SCHAEFFLER

Annual Report 2019

Schaeffler Group at a glance

Key figures

Income statement (in € millions)	2019	2018		Change
Revenue	14,427	14,241	1.3	%
• at constant currency			0.1	%
EBIT	790	1,354	-41.7	%
• in % of revenue	5.5	9.5	-4.0	%-pts.
EBIT before special items [1]	1,161	1,381	-15.9	%
• in % of revenue	8.1	9.7	-1.6	%-pts.
Net income [2]	428	881	-51.4	%
Earnings per common non-voting share (basic/diluted, in €)	0.65	1.33	-51.1	%
Statement of financial position (in € millions)	**12/31/2019**	**12/31/2018**		Change
Total assets	12,870	12,362	4.1	%
Shareholders' equity [3]	2,917	3,060	-144	€ millions
• in % of total assets	22.7	24.8	-2.1	%-pts.
Net financial debt	2,526	2,547	-0.8	%
• Net financial debt to EBITDA ratio before special items [1]	1.2	1.2		
• Gearing ratio (Net financial debt to shareholders' equity [3], in %)	86.6	83.2	3.4	%-pts.
Statement of cash flows (in € millions)	**2019**	**2018**		Change
EBITDA	1,769	2,175	-18.6	%
Cash flows from operating activities	1,578	1,606	-27	€ millions
Capital expenditures (capex) [4]	1,045	1,232	-188	€ millions
• in % of revenue (capex ratio)	7.2	8.7	-1.4	%-pts.
Free cash flow (FCF) before cash in- and outflows for M&A activities	473	384	89	€ millions
• FCF conversion ratio (ratio of FCF before cash in- and outflows for M&A activities to EBITDA before special items, in %) [1]	22.4	17.4	4.9	%-pts.
Value-based management				Change
Schaeffler Value Added before special items (in € millions) [1]	284	557	-49.0	%
ROCE before special items (in %) [1]	13.2	16.7	-3.5	%-pts.
Employees	**12/31/2019**	**12/31/2018**		Change
Headcount	87,748	92,478	-5.1	%

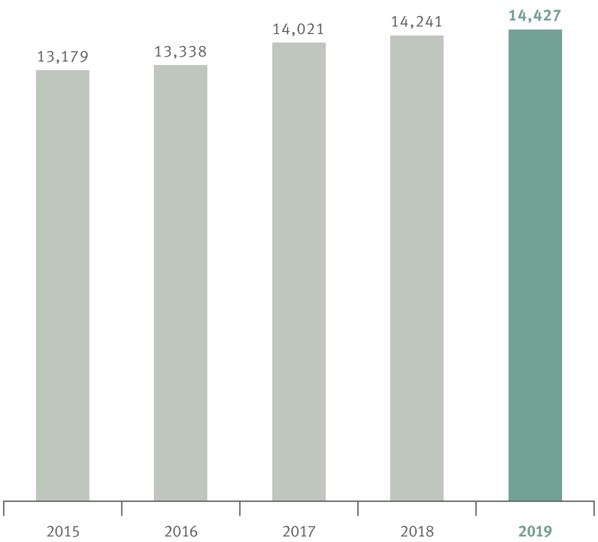
Automotive OEM division [5] (in € millions)	2019	2018		Change
Revenue	9,038	8,996	0.5	%
• at constant currency			-0.8	%
EBIT	282	662	-57.4	%
• in % of revenue	3.1	7.4	-4.2	%-pts.
EBIT before special items [1]	491	673	-27.0	%
• in % of revenue	5.4	7.5	-2.0	%-pts.
Automotive Aftermarket division [5] (in € millions)				Change
Revenue	1,848	1,862	-0.7	%
• at constant currency			-1.1	%
EBIT	283	341	-17.2	%
• in % of revenue	15.3	18.3	-3.0	%-pts.
EBIT before special items [1]	298	339	-12.1	%
• in % of revenue	16.1	18.2	-2.1	%-pts.
Industrial division [5] (in € millions)				Change
Revenue	3,541	3,383	4.7	%
• at constant currency			3.1	%
EBIT	225	351	-35.8	%
• in % of revenue	6.4	10.4	-4.0	%-pts.
EBIT before special items [1]	373	370	0.9	%
• in % of revenue	10.5	10.9	-0.4	%-pts.

[1] Please refer to pp. 30 et seq. for the definition of special items.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] Capital expenditures on intangible assets and property, plant and equipment.
[5] Prior year information presented based on 2019 segment structure.

Key financials

Revenue 2015 – 2019

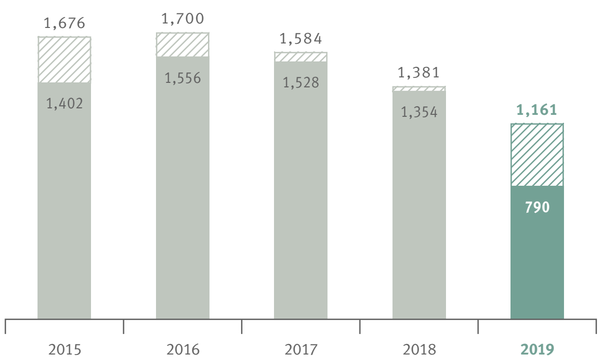
in € millions



	2015	2016	2017	2018	2019
Revenue growth vs. prior year	+ 8.7%	+ 1.2%	+ 5.1%	+ 1.6%	**+ 1.3%**
Revenue growth at constant currency					**+ 0.1%**

EBIT 2015 – 2019

in € millions

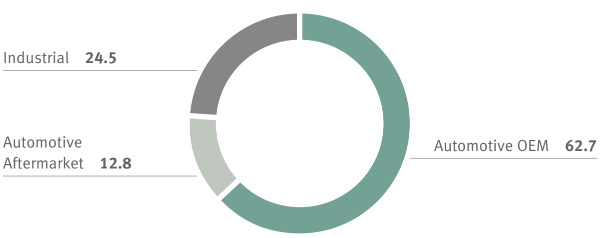


	2015	2016	2017	2018	2019
EBIT margin before special items	12.7%	12.7%	11.3%	9.7%	**8.1%**
EBIT margin	10.6%	11.7%	10.9%	9.5%	**5.5%**

EBIT before special items

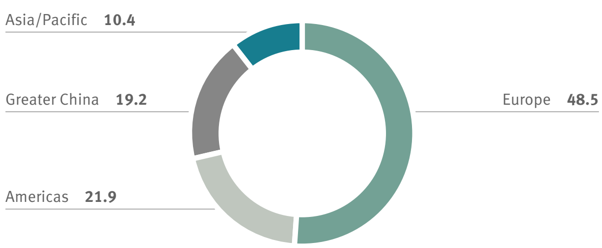
Schaeffler Group revenue by division

in percent



Schaeffler Group revenue by region

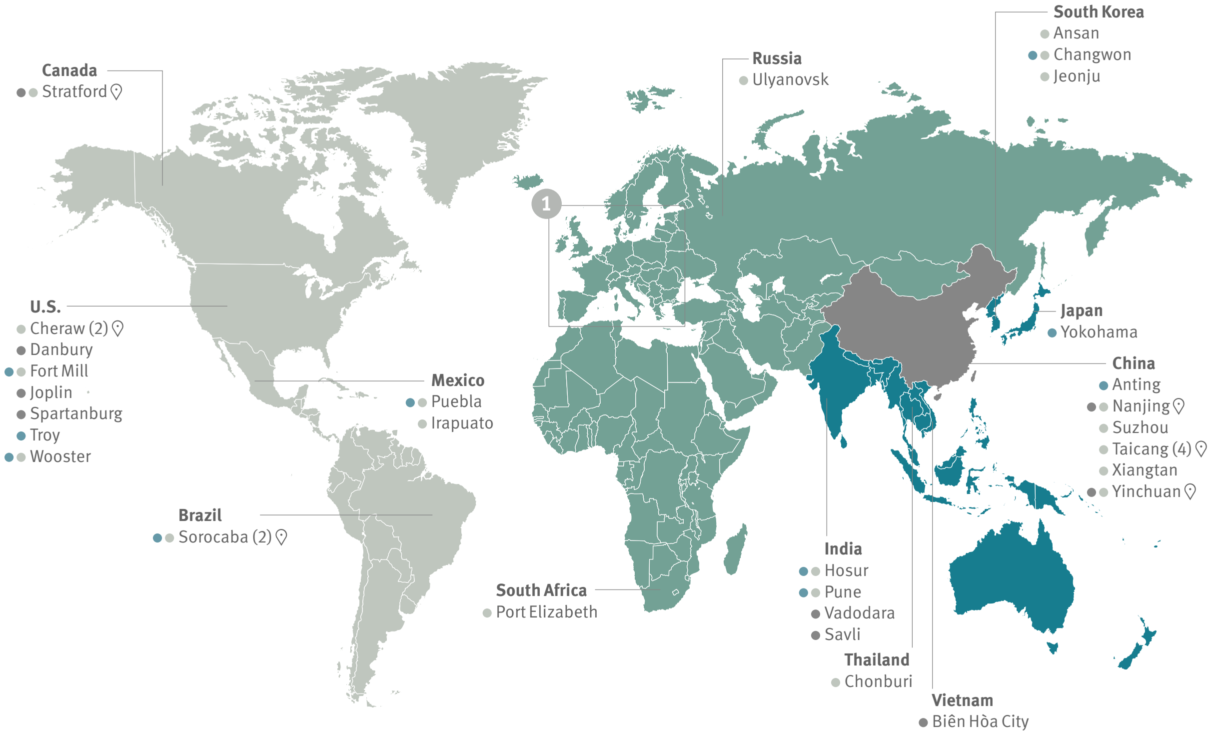
in percent by market view



Schaeffler Group plants and R&D centers

since January 1, 2020

World



Europe

(enlarged section)

Regions [1]	Europe	Americas	Greater China	Asia/ Pacific
R&D centers	10	5	1	4
Plants [2]	45	13	10	9
Automotive	30	9	8	6
Industrial	15	4	2	3
Campus locations	9	3	3	-

Number of plants in brackets

[1] Regions reflect the regional structure of the Schaeffler Group.

[2] The Kaltennordheim and Unna plants were sold on December 6, 2019, and the business was transferred on February 3, 2020.

Brașov *) 2 plants Industrial, 1 plant Automotive

Homburg *) 2 plants Automotive, 1 plant Industrial

Highlights 2019

Revenue maintained at prior year level (growth +0.1% at constant currency)

Revenue at EUR **14.4** bn (prior year: EUR 14.2 bn)

Earnings quality sequentially improved in 2nd half (1st half: 7.7% / 2nd half: 8.4%)

EBIT margin before special items **8.1** % (prior year: 9.7%)

Free cash flow increased

Free cash flow before cash in- and outflows for M&A activities at EUR **473** m (prior year: EUR 384 m)

Structural adjustments successfully continued

Number of employees reduced by approx. 5,000 to approx. **87,700** (down 5.1%)

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Ladies and Gentlemen,

2019 was a difficult year, and one that was shaped by external events such as unresolved trade conflicts, the ongoing climate debate, and Brexit. In terms of the global economy, the downturn that has been taking place in China has had a particularly adverse effect on the market environment. The demand for automobiles has fallen sharply. These underlying conditions posed major challenges for Schaeffler as well, and we were forced to revise our guidance for growth and earnings mid-year. Despite the challenging market environment, we were able to achieve our revised full-year targets for 2019. Our global position as an automotive and industrial supplier has once more served us well in this regard. We have responded to the changed market situation by establishing efficiency programs in all three divisions, and these programs are starting to make an impact.

At the same time, the demand for alternative drive systems and new mobility concepts offers us great opportunities. We are now able to develop and fully industrialize electric motor construction within the company, for example. With the all-electric Schaeffler Mover, we are presenting an attractive solution for transporting people and goods within cities. Furthermore, digitalization allows us to offer our customers new business models that provide significant added value.

Even adverse economic conditions are not preventing us from investing in the future. For example, we have opened a new plant in Vietnam, strengthening our position in Asia. In Taicang, China, the ground-breaking ceremony has taken place for a new production location that is scheduled to be completed in 2022, and we have opened a new testing facility at our Romanian location in Braşov. This investment also clearly demonstrates both our commitment to strengthening the research and development activities of the entire group as well as our resolve to continue to successfully position Schaeffler on the global market as a leading technology partner with a passion for innovation, a broad product range, a high level of manufacturing expertise, and an in-depth understanding of components and systems.

We have largely completed the Global Branding project to remodel our corporate presentation around the “Schaeffler” corporate brand. This project strengthens the Schaeffler corporate brand and the image among our customers, potential employees, investors, and the general public.

We are confident that we will successfully tackle the far-reaching worldwide industrial and social transformation process and continue to rank among the world’s leading suppliers. We place great trust in the comprehensive technological expertise, know-how, and inventiveness of each and every one of our employees. We would like to express our sincere gratitude for their commitment, creativity, and loyalty. Our thanks also go to our customers, shareholders, and business and research partners for the once again successful collaboration and the trust they have placed in us. Together, we will resolutely address the challenges ahead.

Yours sincerely,

Schaeffler-Thumann Georg F. W. Schaeffler

Maria-Elisabeth Schaeffler-Thumann

Georg F. W. Schaeffler

Ladies and gentlemen,

2019 was another challenging year for the Schaeffler Group. The significant decline in production figures in the global automotive business, the weaker demand in the automotive aftermarket business, the decrease in industrial production over the course of the year as a result of the economic climate, and the intensified adjustment measures expanded during the year have all impacted our earnings. At the same time, despite the difficult environment and considerable global economic uncertainties, we have succeeded in accelerating the transformation of the Schaeffler Group on the basis of the program for the future, the “Agenda 4 plus One”, to further strengthen our company’s future position. By systematically realigning the Schaeffler Group’s management system to be more value-based, introducing a new capital allocation mechanism, and further divisionalizing our organization and management structure, we have put in place key relevant prerequisites. At the same time, we have seen a significant improvement in capital and cost discipline over the course of the year.

Despite having to once more reduce our guidance in 2019 due to the market situation, the earnings and cash flow trends in the second half of the year in particular, show that we are able to achieve our targets, even under difficult economic and market conditions, or to exceed them in the case of free cash flow.

Satisfactory earnings in a difficult environment – strong free cash flow

The Schaeffler Group generated EUR 14.4 billion in revenue in 2019, compared to EUR 14.2 billion in the prior year. Excluding the impact of currency translation, growth was at EUR 0.1 percent. EBIT before special items was EUR 1,161 million compared to EUR 1,381 million in the prior year. This corresponds to an EBIT margin before special items of 8.1 percent for the entire year (prior year: 9.7 percent). This margin was 7.7 percent in the first half of the year and 8.4 percent in the second half of the year.

The Schaeffler Group’s free cash flow before cash in- and outflows for M&A activities amounted to EUR 473 million in 2019 (prior year: EUR 384 million): minus EUR 229 million in the first half of the year and EUR 702 million in the second half. This exceeded not only the prior year figure but also the adjusted guidance of around EUR 350 to 400 million. Capital expenditures (capex) for intangible assets and property, plant and equipment of EUR 1,045 million for the reporting period were down from the prior year (EUR 1,232 million). This corresponds to a capex ratio of 7.2 percent (prior year: 8.7 percent). Our management team and, most notably, our plant managers made an important contribution to cash flow management, particularly in the third and fourth quarters, and demonstrated the organization’s ability to adapt.

The results of operations of our three divisions were mixed. Allow me to highlight some of the positive developments below:

Despite the weak market environment, the Automotive OEM division outperformed by 5 percentage points with a decline in the global production of passenger cars and light commercial vehicles of 5.8 percent. At the same time, order intake in the 2019 reporting period reached EUR 15.0 billion, which equates to a book-to-bill ratio, i.e. the ratio of order intake to revenue for the past financial year, of 1.7 (prior year: 1.4). In the E-Mobility business division in particular, we made greater progress than expected. The adjusted EBIT margin for the division was 5.4 percent (prior year: 7.5 percent).

The Automotive Aftermarket division reported a decline in revenue, excluding the impact of currency translation, of 1.1 percent, which was attributable to the decline in Europe, by far the region with the highest sales. The drop in revenue in Europe was offset by an encouraging increase in revenue in the Americas region of 6.6 percent. The target set for the Automotive Aftermarket division of achieving an EBIT margin before special items of 15 to 16 percent was slightly exceeded at 16.1 percent.

Despite weakening dynamics in global industrial production, the Industrial division increased its sales revenue in the reporting period by 3.1 percent, excluding the impact of currency translation, with revenue in the second half of the year at the same level as the previous year. Revenue growth was primarily driven by the sector clusters of Wind in the Greater China region and Railway in the Europe region. The railway, raw materials, aerospace, and Industrial Distribution sector clusters also made a positive contribution to growth. At 10.5 percent, the adjusted EBIT margin was approximately flat with prior year (10.9 percent).

If we take a look at our divisional results, we can see just how important it is for us to be an automotive and industrial supplier in the current difficult climate. This constitutes an important cornerstone of our strategic direction for the future.

Transformation continues – “Agenda 4 plus One” nearing completion

In the past year, we have continued our restructuring activities within the Schaeffler Group and pressed ahead with the transformation. Allow me to briefly outline the key developments below:

We have now largely implemented the program for the future, the “Agenda 4 plus One”, which was launched in 2016 and comprises 20 initiatives which have now largely been implemented. The degree of implementation at the end of 2019 was at 80 percent. The remaining initiatives will be transferred to the follow-on program that we will announce on March 24, 2020.

