers.

The Schaeffler Group obtained goods and services from approximately 34,000 suppliers in approximately 80 countries in 2017. The volume of these purchases related primarily to the Europe (63.8%) and Americas (16.2%) regions. The Greater China and Asia/Pacific regions accounted for 13.6% and 6.4%, respectively.

For the Schaeffler Group, responsible management of the company's own supply chain means strengthening the awareness of service providers and suppliers for demands and expectations placed on them – for example, through open and constructive stakeholder dialogs. This applies to both high-quality, efficient cooperation and to the adherence to environmental and social obligations and standards. Additionally, national governments are making ever-increasing demands for responsible procurement. For example, the British Modern Slavery Act (MSA) requires that companies document concepts and measures to prevent modern slave labor in their supply chains.

The instances of implementation at Schaeffler and its suppliers described here contribute to the fulfillment of SDG 8, "Sustainable Economic Growth and Decent Work for All." Especially the implementation of sustainability-related reviews for potential suppliers shows the ongoing orientation toward a transparent and sustainable value chain. Measures such as the Premium Supplier Circle and Premium Supplier Day – which align with SDG 17, "Partnerships for the Goals" – strengthen sustainable, long-term business partnerships and lay the foundation for shared, positive economic development. Schaeffler additionally participates in an initiative of the German Association of Automobile Manufacturers (VDA) to develop an industry-specific approach for sustainable supplier management. Starting in 2016, the working group "Sustainability in the Supply Chain," comprised of sustainability experts from manufacturers and suppliers, worked together with the European Business Network for Corporate Social Responsibility to develop VDA guidelines and recommendations for standardized self-reporting on sustainability. The working group is currently preparing a further VDA recommendation and a guideline for a standardized sustainability audit procedure. This entails regular workshops to determine and produce an industry-specific sustainability survey.

Purchase Volumes According to Regions

No. 006

	2017	2016	Percentage change
Europe (%)	63.8	63.4	0.0
Americas (%)	16.2	17.7	-8.5
Greater China (%)	13.6	11.5	18.3
Asia/Pacific (%)	6.4	7.4	-13.5

— Sustainable Supplier Management

In order to establish sustainability in procurement, it is necessary that partners comply with the voluntary commitments of the Schaeffler Group. The Supplier Code of Conduct (SCoC) of the Schaeffler Group defines the minimum requirements for suppliers pertaining, for example, to the respect for human rights or to behavior with regard to the issues of environment, health, and safety, or to the handling of information protected by data privacy legislation. The Supplier Code of Conduct of the Schaeffler Group is based on the principles of the United Nations Global Compact (UNGC) and the core labor standards of the International Labour Organization (ILO). Violations of fundamental principles, guidelines, and requirements of the SCoC are essentially viewed as a material breach of contract by the causal supplier and lead to an escalation process that can end in the exclusion of the supplier from business activities. Acknowledgment of the SCoC is an integral part of new contractual relationships with suppliers. Starting in 2018, it is intended that the SCoC is also subsequently accepted in writing by existing production material suppliers.

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initial assessments were completed in 2017 for new suppliers.

— Appraisal of New Suppliers Through Initial Assessments

The Schaeffler Group examines potential new production material suppliers as to their compliance with environmental and social standards before they are integrated into its portfolio of suppliers. New business partners who do not fulfill the required minimum standards in what is known as an initial assessment (formerly potential analysis) regarding the issues of environmental protection and occupational health and safety (EHS) are excluded from the selection process or require a special approval.

The initial assessment is conducted on-site at the production facility of the supplier. If, for example, a supplier cannot verify that the contamination of water, air, and soil is being adequately prevented, this leads to a stop in the approval process.

Supplier Management at Schaeffler

No. 007

	2017	2016	Percentage change
Total purchasing volume (EUR millions)	8,691	8,103	7.3
Purchasing volume Europe (EUR millions)	5,548	5,260	5.5
Purchasing volume Americas (EUR millions)	1,405	1,373	2.4
Purchasing volume Greater China (EUR millions)	1,179	905	30.3
Purchasing volume Asia/Pacific (EUR millions)	559	566	-1.2
Suppliers for whom initial assessments have been carried out (number) ¹⁾	157	114	37.7
Completely concluded (number)	13	11	18.2
Accepted with open measures (number)	27	-	-
Completely excluded (number)	11	5	120.0

1) Requested in 2017; the remaining cases are still being assessed.

— Transparency in the Origin of Materials

The Schaeffler Group takes a responsible approach in the use of raw materials such as tin, carbide, tantalum, or gold, as the mining of such materials is used to finance violent conflicts and human rights abuses in some countries. The Schaeffler Group established a monitoring process in 2013 and provides information on material origins to companies that submit inquiries. The Schaeffler Group takes a “Reasonable Country of Origin Inquiries” (RCOI) approach to ascertain the regions from which sub tier suppliers obtain the components with critical raw materials, and also to initiate any specific measures in the supply chain that are necessary. With this, the Schaeffler Group fulfills the requirements placed on the supply chain by the “OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.”

— “Premium Suppliers” as Preferred Partners in Innovation

In regular supplier reviews, Schaeffler and Continental assess strategic suppliers within the framework of their purchasing cooperation in a strategic selection process. Core factors for this highly detailed selection process are a positive risk assessment, positive contract status with commercial and quality-relevant contracts, global footprint, and registration in the shared purchasing platform SupplyOn. The status of quality certificates (ISO/TS 16949 or IATF 16949) or the quality result of the audit VDA 6.3 and the expectation of being “best in class” regarding quality and logistics performance also play into the selection process. Suppliers meeting all of the requirements are admitted to the “Premium Supplier Circle.” Premium Suppliers are preferred partners with whom Schaeffler hopes to have especially close relationships in creating shared growth, and who strive to achieve technology leadership, for example, through innovations in digitalization. This includes early integration in strategies and developments and active cooperation in cost analysis and product design.

In 2017, six new suppliers were admitted to the “Premium Supplier Circle,” the members of which fulfill the especially challenging requirements of the automobile industry. Together with Continental, Schaeffler regularly holds a “Premium Supplier Day” to deepen and intensify its long-term cooperation with suppliers. Newly accepted Premium Suppliers were announced at this event. A total of 32 suppliers from nine

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**new suppliers were accepted
into the “Premium Supplier Circle”
in 2017.**

countries were invited to participate in the event. Schaeffler and Continental plan to develop an even closer partnership with these Premium Suppliers – in development and digitalization, among other areas – with the goal of further accelerating shared business success.

GRI 102-15 | 203 | 204 | 308 | 407 | 408 | 409 | 412 | 413 | 414

UNGC 1–10

NFR Responsibility in Supplier Relationships

Human Rights Due Diligence at Schaeffler

Respect for human rights is an integral part of the corporate responsibility of the Schaeffler Group. Due to its complex international supply chain, the Schaeffler Group is exposed to a certain level of risk of being confronted either directly or indirectly with violations of law or human rights.

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The company's acceptance of responsibility and the corresponding due diligence processes with regard to human rights issues are oriented toward the UN Guiding Principles on Business and Human Rights, the National Action Plan (NAP) for Business and Human Rights, the ten principles of the United Nations Global Compact (UNGC), and the Modern Slavery Act (MSA).

The MSA, which was passed in the U.K. in 2015, calls for companies to provide an account of their engagement in protecting human rights all along their value chain. Since the Schaeffler Group maintains business relations in the U.K., it is impacted by this disclosure requirement. The subsidiary companies The Barden Corporation (UK) Ltd and Schaeffler (UK) Ltd have published declarations to this effect on their websites. The Schaeffler Group fulfills these and other requirements with structured activities designed with long-term considerations in mind.

Structure and Development of the Human Rights Due Diligence Process

In accordance with the PDCA (Plan-Do-Check-Act) management method, the process of human rights due diligence on the part of the Schaeffler Group is being iteratively and continuously further developed and improved. Preparation of the process is currently in the conceptualization phase. It consists of six key elements that recursively intermesh: (1) Declaration of principles of respecting human rights; (2) Complaint mechanism; (3) Human rights risk assessment and impact analysis; (4) Anchoring and integration; (5) Monitoring, communication, and reporting; (6) Awareness-raising, training, stakeholder commitment, and networking. Of the six core elements, some elements (phases 1, 2, 4, and 5) have already been implemented. For example, the Schaeffler Group has affirmed its respect for human rights in both its company and supplier codes of conduct, as well as through its declaration regarding the Modern Slavery Act as required in the U.K.

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core elements are part of Schaeffler's human rights due diligence process, which is being implemented.

A channel for complaints was established through a whistle-blower system in order to identify suspicious cases at an early stage. The whistle-blower system allows for the notification of violations of the Schaeffler Group's Code of Conduct, including human rights violations, at any time. The system is available in several languages and enables confidential and specially encrypted, secure communication with the investigation team of the compliance department.

As a further element, the establishment of a human rights risk assessment and impact analysis to examine process-related potential risks pertaining to the respect for human rights is in progress. Up to now, there has been no human rights risk assessment and impact analysis. Both are currently being conceptualized. Thus far, reputational damage in the event of a breach of human rights has been included in the structured risk management of the Schaeffler Group as a qualitative issue. If necessary, human rights are reported to the Executive Board of Schaeffler AG within the framework of internal risk reporting.

In the future, the due diligence approach of the Schaeffler Group with regard to human rights will be further structured and detailed. The Business Partner Due Diligence process has not yet been comprehensively rolled out. It includes business partners who are susceptible to corruption. Conventional material suppliers are not yet covered. Objectives and measures for human rights due diligence have been anchored in the Sustainability Roadmap and are currently being implemented. For this, the conceptual development of a comprehensive human rights management policy is being advanced.

The information on respecting human rights is made available to the stakeholders of the Schaeffler Group in different report formats – for example, through the Sustainability Report. Schaeffler Group employees are made aware of human rights issues through internal training measures. This is done within the framework of compliance training, with reference to the Schaeffler Group's Code of Conduct. Up to now, no separate training courses have been carried out on the subject of human rights. There were no confirmed cases of human rights violations in the period under review.

In July 2017, Schaeffler was invited to give insight into its approach to corporate due diligence at the CSR Management Forum 2017 of the Nuremberg Chamber of Commerce and Industry. Schaeffler participated together with representatives of other companies. Following the individual presentations, there was a discussion about best practices and industry-specific approaches for safeguarding adherence to human rights in the supply chain.

- The modern slavery statements of the Schaeffler Group can be found at:
www.schaeffler.co.uk/sustainability/msa
www.bardenbearings.co.uk/code_of_conduct

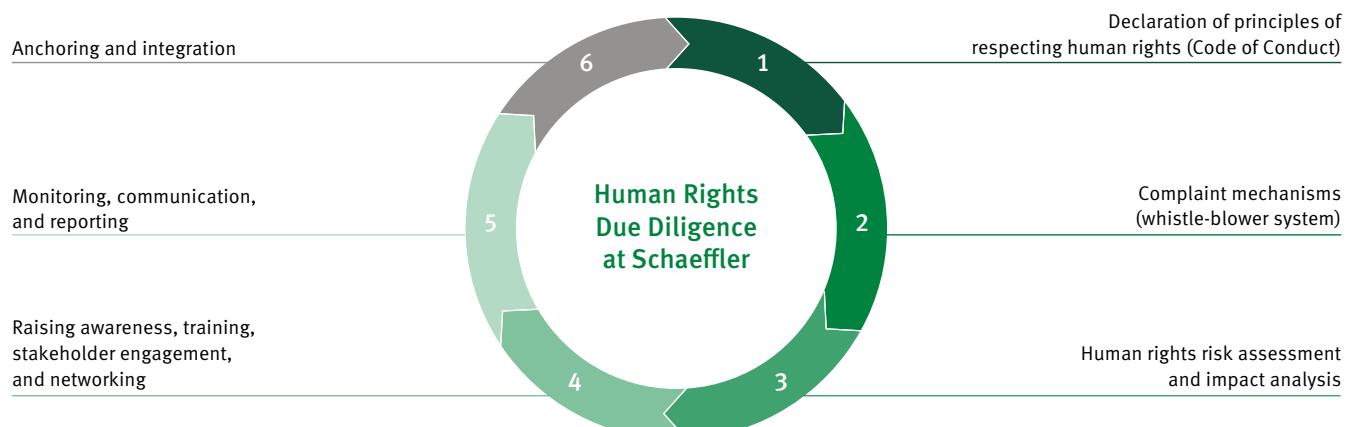
GRI 102-15 | 102-17 | 203 | 204 | 407 | 408 | 409
410 | 411 | 412 | 413

UNGC 1–6

NFR Human Rights

Human Rights Due Diligence, based on the German National Action Plan for Business and Human Rights

No. 008



Corporate Governance

At Schaeffler, Corporate Governance is characterized by responsible and effective corporate management. Management decisions are guided by long-term value creation.

Targeted cooperation between the Executive Board and the Supervisory Board and transparency in corporate and financial communications strengthens the trust of stakeholders in management and oversight of the global family company. The Governance Structure supports the Schaeffler Group's corporate values of sustainable, innovative, excellent, and passionate. The company's manner of conducting business is thereby based on integrity, fairness, and mutual respect. The structure of governance should enable an early recognition of risks that threaten the Schaeffler Group's existence or development. In the process, elements of the governance structure are optimized to support efficient, coordinated cooperation in identifying possible risks, as well as the development of appropriate management principles.

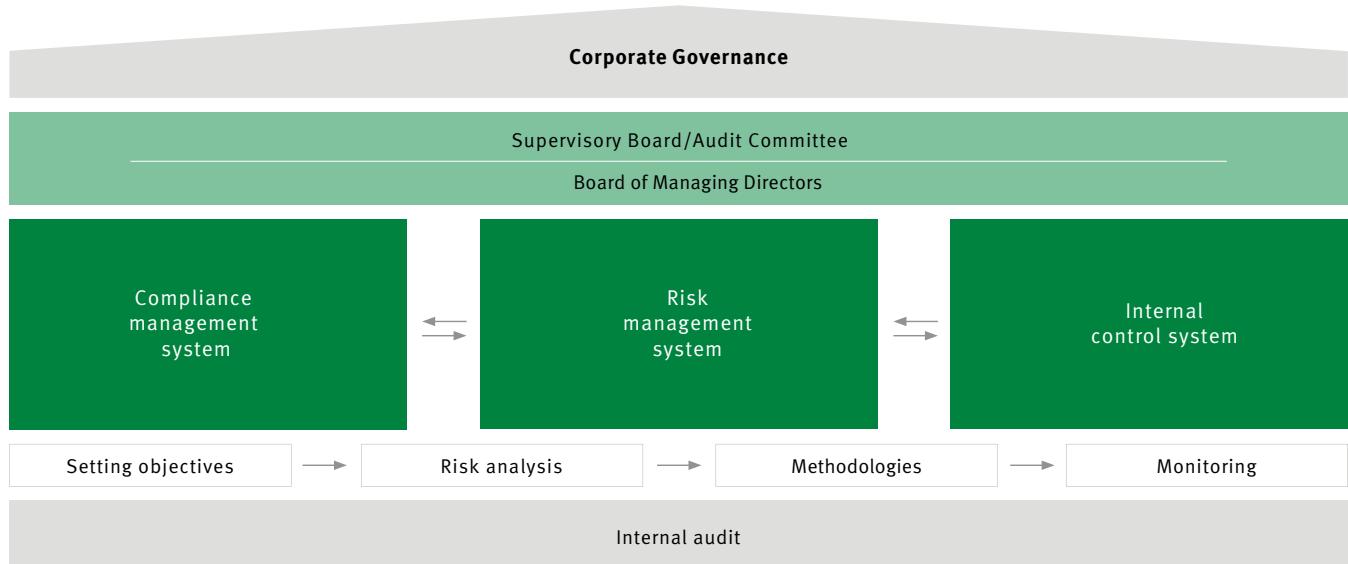
An important component of this governance is the Group Compliance and Risk Committee (GCRC), which is chaired by the Chief Compliance Officer of the Schaeffler Group. It is composed of the heads of the subordinate departments and those responsible for further risk and central functions. The GCRC is tasked with supporting the Executive Board in its governance duties regarding compliance and risk.

management through clearly defined responsibilities and points of interaction. For this purpose, it is tasked with presenting a thorough and complete view of the risk situation in the company's divisions, functions, and regions based upon a standardized method of assessment and prioritization, and with developing and overseeing measures for risk reduction.