At this point last year, by way of addition to the “Agenda 4 plus One” program for the future, I introduced you to the RACE program from the Automotive OEM division and the efficiency program from the Industrial division under the name of FIT. At the same time, the efficiency program GRIP was established for the Automotive Aftermarket division. The purpose of all three programs is to render the respective divisions more efficient and prepare them optimally for future challenges and the change, which is primarily being driven by new technological and changing customer requirements.

As announced in the spring, we put three plants to the test as part of the RACE program in Germany. In the further course of the reporting year, we were able to sell the plant in Hamm to management as part of an MBO, and the plants in Kaltennordheim and Unna to a consortium of investors led by a restructuring consultant with experience in the industry. In doing so, we have kept our promise under the Future Accord to avoid any redundancies or site closures in Germany as far as possible.

The number of employees fell by almost 5,000 to 87,748 at the end of 2019, partly due to the measures described above. I would like to emphasize, however, that the restructuring of the Schaeffler Group is not primarily about job cuts, but about making the Schaeffler Group even more fit for the future and focusing on new growth areas. Job cuts that are unavoidable in some areas are also being offset by the creation of new jobs in growth areas. In parallel with this, we have intensified our efforts to offer our employees attractive qualification opportunities, one such example being the “Fit for Mechatronics” program, and as a listed family company, we want to stress that the well-being of our employees is particularly important to us.

We are also making good progress with the voluntary severance scheme initiated at the end of 2019, and by which means we will downsize our workforce in Germany by up to 1,300 across all locations and sectors in subsequent years. As the name suggests, the program is based on the principle of mutual voluntary action, which means that both the employee and the company must agree to the termination of the employment relationship. We will report on the implementation of the voluntary severance scheme later in the year.

At the same time, 2019 is also proof that we have taken and implemented a series of measures aimed at increasing flexibility and, as a result, at preserving jobs: We were able to achieve this by introducing shut-down days, reducing accrued vacation and overtime balances, switching a large number of employment contracts outside of production from 40 to 35 hours, and in individual cases, by temporarily introducing short-time working.

As announced in November 2018, we reorganized the Schaeffler Group’s UK business activities during the year, and brought this process to a successful conclusion at the end of the year. The decision to reduce five locations to two was primarily based on considerations to optimize our footprint in Europe, but also makes our company less susceptible to the possible impact of Brexit on our trade flows and supply chains. Following the sale of The Barden Corporation (UK) Ltd. in Plymouth to a strategic investor, the closure of the location in Llanelli, and consolidated two logistics centers at the Hereford location, we are maintaining our presence in the United Kingdom – which continues to be an important market for us – with our plant in Sheffield.

M&A strategy continued – focus on technology and implementation

In addition, the technological competence of the Schaeffler Group has been strengthened further through specific strategic acquisitions and cooperations. At the same time, we have made good progress with integrating previous acquisitions, as demonstrated by the first successfully completed financial year of our Schaeffler Paravan joint venture. Its drive-by-wire solution and key technology for autonomous driving, Space Drive, is headed for volume production. A further highly encouraging result is that the acquisition of Elmotec Statomat, which has enabled us to produce electric motors seamlessly and in high volumes, is now beginning to bear fruit. As a result, in the reporting year, we succeeded in obtaining a billion-euro order to produce electric motors for a global premium manufacturer, and further large orders are nearing completion. By taking over XTRONIC, an established development partner for electronics and software solutions in the Automotive Industry, we have made another strategic acquisition, which we can use to further strengthen our competence in the future field of autonomous driving. Finally, with our partner ABT e-Line, we have established a strategic cooperation for the electrification of light commercial vehicles, which means that we are once again positioning ourselves in an area that promises significant growth.

Management team equipped for the future – solid financing structure

A further point of particular note is that we were able to complete the realignment of the management team at the helm of the company in the course of 2019. We have further rejuvenated and internationalized the Executive Board, which consists of eight Managing Directors and four regional CEOs, and now includes our new Chief Technology Officer Uwe Wagner (55), who succeeded Prof. Dr.-Ing. Peter Gutzmer (66), as well as Regional CEOs Marc McGrath (53) and

Dharmesh Arora (52), who replaced Bruce Warmbold (64) and Helmut Bode (65), from among our own ranks. Dietmar Heinrich (56) has decided not to extend his contract. A successor will be announced shortly. With a new team at the helm, we feel well equipped to meet the challenges of the future.

A solid financing structure is equally as important as the team at the helm. Based on our investment-grade ratings from three rating agencies, we issued investment-grade bonds with a total volume of EUR 2.2 billion for the first time in 2019. The fact that the bonds were oversubscribed several times speaks volumes about the Schaeffler Group's appeal to investors. The acquisition by a long-term institutional US investor of approximately 25 percent of Schaeffler's common non-voting shares is further proof of this.

It is encouraging to see that our share price followed a positive trend during 2019, with an upturn of 29.1 percent. For the 2019 financial year, the Board of Managing Directors will recommend to the annual general meeting that a dividend of 45 cents be paid per common non-voting share, which equates to a dividend payout ratio of 43 percent. At the same time, the Board of Managing Directors has decided to increase the dividend payout ratio from the previous 30 to 40 percent up to 30 to 50 percent.

Transformation is being accelerated – sustainability is gaining in importance

My colleagues on the Board of Managing Directors and I are convinced that we must continue to accelerate the transformation of the Schaeffler Group in the years to come. We are ready to help shape the future and develop future-proof products and services, and will focus on adopting an open-minded approach to technology and on innovation in both our automotive and industrial businesses. We see great potential, for example, in fuel cell and hydrogen technology, which will enable us to use our expertise in metal processing and coating, and in respect of understanding entire systems, in an innovative way. For this reason, we have established our own "Fuel Cell" business unit at the start of 2020 and joined the global hydrogen interest group "Hydrogen Council" in January 2020.

In this context, I would also like to recommend that you read our sustainability report, which was also published today. When we present our Roadmap 2024 in a few weeks' time, we will show you how we intend to consistently focus the Schaeffler Group and our activities on sustainability in order to contribute to a sustainable future. We see great opportunities for our company here.

Market and economic conditions remain challenging – acting responsibly

So how do we proceed in 2020? As members of Schaeffler AG's Board of Managing Directors, we are preparing for an environment that will continue to be very challenging in 2020. It is all the more important that we position ourselves more consistently as an automotive and industrial supplier, realize potential synergies from cross-divisional collaboration, manage our costs and capital in a disciplined manner, further optimize our portfolio, and focus on the strengths which will enable us to come out on top with our customers and business partners in the automotive and industrial business: Innovation, quality, system understanding and our excellent manufacturing technology. Each of these strengths speaks for itself. We will always be at our best when we combine all four.

Of no less importance for success in the future is the ongoing, committed work of our workforce comprising approximately 87,700 employees, who we would like to take this opportunity to thank for their commitment, loyalty and hard work during a difficult year. Our thanks on behalf of all members of the Executive Board also go to the family shareholders, the members of the Supervisory Board and all our business partners and stakeholders, who have shaped and played a part in the 2019 financial year.

As a listed family company, we are convinced that acting responsibly is essential to sustainable long-term economic success. For us, this is both an obligation and an incentive, especially in times when sustainability is becoming increasingly important. On this note, we look forward to tackling the next stages with you.

Yours sincerely,

Klaus Rosenfeld
CEO

Executive Board

Klaus Rosenfeld
Chief
Executive Officer

Matthias Zink
CEO
Automotive OEM

Jürgen Ziegler
Regional CEO
Europe

Michael Söding
CEO
Automotive Aftermarket

Dietmar Heinrich
Chief
Financial Officer

Uwe Wagner
Chief
Technology Officer

Corinna Schittenhelm
Chief Human
Recources Officer

Dharmesh Arora
Regional CEO
Asia/Pacific

Dr. Stefan Spindler
CEO Industrial

Marc McGrath
Regional CEO
Americas

Andreas Schick
Chief Operating Officer

Dr. Yilin Zhang
Regional CEO
Greater China

Schaeffler on the capital markets

Schaeffler AG has further strengthened its communications with the capital markets in 2019, expanding them, in particular, by additional financial centers in Europe and an initial roadshow in Hong Kong. The Capital Markets Day 2019 in Frankfurt focused on portfolio management and capital allocation.

Events 2019

Schaeffler places investment grade bonds

On March 19, 2019, the Schaeffler Group placed investment grade bonds in the capital markets for the first time. The transaction had a total volume of EUR 2.2 bn and consisted of three tranches (EUR 750 m 1.125% coupon, due 2022; EUR 800 m 1.875% coupon, due 2024; EUR 650 m 2.875% coupon, due 2027). The new investment grade bonds were issued under Schaeffler AG's debt issuance program. Net proceeds from the issuance were mainly used to refinance existing debt. Along with prepaying EUR 500 m of the term loan and repaying the amount outstanding under the Revolving Credit Facility at the time, the company also redeemed three bonds issued by Schaeffler Finance B.V. in an aggregate volume of about EUR 1.4 bn on May 15, 2019.

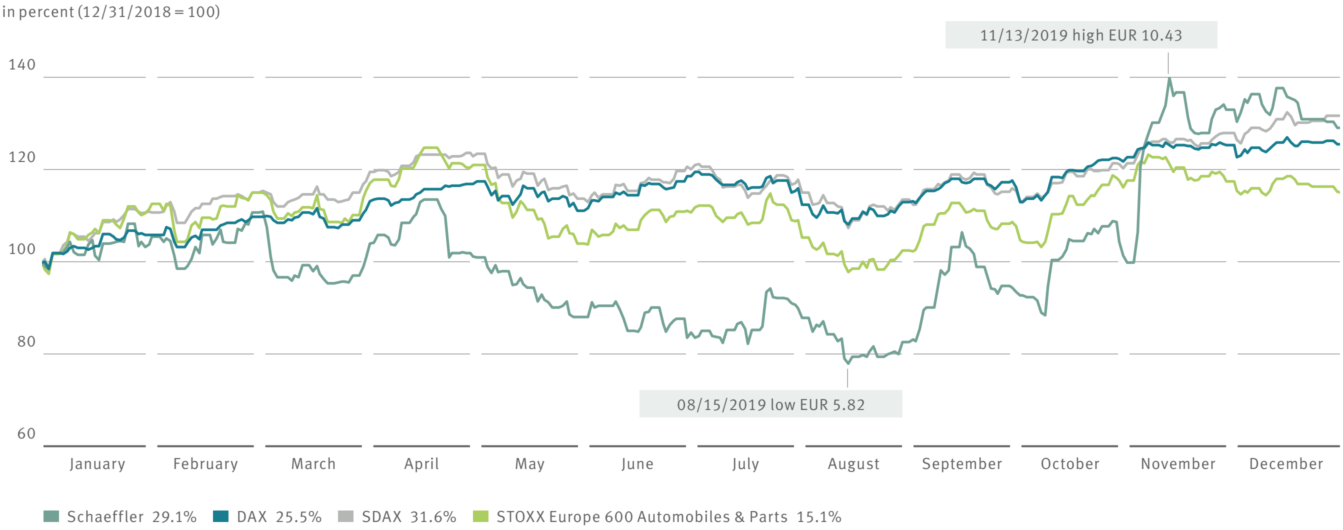
Dividend 2018 at prior year level

Schaeffler AG's annual general meeting, which was held on April 24, 2019, passed a resolution to pay a dividend of EUR 0.54 (prior year: EUR 0.54) per common share and EUR 0.55 (prior year: EUR 0.55) per common non-voting share to Schaeffler AG's shareholders for 2018. This represents a dividend payout ratio of 40.1% of net income attributable to shareholders before special items.

2019 full-year guidance adjusted in July

On July 29, 2019, Schaeffler AG's Board of Managing Directors decided to adjust the Schaeffler Group's outlook 2019 as a result of the unexpectedly strong decline in global automobile production. In addition, a decrease in estimated requirements of a few major customers of the Automotive Aftermarket division compared to expectations at the beginning of the year led to a downward revision in this division's revenue guidance. Meanwhile, expected full-year demand in certain sector clusters in the Industrial division had increased from the beginning of the year, leading to a slight upward revision in that division's revenue guidance. As a result, from then on, the Schaeffler Group estimated that its revenue would grow by -1 to 1% in 2019, excluding the impact of currency translation. Based on this, the company further expected to generate an EBIT margin before special items of 7 to 8%. Furthermore, the Schaeffler Group anticipated free cash flow before cash in- and outflows for M&A activities for the full year 2019 of EUR 350 to 400 m.

Schaeffler share price trend 2019
in percent (12/31/2018 = 100)



Source: Bloomberg (closing prices).

Fourth Capital Markets Day in Frankfurt

On September 11, 2019, Schaeffler AG held its fourth Capital Markets Day at the dbAccess IAA Cars Conference 2019 in Frankfurt. Presentations focused especially on portfolio management and capital allocation, sample products for drive train electrification, and measures taken to safeguard earnings. A total of about 60 equity and credit analysts as well as equity and debt investors attended the Capital Markets Day.

BDT Capital Partners acquires significant holding of non-voting common shares

On November 13, 2019, BDT Capital Partners, a Chicago-based merchant bank focusing on investments in family-owned businesses, announced that it had acquired approximately 25% of the outstanding non-voting common shares of Schaeffler AG.

Capital market trends

Global capital markets were buoyant in 2019, partly driven by speculation regarding an end to the trade conflict between China and the U.S. early in the year. The global economy continued to deteriorate during the second quarter; however, both the American Federal Reserve Bank (Fed) and the European Central Bank (ECB) signaled a willingness to reduce interest rates or, in the case of the ECB, resume its bond buying program. The statements made by the two central banks were welcomed by the capital markets. Over the course of the remainder of the year, capital markets initially trended laterally with high volatility. Toward year-end, signs of a rapprochement in the trade conflict emerged. In addition, the global economy showed signs of stabilizing.

In this context, the global equities markets firmed up considerably overall in 2019. The Euro STOXX 50 rose by 24.8% and the Dow Jones Industrial was up 22.3%. The Nikkei 225 index gained 18.2% in value as well. The Deutsche Aktienindex (DAX) increased by 25.5%, rising to a level of 13,249 points as at December 31, 2019.

Schaeffler shares

In 2019, Schaeffler AG's common non-voting shares outperformed the benchmark indexes DAX (+25.5% compared to December 31, 2018) and STOXX Europe 600 Automobiles & Parts (+15.1%), but was unable to hold its ground against the MDAX (+31.1%) or the SDAX (+31.6%). On December 31, 2019, the common non-voting shares of Schaeffler AG were quoted at EUR 9.63, 29.1% up from December 31, 2018. Following the publication of declining earnings in the automotive business in the fourth quarter of 2018 and the outlook for 2019 for the Automotive divisions on March 6, 2019, the share price initially dropped in the first quarter. Forecasts indicating declining growth in global automobile production, particularly in the Greater China region, and the resulting reduction of the earnings guidance 2019 on July 29 additionally held back the share price in the months that followed. Over the course of the third quarter, the share price benefited from a slightly better mood in the capital markets due to more optimistic market commentaries from the automotive sector. Third-quarter earnings quality significantly exceeded capital market expectations, which drove a further recovery of Schaeffler's shares. Toward the end of the fourth quarter, the share price largely trended laterally.

The daily trading volume averaged 1,007,373 shares in 2019 (prior year: 1,261,196). The decrease in trading volume compared to the prior year period is largely due to the elimination of Schaeffler's shares from the MSCI index at the end of November 2018, resulting in institutional investors adjusting their portfolio to the revised index structure.

For the year 2019, the Board of Managing Directors and the Supervisory Board will propose a dividend of EUR 0.44 per common share and EUR 0.45 per common non-voting share to the annual general meeting. This represents a dividend payout ratio of 43.0% of net income attributable to shareholders before special items. Schaeffler AG intends to pay a dividend of 30 to 50% of consolidated net income before special items in the future.

Schaeffler shares – base data

ISIN	DE000SHA0159
German securities identification number (WKN)	SHA015
Stock symbol	SHA
German stock exchange	Frankfurt Stock Exchange (Prime Standard)
Index	SDAX
Share type	Common non-voting
Number of common non-voting shares as at December 31, 2019	166,000,000
Free float	100%[1]

[1] Approximately 24.9% of total share capital of 666 million common and common non-voting shares (consisting of 500 million common shares and 166 million common non-voting shares).

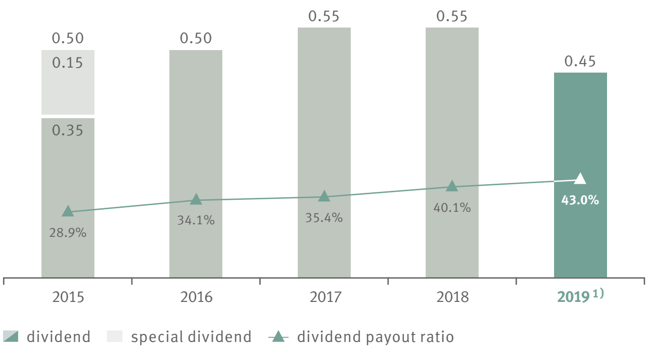
Schaeffler share performance

	2019	2018
Share price at year-end 12/31/ (in €) [1]	9.63	7.46
Share price (high; in €) [1]	10.43	16.58
Share price (low; in €) [1]	5.82	7.05
Average trading volume (number of shares)	1,007,373	1,261,196
DAX 12/31/ [1]	13,249	10,559
MDAX 12/31/ [1]	28,313	21,588
SDAX 12/31/ [1]	12,512	9,509
STOXX Europe 600 Automobiles & Parts 12/31/ [1]	508	442
Average number of shares (in millions)		
• Common shares	500	500
• Common non-voting shares	166	166
Earnings per share (in €)		
• Common shares	0.64	1.32
• Common non-voting shares	0.65	1.33
Dividend per share (in €) [2]		
• Common shares	0.44	0.54
• Common non-voting shares	0.45	0.55

[1] Source: Bloomberg (closing prices).
[2] For the relevant year, proposed dividend for 2019.