The activities of the subsystems within the governance structure are coordinated based on the internationally recognized Three Lines of Defense model. This model assigns clear responsibility for dealing with risks to the company's continued existence and development and is based on the principle that primary responsibility for a risk lies with its originator. The business units bear primary responsibility for the risks inherent in their business. Hence, the Schaeffler Group's employees represent the first line of defense against potential risks. The established Code of Conduct of the Schaeffler Group encourages employees to turn to their supervisor or the corresponding control function with any questions or concerns they might have regarding dealing with risks and inappropriate business practices.

Schaeffler Group Corporate Governance Structure

No. 009



With its corporate governance structure and its Three Lines of Defense model, the Schaeffler Group fulfills its obligation to manage the company responsibly and to maintain effective controls. Please refer to the Annual Report 2017 for comprehensive details on the Schaeffler Group's corporate governance and the Three Lines of Defense model.

-  Further information on the Three Lines of Defense model of the Schaeffler Group can be found in the Annual Report 2017 – Group Management Report, page 98.

Compliance

The management and all employees of the Schaeffler Group are obliged by the Code of Conduct to comply with all local, national, and international laws and regulations applicable in their geographic business area. The entire worldwide compliance organization of the Schaeffler Group provides support in doing this. The underlying compliance management system (CMS) of the Schaeffler Group is based on the three pillars of prevention, detection, and response and is part of the second line of defense in the governance structure of the Schaeffler Group. In its present form, it was initiated by the Executive Board as the result of a fundamental review within the framework of the “Compliance Fit & Proper” program as part of the “ONE Schaeffler” program. After the underlying concept was successfully subjected to a concept review by an independent auditing company in accordance with the testing standards of the compliance management system IDW PS 980, the next step will be to have an independent auditing company assess the implementation.

In particular, the CMS comprises the control and monitoring of the necessary activities for the prevention or early detection of legal violations with regard to corruption, money laundering, competition and antitrust law, and business crime violations. It also supports active risk control and has a protective function for both the company and its employees.

The CMS includes seven core elements: compliance culture, compliance goals, hazard analysis, compliance program, compliance organization, communication, and oversight and improvement. Based on a regular group-wide risk analysis, the compliance organization develops precautions to counter antitrust and competition law violations, corruption, economic crime, and money laundering on the basis of a risk-based approach. The risk analysis provides information on the current risks associated with business activities and on the effectiveness of arrangements already in place.

Management of the compliance organization is the responsibility of the Group chief compliance officer of the Schaeffler Group, who reports directly to the Chief Executive Officer, the chairman of the Supervisory Board, and the

8,741

employees were trained in 2017
on the topic of compliance.

chairman of the Audit Committee. The compliance department offers the Group's chief compliance officer a comprehensive network of experienced compliance specialists in the Europe, Americas, Greater China, and Asia/Pacific regions, who can also rely on an expanded central competence team in the company's home location of Herzogenaurach consisting of the divisions “Advisory,” “Risk Analysis & Solutions,” and “Forensics & Investigations.” The tasks of the team of experts include defining and monitoring appropriate group-wide compliance standards and measures, compliance consulting, and the improvement of procedures and controls. The team is also responsible for independently investigating alleged violations and enforcing the necessary consequences. The causes of misconduct are analyzed, proposals for countermeasures are derived, and their implementation observed. Violations of laws, regulations, and internal rules are not tolerated and result in disciplinary action.

Measures for preventing breaches of compliance include, among other things, the Schaeffler Group's Code of Conduct, guidelines governing compliance with antitrust and competition law and anti-corruption, as well as those protecting information confidentiality, and Web-based and classroom training measures. There is also a compliance help desk to advise on specific compliance issues. In addition to basic behavioral requirements, the principles and practices described in the Code of Conduct also cover behavior toward business partners and third parties, the handling of sensitive information, conduct toward employees and colleagues, and requirements with regard to environment, safety, and health.

In accordance with corporate values, neither bribes nor any form of corruption are tolerated. All employees of the Schaeffler Group are expressly prohibited from taking part in any form of bribery or corruption. This also applies to illegal anticompetitive and antitrust conduct. The Schaeffler Group avoids business dealings that cannot be carried out or maintained without unacceptable behavior.

Compliance training courses are continuously further developed and adapted to the areas of activity of the employees. Hence, among other things, the case studies of the “Risk Awareness” training course pertain to the relevant business units in order to identify potential risks

in the most concrete and comprehensible manner. In the business year 2017, the compliance training program of the Schaeffler Group included, among other things, training courses on the issues of risk awareness and the Code of Conduct. The training serves both to clarify and raise the awareness on the part of management and employees for such circumstances in accordance with the principle of prevention by creating an increased risk awareness toward reducing risks. In 2017, for example, 8,741 employees were trained in classroom training and workshops on the subject of compliance. The goal is for every new employee to be trained on essential compliance topics by 2020 and for these trainings to be regularly refreshed. In addition, measures are in place to detect any compliance violations. These include audits and controls and a worldwide whistle-blower system that enables alleged violations to be reported anonymously. All submitted claims are independently verified. Retaliation against employees who, in good faith, express concerns about misconduct in the company is prohibited.

— Corporate Security

The goal of corporate security is to achieve a high degree of security by protecting the lives, health, and personal rights of all employees, visitors, and business partners at company sites from any kind of damage. For Schaeffler as a technology company, increasing the safety, efficiency, and appropriateness of how data relevant to the company is handled is a crucial competitive factor.

Carefully coordinated components form an information security management system that protects Schaeffler's intellectual property and the business secrets of business partners from theft, loss, unauthorized disclosure, illegal access, or misuse. Schaeffler is thus countering this increasing threat with effective methods. Prevention measures aimed especially at protecting against internet criminality and CEO fraud have been successively expanded with offerings of training and information.

In order to mitigate against the risk of cyberattacks, the Schaeffler Group has introduced an "IT Security by Design" process that is guided by national and international standards. In this process, IT security is considered from the start in terms of systems and applications development, and corresponding protection measures are integrated into the process depending on the security needs. IT security is thus a part of the system solution from the very start.

Based on a company guideline that applies worldwide, crisis management has been expanded across divisions and all across the company. For this purpose, crisis teams were set up and standardized processes of escalation and communication were introduced in the company headquarters and

its regions. Measures for training and practice prepare the employees who are involved in this process to deal with crisis situations.

Schaeffler has further strengthened and intensified its protection of data relating to persons, products, and processes. It handles the processing of data belonging to business partners and employees with the greatest care and sensitivity. These measures comply with the respective data protection guidelines or other legal requirements. The implemented checks and balances ensure the best possible protection of sensitive data.

In order to identify the requirements of the EU General Data Protection Regulation (EU GDPR) and its effects on the company, and to be able to execute the necessary adjustments in procedures, Schaeffler started a company-wide project early on. In doing so, the company relies on the pillars of the existing data protection management system.

The Strategic IT business division defines the IT-wide process model in coordination with the Process Excellence Initiative and takes responsibility for rollout in IT units in Schaeffler's divisions, functions, and regions. In this context, Strategic IT also carries responsibility for IT governance activities relating to IT risk, compliance, and security management, among other things.

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NFR Compliance

Green Products

The goal of CO₂-neutral mobility can only be achieved through the increased use of renewable energy sources, which is why the Schaeffler Group, together with its customers, develops products for the entire energy chain – with a technological focus on the renewable energy sector.



In light of global developments including urbanization, digitalization, resource scarcity, and climate change, the Schaeffler Group pursues the goal of supporting customers with innovative products and system solutions to manage the challenges it faces – such as the reduction of CO₂ emissions. This includes the development of products that make a significant and measurable contribution toward shaping drives for urban and interurban mobility and for the energy chain in an environmentally responsible way. The Schaeffler Group's products – especially in the focus areas of urban mobility, E-Mobility, and the energy chain – directly contribute to the fulfillment of SDGs 7 and 11. Product solutions – for example, for micromobility in cities – support the development of “sustainable cities and communities” (SDG 11). This also applies for products and developments in the energy chain that make a contribution to SDG 7, “sustainable and modern energy for all.”

Outlook: Sustainable Mobility

The company expects that the worldwide automobile market will be powered, on average, by approx. 30% internal combustion engines, 40% hybrid drives, and 30% all-electric drives by 2030. The Schaeffler Group is pursuing various directions with regard to the further development of different drive technologies. Efficiency gains in internal combustion engines and (new) developments for electromobility are expected to be attained by 2030. In addition, improvements are expected to be achieved across all drive technologies through the use of overarching technologies, e.g., in the area of friction optimization.

Graphic on the accelerated scenario of vehicle development available in the online report:
www.schaeffler-sustainability-report.com/2017/scenario

Expansion of E-Mobility

In the coming years, the Schaeffler Group expects a continued rise in the number of electric vehicles. The company therefore aims to consistently expand in the area of E-Mobility: On January 1, 2018, an independent E-Mobility business division

30%

predicted proportion of electrically operated vehicles in 2030.

was launched. It consolidates the efforts for all products and system solutions in the segment of electric-based drive technologies. Likewise, the business division “Industry 4.0,” which also began operating in January 2018, is intended to support the E-Mobility business division by centrally identifying future opportunities and tapping into additional growth potential.

By 2020, an investment budget of half a billion euros will be available for the expansion of this new business division. Schaeffler is in the process of expanding three competence centers for E-Mobility worldwide: in Bühl in Germany, in Wooster in the USA, and in Anting in China. In November 2017, the company announced that it will be investing USD 60 million in the expansion of the competence center at the Wooster site. At the site in Bühl, the plan is to increase the development team E-Mobility by 50% to include a total of 300 employees. The competence center in China is intended to meet the increasing importance of the Chinese market in regards to E-Mobility.

In addition to its organic growth, the Schaeffler Group is expanding its competences in E-motors through targeted acquisitions. One year after taking a majority stake in Compact Dynamics GmbH in December 2017, for example, the company purchased the remaining 49% of the company's shares. Compact Dynamics GmbH, which is headquartered in Starnberg, is a development specialist in the area of innovative electric drive concepts focused on high-performance drives and integrated lightweight construction in small series and applications in motorsports.

Growing Product Portfolio

The Schaeffler Group has been engaged with the development of new electric drive concepts for more than ten years. In the context of its own units whose work is closely connected to research, it thereby intensively cooperates with leading universities and today owns an extensive, ever-growing portfolio of products. The spectrum ranges from electrically operated coupling devices to components and drives for mild hybrids, high-voltage hybrid solutions, and completely electric drives for hybrid and entirely electric vehicles.

Altogether, by the end of 2017, the Schaeffler Group had acquired a total of eight series projects for E-Mobility or hybrid products. These include, among other things, electrical axles and hybrid modules with an integrated torque converter. However, in the next few years, conventional drives will also continue to be in demand in large numbers. Against this backdrop, the Schaeffler Group pursues the continuous increase in the efficiency and performance of conventional drive technologies in order to reduce fuel consumption and CO₂ emissions in the long term.

In addition to all-electric vehicles, a large number of vehicles on the road in the future will be powered by hybrid drives. In the field of environmentally friendly drives, the concept car "Gasoline Technology Car II" (GTC II) has been developed. It demonstrates the potential of an intelligent 48-volt hybridization based on the current state of development.

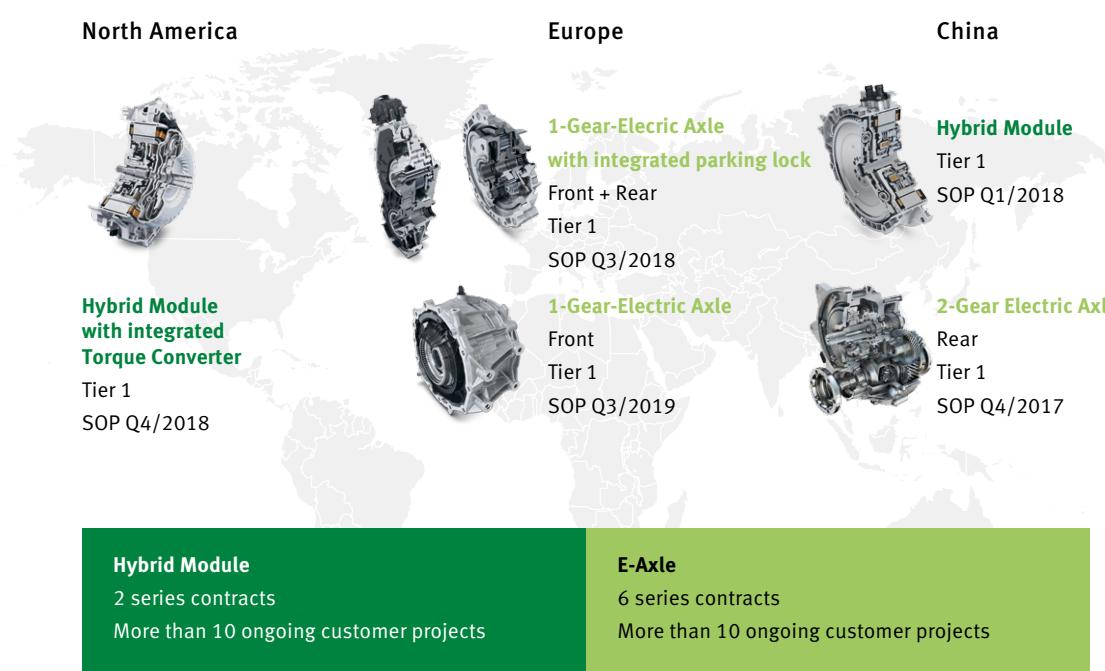
The GTC I, unveiled in 2014 at the International Vienna Motor Symposium, discharged CO₂ emissions of 95 g/km. Under the same test conditions, the GTC II emits about 10% less CO₂. In October 2017, the Schaeffler Group presented the electric axle as a modular building-block system for both hybrid vehicles and all-electric vehicles.

Internal Combustion Engines: Friction Reduction in Focus

For the near future, mobility will continue to be mainly shaped by internal combustion engines. That makes it even more important to further lower CO₂ emissions of gas and diesel vehicles. For this reason, avoiding friction loss occupies an important place in the Schaeffler Group's product development process. One approach followed by developers is using lubricants with further reduced viscosity. Another approach is the use of rolling bearings in the place of plain bearings in engines – a path already laid out by Schaeffler's extensive predevelopment activities. In a development project carried out in collaboration with Ford, the Schaeffler Group conducted a detailed examination of the requirements for a crankshaft-roller bearing and the resulting advantages in a 1.0-L three-cylinder gasoline engine. To configure the crankshaft-roller bearing as needed, the developers work with simulations of the lubricant properties and analyze all relevant parameters with the internally developed software BEARINX.

E-Mobility and Hybrid Series Products of the Schaeffler Group

No. 010



— An Eye on the Entire Energy Chain

A changing environment demands a holistic view of the energy chain as well as innovative mobility concepts. This offers great opportunities for the Schaeffler Group and determines the current development environment.

A focal point of the central R&D activities is wholly integrating the energy chain – from the production of energy from primarily renewable energy sources to the storage of energy and its consumption. In terms of energy production, for example, the wind power sector is developing nearly frictionless bearings, which reduce wear and extend service life. Beyond this, Schaeffler is preparing to enter the field of industrialized fuel cell technology. Existing competencies in technologies such as metalworking, coating, and assembly are being used to develop and produce high-performance metallic bipolar plates – an integral component of fuel cells.

— Solutions for Bicycles and Cargobikes

Increasing urban micromobility was also the goal of the developer FAG Velomatik. The system ensures that the right gear is engaged in every riding situation and improves power articulation through the pedals. In spring 2017, a customer delivered the first prototypes to interested buyers and the trade press. In cooperation with the Nuremberg Institute of Technology, the Schaeffler Group is working on a light electric vehicle (LEV) that will meet the requirements of professional courier express parcel (CEP) service providers. As part of the project “LEV@CEP,” the LEV has been in test production since March 2017. Series production should start in 2020.

— Robust and Future-Oriented Product Development Processes

It is equally important to the Schaeffler Group and its customers to anticipate “green” developments in its technology and product development before the competition in order to more quickly realize marketable innovations. For this purpose, the company has defined a standardized product development process (PDP) for the entire Group. The PDP is a Group business process with the goal of developing new marketable and distributable (series) products. To achieve this goal, the company uses a maturity model structuring the product and production stages through multiple phases and intermediary gateways.

One of the relevant developments that the company is anticipating with its PDP is the tightening of requirements in relation to noise, CO₂ emissions, and safety – both for trucks and passenger vehicles. Among other things, in November 2017, the EU Commission decided on new CO₂ emissions limits. The fleet average for new vehicle emissions must be reduced by 30% by 2030; this is based on the maximum value of 95 g/km to be reached by 2021. At the same time, it can be expected that traffic volumes in metropolitan areas will further increase and that this will require the means of mobility to change.

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NFR Products and Technologies

Schaeffler Group Research and Development No. 011

	2017	2016	Percentage change
Research and development (R&D) expenses (EUR millions)	846	751	12.6
R&D ratio (%)	6.0	5.6	7.1
Internal invention reports (number)	3,292	2,952 ¹⁾	11.5
Patent applications (number)	2,383	2,316	2.9

1) In the course of a post hoc validation, the figure was corrected and thus deviates from the representation in the Sustainability Report 2016.

Digitalization and Industry 4.0

Today, digitalization is one of the technology trends with the strongest growth worldwide. By 2020, experts anticipate that there will be 20 to 30 billion networked devices – from manufacturing sensors to household devices.

9 

As a company that invests heavily in new, data-based technologies, the Schaeffler Group is assuming responsibility through its development of digitalized products for effortlessly and securely handling large volumes of data in the context of highly complex processes. Schaeffler contributes to the expansion of “resilient infrastructure and sustainable industrialization” (SDG 9) with its activities in the areas of digitalization and “Industry 4.0.”

— Digital Agenda

The Schaeffler Group summarized its contribution to the success of Industry 4.0 in its “Digital Agenda.” This consists of the following four points:

- Mechanical and mechatronic products will be provided with sensors, electronics, and actuators (elements that transform electrical signals into mechanical motion).
- Production plants will be networked across the entire value chain in order to digitally represent product life cycles holistically.
- In development work, simulations will use real rather than modeled operating data – this shortens development cycles and increases competitiveness.
- Data will be prepared and made available in ways that are user-friendly and focused on added value for the user.

In order to successfully implement the strategy “Mobility for tomorrow,” the company decided in 2017 to combine its activities and competences in mechatronics and Industry 4.0 into an independent “Industry 4.0” organizational unit in the industrial division. This new organizational unit was established beginning January 1, 2018.

— Smart Solutions: Drive Train 4.0 and Schaeffler Smart EcoSystem

Schaeffler’s thorough and flexible digital infrastructure enables a quick and easy entry into the world of Industry 4.0. Out of what began as the research project Machine Tool 4.0, the company developed, over two years, a comprehensive infrastructure surrounding its rolling bearings – the Schaeffler

2018

**the strategic business area
“Industry 4.0” begins its work.**

Smart EcoSystem. It offers manufacturers and operators of machines and equipment a software and hardware infrastructure that encompasses all stages of digital value creation, from components fitted with sensors to digital services in the cloud. The system’s flexible architecture makes it possible for each customer to chart their own path of digitalization.

— Condition Monitoring and Management During Operation

The starting points for system integration are digital solutions, for example, for monitoring rail vehicles, machines, and their processes. For this purpose, a condition monitoring system analyzes temperature, vibration, speed, and other condition data of components and sends a warning if a critical threshold is breached. The analysis, prognosis, and optimization of the measurement data takes place by means of special algorithms and methods. One application example is the Vario Sense Bearing – a combination of a standard rolling bearing and up to four different sensors in one compact unit. The new system should be available in a first phase for the very common deep groove ball bearing by the beginning of 2018. In order to further expand its mechatronic portfolio, the Schaeffler Group works to establish partnerships with companies in possession of relevant technologies and to carry out acquisitions. An example of this is the 100% acquisition of autinity systems GmbH, a specialist for digital condition monitoring and data collection, which took place in October 2017. With this purchase, Schaeffler accelerated its digital transformation.

Partnerships and Cooperations

Partnerships with science and industry are also important to the Schaeffler Group, since the challenges posed by the Internet of Things can only be met by working together. For this purpose, the company entered into a long-term strategic partnership with the Fraunhofer Society in 2017. The focus of this cooperation is on issues relating to the production and workplace of the future and on emissions-free and intelligent mobility in an urban context. The common goal of the partners is to bring technologies in these areas into practical application even more quickly. This 2017 partnership represents an upgrade and reinforcement of an already existing cooperation with various Fraunhofer Institutes within the Schaeffler Research and Innovation Network.

Moreover, with the start-up campus Factory Berlin, the company concluded a partnership for the construction of an "Innovation Hub." The Factory brings together start-ups, large corporations, and midsize companies; it supports community members in further education and cooperations; and it offers them office and event space. The Innovation Hub in the Factory Berlin is intended to generate an optimal setting

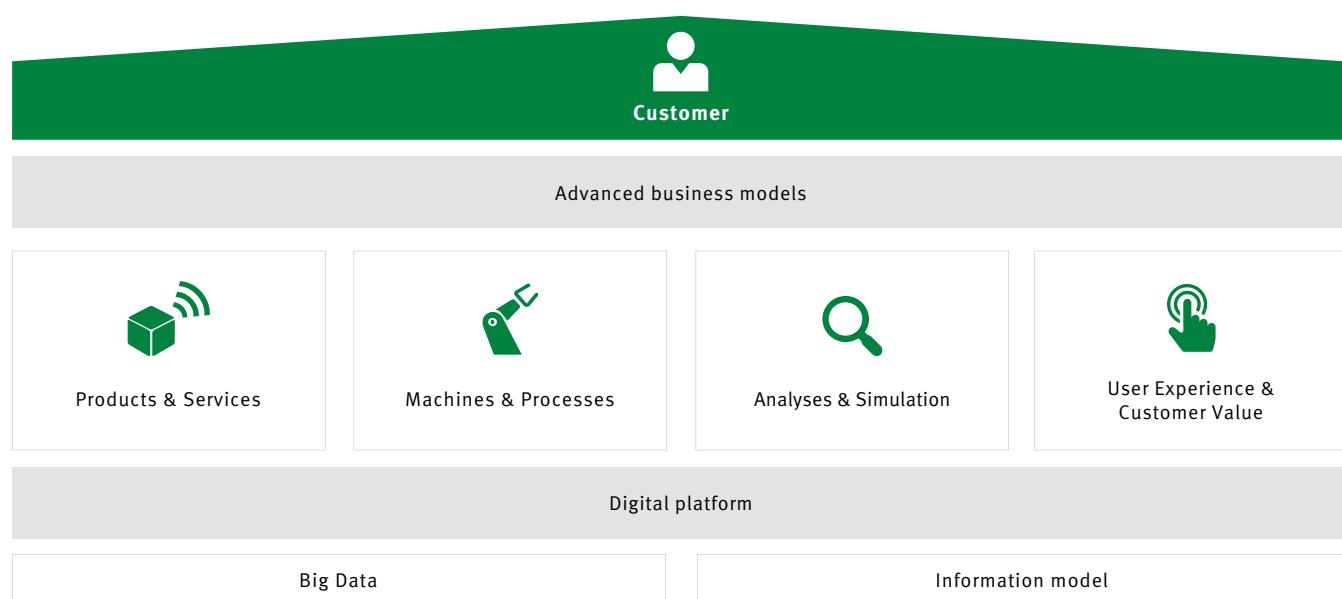
for digitalization and innovation initiatives. The company hopes to achieve more intensive exchange with start-ups and companies working in digitalization. The Focus is on new digital services for customers.

On October 26, 2017, the digital start-up center for Middle Franconia was inaugurated in Nuremberg under the name "ZOLLHOF – Tech Incubator." The goal of the start-up center is to foster economic digitalization. Schaeffler is one of the founding partners of the "ZOLLHOF – Tech Incubator." The partners profit from active and open exchange in various event formats, such as corporate pitches, hackathons, or techspace hackdays. Start-ups get office space, coaching, and access to investors and companies, while Schaeffler is able to make use of competences, facilities, and resources and, moreover, to present itself as an attractive employer. For Schaeffler, this cooperation is a further building block in its worldwide network of innovative external partners.

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Digital Agenda of the Schaeffler Group

No. 012



Customer Relations

Long-term customer relations are a central contributing factor to the success of the Schaeffler Group. That's why, as part of the corporate strategy, one initiative of the "Agenda 4 plus One" is "Customer Excellence."

Schaeffler's aspiration is to continue to be the preferred technology partner for customers. Schaeffler participates in trade fairs, such as the IAA and the Hannover Messe, to understand customers' needs and give them the chance to personally experience system innovations.

— Global Key Account Management

The customer-based Global Key Account Management (GKAM) of the Schaeffler Group works closely with the regional and divisional sales functions of the Automotive OE (Original Equipment), Automotive Aftermarket, and Industrial divisions. It is the task of GKAM to strengthen customer relations worldwide according to uniform principles. For each key customer, the key account team individually brings together the expertise available in the company from industrial and automotive application areas. Company headquarters and regional sales departments, as well as global and local key account managers, work closely together for this. According to the principle "one face to the customer," each major customer has one contact person who takes care of all their matters. In order to harmonize the collection of market data or benchmarks and take advantage of synergy benefits from the divisions involved, all relevant stakeholders of the strategic process, the Executive Board members, and regional directors of the divisions, as well as sector and product line managers, regularly conduct joint "GKAM strategy alignments." The goal of the GKAM is to further intensify a cross-functional understanding of the needs of customer relations, ensure individual support, and fulfill customer demands for mutual benefit.

Key Account Management serves as the point of interaction between key customers and Schaeffler. Through active co-operation and the development of common opportunities for success, long-term success will be guaranteed. By developing a strategy for and together with customers, key accounts are intended to make a fundamental contribution to mutual business growth and success.

In order to deepen customer relations and foster solution-oriented interactions, the Schaeffler Group relies on the most recent "Customer Relationship Management (CRM)" solution. Within the framework of its "Customer Excellence" initiative, Schaeffler has laid the foundation for the introduction of the CRM management tool "Salesforce" across all business areas.

— New Executive Responsibilities: Automotive Aftermarket

As of January 1, 2018, the business division Automotive Aftermarket will be expanded and established as a third stand-alone division. With the introduction of the new division, the Schaeffler Group will organize its business into the three divisions of Automotive OE, Automotive Aftermarket, and Industrial. This step will make it possible to respond to the demands of the various customer segments more individually.

— Surveying Customer Satisfaction

The company verifies the effectiveness of measures to improve customer relations by using different feedback tools. Up to now, these have included the Customer Satisfaction Index (CSI) via telephone and online surveys. In 2017, within the scope of the "Customer Excellence" initiative of the "Agenda 4 plus One," a new approach to the customer satisfaction survey was devised and adopted by the Executive Board of the Schaeffler Group. This new concept includes the compiling of a "net promoter score" (NPS) to measure the probability that a customer would further recommend the Schaeffler Group. The new concept was implemented for the first time in 2018 and will be applied to all divisions and regions of the Schaeffler Group. In order to explore customer satisfaction and the intensity of customer loyalty, the Schaeffler Group tracks which and how many awards for outstanding customer satisfaction and product quality it receives each year from its customers. In the year under review, the Schaeffler Group received 58 awards – eight more than in the previous year. One of these awards was the DMG MORI "Partner Award 2017," which was bestowed upon the company at the world's leading metalworking trade fair, the "EMO 2017." The reason for this award was Schaeffler's strength in innovation as a contribution to increasing efficiency and process optimization.

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NFR Customer Relations

Product Responsibility

One key feature that differentiates the Schaeffler Group from its competitors is its strong commitment to quality. This entails a high level of responsibility for products that are free of errors and safe.

In order to protect customers from substandard products that may threaten safety and to safeguard Schaeffler's value creation, the company pursues comprehensive trademark protection.

Setting Standards

Schaeffler takes great care to ensure that consistently high-quality products are made available to customers. The Schaeffler Group has established the "zero defects principle" at all locations as a measure of product quality. The principle represents an ongoing stabilization of processes and product improvement. The company maintains a comprehensive quality management system to implement its quality policy. The production locations of the Schaeffler Group hold valid certificates based on globally accepted quality standards such as ISO 9001:2015 or IATF 16949. To underscore its high quality standards, the company set group-wide measurable goal to prevent product liability claims that could arise from product safety and product conformity issues, and to further reduce the number of complaint claims in comparison with the previous year. Both goals were achieved in 2017.

Dialog to Assure Quality and Product Safety

With the initiative "Fit for Quality" (FfQ), the Schaeffler Group gives its employees systematic guidance in implementing its commitment to quality. The FfQ Zero Defect Days play a key role in this effort. These event days took place for the second time in the business year 2017. From across the company, 125 projects took part in the initiative. Participating departments and functions prepared numerous workshops with a practical orientation. The Aerospace division, for example, examined the engagement with "flying parts." The FfQ approach has been effective: Within four years, complaints about quality in the Industrial division and the area of Bearing and Components Technologies decreased by 59%.

Moreover, a Quality Forward Planning (QFP) day was held in November 2017 in the Herzogenaurach headquarters. Here, 280 experts and managers from the company learned about the Schaeffler initiative "Quality for tomorrow" and discussed important quality issues of the future.

0

product liability cases in connection with product safety and product conformity in 2017.

The company further supports its employees in improving the safety of products with structured blended learning sessions. Since 2016, more than 1,500 employees have participated in such a session. In addition, the company again supported and organized industry-specific product safety days in 2017 to enable dialog with customers and other stakeholders about safety issues.

Quality must also be protected from external threats. Trade with counterfeited products, for example, not only harms the manufacturer – using these products can also cause material damage to vehicles and industrial equipment or personal injuries. According to a study published by the ICC (International Chamber of Commerce), the annual economic and social costs resulting from this amount to USD 1.7 billion worldwide.

In order to fight product piracy, the Schaeffler Group has expanded legal prosecution and introduced preventative measures. Counterfeits are systematically removed from the market, authorized retailers receive reinforcement, and customers are supported in purchasing original parts from safe sources. For this purpose, a modular system with measures to protect Schaeffler brands was developed. It ranges from counterfeit-proof labels to information on how to find authorized sales partners to a reporting system. An "Origin Check App" developed by Schaeffler also helps end customers, dealers, and agencies to quickly and simply check INA and FAG products and, if suspicion arises, begin a process of clarification.

Integrated Management Systems: Rooted in Responsibility

In November 2016, the international community of nations at the UN Conference on Climate Change in Marrakesh ratified the target to reduce global warming to less than two degrees Celsius compared with the level before industrialization began. Germany has also set ambitious goals for itself in climate protection.

12 **13**

The Climate Action Plan 2050, adopted at the end of 2016, has the goal of achieving greenhouse-gas neutrality in Germany to a great extent by 2050. The industrial sector should see a reduction of 49 to 51% by 2030. Energy efficiency measures, such as the utilization of existing heat loss, should have potential here. National and international developments, legislation, and frameworks are of great importance for the future-oriented environmental and energy management of the Schaeffler Group. Accordingly, Schaeffler has set for itself the climate protection goal of saving 360,000 tons of CO₂, compared to the base year 2015, by 2025.

The Schaeffler Group operates 75 production plants worldwide at 71 locations. The calculation is based on certification in accordance with ISO 14001, ISO 50001, and OHSAS 18001 and entry in the EMAS site registry. Its production facilities consume energy and resources and thus have a global impact on the environment and climate change. The company bears a responsibility to reduce this impact. Thus, making its processes and products more energy and material-efficient, reducing emissions and waste, and prudently using water are all important topics for the Schaeffler Group.

In order to continuously improve the environmental performance of the company, relevant environmental and energy issues are taken fully into account in the design of production processes. To manage these processes, the Schaeffler Group maintains an EnEHS management system (Energy, Environment, Health, and Safety) that applies worldwide. The management system complies with the standards ISO 50001 regarding energy, ISO 14001 regarding environmental protection, OHSAS 18001 regarding occupational health and safety, and with EMAS (Eco-Management and Audit Scheme). The locations compile their local environmental and energy data within the scope of the management system. Key performance indicators (KPIs) are used to optimize the planning, evaluation, and management of environmental measures. The Schaeffler Group handles its environmental and energy issues worldwide in a matrix organization structure. Local environmental protection and energy representatives, regional coordinators, and experts from the strategic departments work closely together in a network.