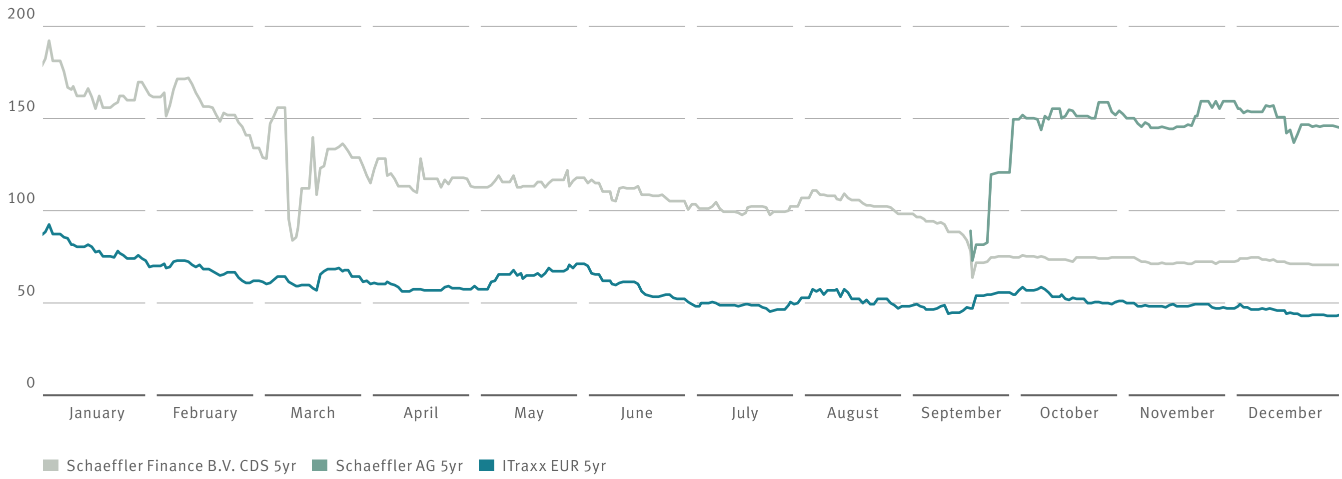
Dividend trend and dividend payout ratio

EUR per common non-voting share



[1] Subject to approval by the annual general meeting.

Credit default swap (CDS) price trend 2019
in basis points



Source: Bloomberg (closing prices).

Schaeffler bonds and ratings

The Schaeffler Group had a total of four series of bonds outstanding as at December 31, 2019, all of them denominated in EUR. The investment grade bonds placed on March 19, 2019, were issued by Schaeffler AG. The bond series due in 2025 was issued by Schaeffler Finance B.V. in Barneveld, Netherlands.

The three bond series issued by Schaeffler AG have risen significantly since they were issued on March 19, 2019. The bond series issued by Schaeffler Finance B.V., which will become callable on May 15, 2020, closed in on its contractual redemption price over the course of the year.

The favorable price trend of the bonds issued in March 2019 was helped by the ECB expressing the intention to continue its highly expansive monetary policy and further support it by renewed bond purchases starting in November 2019. The EUR bond series of Schaeffler Finance B.V. due in 2025 remained close to its contractual redemption price regardless of general market trends.

The Schaeffler Group had the following bonds outstanding at December 31, 2019:

Schaeffler AG has been assigned an investment grade rating by all three rating agencies – Fitch, Moody's, and Standard & Poor's. The following summary shows the three rating agencies' ratings as at December 31, 2019:

Schaeffler Group ratings
as at December 31

	2019	2018	2019	2018
		Company		Bonds
Rating agency		Rating/Outlook		Rating
Fitch	BBB-/stable	BBB-/stable	BBB-	BBB-
Moody's	Baa3/stable	Baa3/stable	Baa3	Baa3
Standard & Poor's	BBB-/negative	BBB-/stable	BBB-	BBB-

Schaeffler Group bonds

			12/31/2019	12/31/2018			12/31/2019	12/31/2018
ISIN	Issuer	Currency	Principal in millions		Coupon	Maturity	Price in %[1]	
DE000A2YB699	Schaeffler AG	EUR	750	-	1.13%	03/26/2022	102.24	-
DE000A2YB7A7	Schaeffler AG	EUR	800	-	1.88%	03/26/2024	104.73	-
XS1212470972 [2]	Schaeffler Finance B.V.	EUR	600	600	3.25%	05/15/2025	102.79	102.26
DE000A2YB7B5	Schaeffler AG	EUR	650	-	2.88%	03/26/2027	109.93	-

[1] Source: Bloomberg.
[2] Bond will reach its first contractual call date on May 15, 2020.

Investor relations

Open lines of communication on a continuous basis with share- and bond holders as well as with all other capital market participants is important to Schaeffler AG. In addition to roadshow activities in the major European financial centers, in the U.S., and in Hong Kong, the company regularly presents and discusses quarterly and annual results via conference calls.

In 2019, members of the Board of Managing Directors of Schaeffler AG and the Investor Relations team participated in a total of six investor conferences and 23 roadshows, including in Hong Kong, Detroit, New York, Toronto, London, Paris, Copenhagen, Helsinki, Stockholm, Milan, Madrid, Zurich, and Frankfurt. More than 400 investors took advantage of the opportunity to learn more about the Schaeffler Group in about 200 meetings at these events in 2019.

Analyst opinions for Schaeffler AG shares [1)]

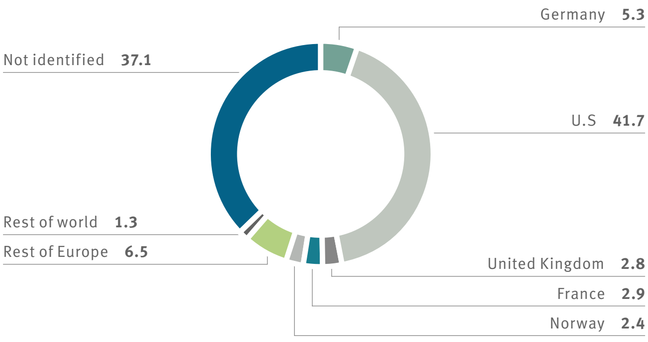
Banken	Recommen-dation	Price target in €
Bankhaus Lampe	Hold	7.50
BoA Merrill Lynch	Underperform	7.70
Citigroup	Buy	11.00
Deutsche Bank	Hold	7.00
DZ Bank	Hold	10.00
Exane BNP Paribas	Neutral	10.00
HSBC	Hold	10.50
J.P. Morgan Cazenove	Overweight	11.00
Jefferies	Hold	9.00
Kepler Cheuvreux	Hold	10.00
MainFirst Bank	Outperform	11.50
Morgan Stanley	Equal-weight	9.00
NordLB	Hold	9.00
Oddo BHF	Neutral	9.00
Pareto Securities	Buy	10.60
UBS	Sell	6.30
Warburg Research	Buy	12.00

[1)] Recommendations up to February 12, 2020.

The company was covered by analysts representing a total of 17 banks (prior year: 21) as at February 12, 2020. Certain banks ceasing to cover the company is in line with the trend in the market. In addition, fluctuation among analysts increased in 2019. A total of five banks issued a recommendation of either buy, outperform, or overweight on Schaeffler AG's common non-voting shares. Their average upside target was EUR 9.48.

Geographic distribution of free float

Geographic distribution of free float
in percent



The distribution of the institutional free float of Schaeffler's common non-voting shares as at November 30, 2019, was determined using a shareholder identification survey (Share ID). The identification rate was 62.9%. This means that, out of the 166 million common non-voting shares that are widely held, the survey was able to attribute 104.4 million shares to 170 institutional investors in approximately 30 countries. As at the reporting date, 41.5 million shares, the largest holding, were held by strategic investor BDT Capital Partners. A total of 69.3 million shares were included in trading portfolios of institutional investors domiciled in the U.S. At year-end, 5.3% or 8.9 million shares were held by institutional shareholders in Germany. The unidentified free float of 37.1% represented private investors and others.

For further detail please contact:

Investor Relations
phone: +49 (0) 9132-82-4440
fax: +49 (0) 9132-82-4444
e-mail: ir@schaeffler.com
www.schaeffler.com/ir

See back cover for financial calendar

Schaeffler Group

Financial report 2019

Group management report

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

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

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

Rounding differences may occur.

* Not part of the group management report and unaudited.

References
Content of websites referenced in the group management report merely provides further information and is not part of the group management report and is unaudited. This does not apply to the corporate governance report including the corporate governance declaration in accordance with sections 289f HGB and 315d HGB, including the declaration of conformity pursuant to section 161 AktG. The reference to the combined separate group non-financial report in accordance with section 289b (3), section 315b (3), and section 298 (2) HGB also forms part of the group management report.

Disclaimer in respect of forward-looking statements
This group management report contains forward-looking statements that are based on the Board of Managing Directors’ current estimation at the time of the creation of this report. Such statements refer to future periods or they are designated by terms such as “estimate”, “forecast”, “intend”, “predict”, “plan”, “assume”, or “expect”. Forward-looking statements bear risks and uncertainties. A variety of these risks and uncertainties are determined by factors not subject to the influence of the Schaeffler Group. Therefore, actual results can deviate substantially from those indicated.

1. Fundamental information about the group

1.1 Organizational structure and business activities

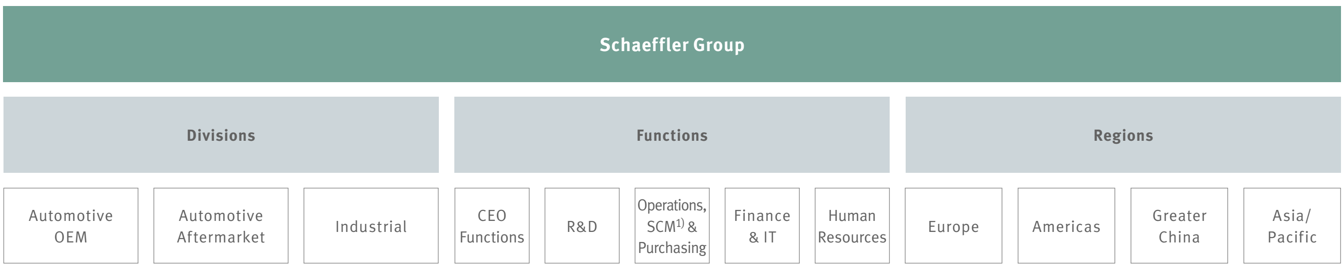
The Schaeffler Group (also referred to as "Schaeffler" below) is a global automotive and industrial supplier. Employing a workforce of approximately 87,700, the company develops and manufactures high-precision components and systems in engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications. These include innovative and sustainable technologies both for vehicles with only an internal combustion engine and for hybrid and electric vehicles, as well as components and systems for rotary and linear movements, and services, maintenance products, and monitoring systems for a large number of industrial applications. Additionally, the company provides repair solutions in original-equipment quality for the automotive spare parts market worldwide.

Organizational and leadership structure

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

In addition to the divisions, the Schaeffler Group's organizational model includes five functional areas: (1) CEO Functions, (2) R&D, (3) Operations, Supply Chain Management & Purchasing, (4) Finance & IT, and (5) Human Resources. Distribution is embedded directly in each of the divisions. The third dimension are the group's four regions Europe, Americas, Greater China, and Asia/Pacific.

Schaeffler Group organizational structure
since January 1, 2020



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

Schaeffler Group functions

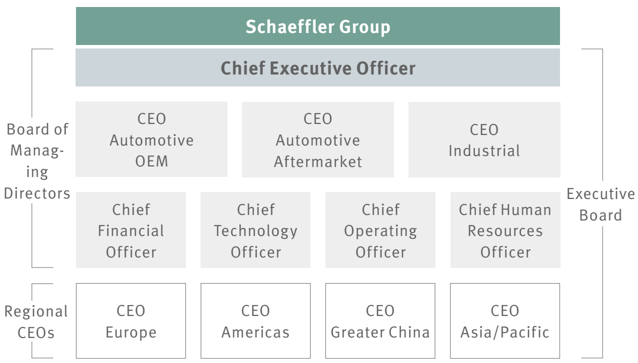
since January 1, 2020

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

Simplified presentation for illustration purposes.

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. Along with the Chairman of the Board of Managing Directors (Chief Executive Officer – CEO), the Board of Managing Directors comprises the CEOs of the Automotive OEM (CEO Automotive OEM), Automotive Aftermarket (CEO Automotive Aftermarket), and Industrial (CEO Industrial) divisions and the Managing Directors responsible for the Schaeffler Group's functions (Chief Technology Officer, Chief Operating Officer, Chief Financial Officer, and Chief Human Resources Officer).

Schaeffler Group leadership structure



The Board of Managing Directors is directly responsible for managing the company, setting objectives and strategic direction, and managing the implementation of the growth strategy, taking into account the interests of shareholders, employees and other stakeholders of the company in order to add long-term value. The Chairman of the Board of Managing Directors (CEO) coordinates the management of the company and the Schaeffler Group. In addition to the divisions and the functions, the group's matrix organization comprises the regions Europe, Americas, Greater China, and Asia/Pacific, each managed by a Regional CEO. The Regional CEOs report directly to the CEO. Jointly, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board. In this manner, the Schaeffler Group's organizational structure is reflected in its leadership structure.

The Supervisory Board of Schaeffler AG appoints, advises, and oversees the Board of Managing Directors and is involved in fundamental decisions. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board.

The Board of Managing Directors and the Supervisory Board comply with the recommendations of the German Corporate Governance Code in conducting their affairs and have issued the declaration of conformity pursuant to section 161 German Stock Corporations Act ("Aktiengesetz" – AktG) in December 2019. The corporate governance report including the corporate governance declaration in accordance with sections 289f HGB and 315d HGB incl. the declaration of conformity pursuant to section 161 AktG is publicly available from the company's website.

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

Legal group structure

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

Schaeffler AG is a publicly listed corporation domiciled in Germany. Schaeffler AG's share capital consists of a total of 666 million shares. 500 million of these shares are unlisted common bearer shares and 166 million are common non-voting bearer shares. Each common share and each common non-voting share represents an interest in total share capital of EUR 1.00.

All 500 million of the common bearer shares are held by IHO Verwaltungs GmbH, which is part of IHO Holding. This represents an approximately 75.1% interest in Schaeffler AG. The 166 million common non-voting bearer shares in Schaeffler AG are widely held. The free float amounted to approximately 24.9% as at December 31, 2019.

Acquisitions and disposals

The Schaeffler Group continued to press ahead with the transformation of the company in 2019. As part of the transformation process, the Schaeffler Group acquired Elmotec Statomat Holding GmbH on January 31, 2019. Elmotec Statomat is a manufacturer of production machinery for the high-volume construction of electric motors. The acquisition represents a step toward expanding the Schaeffler Group's expertise in manufacturing electric motors.

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

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

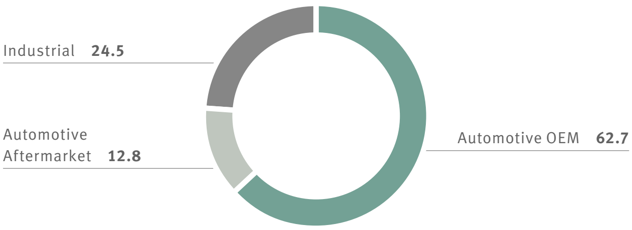
The Schaeffler Group sold Schaeffler Friction Products Hamm GmbH, Hamm, to the company's management team (management buyout) on June 30, 2019. The Hamm location mostly produced friction linings for dry double clutch transmissions in the Automotive OEM division. Alongside friction linings, the Hamm plant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

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

Business activities

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

Schaeffler Group revenue by division
in percent



Automotive OEM division

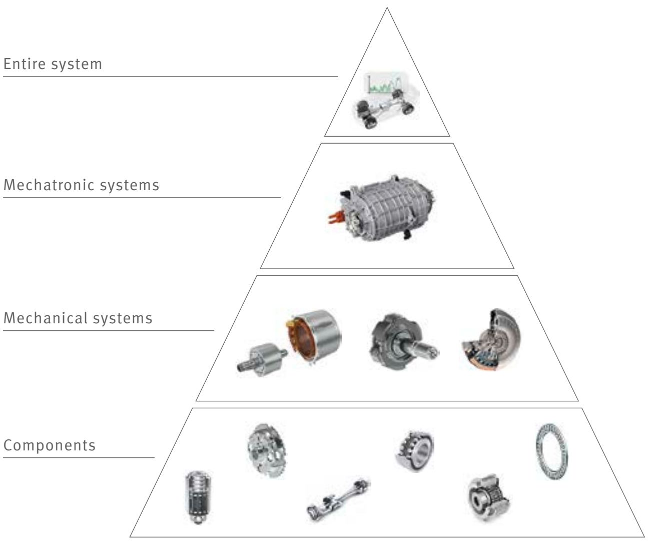
The Automotive OEM division partners with the global automotive industry in developing and manufacturing components and systems for engine, transmission, and chassis applications, as well as for hybrid and electric drive systems. Along with technologies for low-emission and emission-free drive systems,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

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

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

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

Automotive OEM division technology pyramid



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

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

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

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

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

Automotive Aftermarket division

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

The management model follows a regional approach using the **regions Europe**, **Americas**, **Greater China**, and **Asia/Pacific**. Within each region, products and services are sold via two distribution channels: the Original Equipment Service (OES) and the open (independent) spare parts market, known as the Independent Aftermarket (IAM). The OES comprises the automobile manufacturers’ spare parts business, that is, supplying original spare parts to branded repair shops, i.e. those that are authorized by automobile manufacturers. IAM supplies independent, non-branded repair shops with components as well as repair solutions and services. IAM differentiates between two types of business: In addition to the traditional component business consisting of replacing parts, the Automotive Aftermarket division develops and distributes custom-assembled repair sets and kits for simple, efficient, and professional vehicle repairs. A global network of distributors, many of whom are organized in trade cooperatives, acts as the Automotive Aftermarket division’s IAM sales market. The OES distribution channel’s customers include the vehicle manufacturers.