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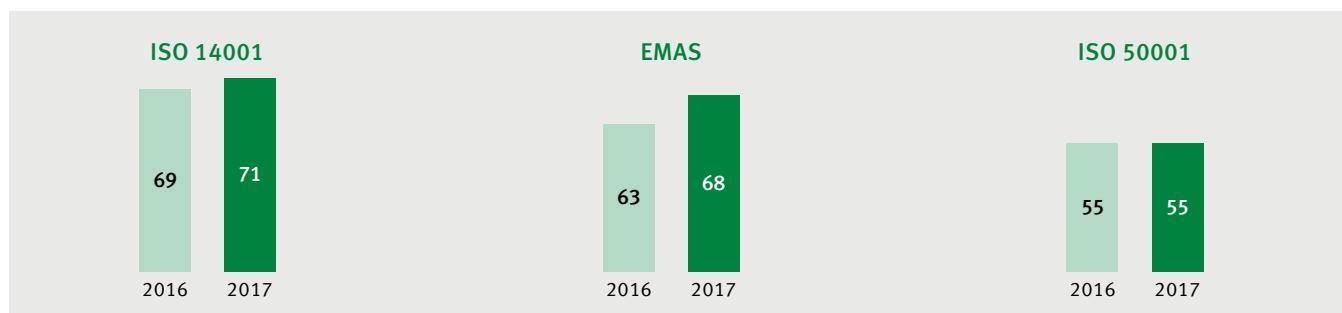
UNGC 7

NFR Environmental Management, Energy and Emissions, Material and Resource Management

Schaeffler Group Worldwide Environmental and Energy Certifications

No. 013

Number of production sites



Commitment to Climate Protection

Since the Paris climate summit in 2015 adopted the two-degree target, the subsequent climate conferences in 2016 in Marrakesh and in 2017 in Bonn have worked on creating the conditions for its implementation. In Bonn, particular notice was paid to the contribution that nonstate actors need to make to achieve this goal. The final document of the Hamburg G20 Summit even explicitly called for companies, in addition to other groups, to support the implementation of the Paris agreement.



It is clear that companies will be increasingly obligated to act in dealing with the energy efficiency of their business activities. The aforementioned measures outline Schaeffler's engagement in "fighting climate change and its effects" (SDG 13). Commitment to the fight against climate change is one of the focal topics of Schaeffler's Sustainability Strategy "Responsibility for tomorrow." The goal formulated in the strategy of introducing and successively implementing climate neutrality at its production sites confirms the Schaeffler Group's commitment to making its contribution to fulfilling the SDGs.

— Consistent Energy Management

With its energy policy, the Schaeffler Group is not only targeting the optimization of energy costs, but also ensuring a secure supply and increasing energy efficiency. Therefore, starting in 2013, the company began gradually implementing an energy management system according to ISO 50001 as

part of its EnEHS management system. In 2017, an energy management system according to ISO 50001 was introduced at four locations.

It is the task of energy management to continuously evaluate and improve the company's processes with regard to energy requirements. In order to collect the required data around the world, the Schaeffler Group operates a standardized energy data management system (EDMS). The system is used to monitor consumption data, detect potential areas of savings, and assess measures that have been implemented to ensure they are effective. The execution of the corresponding management systems and measures is reviewed at the sites on a regular basis within the scope of internal EnEHS audits by experienced EnEHS specialists and Schaeffler auditors. Furthermore, at least once a year, "management reviews" are carried out as a type of control function in which necessary actions are discussed and agreed on at Group and site level. The respective En and EHS coordinators, plant manager,

Schaeffler Group Energy Consumption and Emissions

No. 014

	2017	2016	Percentage change
Total energy consumption (GWh) ¹⁾	3,263	3,119 ²⁾	4.6
Intensity of energy consumption (GWh per EUR 1 m added value) ³⁾	0.51	0.51	0.0
Total greenhouse gas emissions (t CO ₂) ⁴⁾	1,419,042	1,364,251	4.0
Direct greenhouse gas emissions, Scope 1 (t CO ₂)	171,543	158,870 ²⁾	8.0
Indirect greenhouse gas emissions, Scope 2 (t CO ₂)	1,247,498	1,205,381 ²⁾	3.5
Intensity of emission of greenhouse gases (t per EUR 1 m added value)	311	309 ²⁾	0.6

1) Energy sources include electricity, natural gas, district heating, propane, and fuel oil. Conversion factor for the calorific value of heating oil: 10 kWh per liter.

2) In the course of a post hoc validation, the figure was corrected and thus deviates from the representation in the Sustainability Report 2016.

3) In terms of energy intensity, only electrical power consumption is taken into account.

4) The emission factors of the German Association of the Automotive Industry (VDA) from 2017 are used to ascertain emissions.

and site management of each site take part in the reviews. At the Group level, the coordination takes place between the Competence Center EHS unit, Energy, and the Executive Board of Schaeffler AG.

Within the framework of the energy management system, plant objectives are defined at corporate level and considered the minimum to be achieved. In addition, the plants can set their own plant-specific objectives. The group-wide goal is to increase energy efficiency by 40%, compared to 2011, by the year 2020. The company's environmental management has also set the goal of attaining climate-neutral production at one site per region.

— Use of Production-Related Efficiency Technologies

The Schaeffler Group uses a wide spectrum of efficiency technologies. It ranges from energy-saving LED lights to modern cogeneration plants that combine power, heating, and cooling, to efficient absorption chillers to buffer storage for heat or cold that is produced.

In 2016, the company set the goal of realizing climate-neutral production at one production site per region. These locations will be determined in early 2018 in the context of a conference at which around 300 experts from the areas of Energy, EHS, and Maintenance from all regions will participate. These kinds of comprehensive conferences take place every three to five years. In addition, regional conferences are held at more frequent intervals. The purpose of these conferences is a standardized organization of Schaeffler's environmental and energy management.

At the production site Berndorf-St. Veit, the Schaeffler Group is trying out Industry 4.0 technology in its own production processes in order to test its potential for more energy efficient production. In the context of the pilot project "Holistic Energy Management," Schaeffler plans to measure the energy and volume flows within the sites with the help of sensor data and to optimize the flows using the company's new digital platform. In 2017, the project transitioned from the conception to the implementation phase. Currently, the technical concepts are being implemented in the factory and data flows and function building blocks are being integrated into the digital platform. The pilot project also includes a condition monitoring system to monitor the condition of the equipment while it is operating. This is a solution that allows the Schaeffler Group to also offer its industry customers preventative maintenance.

360,000

t CO₂ reduction by 2025
(base year 2015).

— Employee Participation

A positive energy and CO₂ balance depends on the personal engagement of employees, who are in turn regularly made more aware of the issue by their respective energy representatives. Machine stickers and signs about saving energy remind employees of concrete opportunities for conservation at the workplace. And in locations where it makes sense, production facilities will be given an "ECO Mode." This allows machine operators to put their production equipment into an energy-saving mode with the press of a button and thus save 5 to 30% of their energy in rest mode.

The platform "ideenreich" encourages employees to point out opportunities for energy efficiency in their own area of work. With the additional qualification as an Energy Scout, offered Germany-wide, the company is also introducing its apprentices – as the skilled workers of tomorrow – to the issue of energy efficiency. The Schaeffler Group's production sites also include their employees in their energy efficiency programs through regular workshops.

At the Schweinfurt site, the company's second energy day took place in 2017. At an energy trade fair, employees were able to learn about diverse energy topics from the areas of construction, climate technology, and electrical engineering. In a moderated "Speakers' Corner," brief speeches were offered and electric vehicles and E-bikes were available to try out from an E-Mobility Station in front of the building. Employees could win one of these electric bicycles, as well as other prizes, in a raffle.

In Herzogenaurach, apprentices at the site built an "electricity stand" in 2017 with expert support. It has since allowed their younger colleagues, as well as the company's future Energy Scouts, to learn a great deal about energy efficiency through simple experiments. In the future, the intention is to provide other production sites with a similar electricity stand.

Environmental Management

Systematic environmental protection is advantageous for the Schaeffler Group. Standards associated with environmental management make it easier for the company to manage a series of important processes, to fulfill stakeholder demands, and to document how it is meeting its responsibility.

12 ∞

With ideas like the “Factory for Tomorrow” and the continual expansion of its environmental management systems, the Schaeffler Group contributes directly to implementing “sustainable forms of consumption and production” (SDG 12).

When it comes to operational environmental management, the company is a worldwide leader. All the production sites of the Schaeffler Group work with environmental management systems that conform with EMAS and ISO 14001. The Schaeffler Group continuously develops these further and applies first and foremost the exacting European EMAS standard. The core element of both environmental management systems is an improvement cycle with which the continuous development of the environmental performance at the sites is ensured.

Introducing EMAS Worldwide

Since December 31, 2017, 68 Schaeffler Group locations worldwide have been included in the EMAS site registry of the European Union, five more than in the previous year. Furthermore, 69 sites of the Schaeffler Group are ISO 14001 certified.

Among other things, quantitative goals for the areas of waste, operating materials, soil and water protection, and resource

96.9%

recycling rate in
Germany.¹⁾

1) Recycling and recovery/total waste volume,
without metals and scrap.

conservation were specified to be achieved by 2020. Targets related to resources, for instance, include “wastewater-free operation” or “endless oil,” a method that eliminates the need to replace oil used in production. By increasing recycling rates, the intention is to make a “waste-free factory” possible. The key indicators section of the environmental declarations produced by the production locations report on progress toward agreed targets on an annual basis.

In Germany, 315,245 tons of waste were produced and properly disposed of or recycled, which amounts to an increase of about 1% compared to the previous year. For Germany, the recycling rate was 96.9%. In the medium term, each region’s objective is have one site with a “zero waste factory,” i.e., with a recycling rate of 100%.

Waste Generation and Water Consumption Compared Year Over Year

No. 015

	2017	2016	Percentage change
Waste generation, Germany (t)	315,245	313,259 ²⁾	0.6
Recycling rate, Germany (%) ¹⁾	96.9	96.3 ²⁾	0.6
Water consumption, total (m ³) ³⁾	5,296,528	5,018,560 ²⁾	5.5

1) Recycling and recovery/total waste volume, without metals and scrap.

2) In the course of a post hoc validation, the figure was corrected and thus deviates from the representation in the Sustainability Report 2016.

3) Water consumption includes city water and company water.

The Schaeffler Group is currently in the process of putting appropriate measures in place to achieve this goal, such as the introduction of a global waste catalog by the end of 2018.

An overarching goal of the Schaeffler Group is the consistent reduction of water consumption at all locations worldwide compared to the previous year. By 2020, group-wide water consumption per euro of added value is to be reduced by 20% compared to the base year 2016. In 2017, total water consumption of 1,160 m³ per EUR 1 million of added value was reached – an increase of 2.1% compared to 2016. The annual reduction target was therefore slightly missed.

Environmental data for the individual locations are reviewed by internal and external auditors. Audits are completed on-site for this purpose, along with random reviews based on consumption calculations, delivery slips, or other evidence.

— Environmental Management is an Integral Part of Factory Design

In 2017, in the Chinese city Xiangtan, the Schaeffler Group began constructing a new kind of factory planned according to innovative principles of design and function. It is slated for completion in 2019. For this project, the company developed a new, holistic concept, the “Factory for Tomorrow.” In order to meet future demands that cannot yet be clearly seen, the developers placed a premium in their planning on flexibility. This should allow all direct and indirect areas of production to be designed so that they continue fulfilling their own approach to operational excellence into the future. The concept “Factory for Tomorrow” illustrates solutions such as constructing factories with a modular design or optimizing the factory life cycle.

Environmental criteria also generally play an important part in the design of production sites for the Schaeffler Group. In planning new plants with a high need for water, for example, the developers generally anticipate the construction of reprocessing facilities. Existing plants are being upgraded in accordance with technical and economic assessments. For example, electroplating is one area of production that uses a lot of water. The solution here is to clean the rinsing water with ion exchangers and return it to the operating process.

-20%

targeted reduction of water consumption by 2020.¹⁾

1) Parameter: m³/EUR added value.

— Resource Efficiency: Circular Economy and New Materials

To avoid waste and conserve resources, the company will continue to rely on the principle of the circular economy of metals. This “closed loop recycling” serves the purpose of reducing the production of raw material resources that are becoming increasingly scarce worldwide. A process to completely recycle carbides was developed by partners of the Schaeffler Group in which metallic waste products can be separated into their physical elements. The advantage is that the material can be used afterward while maintaining the same high level of quality.

In addition, the service life of components could be significantly increased by reducing friction and wear. Bearings optimized in this way carry the Schaeffler “X-Life” seal of quality. Another way the company seeks to increase the operating life of its bearings is by using new kinds of materials.

Antifriction bearings in railway technology or industry are exposed to high loads. To prevent them from wearing out prematurely, their tracks must be very hard, wear resistant, and stable. At the same time, they must be able to tolerate well and, if necessary, smooth out deformations caused by hard foreign particles. The Schaeffler Group brings both of these things together with carbonitriding, a special heat treatment of the bearing steel Mancrodur. The result: Under normal lubrication conditions, the service life was increased by 240%. In laboratory conditions, up to a sixfold increase in service life was shown.

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NFR Environmental Management, Material and Resource Management

Logistics

Not only the Schaeffler Group's manufacturing but also its traffic in freight transport and the commuting and business trips of its employees produce emissions and appreciable environmental impacts. To reduce these impacts, the Schaeffler Group is continuously improving the efficiency of its transportation network and focusing more and more on electric vehicles for employee mobility.

13 

By combining supply and traffic flows, developing new, more efficient logistics concepts, and instituting sustainable employee mobility, the Schaeffler Group contributes directly and actively to "fighting climate change and its effects" (SDG 13).

— Consolidation, Bundling, and Automatization

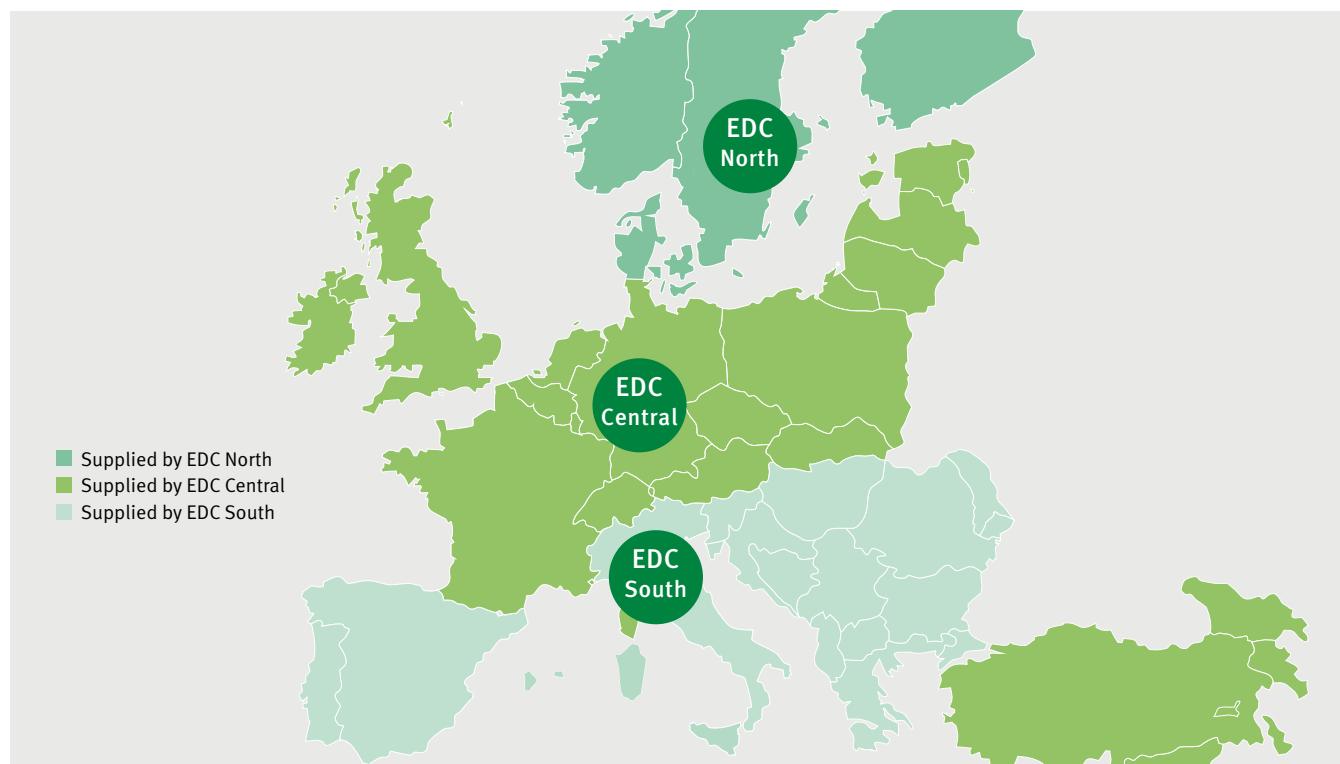
The Logistics division is responsible for the structure, operation, and continuous improvement of the entire logistics chain of the Schaeffler Group. The logistics functions Corporate and Regional Logistics are responsible for

managing some 210 storage locations with over 375,000 m² of storage space and for moving approximately 300,000 tons of cargo between the key destinations. About 67% of the logistics activities were concentrated in the Europe region in 2017. Some 17%, 10%, and 6% of all logistics activities related to the Americas, Greater China, and Asia/Pacific regions, respectively.

An integral part of the strategic orientation of logistics at the Schaeffler Group is, within the framework of the "European Distribution Center (EDC)" project, to consolidate the warehouse functions in just a few large distribution centers and

Efficient Transport Network: Project "European Distribution Center (EDC)"

No. 016



consequently improve the utilization of transport routes through freight bundling, optimized route planning, and return-trip dispatching. The general aim is to use the most cost-effective route while also taking into account transport alternatives with low CO₂ emissions, such as maritime shipping instead of air freight.

The company continually assesses the utilization of its individual routes for possibilities of optimization. Thus, for example, in 2017, the transport trips from Caldas, Portugal, to Schweinfurt and Herzogenaurach, Germany were rearranged, and the annual transport requirements along this route were reduced by almost 50% as a result. The company also plans to introduce an innovative “transport management system” (TMS) throughout the Group starting in 2018. It bundles transport trips within a global supply network, directs them smoothly and securely to the stakeholders involved, and then settles the accounts automatically.

Following the strategy “Mobility for tomorrow,” Schaeffler is actively participating as part of an interregional project in the “One Belt, One Road” initiative of the Chinese government. In the process, Schaeffler is presenting solutions for urban and interurban mobility, for energy chains, and for environmentally-friendly drives along the new Silk Road between Asia and Europe, too. In addition to strengthened political dialog and cultural exchange, central components of what is currently the world’s largest infrastructure project include closer trade relations between Asia and Europe and the expansion of railway connections, harbors, roads, electricity networks, industrial parks, and logistics installations.

The Schaeffler Group is working on establishing a process for reliably recording its greenhouse gas emissions (Scope 3 emissions), including those from logistics activities. The initial results are expected to be available in 2018. In the future, the CO₂ emissions caused during the course of business travel and on approach routes are to be recorded, and corresponding measures for their reduction or compensation are to be explored.

Employee Mobility Electrified

To complement its freight transports, the Schaeffler Group is also pursuing a mobility strategy for an environmentally friendly fleet with the goal of further lowering the CO₂ emissions caused by the travel of its employees. Special conditions for the use of hybrid and electric vehicles will also be offered in the process of renewing its company car guidelines. That’s why the company car guideline for plug-in hybrid vehicles in Germany was implemented as early as 2016. In 2017, this was followed by the company car guideline for electric vehicles and the introduction of a CO₂ emissions-oriented bonus/penalty system. Electrified vehicles are also available as company cars in other Schaeffler regions, for example, in the Americas and Greater China regions.

Moreover, the charging infrastructure for electric and hybrid vehicles at Schaeffler sites is being expanded worldwide. By the end of 2017, charging infrastructure was available at 19 sites worldwide, including twelve in Germany. By 2020, it will be possible to provide such vehicles with electricity at all German production sites.

 Further information on the topic of logistics at Schaeffler can be found in the consolidated separate nonfinancial report:
www.schaeffler.com/sustainability/nfr2017

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NFR Logistics

Charging Infrastructure at Schaeffler Sites Worldwide

No. 017

	Germany	EMEA	Americas	Greater China	Asia/Pacific	Total 2017	Total 2016	Percentage change
Sites	11	6	2	1	0	20	5	300.0
Charging stations, alternating current	40	6	8	10	0	64	14	357.1
Charging stations, direct current	6	0	0	1	0	7	1	600.0
Charging stations, e-bikes	34	0	0	0	0	34	10	240.0

Diversity

Schaeffler Group employees contribute significantly to the company's sustainable development. Their individual strengths and skills are fundamental for securing the competitiveness of the company in relevant markets.

5 ♂

The Schaeffler Group considers it vitally important to be an attractive employer. For this reason, the company pursues various strategies and measures to increase its attractiveness as an employer and increase the satisfaction and motivation of its more than 90,000 employees worldwide. The aim of human resources work is to identify and support qualified employees and to bolster their long-term commitment to the company. Strategic HR planning is therefore oriented at an early stage toward new requirements and skills.

At the same time, as a globally active family and technology company, Schaeffler meets the social demands it faces through its international engagement in local initiatives and programs. The Schaeffler Group understands its social responsibility as an opportunity and a duty to play a part in shaping its social surroundings and furthering intercultural dialog.

The Schaeffler Group's internationally oriented business relationships make employee diversity a key factor in recognizing and meeting the expectations of culturally diverse markets. The Schaeffler Group signed the "Charta der Vielfalt" (diversity charter) back in 2008, committing the Company to actively support diversity and equal opportunity independent of an employee's ethnic origin, gender, age, sexual orientation, disability status, or religion. In order to gradually anchor the topic in the company, the Company approved a diversity concept in the business year 2017 that will be implemented over the next few years. This will also help the Schaeffler Group contribute to fulfilling SDG 5, "Gender Equality."

— Diversity as a Factor in Competitiveness

For the Schaeffler Group, diversity means recognizing, appreciating, and including different points of view, experiences, and expert competencies across all hierarchy levels and business units. New ideas and their associated long-lasting success happen only when all employees can freely develop their talents. Important fields of action in the diversity concept are demography, supporting women, internationality, and people with disabilities. During this reporting year, for example, a reverse mentoring program was started in the field of demography to foster the exchange of experience

~90,000

employees work
at Schaeffler.

between younger and older employees. In the context of the field of internationality, an intercultural network was founded. This network aims to link up employees globally by using the opportunities for interaction and cooperation offered by Schaeffler CONNECT, the company's social intranet. Principles of diversity and equal opportunity are integrated into the Schaeffler Group's Code of Conduct.

For the Schaeffler Group, diversity and business success are closely related, since heterogeneous teams are especially successful in their work. A high level of diversity can also increase the innovative power of the company and thus make a fundamental contribution to its business success.

— Utilizing Women's Strengths

The Executive Board has set a goal of increasing the proportion of women at Schaeffler AG to 5% in the highest level of management and 12% at the second highest level by June 30, 2017. Schaeffler AG is legally obligated by Section 76 Paragraph 4 of the German Companies Act (*Aktiengesetz* or *AktG*) to set a target for the proportion of women. Within Schaeffler AG, the 2017 goal of 5% at the highest level of management was achieved. At the second highest level of management, the target proportion of 12% was not achieved. Schaeffler continues to take structural and communicative measures to continually achieve this target. For 2022, a new target proportion was defined – 8% for the highest management level and 12% for the second highest level. This corresponds to an increase of one in the total number of women at the highest level, and of seven at the second highest level, compared to total numbers on June 30, 2017.

— Actively Living Integration

The Schaeffler Group is engaged in supporting the inclusion and integration of diverse groups of people. The Schaeffler Group's workforce comes from 110 different countries. Both intercultural exchange and specialist knowledge transfer between Schaeffler's multinational sites are fostered by expats. Expats are highly qualified experts who are assigned for a limited period of time to foreign branch offices. In 2017, the Schaeffler Group dispatched a total of 369 expats.

In Germany, there is a legal obligation for a company to employ a proportion of people with disabilities of at least 5%. With a proportion of 5.5%, Schaeffler exceeds this quota by 0.5%. In 2017, the Schaeffler site in Homburg was recognized with an inclusion prize given by the Saarland state government for the social commitment demonstrated by its employees. This inclusion prize is given to companies that make outstanding efforts to support the inclusion and participation of people with disabilities.

Successful vocational training is an element of successful social integration. Since 2016, a training program pilot project for refugees has been started at multiple training sites in Germany. So far, 30 young people have completed three-month internships at Schaeffler. In 2017, ten of them began working as trainees to become machine and plant operators, industrial electricians, cutting machine operators, or industrial managers.

In order to get girls and young women excited about starting technical careers and make them aware of Schaeffler as an employer early on, the Schaeffler Group is even engaged in schools through targeted projects in STEM subjects (science, technology, engineering, and mathematics). In 2017, for example, Schaeffler again worked with the University of

12.4%

**proportion of women
in management.¹⁾**

1) Management is defined as employees in a supervisory function.

Applied Sciences Würzburg-Schweinfurt to put on around 40 workshops for girls in the 8th to 12th grades. The Schaeffler Group opens its doors in Austria and Hungary each year on Girls' Day, offering young women interested in technology a glimpse into the everyday reality of the workplace and professions they might one day choose to pursue.

 Brief report on the topic of diversity on page 18.

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Schaeffler Group Diversity-Related Structural Data¹⁾

No. 018

	2017	2016	Percentage change
Average age (years)	39.7	39.8	-0.3
Average tenure at the company (years)	11.0	11.2	-1.8
Employee turnover rate (%) ²⁾	3.9	3.6	8.3
Proportion of women in the company workforce (%)	21.7	21.4	1.4
Proportion of women in management (%) ³⁾	12.4	11.8	5.1

1) Unless otherwise indicated, the employee figures refer to the reporting date of December 31 of the respective year.

2) Pertains to employee-initiated turnover.

3) Management is defined as employees in a supervisory function.

Employee Advancement and Development

The Schaeffler Group's employees are one of the most important pillars of its success. Schaeffler considers it a central task of human resources work to foster employees' technical expertise, their skills, their engagement, and their passion for innovation.

4 

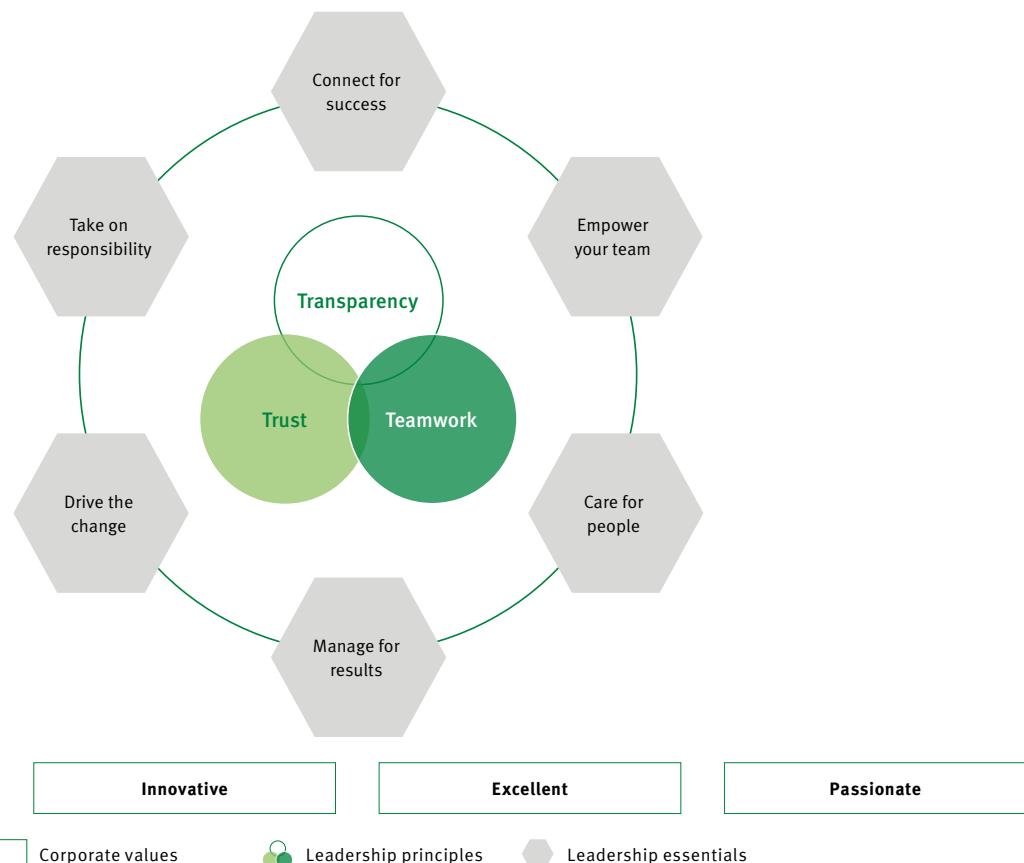
The goal of the company's human resources work is to identify the best employees, support them, and be an attractive employer that will retain them long term in order to ensure the competitiveness of the company. Through its diverse activities in the areas of training and education, the Schaeffler Group also contributes to making "education for all" (SDG 4) possible.

— Leadership and Corporate Values

The initiative "Leadership and Corporate Values" within the framework of "Agenda 4 plus One" is concerned with implementing a globally valid management model based on company values. The company values sustainable, innovative, excellent, and passionate form the foundation for this new management model and its framework for guiding conduct. Defining clear and globally valid management principles

Leadership Essentials

No. 019



and guidelines supports the implementation of the strategy “Mobility for tomorrow” and orients Schaeffler’s management style to meet modern challenges – for example, digitalization or Industry 4.0. In the 2017 reporting year, the initiative “Leadership and Corporate Values” began with an intensive analysis phase in which more than 400 employees worldwide were surveyed. This analysis was centered on questions about how management is run in the company and which demands will be placed on Schaeffler’s management in the future. At the beginning of October 2017, this was the basis for the approval of six management guidelines, each with five anchors for conduct. Today, these management guidelines form the globally used structure. Together with the company’s four values and its management principles of transparency, teamwork, and trust, they create a common understanding in the company. The company values describe the identity of the Schaeffler Group and provide a point of orientation for all employees. Together with the management guidelines, the management principles demonstrate the demands that management faces and support managers in deciding how to lead their employees.

— Fostering Personal and Technical Expertise

The company finds the right employees, among other ways, through its many university programs. These employees are individually supported by offering them attractive incentives such as training and qualification measures, to give one example. The HR development measures of the Schaeffler Group are generally based on the 70:20:10 learning model: 70% on-the-job experience, 20% exchange with others, and 10% on-site and off-site training. In line with a forward-looking management of young talents, employees with potential are identified and key positions are secured at an early stage. This is done within the framework of a globally uniform and compulsory talent management process, which includes an annual performance appraisal between managers and employees, among other things.

The objective is to provide clear feedback on performance and to identify qualification requirements for present and future tasks, also in terms of potential development measures for the employee. The special software developed in-house for this and the accompanying processes have been successfully rolled out in the majority of countries. Some 86% of the global target group are now covered. Starting in 2018, work will begin on an even more effective and efficient process and IT system within the framework of the “Global Talent Management 2.0” project, which will significantly increase usage benefits for all stakeholders – employees, managers, and Schaeffler as a company. For hourly-wage employees, the need for advanced training is determined through task-oriented qualification matrices.

6

management principles shape the structure of personnel management at Schaeffler.

Something newly conceived in the 2017 reporting year was the training series “In the Lead@Europe,” which provides uniform management training in every country in the Europe region. The management guidelines defined in the context of the initiative “Leadership & Corporate Values” form the basis for the content of this training, which communicates them through modern and interactive learning methods. In order to support managers with a high potential, Schaeffler has three new regional development programs. In the Asia/Pacific region, the Accelerators Program (ACE) and the Management Talent Program (MTP) were implemented. The Leadership Operations Program for potential candidates in the area of operations was originally available only in Germany but has since been rolled out in the Europe region.

— Youth Development

In order to meet changing demands in training and education, the Schaeffler Group created the project “Apprenticeship for the Future” as part of the initiative “Qualification for Tomorrow.” This program includes an interdisciplinary qualification, media reorientation, and adaptation of the demands for choosing applications and for systems for assessing and developing personnel, as well as an expansion of interdisciplinary training contents that cross vocational fields. In addition to the training programs in Germany, 29 additional training sites from other countries are now involved in this project.