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

The Schaeffler Group believes that increasing vehicle complexity will offer additional growth opportunities to the Automotive Aftermarket division in the coming years. As a result, a further expansion of the product portfolio and a targeted focus on the needs of this specific market are designed to contribute significant growth. At the same time, the division is preparing for future challenges, especially those arising from the move toward new drive technologies. Networking with the Automotive OEM division within the Schaeffler Group is key to this preparation.

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

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

Five core elements for profitable growth

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

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

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

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

Industrial division

The Industrial division develops and manufactures components and systems for rotary and linear movements and offers services for various industrial sectors. The management model of the Industrial division follows a regional approach based on the **regions Europe, Americas, Greater China,** and **Asia/Pacific**. Within the regions, the direct business with customers is grouped into eight sector clusters: (1) wind, (2) raw materials, (3) aerospace, (4) railway, (5) offroad, (6) two wheelers, (7) power transmission, and (8) industrial automation. Managing the business on a regional basis allows the division to closely target its response to local customer needs and to strengthen customer loyalty. Transregional issues, such as the global technology and product strategy, are driven forward by the close network linking the regions within the division. In addition, the business with distributors is managed by the Industrial Distribution unit. Industry 4.0 products and services are concentrated in a strategic business field with global responsibility. A global key account management function for key customers with operations in more than one region is aimed at meeting their needs with the same level of quality all over the world. Thus, the Industrial business is aligned along customer and market needs in order to grow sustainably and profitably.

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

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

Industrial division technology pyramid

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

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

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

Locations and production network

With its approximately 170 locations worldwide, 70 production facilities in 22 countries, 20 research and development centers, and a tight-knit sales and service network, the Schaeffler Group ensures that the customer always finds it close at hand. Cooperation across divisions and countries thus leads to a high degree of flexibility in solving new customer requirements and the opportunity of anticipating emerging trends early on. The Schaeffler Group has a global production system. The plants, which employ approximately 70,000 staff, form the core of the Schaeffler Group's operations and are managed based on uniform principles. The global production system and the manufacturing technologies utilized in the plants represent key factors underlying the Schaeffler Group's worldwide success. The Schaeffler Group is committed to consistently ensuring top quality and product safety across all areas of application. All of the Schaeffler Group's manufacturing locations are certified under globally recognized quality norms, standards, and regulations.

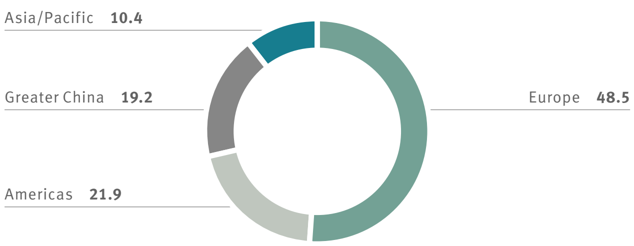
The Schaeffler Group develops new production technologies on a cross-divisional basis and consistently enhances existing technologies in volume production. This has resulted in a technology network that enables the company to realize synergies and establish uniform production standards.

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

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

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

Schaeffler Group revenue by region
in percent by market view



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

The **Americas region** consists of the two subregions North America and South America. Starting January 1, 2020, Mexico is considered a separate subregion due to the significance of the locations there with approximately 3,000 employees. The Americas region contributed 21.9% (prior year: 20.2%) of revenue in 2019. The degree of localization amounted to approximately 56% (prior year: 56%) in the Americas region. A total of 12,264 staff were employed at 14 plants – consisting of 8 plants in the U.S. and 2 each in Canada, Mexico, and Brazil – and 5 R&D centers as well as at distribution locations in North and South America. The Americas region has its regional head office in Fort Mill in the U.S. The Schaeffler Group has been manufacturing in this region since 1953.

The regional head office of the **Greater China region**, which also includes Taiwan, Hong Kong, and Macao, is located in Anting, China. Schaeffler's first subsidiary in this region was founded in Taicang, China, in 1995. The region generated 19.2% (prior year: 18.0%) of group revenue in 2019. The degree of localization amounted to approximately 54% (prior year: 51%). A total of 12,182 staff were employed at 8 plants and 1 R&D center in the Greater China region. As a consequence of the especially dynamic trend in recent years, it is important to the company to further expand not only E-Mobility, but also its local presence and to consistently raise the degree of localization in the future.

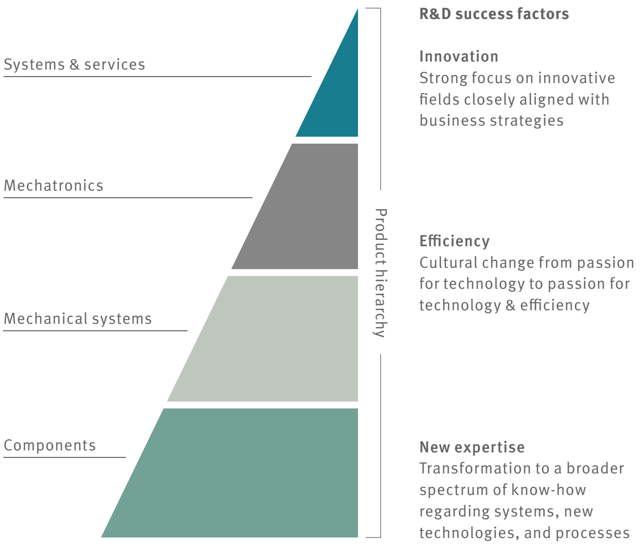
Until December 31, 2019, the **Asia/Pacific region** comprised the subregions South Korea, Japan, and the countries in Southeast Asia. The India subregion has been added to the Asia/Pacific region effective January 1, 2020. 10.4% (prior year: 10.5%) of group revenue was generated by this region in 2019. The degree of localization amounted to approximately 43% (prior year: 35%) in 2019. The Asia/Pacific region had 3,147 employees. The regional head office is located in Singapore. The Schaeffler Group operates a total of 5 plants and 2 R&D centers in this region and has been represented in this region since 1953. The Schaeffler Group celebrated the opening of its new plant in Bien Hoa, Vietnam, on May 9, 2019. The company has invested over EUR 45 m in the construction of this new production plant. Industrial bearings and components for a wide range of applications will be produced there, including radial insert bearings and needle roller bearings.

[1] Sales by market view.

1.2 Research and development

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

R&D roadmap



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

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

Research and development expenses

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

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

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

The Schaeffler Group closely collaborates with universities in its "Schaeffler Hub for Advanced Research" (SHARE) initiative using the "Company on Campus" concept to develop future-oriented technologies. SHARE at KIT (Karlsruhe Institute for Technology), which was founded in 2013, concentrates on electric mobility with a special focus on automated driving. In the publicly subsidized "OmniSteer" and "SmartLoad" projects, research teams were working on new steering concepts for autonomous vehicles and on the resilience of actuators in 2019. The "OmniSteer" project was successfully completed in September 2019. SHARE at FAU (Friedrich-Alexander University of Erlangen-Nuremberg) focuses its research on Digitalization along the entire value chain (e.g. additive manufacturing of concrete components, machine learning, condition monitoring and predictive maintenance, real-time process monitoring in production). SHARE at NTU (Nanyang Technological University, Singapore) prioritizes robotics and SHARE at SWJTU (Southwest Jiatong University, Chengdu) concentrates on (chassis) solutions for high-speed trains. Along with other collaborations with universities, the Schaeffler Group has a strategic partnership with Fraunhofer-Gesellschaft that has been in place since 2017.

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

1.3 Group strategy and management

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

Strategy "Mobility for tomorrow"

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

To execute the strategy "Mobility for tomorrow", the company also launched its program for the future, the "Agenda 4 plus One", with the Schaeffler Group's 16 most significant strategic initiatives in 2016. The program was expanded to include four additional initiatives, increasing the number of initiatives to 20 effective January 1, 2018. The strategic initiatives are grouped in 4+1 categories: Customer focus, Operational excellence, Financial flexibility, Leadership and Talent management, and – as "plus One" – Securing long-term competitiveness and value creation.

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

Capital allocation and portfolio management

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

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

Capital allocation management framework

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

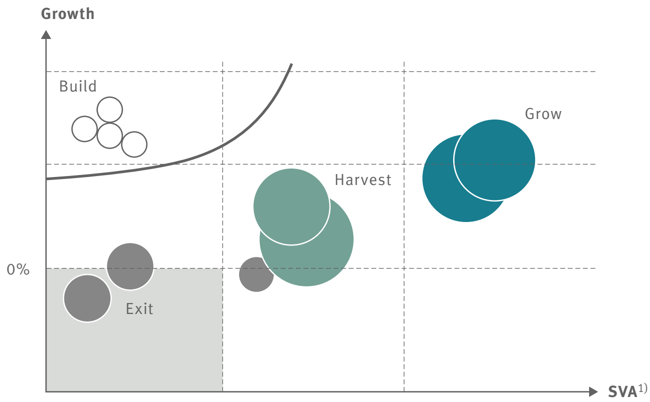
[1] Capital expenditures on capacity expansion and new products.

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

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

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

Portfolio overview



[1] Schaeffler Value Added.

M&A strategy

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

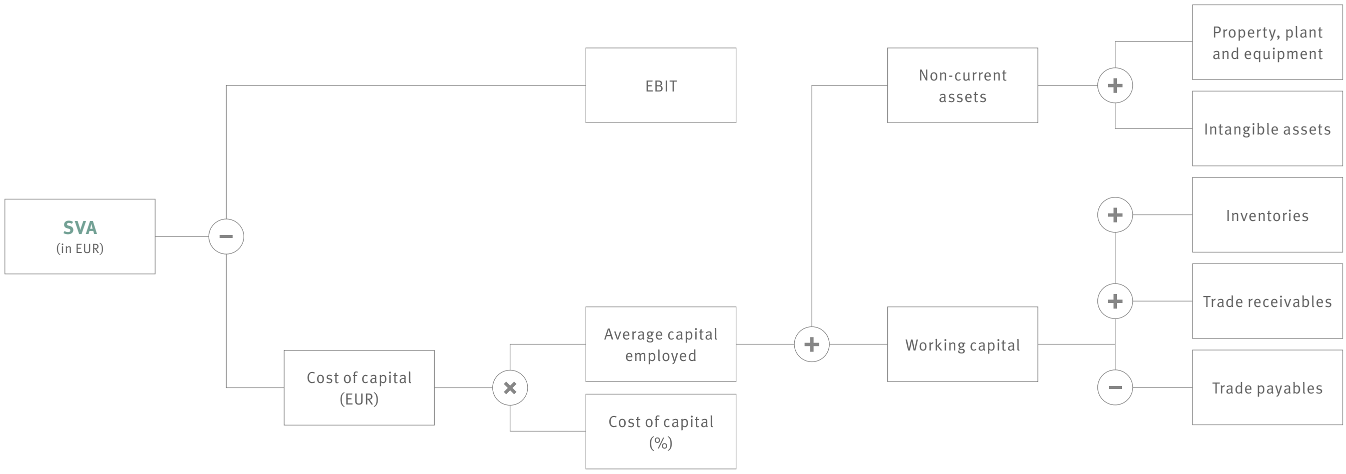
At the core of this approach is an M&A radar that is applicable groupwide and defines seven focus areas where the company is aiming to acquire expertise and generate inorganic growth both within the various divisions and across divisions. The company's search for opportunities to expand the profile of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

Roadmap 2024

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

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

Strategic financial performance indicators



Group management

Schaeffler AG's Board of Managing Directors is directly responsible for managing the Schaeffler Group, setting objectives and the strategic direction, and managing the implementation of the growth strategy. The Supervisory Board of Schaeffler AG appoints, supervises, and advises the Board of Managing Directors.

In 2019, the Schaeffler Group's management utilized a three-dimensional matrix organization consisting of three divisions, five functions, and four regions to manage the group's business activities. The Schaeffler Group's internal management system consists of the annual budget developed based on the strategic framework specified by the Board of Managing Directors, ongoing monitoring and management of financial performance indicators, regular meetings of the Board of Managing Directors and management meetings, as well as reports provided to the Supervisory Board of Schaeffler AG. Ongoing monitoring and management is based on a comprehensive system of standardized reports on net assets, financial position, and earnings. Discussions at the meetings of the Board of Managing Directors and the management meetings address the results of operations, including the achievement of targets and objectives, as well as the outlook for the year as a whole and any action that may be required.

Value-based management

The Schaeffler Group's internal management system is designed to support implementation of the group strategy. Ensuring that the Schaeffler Group conti nues to meet its core business objective of growing profitably and creating long-term value requires a value-based approach to managing its business portfolio. One important principle underlying value-based management of companies is the necessity to reflect the interests and needs of investors.

Value-based management is an integral component of all planning, management, and control processes. The Schaeffler Group's performance-based management remuneration is directly linked to the economic development of the company as well .

Strategic financial performance indicators

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

The Schaeffler Group's internal management system consists of several levels. The Schaeffler Group's key value-based performance indicator is **Schaeffler Value Added (SVA)**. Return on Capital Employed (ROCE)[2] is closely linked to SVA. Both indicators are determined before special items.

More on special items on pp. 30 et seq.

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

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

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

Key operating financial performance indicators

The SVA indicator serves as an indicator of the amount of shareholder value added in 2019. This strategic performance indicator is operationalized using key financial performance indicators. Thus, the Schaeffler Group focuses on continually monitoring and increasing the following three key operating financial performance indicators:

- **Revenue growth (at constant currency)**
- **EBIT margin (before special items)**
- **Free cash flow before cash in- and outflows for M&A activities**

These three key operating financial performance indicators represent the basis for operating decisions and are also the basis for the outlook. On the whole, increasing these indicators adds shareholder value for the long term by sustainably generating a premium over and above the cost of capital.

Revenue growth (at constant currency): Since the Schaeffler Group's economic success is based on a long-term growth strategy, significant importance is attached to the performance indicator revenue growth. Revenue growth measures the change in revenue compared to the prior year as a percentage. In order to make the evaluation of the company's results of operations as transparent as possible and to increase the comparability over time, the Schaeffler Group reports revenue growth at constant currency.

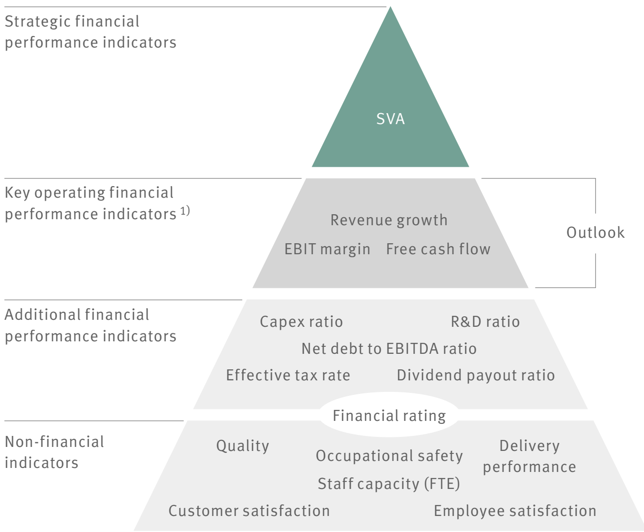
EBIT margin (before special items): The EBIT margin is used to measure the Schaeffler Group's operating earnings. The EBIT margin is a relative indicator calculated as the ratio of EBIT to revenue. This ratio measures the company's profitability. The EBIT margin is calculated before special items in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

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

Along with profitability, the key factors affecting free cash flow are effective management of working capital as well as the level of capital expenditures. In order to make the evaluation of the company's results of operations as transparent as possible and improve comparability over time, the Schaeffler Group reports free cash flow, one of its key operating financial performance indicators, before cash in- and outflows for M&A activities.

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

Management system



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

Additional financial performance indicators

In addition to the three key operating financial performance indicators, the Board of Managing Directors also continually tracks additional financial performance indicators including, among others, the capex ratio, R&D ratio, net debt to EBITDA ratio, effective tax rate, dividend payout ratio, and financial rating.

The company further monitors a number of **leading operating indicators** in order to be able to identify trends in a multitude of factors affecting the Schaeffler Group's business early on and take them into account in managing the company. For instance, the company analyzes forecasts of relevant market, economic, and sector data, such as gross domestic product, currency trends, as well as automobile and industrial production in order to gain insight into the future of the business. Raw materials prices are monitored as well in order to estimate trends in significant costs.

In order to obtain a reliable indication of the likely level of capacity utilization and the probable revenue trend, Schaeffler also monitors certain leading operating indicators specific to each division.

- **Automotive OEM:** Nominations for customer projects won within one period are measured using the indicator "lifetime sales" on an ongoing basis and compared to current period revenue by calculating the "book-to-bill ratio" which provides an indication of the Automotive OEM division's medium- to long-term potential for growth. Orders received for short-term delivery under master agreements with customers validly cover a period of approximately two months. Changes in this measure of capacity utilization are monitored on a weekly basis.
- **Automotive Aftermarket:** For the Automotive Aftermarket, no comparable leading indicators can be derived from the volume of order intake or orders on hand. This division holds regular discussions with major customers and observes its markets to obtain leading indications of the short-term demand situation.
- **Industrial:** The Industrial division uses the change in orders on hand due within the following three months as a leading indicator. This figure is monitored on a monthly basis.

All financial indicators are calculated on a monthly basis using standardized reports on earnings, financial position, and net assets. These reports contain a comparison of budget vs. actual as well as a prior year comparison. The comparison of budget vs. actual is based on the annual budget flowing from the integrated operating budget embedded in a longer-range strategic corporate plan established by the Board of Managing Directors.

Non-financial indicators

In addition to the financial performance indicators, management monitors additional key non-financial indicators. Such indicators are calculated using standardized reports during the year and include: quality, staff capacity (full-time equivalent, FTE), delivery performance, customer satisfaction, employee satisfaction, and occupational safety.

More on sustainability management on pp. 19 et seq.

For purposes of managing sustainability, the company obtains additional non-financial indicators for the four fields of action addressed in the sustainability strategy. These indicators are used in managing the operation of the group's sustainability measures. For 2020, Schaeffler AG's Supervisory Board has set a specific sustainability target as part of the variable short-term remuneration of the Board of Managing Directors. The company has a medium-term objective to define non-financial performance indicators and to incorporate these indicators in the value-based management of the company.

In managing the company, senior management considers it imperative that Schaeffler Group employees act strictly within the relevant legal limits and comply with corporate governance standards.

More on corporate governance on pp. 63 et seq.

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

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

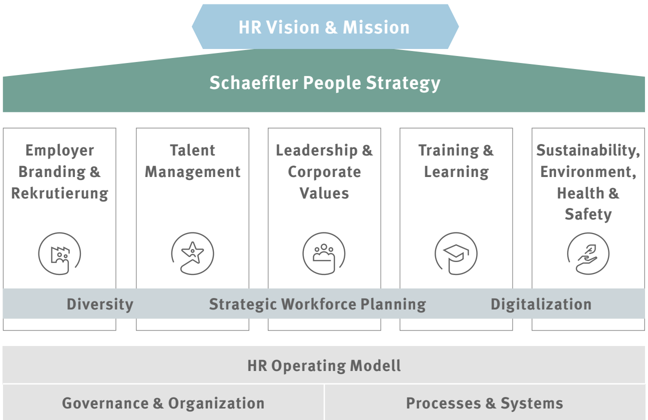
1.4 Employees

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

Human resources strategy

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

HR strategy house



Employer branding & recruiting

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

Talent management

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

Leadership & corporate values

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

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

Training & learning

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

Sustainability, environment, health & safety

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

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

Diversity

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

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

Workforce – structural data

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

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

Employee structure

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

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

Personnel development

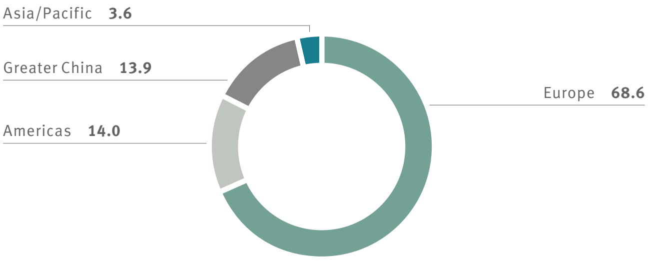
Along with training sessions, employees can also participate in other development measures designed to enhance their cross-functional skills and expand their network. A portal for finding mentors outside the immediate working environment is available on the intranet for this purpose. The company also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

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

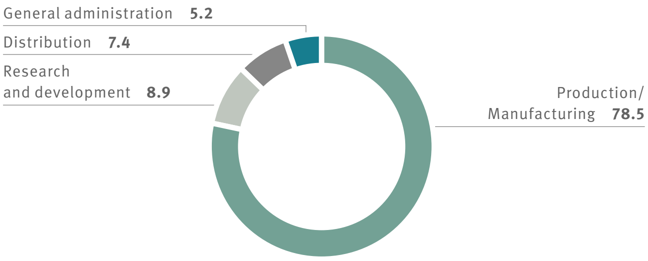
Specialist and project career path

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

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



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



Supporting new talents

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

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

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

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

1.5 Sustainability

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

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

Sustainability management and organization

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

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

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

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

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

2. Report on the economic position

2.1 Economic environment

Macroeconomic environment

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

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

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

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

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

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

More on foreign currency translation on page 110 et seq.

Sector-specific environment

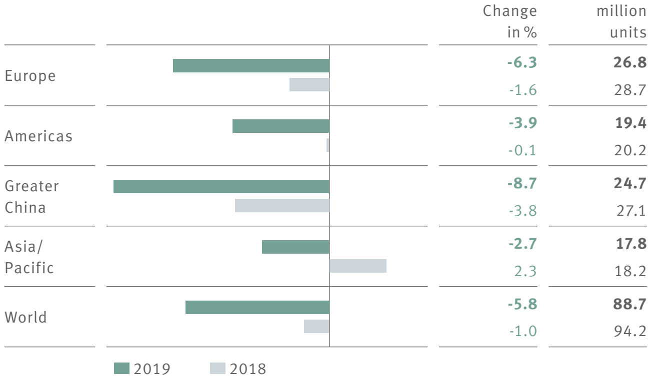
The trend in automobile production significantly affects the results of operations of the Schaeffler Group's Automotive OEM business. The global trend in industrial production provides an indication of the development of the Industrial division's business.

Automobile production

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

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

Automobile production

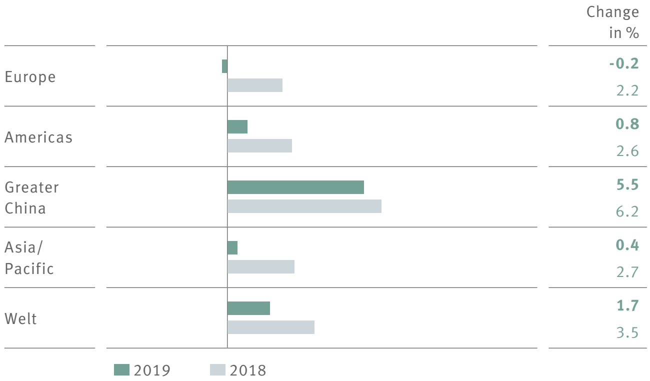


Source: IHS Markit (January 2020).
Regions reflect the regional structure of the Schaeffler Group.

Industrial production

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

Industrial production



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

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

Procurement markets

The Schaeffler Group uses various materials, especially different types of steel, aluminum, copper, as well as plastics and lubricants. Commodity market price trends affect the Schaeffler Group's cost to varying degrees and in some instances with some delay, depending on the terms of the relevant supplier contracts.

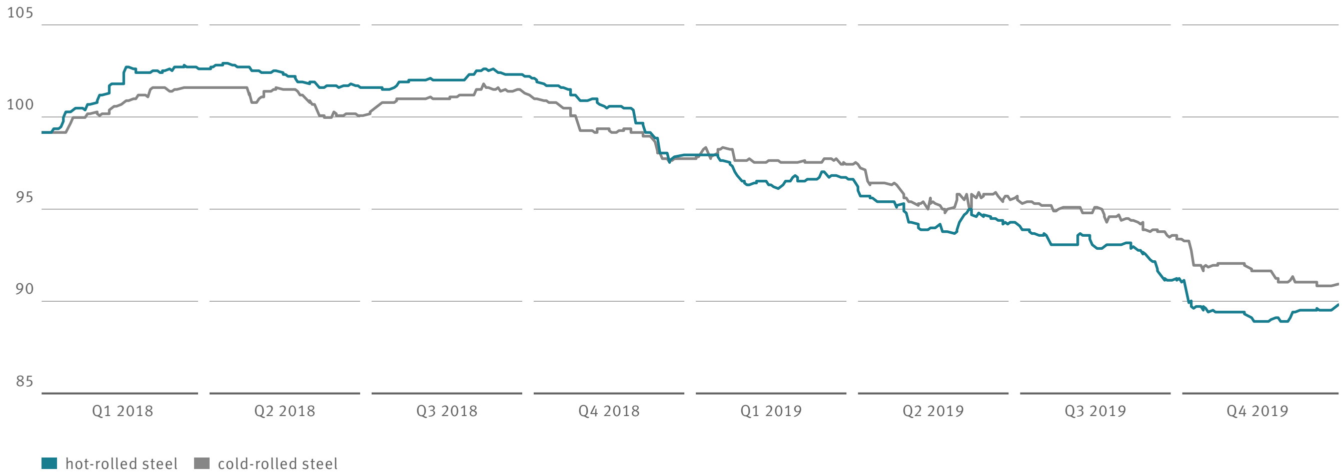
Prices for most of the Schaeffler Group's significant input materials fell over the course of the year, mainly due to declining demand as a result of weakening global economic growth. Annual average prices were consistently lower than in the prior year (Bloomberg; EIA; ICIS; Platts).

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

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

The Schaeffler Group uses plastics, for instance to produce cages for rolling bearings, and lubricants serve to reduce friction in components and as preservatives. Plastics and lubricants are often made based on crude oil. The price of Brent crude was volatile over time and closed higher at year-end than at the beginning of the year. The annual average price of crude oil fell just under 10% short of its prior year level. Based on the ICIS Global Petrochemical Index (IPEX), prices of processed petrochemical products, including the plastics used by the Schaeffler Group, declined over the course of the year. On an annual average basis, prices dropped by just under 17%.

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



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

2.2 Course of business 2019

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

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

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

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

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

Results of operations compared to outlook 2019

On February 19, 2019, the Board of Managing Directors of Schaeffler AG approved guidance on the development of key operating financial performance indicators for the Schaeffler Group and its three divisions for 2019. On July 29, 2019, the Board of Managing Directors of Schaeffler AG decided to reduce the guidance for 2019 as a result of changes in market conditions.

Comparison to outlook 2019 – group

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

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

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

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

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

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

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

Comparison to outlook 2019 – divisions

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

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

Significant events 2019

Schaeffler establishes efficiency and transformation programs

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

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

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

Schaeffler continues to execute M&A strategy

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

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

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

Schaeffler Group completes reorganization of its UK business activities

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

Enhancing the Schaeffler Group's organizational structure

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

Changes in the Executive Board

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

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

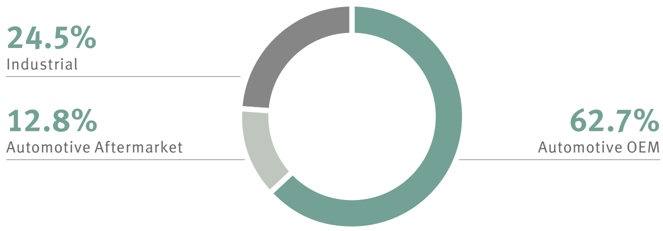
On November 5, 2019, the Schaeffler Group announced that Dietmar Heinrich will not extend his contract. Dietmar Heinrich has been the CFO of Schaeffler AG since August 2017. His employment agreement ends on July 31, 2020.

Schaeffler Group

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

Revenue **EUR 14,427 m**

EBIT margin before special items **8.1%**



Schaeffler Group earnings

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

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

2.3 Earnings

Schaeffler Group earnings

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

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

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

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

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

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

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

Schaeffler Group financial result

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

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

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

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to EUR 16 m (prior year: EUR 1 m). These include the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross-currency swaps.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net gains of EUR 23 m (prior year: losses of EUR 43 m).

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

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

Basic and diluted **earnings per common share** decreased to EUR 0.64 (prior year: EUR 1.32) in 2019. Basic and diluted **earnings per common non-voting share** amounted to EUR 0.65 (prior year: EUR 1.33). The number of shares used to calculate earnings per common share and earnings per common non-voting share was 500 million (prior year: 500 million) and 166 million (prior year: 166 million), respectively.

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

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

Performance indicators and special items

The information on the Schaeffler Group's earnings, net assets, and financial position is based on the requirements of International Financial Reporting Standards (IFRS) and, where applicable, German commercial law and German Accounting Standards (GAS).

In addition to the disclosures required by these standards, the Schaeffler Group also discloses certain performance indicators that are not defined in the relevant financial reporting standards. The company presents these measures in accordance with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority, ESMA. Therefore, these indicators should be considered supplementary information. They are designed to provide comparability over time and across sectors and are calculated by making certain adjustments to, or calculating ratios between, line items contained in the income statement, statement of financial position, or statement of cash flows prepared in accordance with applicable financial reporting standards.

Performance indicators

These performance indicators include EBIT, EBITDA, the net debt to EBITDA ratio, SVA, and ROCE. The key indicators used in evaluating the company's operations are EBIT and the EBIT margin. **EBIT** is defined as earnings before financial result, income (loss) from equity-accounted investees, and income taxes. The EBIT margin represents EBIT as a percentage of revenue. In addition to EBIT, the company calculates **EBITDA**, which represents EBIT before amortization of intangible assets, depreciation of property, plant and equipment, and impairment losses. It is primarily used to calculate the **net debt to EBITDA ratio**. This ratio is used to evaluate the financing structure and is the ratio of net financial debt to EBITDA, where net financial debt is defined as the sum of current and non-current financial debt net of cash and cash equivalents. The Schaeffler Group's key value-based performance indicator is **SVA** as well as ROCE, which is closely linked to SVA.

More on SVA and ROCE on pp. 14 et seq.

The Schaeffler Group also calculates certain additional performance measures not defined in the relevant financial reporting standards. These are defined and discussed in the relevant chapters.

Special items

In order to make the evaluation of the company's results of operations as transparent as possible, the Schaeffler Group reports the indicators described above before special items (=adjusted). Special items are items that the Board of Managing Directors considers to render the financial indicators less meaningful for evaluating the sustainability of the Schaeffler Group's profitability due to their nature, frequency, and/or size. Net income attributable to shareholders of the parent company before special items is also presented in order to facilitate calculating the dividend payout ratio.

In addition to presenting special items, the company also aims to make the evaluation of the company's results of operations as transparent as possible by presenting its revenue figures excluding the impact of currency translation. Revenue figures at constant currency, i.e. excluding the impact of currency translation, are calculated by translating functional currency revenue using the same exchange rate for both the current and the prior year or comparison reporting period.

Free cash flow (FCF) is calculated as the sum of cash flows from operating activities and cash flows from investing activities as well as principal repayments on lease liabilities. The company also reports free cash flow before cash in- and outflows for M&A activities. M&A activities consist of acquisitions and disposals of companies and business units. To facilitate evaluation of the cash conversion cycle, the company determines the FCF conversion ratio, which represents the ratio of FCF before cash in- and outflows for M&A activities to EBITDA before special items.

Special items are categorized as legal cases, restructuring, and other. The restructuring category mainly includes expenses related to restructurings as defined in IAS 37 as well as expenses closely related to these restructurings, such as termination benefits as defined in IAS 19.

Reconciliation

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

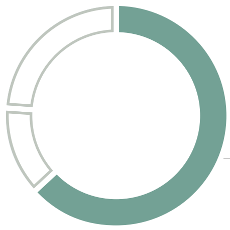
[1] Attributable to shareholders of the parent company.
[2] Based on the group’s effective tax rate for the relevant year.

Automotive OEM division

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

Revenue **EUR 9,038 m**

EBIT margin before special items **5.4%**



Automotive OEM division earnings

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

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

Automotive OEM division earnings

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

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

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

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

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

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

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

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

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

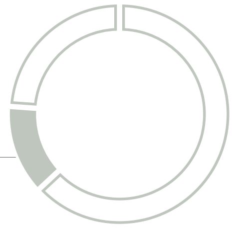
Based on that, **EBIT before special items** declined considerably by EUR 182 m or 27.0% to EUR 491 m (prior year: EUR 673 m) with a drop in EBIT margin by 2.0 percentage points to 5.4% (prior year: 7.5%). The decline was primarily due to the change in gross margin as described above. In addition, an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

Automotive Aftermarket division

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

Revenue **EUR 1,848 m**

EBIT margin before special items **16.1%**



Automotive Aftermarket division earnings

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

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

Automotive Aftermarket division earnings

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

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

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

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

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

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

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

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

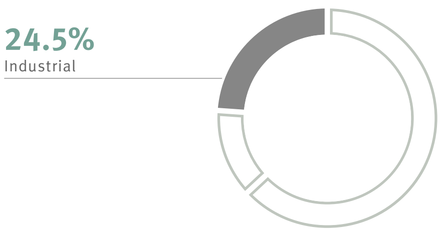
Based on that, **EBIT before special items** declined considerably by EUR 41 m or 12.1% to EUR 298 m (prior year: EUR 339 m) with a drop in EBIT margin before special items to 16.1% (prior year: 18.2%). Along with the decline in gross margin, an adverse impact from transactions denominated in foreign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

Industrial division

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

Revenue **EUR 3,541 m**

EBIT margin before special items **10.5%**



Industrial division earnings

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

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

Industrial division earnings

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

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

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

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

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

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

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

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

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

2.4 Financial position and finance management

Cash flow and liquidity

Cash Flow

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

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

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

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

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

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

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

As at December 31, 2019, cash and cash equivalents consisted primarily of bank balances. EUR 413 m (prior year: EUR 379 m) of this amount related to countries with foreign exchange restrictions and other legal and contractual restrictions. In addition, the Schaeffler Group has a Revolving Credit Facility of EUR 1.8 bn (prior year: EUR 1.3 bn) and other bilateral lines of credit totaling EUR 246 m of which EUR 12 m was drawn as at December 31, 2019. In addition, EUR 74 m of the Revolving Credit Facility was utilized (prior year: EUR 13 m) in the form of letters of credit and overdrafts on current accounts.