The Schaeffler Group uses training fairs and career information days at its sites to inform young people about various careers and training opportunities. At the end of the business year 2017, more than 3,185 apprentices worldwide (correspondingly 3.5% of the workforce) were employed at the Schaeffler Group in apprenticeships (previous year: 2,982 or 3.4% of the workforce). The number of apprentices thus increased by 6.8% in comparison to the previous year. Future employees are trained in a total of 20 industrial-technical or commercial vocational qualified jobs at Schaeffler Group sites. In addition to technical qualification and specific Schaeffler know-how, the company especially values methodological, social, and personal skills. One aim of this training is to convey to young employees how to think and act independently, together with creativity and an awareness of responsibility.

Dual studies also play an important role in finding young employees. Here, the Schaeffler Group offers various educational possibilities, for example, a dual program in cooperation with dual institutions of higher education or a “Two in One” program with technical universities in Germany. In the business year 2017, a total of 173 dual university students and 163 “Two in One” students were pursuing a bachelor’s degree. For postgraduate study, the company also offers a master’s degree program that currently has 22 students.

Beyond this, the Schaeffler Group offers special trainee programs in which extraordinarily talented and engaged university graduates have the opportunity to gain an intensive overview of the company and its function areas in the space of 12 to 24 months. Accompanying qualifications that also support personal development give the trainees optimal preparation for positions of responsibility within the Schaeffler Group. In Germany, for example, 49 young employees had participated in this training program by December 31, 2017 (previous year: 40). Similar programs are being carried out in other countries, for example, in the United States.

This German model of dual education is also catching on in other countries, such as China, Mexico, or countries in Eastern Europe. Overall, at 55 sites in 15 countries, the Schaeffler Group is training nearly 3,200 young people, including 1,400 apprentices and dual students in Germany.

6.8%

**more apprentices in comparison
to the previous year.**

New Work

Globalization and digitalization are making new demands on both economic and work processes. The Schaeffler Group’s “New Work” concept plans for new forms of work that foster interaction through an interdisciplinary knowledge exchange among employees in order to support innovation processes. Open office workspaces and modular room concepts – such as multifunctional rooms, think tanks, or “gravity points” that allow employees to have conversations in a relaxed atmosphere – raise the employees’ potential for creativity and motivation. This flexible work environment increases the satisfaction of Schaeffler’s employees and its attractiveness as an employer. The Schaeffler Group has initiated four pilot projects at its sites in Erlangen, Schweinfurt, and Nuremberg. A global “New Work” strategy for the Schaeffler Group is being developed in close cooperation with the Executive Board.

Schaeffler Group Training Data¹⁾

No. 020

	2017	2016	Percentage change
Occupations with an apprentice program (number)	20	20	0.0
Apprentices (number) ²⁾	3,185	2,982	6.8
Trainees (number)	49	40	22.5
Degree programs, undergraduate (number)	14	14	0.0
Students (number)	173	165	4.8
“Two in One” students (number)	163	178	-8.4
Master’s degree students (number)	22	31	-29.0

1) Unless otherwise indicated, the employee figures refer to the reporting date of December 31 of the respective year.

2) Figure regarding the number of employees employed as apprentices in 2016 (2,966) refers to the reporting date of November 30, 2016 and was corrected to 2,982 apprentices for the reporting date of December 31, 2016.

— Idea Management

The Schaeffler Group's employees are instrumental in driving its business success. Through their creativity and innovative ideas, employees actively take part in company affairs and assume responsibility for identifying the potential to optimize processes and products. In 2017, the employees of the Schaeffler Group submitted a total of 33,988 ideas through idea management software, leading to savings in the amount of around EUR 20.8 million. The Group actively employs this system at 45 sites in 13 countries and is continually expanding it to include additional sites. Idea management is an important management tool that supports the managers in achieving goals, and it also contributes to sustainable corporate development.

— Work-Life Balance

These days, work-life balance is integral to being an attractive employer. Younger generations in particular expect their employer to have more flexible work models and provide other offerings to secure work-life balance. The Schaeffler Group is meeting these expectations with employee- and family-friendly solutions, since satisfied and motivated employees are the foundation for successful corporate development.

The personnel strategy thus takes into consideration various working hour models, such as part-time, partial retirement, opposite shifts for spouses who both work in production, and mobile work site opportunities. Worldwide, 3.7% of the employees work part-time, and in Germany, it is as much as 6.5%. In terms of the partial retirement plan in Germany, Schaeffler has a proportion of 4.6% in units covered by a collective agreement. In addition, two models for working at home are available across Germany: the short-term, "sporadic home office" (used by 8.4% of the workforce in Germany) and the long-term, "regular home office" (used by 0.6% of the workforce in Germany). This makes it possible work from home for up to 40% of monthly working hours, as long as a suitable working space is available and the employee's duties can be organized appropriately. The adoption of this agreement in additional countries is currently being examined locally.

As an international family company, the Schaeffler Group places a high value on family-friendly personnel policies, something that is firmly anchored in the Code of Conduct. Day care spaces for children of employees were created at multiple sites in Germany. There are also parent-child offices at the locations in Steinhagen and Herzogenaurach. Additionally, the company offers special family programs, such as the

33,988

ideas submitted via idea management software.

financially supported project "Summer Kids," which arranges child-friendly vacation care under qualified supervision with diverse opportunities to play, do arts and crafts, and take excursions.

— Payment and Pensions

As part of the HR strategy, attractive programs for pay and benefits represent a fundamental building block for employee satisfaction. Moreover, fair, transparent, and performance-oriented pay as well as adequate retirement options are essential characteristics of an attractive employer.

Schaeffler's employees also have high expectations for competitive compensation and adequate retirement options. For this reason, Schaeffler has set the goal of introducing a Schaeffler Job Grading System that is uniform worldwide. This Job Grading System increases transparency and forms the basis for further essential HR topics. It makes it possible, for example, to effectively further develop and globally coordinate career paths and successor management.

The HR policy principles of the Schaeffler Group expect that employees will be paid in line with market conditions. In so doing, compensation is oriented individually according to an employee's tasks, success, experience, and performance. Pay also includes bonuses for success or performance. In addition to cash payments, employees of the Schaeffler Group also receive benefits that are oriented toward the current and future needs of local markets.

The Schaeffler Group's compensation models were transitioned in the report year to unified, consistent control parameters and adapted for all employees. The short-term, variable compensation for management – the short-term-bonus – was universally transitioned to the target parameters Schaeffler Value Added and Free Cash Flow, and the range for achieving the goal was harmonized in all compensation models. In addition to the central management indicators Value Added and Free Cash Flow, employees below top executives continue to have the possibility of an individual, qualitative target agreement. Variable compensation models were harmonized outside management, as well. Here, profit-sharing in Germany is especially worth mentioning. Under the motto of consistency, the model of profit-sharing now also includes the components of Schaeffler Value Added and Free Cash Flow. The quality indicator "justified customer complaints" is also included here. Beginning in 2017, the delivery reliability of German production sites is also planned as a third building block for profit-sharing.

With this adjustment, the company is not only pursuing the goals of a consistent, performance-oriented compensation model but also underscoring the importance of the successful approach "Quality – Costs – Delivery Reliability," which is centered on a strong awareness of these three elements.

A further important step for increasing employer attractiveness was the agreement of LuK GmbH & Co. KG to join the collective agreement of the Metal and Electronics Industry of Baden-Württemberg beginning January 1, 2018. Working conditions regulated in the agreement and transparent compensation regulations will then be equally applicable to wage-earning and salaried employees.

In order to counteract possible gaps in retirement, the company offers its employees attractive, employer- and employee-financed retirement options. These are also oriented to local market conditions. In Germany, for example, these comprise direct retirement obligations on the part of the employer, the Riester pension, or direct insurance policies. Employees in Germany can learn about different retirement concepts via a company-internal retirement portal and can calculate the income they can expect to receive from the various retirement models.

 You can find more information about the HR strategy of Schaeffler in the Annual Report 2017, page 33 et seq.

GRI 102-15 | 401 | 404

UNGC 6

NFR Employee Advancement and Development

Health Management

Schaeffler's future corporate success depends on the qualification, motivation, and lasting health of its employees. Demographic change has resulted in the company having to develop effective health promotion programs for its aging workforce.

3 ↗

In order to adequately cope with these health-related demands, the company is pursuing a sustainable and proactive occupational health and safety policy. Through its far-reaching activities in the areas of health management and occupational health and safety, the Schaeffler Group is committed to enabling a "healthy life for all" (SDG 3).

The Schaeffler Group's occupational health management program (OHM) is based on the framework guidelines of the Luxembourg Declaration on Workplace Health Promotion of the European Union. It is an essential element of the HR strategy and is used worldwide. In addition, it is continuously being further developed, especially in countries where there are no state regulations related to occupational health management. In 2017, the OHM was rolled out successfully in Germany and cooperation with health insurers and pension plans was accelerated.

The aim is to create basic conditions that promote the health of employees – through ergonomic and safe jobs and through physically and mentally supportive course offerings. The occupational health management program is systematized according to the following concept: "Analysis > Strategy > Implementation > Evaluation." Site-specific customized health programs were established, which take into account the respective circumstances of the working environment. A standard analysis tool for surveying employees was developed and used for this purpose.

The newly developed workplace register for ergonomic workplace design, devised within the scope of the "Factory for Tomorrow" initiative as part of the "Agenda 4 plus One," was rolled out at two sites. It is a database solution that identifies and displays the causes of ergonomic stress in the workplace. With the help of this tool, employees' skills can be matched with the requirements of the workplace. This makes it possible, within the framework of inclusion, to identify jobs for employees with impaired physical abilities that are appropriate for their performance capabilities and medical condition. At the same time, this register supports the targeted reduction of stress-inducing workplaces. The system is expected to be rolled out in 2018 at all German locations, with worldwide rollout to be completed by 2021.

— Ensuring Occupational Health and Safety

The Schaeffler Group has set itself the goal of reducing occupational accidents annually by 10% (parameter: AccR = injuries resulting in lost working hours per one million hours worked) to reduce costs. Building on the vision of "zero occupational accidents within the Schaeffler Group," the personal responsibility of each employee is also emphasized as a part of this. Regular information events, training courses, and advanced training are held in the field of occupational health and safety to further this. For example, Schaeffler Brazil offers an annual campaign week promoting environmental protection, as well as health and safety awareness. In 2017, the slogan was "Care is in your hands," and a total of 2,686 internal and external employees took part. The highlight of the week was the "Risk perception simulator," in which the employees put on 3D virtual reality glasses and then had to identify various hazards in a virtual production plant.

Within the framework of the team leader concept, new team leaders around the world receive training (EHS crash course) relating to their core tasks in accordance with uniform minimum standards for occupational health and safety training. As a result of such prevention and awareness-raising measures, it was also possible in the period under review to reduce the frequency of accidents by 15% – from 8.36 to 7.09 AccR – and thus significantly exceed the annual reduction target. This positive global development is overshadowed by a fatal workplace accident that occurred when work equipment brought in by an external company exploded.

Compliance with regulations pertaining to occupational health and safety is being continuously examined and safe and employee-compatible working conditions are being further developed. The comprehensive EnEHS management system (energy, environment, health, and safety), which takes into account international OHSAS 18001 standards, is used to ensure their consistent practice.

Corporate Citizenship

The corporate citizenship of the Schaeffler Group follows the mission statement “In the region – for the region.” The company thus considers itself to be responsible for fostering social well-being beyond its core business, especially in the areas around Schaeffler sites. These initiatives focus on the three core areas of “Education and Science,” “Health and Social Issues,” and “Sports and Culture.”



Especially in its two core areas “Education and Science” and “Health and Social Issues,” the Schaeffler Group is intensively engaged in realizing projects that help achieve the SDGs “education for all” (SDG 4) and “healthy lives and well-being for all” (SDG 3).

A Group-wide sponsoring guideline ensures that funds provided by the company are used in a targeted way. Any payments to individual persons or to organizations and initiatives that do not work towards the common good are excluded, as are payments intended to generate profits or those that do not conform to the Schaeffler Group’s Code of Conduct. The following projects are listed here as examples; information about further projects and actions of the Schaeffler Group can be found on the company website.

— Education and Science

Education, training, and scientific research are key factors for success in the Schaeffler Group’s business model. The Schaeffler Group is active in the area of education and science through strategic partnerships and cooperations. For example, in 2015 Schaeffler became a supporting member of the initiative “Knowledge Factory – Companies for Germany.” Among other things, Schaeffler has been supporting young engineers around the world for over ten years through the Formula Student program, helping them turn their abilities into practical success.

The Schaeffler FAG Foundation, established in 1983, is a major player in the Schaeffler Group’s involvement in education and science. The purpose of the foundation is to support science, research, and teaching in scientific and technical fields related to bearing technology. The foundation sees itself as a bridge between science and the economy that brings together people’s visions and goals in research, teaching, and the economy.

46,431

U.S. dollars raised to fight damage caused by Hurricane Harvey.

In May 2017, the “Young Car Mechanic” competition in Poland took place for the first time; the Schaeffler Group was one of the main partners. In the competition, students from Poland, Lithuania, and Latvia carried out different tasks for virtual vehicle repair with specially constructed car mechanic simulators. The goal of the competition is to get young people excited about the career of being a mechanic.

— Health and Social Issues

The Schaeffler Group understands responsible engagement to mean positively influencing its surroundings and supporting people in need or who face difficult living conditions, within the scope of its possibilities.

With its HOPE initiative (health, occupational skills, preservation of culture & heritage, and empowerment of society), carried out through Schaeffler India Limited, the Schaeffler Group is continually realizing social projects in India. Under the initiative’s slogan “May everyone be happy,” a school in Vadodara was expanded in 2017. Soon, 800 students will be given the opportunity to obtain an education, compared to less than 200 students previously.

In 2017, Schaeffler Group employees at the Fort Mill, SC, USA site recognized the need to help the local population cope with the damage caused by Hurricane Harvey. They donated USD 11,431 to the local Red Cross; the company donated an additional USD 35,000.

In September 2017, Mexico was hit by an earthquake with devastating consequences. The employees of the site in Puebla offered assistance to the local population with first aid in the form of food, drinking water, hygiene articles, and clothing. In addition, nearly USD 27,000 were donated to the Earthquake Relief Fund. In 2017, the Automotive Aftermarket business division decided not to buy the usual Christmas gifts for business partners and instead donated EUR 15,000 to the Mexican aid organization "Jóvenes Constructores de la Comunidad A.C." This donation is being used to rebuild destroyed houses in Mexico City and Puebla.

The Schaeffler FAG Magyarország Ipari Ltd. at the Debrecen site was recognized with a Business Ethics Award in the category of multinational companies in 2017. The prize has been awarded since 2000 by the Budapest Club Foundation and the business magazine *Piac és Profit*.

The Schaeffler Group supports corporate volunteering. To this end, employees initiate various projects at company sites. For example, Schaeffler Greater China maintains a long-term partnership with the Chinese Shapo Elementary School in Henan Province. In June 2017, the elementary schoolchildren received material donations in the form of school bags, books, and secondhand laptops. In the same vein, a partnership with the Tongji Elementary School was established at the site Anting in order to better acquaint the local employees and schoolchildren with German culture or topics relating to climate protection, among others.

— Sports and Culture

The Schaeffler Group contributes to conveying values by supporting sports and cultural activities and thus generates momentum for positive social development.

The Schaeffler Group stands for a long tradition in motorsports, which is why the company uses its technology to support competitions such as the German Touring Car Championship (*Deutsche Tourenwagen-Meisterschaft*, or DTM), the FIA World Endurance Championship (*Langstrecken-Weltmeisterschaft*, or WEC), and the 24 Hours of Le Mans (*24 Heures du Mans*). The Schaeffler Group has been represented at the electric motorsports racing series, the Formula E, since 2014. The goal of the race is to represent a vision for the future of the automotive industry, to encourage research and development surrounding electric vehicles, and to continue increasing interest in the E-Mobility of tomorrow. After winning second place in the Formula E championship in last year's season, ABT-Schaeffler-Audi sport pilot Lucas di Grassi was able to take the world title in 2017 with the help of Schaeffler's technology.