Capital expenditures

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

Capital expenditures by region (capex)

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

2019 2018

Regions reflect the regional structure of the Schaeffler Group.

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

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

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

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

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

Financial debt

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

Netto-Finanzschulden

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

The net debt to EBITDA ratio, defined as the ratio of net financial debt to earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation, amortization, and impairment losses (EBITDA), amounted to 1.4 as at December 31, 2019 (prior year: 1.2). The net debt to EBITDA ratio before special items was 1.2 (prior year: 1.2).

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

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

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

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

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

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

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

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

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

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

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

The following summary shows the ratings assigned to the Schaeffler Group by the three rating agencies Fitch, Moody's, and Standard & Poor's as at December 31:

Schaeffler Group ratings
as at December 31

	2019	2018	2019	2018
		Company		Bonds
Rating agency		Rating/Outlook		Rating
Fitch	BBB-/stable	BBB-/stable	BBB-	BBB-
Moody's	Baa3/stable	Baa3/stable	Baa3	Baa3
Standard & Poor's	BBB-/negative	BBB-/stable	BBB-	BBB-

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

Schaeffler Group syndicated loans

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

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

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

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

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

Schaeffler Group bonds

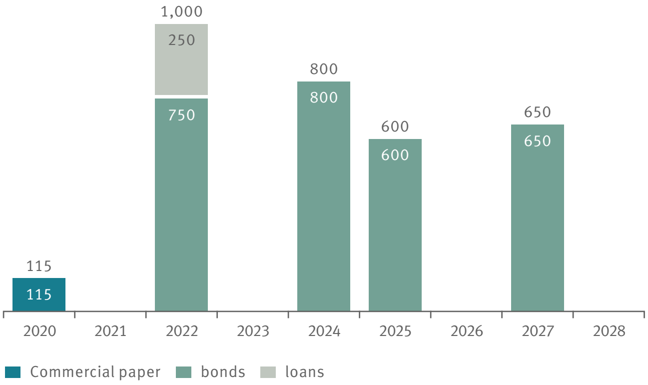
		12/31/2019	12/31/2018	12/31/2019	12/31/2018		
ISIN	Currency	Principal in millions		Carrying amount in € millions		Coupon	Maturity
XS1212469966 1)	EUR	-	400	-	399	2.500%	05/15/2020
XS1067864022 1)	EUR	-	500	-	499	3.500%	05/15/2022
US806261AM57 1)	USD	-	600	-	525	4.750%	05/15/2023
DE000A2YB699	EUR	750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

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

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. Compliance with this financial covenant is monitored continually and reported to the lending banks on a regular basis. As in the prior year, the company has complied with the leverage covenant throughout 2019 as stipulated in the debt agreements.

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

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



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

Finance management

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

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

External group financing is primarily provided by capital and money market instruments as well as syndicated and bilateral lines of credit from international banks. One such line of credit is a contractually agreed-upon Revolving Credit Facility of EUR 1.8 bn available to cover any short- to medium-term liquidity needs. Furthermore, Schaeffler AG has established a commercial paper program with an aggregate volume of EUR 1.0 bn to cover short-term liquidity needs. In addition, the Schaeffler Group uses receivable sale programs to a limited extent to manage liquidity and improve its working capital. For this purpose, the company has access to an ABCP program (asset-backed commercial paper) of revolving sales of trade receivables with a committed volume of EUR 200 m (prior year: EUR 200 m). Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

The Schaeffler Group has a policy of financing its domestic and foreign subsidiaries from internal sources. In accordance with this policy, subsidiaries' financing needs are met largely using internal loans to the extent possible and economically justifiable. As a result, subsidiaries are primarily financed by loans provided by Schaeffler AG and one other subsidiary. As part of the company's **liquidity management** measures, liquidity is balanced between group companies on a short- and medium-term basis using primarily cash pools or intercompany loans. In a few cases, Corporate Treasury also obtains lines of credit for subsidiaries from local banks. Local financing is primarily used to cover fluctuations in working capital.

Centralized finance management performed by the Corporate Treasury department also ensures a uniform presence in the capital markets and when dealing with rating agencies, eliminates structural differences between the various groups of creditors, and strengthens the group's bargaining position with respect to banks and other market participants. In addition, centralized finance management facilitates the centralized allocation of liquidity as well as groupwide management of financial risk (foreign exchange and interest) on a net basis.

2.5 Net assets and capital structure

The Schaeffler Group had EUR 12,870 m in **total assets** as at December 31, 2019 (prior year: EUR 12,362 m).

Consolidated statement of financial position (abbreviated)

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

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

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

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

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

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

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

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

Schaeffler AG is a corporation domiciled in Germany with its registered office located at Industriestr. 1-3, 91074 Herzogenaurach. It acts as a management holding company and is responsible for directing the Schaeffler Group and managing its business as well as its financing; it also employs the staff at the Schaeffler Group's corporate head office.

The Board of Managing Directors of Schaeffler AG is responsible for the key management functions of the Schaeffler Group. Schaeffler AG's situation is largely determined by the Schaeffler Group's operating performance.

The following discussion relates to the separate financial statements of Schaeffler AG prepared in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG).

Schaeffler AG earnings

Income statement of Schaeffler AG (abbreviated)

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

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

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

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

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

For the first time, interest expense included EUR 49 m in accrued interest on the new bonds issued in 2019. EUR 11 m (prior year: EUR 18 m) in interest expense was incurred on institutional loans. The proceeds of the bond issuance, which Schaeffler Finance B.V. transferred to Schaeffler AG via intercompany loans, resulted in interest paid and accrued of EUR 46 m (prior year: EUR 73 m).

Income tax expense for 2019 amounted to EUR 22 m (prior year: EUR 102 m) and consisted entirely of current tax expense of EUR 22 m (prior year: EUR 102 m). Schaeffler AG has had deferred tax assets since 2016. It has opted out of recognizing deferred tax assets in accordance with section 274 (1) sentence 2 HGB. Consequently, just as in the prior year, the company did not have any deferred tax expense or benefit in 2019.

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

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

Schaeffler AG financial position and net assets

Balance sheet of Schaeffler AG (abbreviated)

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

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

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

Schaeffler AG managed the Schaeffler Group's cash pool and held bank balances of EUR 46 m (prior year: EUR 191 m) at the end of the reporting period.

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

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

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

Further, the company has short-term loans payable to affiliated companies related to Schaeffler AG's cash pooling function and responsibility for the internal group financing of the Schaeffler Group.

More on financial debt on pp. 39 et seq.

Closing statement on the dependency report

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

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

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

2.7 Other components of the group management report

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

- “Corporate governance report including the corporate governance declaration in accordance with sections 289f HGB and 315d HGB” beginning on page 63,
- “Governance structure” beginning on page 76,
- “Remuneration report” beginning on page 81 and
- “Governing bodies of the company” beginning on page 96.

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

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

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

3. Supplementary report

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

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

No other material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2019.

4. Report on opportunities and risks

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

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

To be able to appropriately respond to these risks, the company has a risk management system in place to ensure that risks, particularly those to the company's continued existence as a going concern and to its development, are identified on a timely basis. The Schaeffler Group defines risks jeopardizing the continued existence of the company as any risk potentially resulting in insolvency. In this context, risk tolerance is defined as the maximum loss that may result in the breach of a covenant, a liquidity shortfall, or a rating downgrade below the minimum rating required to appropriately refinance outstanding debt.

Risks are defined as possible future developments or events that can lead to adverse deviations from budgeted results, while opportunities are future developments or events that can lead to favorable deviations from budgeted results. When assessing risks, the company considers the impact on its EBIT margin (earnings), free cash flow (financial position), and shareholders' equity (net assets), depending on the risk category.

4.1 Risk management system

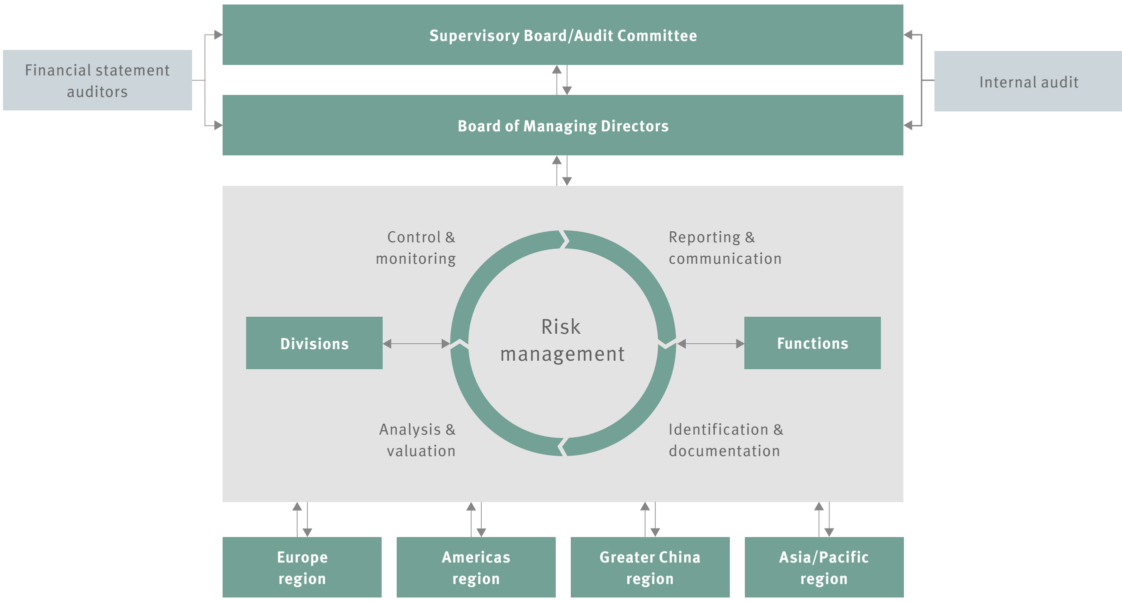
The Schaeffler Group intentionally takes risks in order to meet its corporate objectives.

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

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

Responsibility for the risk management system rests with the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors regularly reports to the Schaeffler AG audit committee and ensures that necessary risk management measures are approved. Details of the risk management system are largely set out in a risk management guideline issued by the Board of Managing Directors and published within the Schaeffler Group, making it available to all employees. It contains a description of the process, the allocation of responsibilities, and the structure of the risk management system.

Structure of risk management system



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

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

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

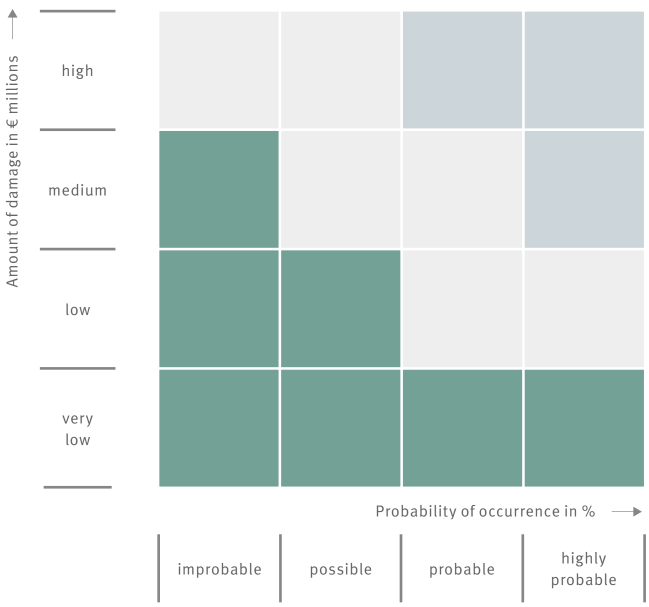
Combined separate group non-financial report in accordance with sections 289b (3) and 315b (3) HGB within the sustainability report at: www.schaeffler-sustainability-report.com/2019

The guideline also defines – as a further component of the risk management system – a groupwide catalog of risk categories to ensure that all risks along the value chain are identified. Identified risks have to be assigned to the predefined risk categories. This catalog must be completely reviewed by all those responsible for risk in order to ensure uniform and complete identification of risks. To make risk assessment comparable, suggested risk assessments have been provided for all risk categories.

Subsidiaries included are selected using a defined selection process based on revenue and earnings (EBIT) as well as risk factors specific to the business. This selection process ensures that all Schaeffler Group subsidiaries that are relevant from a materiality perspective are included in the risk management system. In 2019, 40 of 153 Schaeffler Group entities were included, representing 94% of revenue and 96% of the Schaeffler Group's EBIT. The remaining 113 entities are subject to an abbreviated risk survey process ensuring that all risks to the existence of the company as a going concern are identified.

The risk management system only deals with risks exceeding a threshold of EUR 5 m on a net basis. Risks are assessed based on their amount of damage and their probability of occurrence. The assessment classifies the amount of damage of each risk in one of four categories: very low, low, medium, and high. Classification is performed based on the amount of damage for one year. The probability of occurrence is assessed using percentages and is classified in the four categories improbable, possible, probable, and highly probable. The combination of estimated amount of damage and probability of occurrence determines the risk class, which is classified as either low, medium, or high

Risk matrix



Impact assessment

Amount of damage in €	
< 10 million	very low
>= 10 million - < 25 million	low
>= 25 million - <= 50 million	medium
> 50 million	high

Probability of occurrence in %	
< 25%	improbable
25% - < 50%	possible
50% - 75%	probable
> 75%	highly probable

Risk classes

low medium high

Impact on net assets, financial position, and earnings

based on its impact on net assets, the financial position, and earnings. Risks are assigned to the various risk classes using the risk matrix.

In assessing risks, the Schaeffler Group differentiates between gross exposures and net exposures. Measures already in place can reduce the gross exposure with respect to both amount of damage and probability of occurrence. The net exposure represents the amount of damage and the probability of occurrence after taking into account any risk mitigation measures in place at the reporting date.

Identified risks are actively managed to achieve the company's intended level of risk mitigation. Management takes measures to avoid or reduce risks or to provide safeguards against them. Any risks that cannot be mitigated by taking appropriate action are classified as business risks. Risks with a low impact on the Schaeffler Group are managed by operating management. Risks with a medium or high impact, however, are also managed by the Board of Managing Directors of Schaeffler AG. Within his or her area of responsibility, each member of the Board of Managing Directors decides what measures are required and ensures that they are implemented and kept up to date.

Risk Management reports to the Board of Managing Directors on the risk situation semiannually, which ensures that the Board of Managing Directors is continually updated on the current risk situation of the Schaeffler Group and its change over time. All net exposures with a medium or high impact are reported to the Board of Managing Directors. These reports also include an aggregated summary of identified opportunities. Between regular reporting dates, emerging risks are reported using a defined ad hoc process, ensuring timely communication of emerging risks to the Board of Managing Directors. Reports to the audit committee are made annually.

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

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

4.2 Internal control system

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

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

The financial statement information reported by Schaeffler AG and its subsidiaries via a uniform groupwide chart of accounts represents the base data for the compilation of the separate and consolidated financial statements. Many subsidiaries receive support from an internal shared services organization in this process. The Schaeffler Group obtains assistance from external specialists in dealing with certain complex issues requiring extensive specialized knowledge (such as the valuation of pension obligations).

Conceptual and process-related requirements and deadlines as well as analyses and reasonability checks at group and company level ensure that the separate and consolidated financial statements of Schaeffler AG are compiled, prepared, and issued in accordance with the law, to a high level of quality, and on time.

The following significant features of the system of internal controls over financial reporting have been implemented within the Schaeffler Group as part of this process:

- An accounting manual sets out uniform accounting policies, taking into account new IFRS financial reporting standards required to be applied for the first time.
- Closing instructions issued quarterly provide Schaeffler AG subsidiaries with information on all relevant issues regarding the content as well as the processes and deadlines for compiling the financial statements.
- Tasks and responsibilities regarding the compilation of the separate and consolidated financial statements are clearly defined and assigned.
- The operating units and the various staff members involved in the process stay in close contact on matters concerning accounting, financial statement compilation, and quality assurance with respect to financial statement compilation.

The process for compiling the separate and consolidated financial statements is itself secured by numerous control activities, taking into account materiality. In particular, these include extensive systems-based reasonability checks, controls using reviews (by a second member of staff) performed on a regular basis, and analyses and reasonability checks of the quarterly and annual consolidated financial statements at the corporate level.

As at each year-end, management assesses the appropriateness and effectiveness of the ICS in place. To this end, the Schaeffler Group uses a standardized methodology to identify the group companies and processes relevant to ICS, define the required controls, and document them in accordance with uniform requirements. This is then followed up with a review of the effectiveness of the defined controls that is performed using a risk-based approach, either by the reporting unit itself, by internal audit, or as part of the audit of the consolidated financial statements. This review involves evaluating and assessing risks as well as reporting on them to management with the relevant responsibility at all organizational levels of the companies and the group. Where control weaknesses exist, actions to eliminate these weaknesses have to be defined. Regardless of the assessed level of the Schaeffler Group's internal control system, the effectiveness of any internal control system is inherently limited. No control system, no matter how effective, can prevent or detect all inaccuracies.

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

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

4.3 Risks

The net risks discussed below could take on a medium or high impact on the Schaeffler Group's earnings, financial position, and net assets within the planning horizon. Risks are divided into strategic, operating, legal, and financial risks and are described in decreasing order of the magnitude of their impact on the Schaeffler Group's net assets, financial position, and earnings. Unless the extent to which one or both divisions are affected by these risks is explicitly described, the discussion of the risks relates to all three of the Schaeffler Group's divisions.