In November 2017, the female employees of the Schaeffler site Barcelona participated in Europe's largest women's sporting event, the "Carrera de la Mujer." The event raised money to fight breast cancer and violence against women.

2017 marks 45 years that the city of Herzogenaurach has maintained a city partnership with Kaya, Burkina Faso. This partnership has fostered intercultural exchange between Germany and Burkina Faso. In the anniversary year, a benefit project "Run for Kaya!" took place in connection with the seventh Earth Day in Herzogenaurach, for which Schaeffler was one of the sponsors. Since 2012, the Schaeffler Música cultural festival has been taking place each year in the Brazilian city of Sorocaba, exciting the local population with various forms of classical music. Moreover, the company supports benefit events such as the "Schaeffler Water Challenge." In 2017, this included water jousting and a "Rowdy River Race" in Schweinfurt. In cooperation with the Rotary Club Schweinfurt-Peterstirn, approximately EUR 125,000 in funds were raised to support charitable social projects in that region.

GRI 102-12 | 102-15

NFR Transparency, Dialog, and Reporting

Sustainability Roadmap

In its Sustainability Roadmap, the Schaeffler Group represents its non-financial goals and measures that contribute to generating sustainable company value through value-driven corporate management.

The Sustainability Roadmap is subdivided into four fields of action for Schaeffler: “Sustainable Management,” “Customers and Products,” “Environment and Energy,” and “Employees and Society.” It allows the assessment of the state of the implementation of sustainability-related activities and shows the effects that the company’s goals are having in fulfilling the Sustainable Development Goals (SDGs) of the United

Nations. The Sustainability Roadmap is annually evaluated and adjusted or expanded.

 Interactive illustration of the Sustainability Roadmap including measures that have already been implemented available in the online report:
www.schaeffler-sustainability-report.com/2017/roadmap

Field of Action Sustainable Management

Strategic Goal	Goal Deadline	Status 2017	SDG	Measures (extract)
Responsibility in Supplier Relationships				
Adjustment of Schaeffler's procedures for ensuring the OECD guidelines for dealing with conflict minerals are followed	2020	in progress		Introduction of a company policy for dealing with conflict minerals
Post hoc recognition in writing of Schaeffler's Supplier Code of Conduct (SCoC) by existing production materials suppliers	2020	in progress		Implementation of the Supplier Code of Conduct in existing processes (phase by phase, prioritized integration); rollout of the Supplier Code of Conduct and confirmation by suppliers according to priority
Human Rights				
Compliance with human rights according to the principles of the UN Global Compact and the German National Action Plan for Business and Human Rights within the framework of the scope of impacts and activities of the Schaeffler Group	2020	in progress		Development and implementation of a systematic human rights risk analysis
Transparency, Dialog, and Reporting				
Building and expanding an international dialog with all relevant stakeholders on the material sustainability topics	continuous	in progress		Regular stakeholder survey in all participating departments with their specific target groups
	2019	in progress		Introduction of a regular “Schaeffler Sustainability Dialog”
	2020	in progress		Introduction of worldwide, mandatory training for all employees of the Schaeffler Group to increase awareness about sustainability
Transparent reporting on defined material topics according to recognized standards	continuous	in progress		Regular sustainability reporting in accordance with the current CSR Guideline Implementation Laws and the current GRI Guidelines
Sustainability Strategy and Governance				
Anchoring of sustainability aspects in the business models of the Schaeffler Group and their integration in strategic business decisions	2019	in progress		Join the UN Global Compact
	2018	in progress		Definition and integration of nonfinancial KPIs
	continuous	in progress		Integration of nonfinancial risks into general risk management
	continuous	in progress		Expansion of participation in sustainability ratings and rankings

Strategic Goal	Goal Deadline	Status 2017	SDG	Measures (extract)
Compliance				
Successful auditing of the Compliance Management System (CMS) by an independent auditing company	2018	in progress		Group-wide implementation of a uniform business partner due diligence process
Data Protection, Information, and IT Security				
Protection of and respect for the personal rights of employees and business partners; implementation of suitable measures to ensure compliance with valid regulations and laws	continuous	in progress		Ongoing further development of the data protection management system and implementation of the EU General Data Protection Regulation
Protection of information of business relevance that represent a competitive factor of decisive importance for the technological business of Schaeffler	continuous	in progress		Carefully coordinated components of an information security management system (ISMS); organizational, personal, and physical IT security measures based on a security risk analysis that aims to have a preventative, protective, and informative effect both internally and externally
Coverage of protection requirements in the areas of data and information security by technical IT means so as to ensure, at all times, the accessibility, integrity, confidentiality, and authenticity of the data and data processing systems with business relevance	continuous	in progress		Implementation and improvement of IT Security Process "Security by Design"; ensuring of adequate protective and security measures in all Schaeffler IT solutions in every sourcing variant
	2018	in progress		Establishment of obligatory IT Security Awareness Trainings for all IT operators and accessory agents in the Schaeffler Group

Field of Action Customers and Products

Strategic Goal	Goal Deadline	Status 2017	SDG	Measures (extract)
Products and Technologies (Green Products)				
Eco-friendly drives: Expansion of the field E-Mobility to realize environmentally friendly drive concepts	2018	in progress	9 	Establishment of an E-Mobility business division
	continuous	in progress	17 	Cooperation with the Karlsruhe Institute of Technology (KIT) on the SHARE Initiative
	continuous	in progress	11 	Development of technological total solutions for E-Mobility (e.g., wheel hub drive and electric axle); electrification of conventional power trains (e.g., integration of the 48-V electric motor into the motor-transmission-network and development of a high-voltage hybrid model for plug-in hybrid drives)
Eco-friendly drives: Increasing the efficiency of internal combustion engines to reduce harmful emissions	continuous	in progress	11 	Further development of a thermal management module to control the system temperature; establishment of electric camshaft timer for dynamic valve control
Eco-friendly drives: Entry into fuel cell technology to realize CO ₂ -neutral mobility	continuous	in progress	11 	Development of metallic bipolar plates
Urban mobility: Development of the market for "light" E-Mobility	continuous	in progress	11 	Spin-off of Bio-Hybrid GmbH for the industrialization of Bio-Hybrids
Interurban mobility: Development of "smarter" bearings for rail transport	continuous	in progress	11 	Implementation of the "predictive maintenance" approach for realizing optimal maintenance intervals and longer running times for trains
Energy chain: Optimization and new development of products for wind turbines	continuous	in progress	11 	Development of low-friction bearings for wind power to increase running times; development of a cloud-based software solution to monitor wind turbines
Customer Relations				
Deepening of a multifunctional global customer concept to provide optimized solutions and further intensification of customer relations	2018	in progress		Cross-divisional standardization and comprehensive establishment of customer relationship management tool (Salesforce)

Strategic Goal	Goal Deadline	Status 2017	SDG	Measures (extract)
Quality Management				
Avoid product liability cases with measures taken from product safety	2019	in progress		Global rollout of a procedure for dealing with “special characteristics” with the goal of continually improving product risk analysis and product risk management; global rollout of an integrated product safety management system including user qualification
Brand Protection				
Protection of customers from negative effects of counterfeit products	continuous	in progress		Legal measures to remove counterfeit products from the market
Protection of brand value and the reputation of Schaeffler and creation of sales opportunities	continuous	in progress		Public relations to increase awareness of market participants

Field of Action Environment and Energy

Strategic Goal	Goal Deadline	Status 2017	SDG	Measures (extract)
Energy Management and Emissions (Climate Protection)				
Savings of a total of 360,000 t CO ₂ (base year 2015)	2025	in progress	13 	Survey of possible control data
Climate-neutral production (0 g CO ₂ /kWh, Scope 1 & 2) at one location per region	2020	in progress	13 	Analysis of relevant KPIs at locations worldwide; creation and evaluation of a selection matrix of suitable locations; selection of locations at EHS regional conference by the end of 2018
Environmental Management				
Implementation of “Zero Waste to Landfill” or 100% recycling rate at one location per region	2020	in progress	11 	Analysis of relevant KPIs; selection of potential locations taking state regulations into account; formulation of a project plan to meet objectives
Implementation of “Zero Waste to Landfill” or 100% recycling rate at 30% of locations	2025	in progress	11 	Analysis of relevant KPIs; selection of potential locations taking state regulations into account; formulation of a project plan to meet objectives
Implementation of “Zero Waste to Landfill” or 100% recycling rate at 50% of locations	2030	in progress	11 	Analysis of relevant KPIs; selection of potential locations taking state regulations into account; formulation of a project plan to meet objectives
Reduction of group-wide water usage by 20% (measured value: m ³ /EUR added value)	2020	in progress	11 	Standardized installation of recycling systems when planning new, water-intensive plants; stepwise retrofitting of existing plants with recycling systems following technical and economic review
Material and Resource Management				
Increase material efficiency in the development process through consistent application of simulation technology and virtual engineering	2020	in progress	12 	The successive increase in the proportion of simulation in the development process makes it possible to carry out test series for product adjustments virtually, whereby test series with real components are omitted
Increase of material efficiency through the use of recycled material	2020	in progress	12 	Reuse of raw materials, such as steel and aluminum
Logistics				
Reduction of CO ₂ emissions in logistics	continuous	in progress	13 	Consequential review of logistic flows as basis for CO ₂ balancing
	2020	in progress	13 	CO ₂ and cost reduction in logistics with the Logistics Initiative: EDC Industry (European Distribution Centers)
Determination and capturing of Scope 3 emissions that can be changed	2020	in progress	13 	Identification of factors and topic areas that can be influenced and creation of a unified basis to record, analyze, and manage the influencing factors

Strategic Goal	Goal Deadline	Status 2017	SDG	Measures (extract)
Worldwide expansion of climate-friendly employee mobility	continuous	in progress	13	Increase of proportion of electric vehicles in the vehicle fleet; monetary incentive for the use of electrified vehicles, especially plug-in hybrids and fully electric vehicles
All German sites will have charging infrastructure for electric vehicles	2020	in progress	13	Creation of a technical standard for charging infrastructure; framework call-off contracts; introduction of software backend

Field of Action Employees and Society

Strategic Goal	Goal Deadline	Status 2017	SDG	Measures (extract)
Diversity				
Diversity management for targeted support of diversity within the corporation	2019	in progress	5	Definition of internal reporting and diversity KPIs
	2018	in progress	5	Pilot testing of a “reverse monitoring” program; introduction of targeted mentoring for female employees with high potential
Employer Attractiveness				
Worldwide expansion of the Schaeffler Group as an innovative and attractive employer and employer of choice	continuous	in progress	8	HR Roadmap 2020
	2019	in progress	8	Definition of employer value proposition and development of the global employer branding concept within the framework of the employer branding project
Employee Advancement and Development				
As-needed and anticipatory qualification and development of employees in all fields, with special focus on production employees	2018	in progress	4	Introduction of a uniform worldwide talent management process
	continuous	in progress	4	Worldwide rollout of the Schaeffler Academy for the Qualification for Tomorrow Initiative
Occupational Safety and Medicine				
Continuous reduction of occupational accidents by 10% per year (parameter: AccR)	continuous	in progress	3	Implementation of appropriate measures taking local conditions into account; certification of all production sites in accordance with OHSAS 18001
Work-Life Balance				
Expansion of flexible and mobile working conditions to keep up with the demands of changing work environments and future generations	2019	in progress	8	HR Roadmap 2020; formulation of a global concept for how New Work can be implemented at Schaeffler
Payments and Pensions				
Continued global development, harmonization, and simplification of the Schaeffler payment models	2020	in progress	8	Global rollout of job grading (job assessment method)
	2020	in progress	8	Uniform implementation of job grading
Ensuring a healthy occupation until retirement age	2025	in progress		Achieving a total of 100% age-appropriate workplaces; providing disability-appropriate workplaces for all employees of the Schaeffler Group
Corporate Citizenship				
Realize transparent corporate citizenship and integrate it within the specific business divisions	continuous	in progress	17	Continuous support of education and science by the Schaeffler FAG Foundation
	2020	in progress	17	Introduction of a sponsoring concept that is globally applicable for the Schaeffler Group

Key Figures on Sustainability

Financial and nonfinancial key figures that are important for measuring the sustainability performance of the Schaeffler Group are presented below. If not otherwise indicated, the information refers to the Schaeffler Group.

The reference period includes the business years 2016 and 2017, respectively. In the course of preparing the consolidated separate nonfinancial report of the Schaeffler Group, selected qualitative and quantitative details were submitted to an external business audit taking into consideration the International Standards on Assurance Engagements (ISAE) 3000 (Revised) for the purpose of obtaining a limited assurance engagement with respect to the information required by law as per Sections 315b and 315c in conjunction

with Sections 289c to 289e HGB. Figures audited in this context are marked with a ✓ sign. Figures that were audited in the context of the preparing the annual report are marked with a ✓✓. The figures are generally rounded, which can lead to slight deviations in the calculation of sums.

 Expanded set of key figures available in the online report:
www.schaeffler-sustainability-report.com/2017/keyfigures

Sustainable Management

		2017	2016	Percentage change
Total revenue ✓✓	EUR millions	14,021	13,338	5.1
Revenue Automotive ✓✓	EUR millions	10,869	10,338	5.1
Revenue Industrial ✓✓	EUR millions	3,152	3,000	5.1
Revenue Europe ✓✓	Percentage	51.2	53.1	-3.6
Revenue Americas ✓✓	Percentage	20.8	21.0	-1.0
Revenue Greater China ✓✓	Percentage	17.5	15.4	13.6
Revenue Asia/Pacific ✓✓	Percentage	10.5	10.5	0.0
Net income ¹⁾ ✓✓	EUR millions	980	859	14.1
Shareholders' equity ²⁾ ✓✓	EUR millions	2,548	1,997	27.6
Net financial debt ✓✓	EUR millions	2,370	2,636	-10.1
Schaeffler value added before special items ✓✓	EUR millions	787	939 ³⁾	-16.2
Total purchasing volume	EUR millions	8,691	8,103	7.3
Purchasing volume Europe	EUR millions	5,548	5,260	5.5
Purchasing volume Americas	EUR millions	1,405	1,373	2.4
Purchasing volume Greater China	EUR millions	1,179	905	30.3
Purchasing volume Asia/Pacific	EUR millions	559	566	-1.2
Suppliers for whom initial assessments have been carried out ⁴⁾ ✓	Number	157	114	37.7
Suppliers for whom initial assessments have been fully completed ✓	Number	13	11	18.2
Suppliers who were completely excluded following an initial assessment ✓	Number	11	5	120.0
Suppliers who were accepted with open measures following an initial assessment ✓	Number	27	-	-
Suppliers for whom approval is still pending	Number	106	98	8.2
Employees trained in classroom training and workshops on the topic of compliance ✓	Number	8,741	9,988	-12.5

Customers and Products

		2017	2016	Percentage change
Research and development (R&D) expenses	EUR millions	846	751	12.6
R&D ratio	Percentage	6.0	5.6	7.1
Employees in research and development ⁵⁾	Number	7,634	7,121	7.2
R&D centers	Number	18	17	5.9
Internal inventions reported	Number	3,292	2,952 ³⁾	11.5
Patent registrations	Number	2,383	2,316	2.9
Awards for customer satisfaction/product quality ✓	Number	58	50	16.0
Degree of congruence of production sites with quality management systems ⁶⁾	Percentage	100	100	0.0

Environment and Energy ⁷⁾

		2017	2016	Percentage change
Sites validated by EMAS ✓	Number	68	63	7.9
Sites certified in accordance with ISO 14001 ✓	Number	69	69	0.0
Sites certified in accordance with ISO 50001 ✓	Number	61	57 ³⁾	7.0
Total energy consumption ⁸⁾ ✓	GWh	3,263	3,119 ³⁾	4.6
Intensity of energy consumption ^{8) 9)} ✓	GWh per EUR 1 m of added value	0.51	0.51	0.0
Electricity consumption ✓	GWh	2,339	2,255 ³⁾	3.7
Natural gas consumption ✓	GWh	798	742 ³⁾	7.5
Fuel oil consumption ✓	l	748,143	850,959 ³⁾	-12.1
Propane/LPG consumption ✓	t	3,938	3,401 ³⁾	15.8
District heating consumption ✓	MWh	67,393	69,414 ³⁾	-2.9
Greenhouse gas emissions (total) ¹⁰⁾ ✓	t CO ₂	1,419,042	1,364,251 ³⁾	4.0
Direct greenhouse gas emissions (Scope 1) ✓	t CO ₂	171,543	158,87 ³⁾	8.0
Indirect greenhouse gas emissions (Scope 2) ✓	t CO ₂	1,247,498	1,205,381 ³⁾	3.5
Intensity of greenhouse gas emissions ⁹⁾ ✓	t per EUR 1 m of added value	311	309 ³⁾	0.6
CO ₂ savings (Scope 1 & 2) ¹¹⁾	t	413,789	373,197	10.9
Nitrous oxides (NO _x)	t	69.9	88.9	-21.4
Sulfur dioxide (SO ₂)	t	3.2	4.8	-33.3
Fine particles	kg	90	182	-50.5
Water usage, total (m ³) ¹²⁾ ✓	m ³	5,296,528	5,018,560 ³⁾	5.5

- 1) Attributable to shareholders of the parent company.
- 2) Including noncontrolling interests.
- 3) In the course of a post hoc validation, the figure was corrected and thus deviates from the representation in the Sustainability Report 2016.
- 4) Requested in 2017; the remaining cases are still being assessed.
- 5) Average figures.