Strategic risks

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

Country risks

Changes in the social, political, legal, or economic stability in certain markets could hamper the Schaeffler Group's operations or planned expansion projects.

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

Since the Schaeffler Group's production and manufacturing locations are located all over the world, they are subject to various environmental standards. The locations meet the environmental standards – a fact highlighted by the large number of locations certified under EMAS. New legislation or changes in the legal environment, both at the national and at the international level, could entail risks jeopardizing trouble-free production that could adversely affect the Schaeffler Group's value added. These risks could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings. Since the group's environmental management system, which has been rolled out worldwide, is subject to a constant improvement and enhancement process, occurrence of these risks is considered improbable.

Digitalization

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

Strategic market and technology risks

The evolution of the company's business from being component-driven toward being more systems-based is ongoing, and this change is reducing the proportion of value added by the Schaeffler Group. This poses a medium risk to the Schaeffler Group's financial position and earnings. The company is taking a variety of measures to address this trend, including, for instance, strategically enhancing its production system to be more modular and building strategic supplier relationships.

The Schaeffler Group operates in a highly competitive and technologically fast-paced environment. The Automotive division's component business is facing considerable pricing pressure driven by increasing demands for price reductions on the part of customers, purchasing cooperatives, and certain focused and leaner competitors, especially in the emerging markets. The company is currently unable to fully pass these demands for price reductions on to its own suppliers and cannot absorb them entirely with its existing structure.

This trend requires the Schaeffler Group to constantly improve its efficiency and diversify into new lines of business in order to safeguard and further expand its market position. The increasing pricing pressure could have a medium impact on the Schaeffler Group's financial position and earnings.

Electric mobility

Electrification of automobiles is progressing, and as a result, the further development of conventional drive trains is coming under pressure. Firstly, further increases in the efficiency of conventional drive trains will become less relevant, and secondly, existing products and applications will be replaced. The Schaeffler Group has established its E-Mobility business division with the intention of further expanding a portfolio of products for this field that is designed to offset any potential losses in revenue from conventional drive trains in the years ahead. Should the initiatives undertaken not have the desired effect, this could have a medium impact on the Schaeffler Group's financial position and earnings. Initiating cost reduction measures can reduce the amount of damage.

Changes in the environment of Automotive OEM

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

Operating risks

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

Market developments

As the Schaeffler Group is a global supplier in the automotive and industrial sector, demand for Schaeffler products is to a large extent driven by global economic conditions. The demand for products of the Schaeffler Group depends considerably on the overall economic trend. In addition, demand is subject to cyclical fluctuations.

In the Automotive OEM division, demand is not only affected by global economic conditions, but also by other factors, including changes in consumption patterns, fuel prices, and interest rate levels. Especially the persistent uncertainty regarding the future development of the Chinese market and the political environment in Europe could continue to jeopardize market growth. The large number of economic factors affecting global demand for automobiles leads to significant volatility in automobile production, which makes forecasting sales exactly considerably more difficult.

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

Demand for Industrial products is influenced by a wide range of factors due to the large variety of business fields in which the Schaeffler Group operates.

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

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

Production risk

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

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

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

Loss of market share

The Schaeffler Group faces numerous competitors in its various business fields. As a result, the company is exposed to the risk of being displaced by existing or new competitors and of its products being replaced by product innovations or by new technological features. The Schaeffler Group mainly competes with other international suppliers, and to some degree also with regional suppliers, on price, quality, delivery performance, and design, as well as on the ability to offer technological support and service worldwide. Should the company become no longer able to compete on one of these factors, customers may decide to obtain products and services from competitors.

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

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

Warranty and liability risks

One significant factor in customers' decision to purchase the products offered by the Schaeffler Group is their quality. To secure this level of quality for the long term, the Schaeffler Group employs a certified quality management system, supported by additional quality improvement processes. However, there is a risk that poor quality products end up getting delivered, causing product liability risk. The use of defective products can lead to damage, unplanned repairs, or recalls on the part of the customer which can result in liability claims or reputational damage. Furthermore, deteriorating product quality can result in increased warranty and liability risk vis-à-vis the Schaeffler Group's customers. The Schaeffler Group responds to such risks by adopting strict quality control measures and continuous improvement processes in production in order to minimize the probability of warranty and liability risks materializing. Individual risks becoming reality could have a medium impact on the Schaeffler Group's financial position and earnings. All product liability risks are insured. The extent of actual reimbursements that can be claimed from insurers can only be assessed on a case-by-case basis.

Delivery performance

The delivery performance represents a key competitive factor for a long-term relationship of trust with customers; this competitive factor is being constantly enhanced by systematic improvements in production and delivery logistics. The Industrial division and the Automotive Aftermarket operate high-performance distribution centers to better supply the market with only a few logistics locations. Ensuring that contractual delivery dates are met could have a medium impact on the Schaeffler Group's financial position and earnings.

Efficiency and transformation programs

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

Product piracy risks

The Schaeffler product brands INA, LuK, and FAG are associated with a high standard of quality, making them increasingly susceptible to product piracy. Not only do counterfeit products offered at significantly reduced prices cause irritation in the trade as well as in end customers and frequently result in requests for price reductions, but inferior counterfeit products also lead to loss of reputation caused by early failure of such products. This damages both the company's image and the value of the brand. Therefore, combating product piracy is a high priority for the Schaeffler Group. The Schaeffler Group protects intellectual property not only by registering industrial property rights worldwide but also by combating counterfeit products, which damage its image as well as its revenue. Based on the large number of counterfeit products seized, the Schaeffler Group estimates the impact of this issue on its earnings and financial position to be medium.

Information security risks

A growing threat to the security of information and trade secrets can jeopardize shareholder value. The Schaeffler Group's information security management system is based on the ISO/IEC 27001 standard and reflects national and sector-specific regulations. Its objective is to protect the intellectual property and trade secrets of the Schaeffler Group and its business partners against theft, loss, unauthorized dissemination, illegal access, and misuse. The Schaeffler Group's business partners are increasingly requiring the Schaeffler Group to adhere to these standards and the related contractual obligations. The company is addressing the growing threat by taking specific action. Not complying with these requirements may result in a loss of contracts. Given the increasing number and professionality of criminal attacks, an information security risk with a medium impact on the Schaeffler Group's net assets, financial position, and earnings cannot be entirely ruled out.

Legal risks

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

Compliance risks

As a company with operations worldwide, Schaeffler has to comply with varying laws and regulations around the globe. It is possible that violations of existing law occur despite careful observance of such legal requirements. Circumstances identified as not meeting the requirements of the compliance management system are immediately addressed with appropriate action. The consequences of these instances of non-compliance could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings as well as on its reputation. The Schaeffler Group cooperates with the authorities with respect to any current and future investigations of possible instances of non-compliance and responds appropriately to weaknesses identified.

More on the company's compliance management system on pp. 77 et seq.

The company uses a material compliance management system to help it meet its commitment to using only components and raw materials that comply with the applicable laws and regulations. However, there is a risk that legal requirements and changes therein are not identified in time and that products are distributed in the market in violation of the law. This could have a medium impact on the Schaeffler Group's financial position and earnings.

Antitrust proceedings

Current and future investigations and proceedings regarding violations of antitrust law could have an adverse impact on the financial position and earnings of the Schaeffler Group as well as on its reputation. Possible payment obligations in connection with these investigations and proceedings may result in unplanned cash outflows. The Schaeffler Group cooperates with the investigating authorities in current and future investigations as a matter of principle. The imposition of penalties cannot be ruled out.

In addition, claims for damages have been filed against Schaeffler Group companies as a result of known antitrust proceedings. The Schaeffler Group has recognized appropriate provisions for possible charges to earnings.

Financial risks

Financial risks include tax risks and pension risks as well as the impact of changes in foreign exchange rates and liquidity risks.

Tax risks

The Schaeffler Group is subject to tax audits worldwide. Tax authorities' interpretation of the tax law or of relevant facts made in current or future tax audits may differ from that of the Schaeffler Group. This may lead to adjustments to tax bases and increases in the tax liability. An additional tax payment as a result of an adjustment to the tax base could have a high impact on the Schaeffler Group's financial position.

Pension risks

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

Liquidity risks

The risk that the Schaeffler Group will not be able to meet its payment obligations as they come due is referred to as liquidity risk. The Schaeffler Group differentiates between short-, medium- and long-term liquidity risks.

Liquidity risks can arise if financing needs cannot be met by existing equity or debt financing arrangements. The Schaeffler Group's financing requirements were met throughout 2019 by existing financing instruments and by the refinancing arrangements completed.

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

The Schaeffler Group's loan and bond agreements, which are generally long-term, contain certain constraints including a requirement to meet certain financial covenants. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if covenants are not met, which would result in the debt becoming due immediately. Compliance with financial covenants is monitored on an ongoing basis and regularly reported to the lending banks. To date, the company has complied with the financial covenants as stipulated in the debt agreements. The Schaeffler Group also expects to comply with these covenants in the future.

Any non-compliance with the covenants contained in the debt agreements as well as any liquidity requirements exceeding those that can be covered by the existing lines of credit could have a medium impact on the Schaeffler Group's net assets, financial position, and results of operations. It is considered improbable that these situations will actually occur.

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

Currency risks

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

Currency risk is continually monitored and reported on. Currency risk is managed at the corporate level. Currency risks are aggregated across the group and hedged using hedging instruments. Hedging instruments used include forward exchange contracts and cross-currency swaps. Currency risks, market values of foreign currency derivatives, and developments in foreign exchange markets are continuously monitored and managed as part of the risk management system.

To the extent competitors from other currency areas can offer lower prices due to movements in exchange rates, changes in foreign exchange rates can adversely affect the Schaeffler Group's competitive position. The Schaeffler Group's manufacturing locations are spread around the world, enabling the group to reduce the impact of changes in exchange rates on its competitive position. However, exchange rate trends could have a medium impact on the Schaeffler Group's earnings and financial position.

Risk assessment

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

↗ increased → unchanged ↘ reduced

4.4 Opportunities

The responsibility for identifying and utilizing opportunities lies with operating management. The objective is to identify opportunities on a timely basis and to take appropriate action to utilize them. Opportunities identified are discussed with the Board of Managing Directors as part of the Strategy Dialog and strategies are then derived based on these discussions. During this process, the relevant opportunities for growth are prioritized, specific targets are derived, and actions and resources required to achieve operating targets for the future direction of the Schaeffler Group are determined.

An aggregated overview of the opportunities identified in the Strategy Dialog is included in the reports regularly provided to the Board of Managing Directors and the Supervisory Board of Schaeffler AG. Opportunities are documented in the risk management tool.

The Schaeffler Group's most significant opportunities lie in strategic trends and in changes to the legal environment that may lead to increased demand for Schaeffler products.

Strategic opportunities

The Schaeffler Group and its range of products and services have a worldwide presence in order to participate in the expected megatrends of the future.

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

Globalization

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

Growing demand for automobiles in emerging countries

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

Urban mobility

The increasing number of people living in mega-cities is making public transportation within cities, such as metros, rapid transit systems, and streetcars, as well as between cities, e.g. by high-speed train, more and more attractive and important. Especially rail vehicles represent an extremely interesting growing market for the Schaeffler Group. Reliable and innovative rolling bearing solutions for applications ranging from bogie to the drive train are key to modern rail vehicles – and also promise growth for mechatronic products in the age of digitalization in mobility. In addition, the high stresses and resulting wear and tear as well as safety regulations make this market a market of the future with respect not only to original equipment but also to the Aftermarket business.

Interurban mobility

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

Energy chain

The Schaeffler Group expects rising energy and water consumption in large cities and metropolitan areas in the future, partly due to urbanization. In addition, the increasing electrification of automobiles will drive a growing need for energy. The rising demand for energy and the beginning transition to renewable energy both lead to an inevitable demand for energy from renewable sources. Especially in the wind business, the Schaeffler Group is already active in the market. Continually expanding the existing expertise in these business fields offers additional future opportunities for growth.

Increasing technological standards in the truck market

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

Operational opportunities

Development of vehicle population

The absolute vehicle population is one of the key drivers of growth in the Automotive Aftermarket. Growth depends on various factors, such as demand (determined by kilometers driven and the composition of the vehicle population), services offered, as well as products offered. Besides the vehicle population, increasing content per vehicle provides additional opportunities.

Industry 4.0

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

Digitalization

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

Legal opportunities

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

Increased standards due to new legislation

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

Financial opportunities

Financial markets

Favorable trends in interest and foreign exchange rates can positively impact the Schaeffler Group’s financial result and earnings. The company constantly monitors the financial markets in order to detect any possible impact on the Schaeffler Group on a timely basis and identify any potential need for action.

4.5 Overall assessment of Schaeffler Group opportunities and risks

The Board of Managing Directors estimates that the Schaeffler Group’s situation with respect to risks has improved slightly compared to the prior year. This change is due to a change in the assessed impact of certain medium and high risks.

In addition to the specific risks described in the group management report, unexpected developments significantly damaging or harming the company’s production process, customer relationship, or reputation can occur at any time.

The overall assessment of the significant opportunities and risks does not indicate any risks which, either individually or in combination with other risks, jeopardize the company’s continued existence as a going concern.

5. Report on expected developments

5.1 Expected economic and sales market trends

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

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

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

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

5.2 Schaeffler Group outlook

Outlook 2020 – group

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

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

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

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

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

Outlook 2020 – divisions

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

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

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

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

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

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

Herzogenaurach, March 5, 2020

The Board of Managing Directors

Corporate Governance

* Part of the group management report.

1. Corporate governance report including corporate governance declaration

Corporate governance stands for responsible management focused on adding long-term value. Efficient cooperation between the Board of Managing Directors and the Supervisory Board as well as openness and transparency in corporate and financial communications are key aspects of the Schaeffler Group's corporate governance.

The following is a report by the Board of Managing Directors and the Supervisory Board on the corporate governance of Schaeffler AG in accordance with item 3.10 of the German Corporate Governance Code. The corporate governance report also includes the corporate governance declaration in accordance with section 289f HGB. The corporate governance declaration required by sections 289f and 315d HGB has been combined for Schaeffler AG and the group. Therefore, the following discussion applies to Schaeffler AG and the group unless noted otherwise below.

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

1.1 Declaration of conformity pursuant to section 161 AktG

In December 2019, the Board of Managing Directors and the Supervisory Board issued the following declaration of conformity pursuant to section 161 AktG:

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

Since the release of its last declaration of conformity in December 2018, Schaeffler AG complies with the recommendations of the German Corporate Governance Code in the version of February 7, 2017, ("Code") with the exception described below and will also comply with the recommendations in the future with the exception described below:

The Code recommends in section 5.4.1 para. 2, that the Supervisory Board shall specify concrete objectives regarding its composition and also set an age limit for the members of the Supervisory Board. The Supervisory Board of Schaeffler AG will not set such age limit because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board.

Herzogenaurach, December 2019

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

1.2 Corporate governance principles

The Schaeffler Group's manner of conducting business is based on integrity, fairness, and mutual respect. The related leadership principles are transparency, trust, and teamwork. Transparency generates trust, and trust is the foundation of good teamwork. The Schaeffler Group Code of Conduct provides guidance in this area. The principles set out in the Schaeffler Group Code of Conduct apply equally to everyone – the Board of Managing Directors, management, and all employees.

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

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

More on the company's corporate governance principles at: www.schaeffler.com/sustainability

1.3 Mode of operation of the Board of Managing Directors and the Supervisory Board and membership and mode of operation of their committees

The German Stock Corporations Act requires Schaeffler AG to have a two-tier board with strict separation between the executive body, the Board of Managing Directors, and the supervisory body, the Supervisory Board, in terms of personnel and functions. The Board of Managing Directors has direct responsibility for managing the company. The members of the Board of Managing Directors are jointly responsible for managing the company. The Chief Executive Officer coordinates the activities of the members of the Board of Managing Directors. The Supervisory Board appoints, supervises, and advises the Board of Managing Directors and is involved in decisions that are fundamental to the company. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board.

Board of Managing Directors

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

The Board of Managing Directors also ensures that legal requirements and internal guidelines are complied with and promotes such compliance by group companies and their employees. It puts in place appropriate measures that are tailored to the company's risk situation and discloses their main features. A whistleblowing system gives employees the opportunity – and appropriate protection – to report violations of the law within the company; this opportunity is also provided to third parties.

More on compliance on page 77 et seq.

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

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

Membership of the Board of Managing Directors

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

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

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

- **Gender:** The Board of Managing Directors should have at least one female member. This target was met in 2019. The company strives to increase the number of female members on the Board of Managing Directors beyond the established target in the long term. The targets set by the Board of Managing Directors for the two levels of management immediately below the Board of Managing Directors should be met.
- **Age:** The Board of Managing Directors should have an appropriate age distribution. Along with several younger members, this Board should also have members with a greater amount of professional and life experience. The company aims for an average age of all members of the Board of Managing Directors of approximately 55 years. Members may serve on the Board of Managing Directors until their 68th birthday. In making appointments to the Board of Managing Directors, consideration should be given to ensuring a balanced age distribution and increased consideration given to younger executives. The targets established were met in 2019.
- **Professional experience:** The members of the Board of Managing Directors should bring diverse professional experience to the Board. Along with sufficient professional background in the fields of engineering and business, they should also have additional professional experience, especially in fields relevant to the Schaeffler Group’s future business, such as mechatronics, electrical engineering, digitalization, and IT. In making appointments to the Board of Managing Directors, consideration should be given to the candidates’ education and training, professional career, and their current responsibilities. The targets established were met in 2019.
- **Internationality:** Sufficient international experience should be represented on the Board of Managing Directors to appropriately reflect the international nature of the Schaeffler Group’s business. The members of the Board of Managing Directors should have different nationalities. The objective should be that all members of the Board of Managing Directors have experience working abroad and/or are experienced in international business. Having at least one member with a non-German nationality, ideally from a market relevant to Schaeffler, on the Board of Managing Directors in the long term is considered desirable. To be appointed to the Board of Managing Directors, a candidate must have international experience. At the first and second level of management immediately below the Board of Managing Directors, the majority of employees should have experience working abroad and be experienced in international business. All members of the Board of Managing Directors are experienced in international business.