- 6) Those with serial customer deliveries according to the Group manual.
- 7) The key environmental indicators of emissions and energy and water consumption are based on the consumption of the 75 production plants at 71 locations. Calculation is based on certification in accordance with ISO 14001, ISO 50001, and OHSAS 18001 and entry in the EMAS site registry; reporting date 12/31/2017.
- 8) Energy sources include electricity, natural gas, district heating, propane, and fuel oil; conversion factor for the calorific value of heating oil – 10 kWh per liter.
- 9) In terms of energy intensity, only electrical power consumption is taken into account.
- 10) The emission factors of the German Association of the Automotive Industry (VDA) from 2017 are used to ascertain emissions.
- 11) Savings as the difference between a country's average emissions factors and the site's emissions factors according to conditions of delivery.
- 12) Water consumption includes city water and company water.

Intensity of water consumption ✓	m³ per EUR 1 m of added value	1,160	1,136 ³⁾	2.1
Amount of waste, Germany ✓	t	315,245	313,259 ³⁾	0.6
Intensity of waste generation, Germany ^{13) 14)}	t per EUR 1 m of added value	31	33	-6.0
Scrap and metals, Germany	t	249,031	260,056 ³⁾	-4.2
Waste for recycling, Germany ¹⁴⁾	t	52,202	51,256 ³⁾	1.8
Recycling rate, Germany ¹⁵⁾ ✓	Percentage	96.9	96.3 ³⁾	0.6
Waste for disposal, Germany	t	1,736	4,725	-63.3
Total logistics activities	EUR millions	678	610	11.0

Employees and Society¹⁶⁾

		2017	2016	Percentage change
Total employees ✓✓	Number	90,151	86,662	4.0
Employees Europe ✓✓	Number	61,554	60,127	2.4
Employees Americas ✓✓	Number	13,056	12,480	4.6
Employees Greater China ✓✓	Number	12,537	11,255	11.4
Employees Asia/Pacific ✓✓	Number	3,004	2,800	7.3
Employee turnover rate ¹⁷⁾ ✓✓	Percentage	3.9	3.6	8.3
Average age ✓✓	Years	39.7	39.8	-0.3
Average tenure ✓✓	Years	11.0	11.2	-1.8
Permanent employees	Percentage	90.1	89.4	0.8
Part-time ratio ¹⁸⁾	Percentage	8.0	6.6	21.2
Number of men/women on parental leave, Germany	Number	337	336	0.3
Total personnel costs ✓✓	EUR millions	4,437	4,167	6.5
Wages and salaries ✓✓	EUR millions	3,606	3,388	6.4
Social security contributions ✓✓	EUR millions	700	665	5.3
Other personnel expense ✓✓	EUR millions	131	114	14.9
Management positions ¹⁹⁾	Number	5,526	5,118	8.0
Proportion of women in management, total ¹⁹⁾ ✓✓	Percentage	12.4	11.8	5.1
Proportion of women in the company workforce, total ✓✓	Percentage	21.7	21.4	1.4
Proportion of disabled employees ²⁰⁾	Percentage	5.5	5.5	0.0
Apprentices ²¹⁾	Number	3,185	2,982	6.8
Trainees	Number	49	40	22.5
Dual students	Number	173	165	4.8
"Two in One" students	Number	163	178	-8.4
Master's degree students	Number	22	31	-29.0
Participants in classroom training, Germany ✓	Number	30,646	37,345	-17.9
Participants in e-learning courses, Germany ✓	Number	15,593	25,074	-37.8
Accident frequency ✓	AccR ²²⁾	7.09	8.36 ³⁾	-15.2
Sites certified in accordance with OHSAS 18001	Number	68	69	-1.4

13) In relation to the value creation generated in Germany.

14) Waste to be used or disposed of, without scrap and metals.

15) Recycling and recovery/total waste volume, without metals and scrap.

16) Unless otherwise indicated, the employee figures refer to the reporting date of December 31 of the respective year.

17) Pertains to employee-initiated turnover.

18) Schaeffler AG.

19) Management is defined as employees in a supervisory function.

20) Schaeffler Group Germany, without temporary workers.

21) Figure regarding the number of employees employed as apprentices in 2016 (2,966) as reported in the Sustainability Report 2016 refers to the reporting date of November 30, 2016 and was corrected to 2,982 apprentices for the reporting date of December 31, 2016.

22) Group-wide AccR = Accidents involving absence from work per one million working hours (from the first day of absence).

NFR Index and GRI Content Index

NFR Index

The Schaeffler Group has prepared a consolidated separate nonfinancial report (in the following also called “NFR” for the common term “nonfinancial reporting”) for 2017 that fulfills the Group’s obligation to declare nonfinancial information according to the German CSR Directive Implementation Law. The NFR contains a description of concepts and due diligence processes and their results for the five nonfinancial aspects of “environmental concerns,” “personnel matters,” “social matters,” “respect for human rights,” and “combating corruption and bribery” following the twelve material topics that were identified in the context of the materiality analysis carried out in 2016 and that were also confirmed by an external auditor. The information contained in the NFR is also represented in the Sustainability Report. The NFR Index gives an overview of the pages of the Sustainability Report on which this information can be found.

-  **Consolidated separate nonfinancial report of the Schaeffler Group for the year 2017:**
www.schaeffler.com/sustainability/nfr2017

GRI Content Index

The Schaeffler Group’s sustainability reporting is conducted in accordance with the GRI standards of the Global Reporting Initiative (core option). The interactive index, which can be found online, shows the indicators that Schaeffler addresses in the report and leads users to the report pages containing this information. The Sustainability Report 2017 received the GRI “Materiality Disclosure Service,” i.e., it was checked for appropriate presentation of the information on indicators G4-17 to G4-27 listed in the GRI Content Index. The Schaeffler Group gears its sustainability activities towards the

	Pages in the Sustainability Report 2017
Environmental Concerns	
Products and Technologies	40–42
Environmental Management	47, 50–51
Energy and Emissions	47, 48–49
Material and Resource Management	47, 50–51
Logistics	52–53
Personnel Matters	
Employee Advancement and Development	56–60
Occupational Safety and Medicine	61
Social Matters	
Customer Relations	45
Responsibility in Supplier Relationships	32–34
Transparency, Dialog, and Reporting: Focus on Community Dialog	30–31, 62–63
Human Rights	
Human Rights	35–36
Combating Corruption and Bribery	
Compliance	37–39

ten principles of the UN Global Compact in the areas of human rights, occupational standards, environmental protection, and anti-corruption measures. The GRI Content Index shows which GRI indicators also cover one or more of the UN Global Compact principles. At the editorial deadline, no official German translation existed yet for a new version of the GRI standards. The terms used for the GRI standards in this report may therefore deviate from the final translation of the GRI.

-  **GRI Content Index available in the online report:**
www.schaeffler-sustainability-report.com/2017/gri

Glossary

Automotive: In the Automotive division, the Schaeffler Group offers expertise as a reliable partner to nearly all automotive manufacturers and important suppliers for the complete drive train – for the motor, transmission, chassis, and auxiliary units in passenger vehicles and commercial vehicles. The business area Automotive Aftermarket is active worldwide in the parts business.

BEV: Battery Electric Vehicle = a vehicle powered purely by electricity.

CDP: Formerly Carbon Disclosure Project; a nonprofit organization.

CERES: Coalition of Environmentally Responsible Economies; U.S. association of ethical investors and environmental organizations.

Charta der Vielfalt (Diversity Charter): Corporate initiative to support diversity in companies and institutions. Organizations should create a working environment that is free of prejudice. All employees should feel valued – independent of their sex, nationality, ethnic origin, religion or world view, disability, age, or sexual orientation and identity.

CHP: Cogeneration plants or combined heat and power plants.

CMS: Compliance Management System.

CoC: Code of Conduct; code that defines rules for employees and typically includes directives and prohibitions that companies – in this case the Schaeffler Group – impose on themselves or accept.

CSR: Corporate Social Responsibility; designates the social responsibility of a company.

CSR RUG: CSR Guideline Implementation Law (German: Richtlinie-Umsetzungsgesetz); law on strengthening companies' nonfinancial reporting in management reports and group management reports.

Diversity: Diversity can relate to many things, including sex, ethnicity, age, disability, sexual orientation, religion, lifestyle.

EDMS: Energy Data Management System of the Schaeffler Group.

EHS: Environment, Health, and Safety.

EMAS: EU Eco-Management and Audit Scheme, according to which the Schaeffler Group site were validated.

EnEHS: Energy, Environment, Health, and Safety.

ESG: Environmental, Social and Governance; three central factors in measuring sustainability and the ethical effects of an investment in a company.

EU GDPR: EU General Data Protection Regulation, according to which rules for processing personal data by private companies and public entities are being standardized across the EU.

EUR: Euro.

Expat: Shortened form of expatriate; typically denotes a skilled employee who is temporarily sent by an internationally active company for whom they work to a foreign branch office.

GRI: Global Reporting Initiative; an organization founded in 1997 that uses a participatory procedure to develop criteria for the preparation of sustainability reports.

GWh: Gigawatt-hour.

HEV: Hybrid Electric Vehicle.

IATF 16949: Global norm for quality management systems of companies in the automotive industry.

ICE: Internal Combustion Engine.

Industrial: Division of the Schaeffler Group that comprises business with customers in the areas of Mobility, Production Machinery, Energy and Raw Materials, and Aerospace.

ISO 9001: Global norm for quality management systems.

ISO 14001: Global standard for environmental management systems.

ISO 26000: Internationally recognized, voluntarily employed guideline that supports organizations in meeting social responsibility.

ISO 50001: Global norm for energy management systems.

ISO TS 16949:2009: Replaced on October 1, 2016 by the IATF 16949.

KPI: Key Performance Indicator; performance indicator with which the progress or degree of fulfilling important goals is measured.

MSA: Modern Slavery Act; British law on reporting obligations regarding the avoidance of human trafficking and forced labor in the supply chain.

NAP: National Action Plan for Business and Human Rights; initiative of the German federal government to respect human rights in global supply chains, based on the UN Guiding Principles for Business and Human Rights.

NFR: Nonfinancial report that capital market-oriented companies are required to publish according to EU Guideline 2014/95/EU or Sections 289b et seq. HGB and Sections 315b et seq. HGB. Schaeffler fulfills its reporting obligations through a consolidated separate nonfinancial report.

NGO: Nongovernmental Organization.

OE: Original Equipment.

OECD: Organisation for Economic Co-operation and Development; international organization with 35 member states committed to democracy and a market economy.

OEM: Original Equipment Manufacturer.

OHM: Occupational Health Management.

OHSAS 18001: Occupational Health and Safety Assessment Series; OHSAS 18001 represents a standard for a work safety management system.

RCOI: Reasonable Country of Origin Inquiries; country of origin tests of raw materials or minerals being used in order to prevent the production of these materials from contributing to financing violent conflicts.

SCoC: Supplier Code of Conduct.

Scope 1 Emissions: Emissions that come from emissions sources within the considered organization (e.g., from power plants or vehicle fleets belonging to the company).

Scope 2 Emissions: Emissions that arise from energy production outside of the organization (e.g., from district heating).

Scope 3 Emissions: All other emissions caused by the company's activities but not under a company's control (e.g., by suppliers).

SDGs: Sustainable Development Goals; 17 goals for sustainable development of the United Nations that are intended to help secure sustainable development on the economic, social, and ecological level.

SR: Sustainability Report.

SRI: Socially Responsible Investment; financial investments that take into consideration investors' ethical or sustainable conceptions of value in addition to following financial investment goals.

Stakeholders: Groups who are affected by, involved with, or hold an interest in the company.

Sustainability: Sustainability means utilizing natural resources in a way that observes the particular economic, environmental and social conditions without neglecting the interests of future generations.

TMS: Transport Management System; bundles transport orders in worldwide supply network.

UNGC: United Nations Global Compact; with around 13,000 companies and organizations from the public, politics, and academia in 170 countries, the largest initiative worldwide for responsible corporate management. Following ten universal principles, it pursues an inclusive and sustainable world economy to the benefit of all people, communities, and markets.

USD: U.S. dollars.

 Expanded glossary available in the online report:
www.schaeffler-sustainability-report.com/2017/glossary

Report Profile

With the 2017 Sustainability Report, the Schaeffler Group presents – for the second time – its achievements, ambitions, and goals for responsible corporate management. In the theme of “Our aspiration,” Schaeffler uses brief reports to show how its employees are implementing and living sustainability.

The Sustainability Report 2017 includes a description of the economic, ecological, and social aspects of the company’s activities in 2017. It additionally represents sustainability-related goals of the Schaeffler Group as well as financial and nonfinancial key figures used to measure the sustainability performance of Schaeffler.

The report was formulated in keeping with the GRI standards for sustainability reporting of the Global Reporting Initiative (GRI). It thus complies with the GRI option “In accordance – core.” The GRI also carried out a “Materiality Disclosures Service,” confirming that the general standard indicators G4-17 to G4-27 are properly displayed in the report.

The information in the Sustainability Report refers to the entire Schaeffler Group and its business sectors. Where it seems useful, a reference is made to supplementary information in the Annual Report or to further sources. The reporting period corresponds to the business year that runs from January 1 to December 31, 2017. Editorial deadline for this report was March 20, 2018.

The report was written up by order of the Executive Board of the Schaeffler Group. The Board reviewed and released the report content. The information on economic matters in the Sustainability Report 2017 is based on the Schaeffler Group information from the Annual Report 2017. The report additionally contains nonfinancial information that was reviewed in a business audit in the context of preparing the consolidated separate nonfinancial report.

This document contains forward-looking statements that reflect management’s current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond the Schaeffler Group’s ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies, and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from

those expressed or implied by such statements. Schaeffler AG does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

The Sustainability Report of the Schaeffler Group is available in German and English; in case of deviations, the German version is considered binding. The most recent Sustainability Report was published for the year 2016; the next will be published in early 2019 for the year 2018.

Questions and comments regarding responsible management of the Schaeffler Group can be addressed to the Corporate Sustainability Officer via email at sustainability@schaeffler.com. The Annual Report 2017 contains financial key figures on the business year 2017 of the Schaeffler Group as well as information on business development, business fields, and portfolio changes.

 Further information including the GRI Content Index available here: www.schaeffler-sustainability-report.com/2017

Editorial notice: For better readability, this report generally uses only the masculine form when referring to groups of persons. Unless indicated otherwise, these statements should not be construed to refer to a specific gender. In addition to “Schaeffler Group,” the term “the company” or the short form “Schaeffler” are also used. Deviations of individual pieces of information from this report framework are cited accordingly.

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Printing:
Eberl Print GmbH, Immenstadt im Allgäu

💻 Online version of the Schaeffler Group's Sustainability Report 2017:
www.schaeffler-sustainability-report.com/2017



The Sustainability Report of the Schaeffler Group is printed for neutral climate impact on the natural paper types Circle Silk Premium White (cover) and Circle Offset Premium White (interior text stock). These natural paper types bear the seal of the global certification organization Forest Stewardship Council (FSC)®. This seal documents compliance with stringent criteria for responsible forest management (avoidance of uncontrolled forest clearing, no human rights violations, no environmental pollution) and compliance with a catalog of criteria for further processing of the wood, including a traceable product chain (Chain of Custody).

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