At the reporting date, no member of the Board of Managing Directors held more than three positions on Supervisory Boards of non-group public companies or similarly demanding positions on supervisory bodies of non-group companies.

More on the members of the Board of Managing Directors, their areas of responsibility, and any positions they hold on Supervisory Boards of other companies on pp. 96 et seq.

Supervisory Board

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

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

More on the remuneration of the Board of Managing Directors on pp. 81 et seq.

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

Membership of the Supervisory Board

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

Since Schaeffler AG is a publicly listed company subject to code-termination based on parity, its Supervisory Board consists of at least 30% female and at least 30% male members in accordance with section 96 (2) AktG. Section 25 EGAktG stipulates that the legal gender quota is effective for new elections held on or after January 1, 2016; current positions can be held until the end of their regular term.

The minimum target has to be met by the Supervisory Board as a whole. If either the shareholder representatives or the employee representatives object to such joint compliance by a simple majority vote, notifying the Chairman of the Supervisory Board of such objection before the election, the minimum target has to be met separately by the shareholder representatives as well as by the employee representatives. The employee representatives unanimously objected to joint compliance with the gender quota on December 10, 2015, and unanimously confirmed that decision on September 30, 2019. The Supervisory Board currently has six female members, with three women being employee representatives and three women representing the shareholders. As a result, the employee representatives and the shareholders' side both meet the legally required quota.

In accordance with item 5.4.1 of the German Corporate Governance Code, the Supervisory Board has set the following concrete targets for its membership, considering the company's specific situation and appropriately taking into account the company's international operations, any potential conflicts of interest, the number of independent Supervisory Board members, and a set limit on the length of time a member may serve on the Supervisory Board, as well as diversity. The Supervisory Board has stated the following objectives for its membership:

- Members should have the knowledge, skills, and technical experience required to properly perform their duties and be able to devote sufficient time to these duties.
- The Supervisory Board aims to maintain the current proportion of members with an international background.
- Under the assumption that all employee representatives on the Supervisory Board can be considered independent, the Supervisory Board aims to have a minimum of 15 independent members (as defined in item 5.4.2 of the German Corporate Governance Code).
- Members of the Supervisory Board should not serve on the governing body of or in a consulting capacity to significant competitors of the Schaeffler Group.
- The Supervisory Board should not include more than two former members of the Board of Managing Directors.
- Members of the Supervisory Board should not normally serve on the Board for more than three terms of office.

In addition to the objectives set out above, the Supervisory Board developed a profile of expertise for the Board as a whole at its meeting on December 15, 2017. According to this profile, the Supervisory Board should collectively cover the following areas of technical expertise. Having at least one member of the Supervisory Board cover an area of expertise is considered sufficient. The profile of expertise assumes that every member of the Supervisory Board has the personal qualifications, integrity, sufficient time, commitment, and discretion required to successfully carry out the responsibilities of a member of the Supervisory Board.

- **Sector knowledge:** The Supervisory Board should have knowledge of and experience with the automotive sector and with the sectors in which the Industrial division operates.
- **Law/compliance:** The Supervisory Board should have members with basic knowledge of stock corporation and corporate law and of the compliance field.
- **Finance:** The Supervisory Board should be knowledgeable about and experienced in finance, financial reporting, auditing, risk management, and systems of internal controls.
- **Leadership:** The Supervisory Board should have members experienced in leadership. This includes experience in managing and supervising companies.
- **Research and development:** The Supervisory Board should also be knowledgeable about and experienced in research and development, preferably in future-oriented fields such as E-Mobility and Digitalization.

The current Supervisory Board meets these objectives and covers the areas of expertise set out above. Proposals by the Supervisory Board to the annual general meeting for the election of shareholder representatives to the Supervisory Board will reflect these objectives and strive to cover the fields of expertise listed above.

Along with the objectives and the profile of expertise, the Supervisory Board also adopted a diversity scheme in accordance with section 289f (2) (6) HGB for the Supervisory Board of Schaeffler AG on December 15, 2017. The diversity criteria selected were gender, professional experience, and internationality. These criteria are designed to ensure, in combination with the other criteria for the membership of the Supervisory Board, that the opinions and knowledge represented on the Supervisory Board are sufficiently diverse for the proper performance of its duties.

- **Gender:** Section 96 (2) AktG stipulates that the Supervisory Board has to consist of at least 30% female and at least 30% male members. The employee representatives unanimously objected to joint compliance with the gender quota on December 10, 2015, and unanimously confirmed that decision on September 30, 2019. The Supervisory Board currently has six female members, with three women being employee representatives and three women representing the shareholders. As a result, the employee representatives' side and the shareholders' side meet the legally required quota. Nominees for the regular election of employee representatives in 2020 are limited to candidates whose election will ensure that the legal requirements are met.
- **Professional experience:** The members of the Supervisory Board should bring diverse professional experience to the Board. The Supervisory Board should have members with professional experience in fields that are relevant to the Schaeffler Group's business, especially to the group's future business in the fields of E-Mobility and Digitalization. Candidates' professional experience is to be taken into account when selecting the Supervisory Board's nominees for election to the Supervisory Board by the annual general meeting.
- **Internationality:** The Supervisory Board should have an appropriate number of members with an international background (descent, professional education, or work). This being the case for at least four of its members is considered adequate by the Supervisory Board. In addition, further members of the Supervisory Board should be experienced in international business. Internationality is to be taken into account when selecting the Supervisory Board's nominees for election by the annual general meeting.

Members of the Supervisory Board and their curricula vitae at:
www.schaeffler.com/supervisory-board

The Supervisory Board as a whole has the knowledge, skills, and technical experience required to properly perform its duties. The Supervisory Board as a whole is familiar with the industries and sectors in which the Schaeffler Group operates, and it has the professional experience and internationality required under the diversity scheme. Conflicts of interest related to members of the Supervisory Board must be disclosed to the Supervisory Board immediately; there were no such conflicts of interest in 2019. No member of the Supervisory Board currently serves on a governing body or in a consulting role with respect to a key competitor or is a former member of the Board of Managing Directors.

More on avoiding conflicts of interest on page 69

The Supervisory Board has not set an age limit for its members, because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board. This deviation from the German Corporate Governance Code has been included in the declaration of conformity pursuant to section 161 AktG.

The Supervisory Board considers all shareholder representatives except for Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler to be independent.
These are: Sabine Bendiek, Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Sabrina Soussan, Robin Stalker, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, and Prof. Dr. Ing. Tong Zhang.

The Chairman of the Supervisory Board is elected by the Supervisory Board from among its members. He coordinates the activities of the Supervisory Board, chairs its meetings, and represents the Supervisory Board externally. As recommended in item 5.2 (2) of the German Corporate Governance Code, the Chairman of the Supervisory Board is available for discussions with investors, in close coordination with the Board of Managing Directors and focusing on Supervisory Board-related issues.

Membership and mode of operation of Supervisory Board committees

Under its internal rules of procedure, the Supervisory Board establishes a total of five committees.

The mediation committee established in accordance with sections 27 (3) and 31 (3) of the German Co-Determination Act is responsible for proposing to the Supervisory Board a candidate for appointment to the Board of Managing Directors if the two-thirds majority required for an appointment was not obtained initially. The members of the mediation committee are Maria-Elisabeth Schaeffler-Thumann as well as Norbert Lenhard, Georg F. W. Schaeffler, and Jürgen Wechsler; Georg F. W. Schaeffler chairs the committee.

The nomination committee proposes to the Supervisory Board appropriate candidates for election to the Supervisory Board by the annual general meeting.
The members of the nomination committee are the Chairman of the Supervisory Board, Georg F. W. Schaeffler, as well as Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, and Maria-Elisabeth Schaeffler-Thumann; Georg F. W. Schaeffler is the committee's chairman.

The executive committee consists of Barbara Resch and Maria-Elisabeth Schaeffler-Thumann as well as Norbert Lenhard, Georg F. W. Schaeffler, Jürgen Wechsler, and Prof. TU Graz e.h. KR Ing. Siegfried Wolf; Georg F. W. Schaeffler is the committee's chairman. The executive committee advises and assists the Chairman of the Supervisory Board and his Deputy in their Supervisory Board responsibilities. It prepares the meetings of the Supervisory Board. Another significant responsibility of the executive committee is preparing personnel decisions to be made by the Supervisory Board. It makes recommendations regarding new appointments or reappointments to and dismissals from the Board of Managing Directors. It also prepares the Supervisory Board's decision regarding the remuneration system and individual remuneration of the members of the Board of Managing Directors. In addition, the executive committee passes resolutions regarding the approval of certain legal transactions and measures specified in the Supervisory Board's internal rules of procedure on behalf of the Supervisory Board, to the extent such delegation is not prohibited by section 107 (3) (3) AktG.

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

The audit committee makes a recommendation to the Supervisory Board regarding auditors to be appointed, together with its reasons for the recommendation; where the audit has been put out to tender, the recommendation includes at least two candidates. The audit committee engages the auditors, determines the areas of focus for the audit, and agrees on the audit fees with the auditors. In addition, the audit committee monitors the independence of the external auditors, and, as such, is responsible for approving engagements for non-audit services. The audit committee also monitors the qualifications and efficiency of the auditors as well as the rotation of audit team members. The audit committee is responsible for awarding the audit engagement on the non-financial report. On behalf of the Supervisory Board, the audit committee advises and oversees the Board of Managing Directors regarding financial reporting, the financial reporting process, the effectiveness of the internal control system, the risk management system, Internal Audit, the financial statement audit, and compliance.

The audit committee consists of six members. The Chairman of the Supervisory Board is a member of the committee by virtue of this position. The chairman of the audit committee shall be independent and can be neither a former member of the Board of Managing Directors nor the Chairman of the Supervisory Board; he shall be particularly knowledgeable about and experienced in the application of accounting principles as well as internal control procedures. As the former chief financial officer of Adidas AG, the chairman of the audit committee, Robin Stalker, meets these requirements. The other committee members are Dr. Holger Engelmann, Dr. Reinold Mittag, Georg F. W. Schaeffler, Salvatore Vicari, and Jürgen Worrich.

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

Cooperation between Board of Managing Directors and Supervisory Board

The Board of Managing Directors and the Supervisory Board cooperate closely for the good of the company. Thus, the Board of Managing Directors regularly consults with the Supervisory Board on the strategic direction of the company and discusses the status of strategy implementation with the Supervisory Board.

On a regular basis, the Board of Managing Directors provides comprehensive and timely information to the Supervisory Board on all matters of relevance to the company with respect to strategy implementation, planning and budgeting, results of operations, risk management, and compliance. It discusses deviations of results of operations from budgets and targets and the reasons for those deviations. Documents required for decisions, especially the separate financial statements, the consolidated financial statements, and the long-form audit report, are provided to the members of the Supervisory Board in due time. The Board of Managing Directors is required to submit any fundamental legal transactions and measures to the Supervisory Board or the executive committee for approval. The cooperation between the Board of Managing Directors and the Supervisory Board is characterized by mutual trust and a culture of open discussion as well as maintaining strict confidentiality.

The Chairman of the Supervisory Board regularly keeps in contact with the Board of Managing Directors, particularly with the Chief Executive Officer, between meetings as well, and discusses with him issues related to the company's strategy implementation, planning and budgeting, results of operations, risk management, and compliance. The Chief Executive Officer immediately informs the Chairman of the Supervisory Board of important events significant to evaluating the company's situation and development as well as for managing the company.

Avoiding conflicts of interest

The members of the Board of Managing Directors and of the Supervisory Board are required to immediately disclose any conflict of interest to the Supervisory Board. Significant transactions between the company and members of the Board of Managing Directors or parties related to them require the Supervisory Board's approval. Consulting and other service contracts as well as contracts for specific deliverables between the company and members of the Supervisory Board also require approval by the Supervisory Board. The Supervisory Board reports to the annual general meeting on any conflicts of interest and their resolution. Neither the members of the Board of Managing Directors nor those of the Supervisory Board have experienced any conflicts of interest in 2019.

1.4 Other information on corporate governance

Transparency

The company provides information on the situation of the company at the same time and on an equal footing to institutional investors, shareholders, financial analysts, business partners, employees, and the interested public by regular, transparent, and up-to-date communication. All significant information, such as ad hoc releases and press releases, as well as presentations given at analysts' conferences, all financial reports, and the financial calendar are published on the Schaeffler Group's website. Investor Relations maintains close contact with shareholders on an ongoing basis.

Relationships with shareholders and annual general meeting

Shareholders exercise their rights at the annual general meeting. The annual general meeting passes resolutions on granting discharge to the Board of Managing Directors and the Supervisory Board, appropriating retained earnings, capital transactions, amendments to the company's articles of association, and appointing auditors. It has to be held during the first eight months of each year.

The company has issued common non-voting and common shares. Common non-voting shares do not convey voting rights, but entitle the holder to a preferred dividend of EUR 0.01 per share.

Shareholders have to register for the annual general meeting in due time in order to attend the annual general meeting. An invitation and other documents (e.g. annual report) containing information on the items on the agenda of the annual general meeting are provided to shareholders before the annual general meeting. This information is also available from the company's website.

Financial reporting and financial statement audit

The main source of information for shareholders and third parties are the consolidated financial statements and the group management report as well as interim financial information.

Schaeffler AG compiles its separate financial statements in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG). The consolidated financial statements and the group management report are prepared by the Board of Managing Directors in accordance with the principles set out in International Financial Reporting Standards (IFRS) as adopted by the EU and are audited by the auditors and reviewed by the Supervisory Board. Before any interim financial information is made public, the Board of Managing Directors discusses such information with the Supervisory Board or the audit committee. The consolidated financial statements and the group management report are made publicly available within 90 days after the end of the year, mandatory interim financial information within 45 days after the end of the reporting period.

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

It was agreed upon with Schaeffler AG's auditors that the Chairman of the Supervisory Board and the chairman of the audit committee would be informed promptly of any grounds for disqualification or indications of bias arising during the audit to the extent they are not remedied immediately. It was also agreed upon that the auditors would report on all findings and events coming to their attention during the performance of their audit that are significant to the responsibilities of the Supervisory Board. Under the agreement, the auditors have to inform the Supervisory Board and note in their long-form audit report if, during the course of the audit, they become aware of any facts rendering the declarations on the German Corporate Governance Code issued by the Board of Managing Directors and the Supervisory Board inaccurate. The audit committee monitors the auditors' independence. In a letter dated February 28, 2019, the auditors have issued a binding independence letter for the year ended December 31, 2019.

Georg F. W. Schaeffler
Chairman of the Supervisory Board

2. Report of the Supervisory Board

Ladies and Gentlemen,

The Supervisory Board has dutifully performed the duties mandated by law, the company's articles of association, and its internal rules of procedure during the year. The Supervisory Board has provided advice to the Board of Managing Directors and supervised its activities. In doing so, it was directly involved on a timely basis in all decisions that were of fundamental importance to the company and the group.

The Board of Managing Directors regularly informed the Supervisory Board in written and oral reports about the company's results of operations. The Board of Managing Directors briefed the Supervisory Board on an ongoing basis and in detail about the development of revenue and earnings of the group and the divisions, the financial position, short- and long-term plans and budgets, as well as compliance and risk management matters. The Board of Managing Directors briefed the Supervisory Board in a timely fashion on any important developments concerning the business. Transactions that either the law or the internal rules of procedure require to be approved by the Supervisory Board were provided, along with any necessary information and documents, to the Supervisory Board in due time for such approval. In addition, the Board of Managing Directors and the Supervisory Board discussed and refined the Schaeffler Group's strategy in detail.

The members of the Supervisory Board were also available for discussions with the Board of Managing Directors between meetings. The Chairman of the Supervisory Board regularly kept in contact with the Board of Managing Directors and particularly with the Chief Executive Officer, and ensured that he was kept informed about all current matters and developments on an ongoing basis.

Further information in the corporate governance report

Members of the Supervisory Board and its committees

The shareholder representatives on the Supervisory Board were elected at the annual general meeting on April 24, 2019. Sabine Bendiek, Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Georg F. W. Schaeffler, Maria-Elisabeth Schaeffler-Thumann, Sabrina Soussan, Robin Stalker, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang were elected members of the Supervisory Board.

Following the election of the shareholder representatives on the Supervisory Board, Georg F. W. Schaeffler was elected Chairman of the Supervisory Board, and – in addition to Jürgen Wechsler as Deputy Chairman pursuant to section 27 (1) of the German Co-Determination Act ("Mitbestimmungsgesetz" – MitbestG) – Maria-Elisabeth Schaeffler-Thumann was elected additional Deputy Chairperson at the initial meeting of the new Supervisory Board on April 24, 2019.

The new shareholder representatives on the committees were elected as well, with Maria-Elisabeth Schaeffler-Thumann being elected shareholder representative on the mediation committee.

Georg F. W. Schaeffler's position as Chairman of the Supervisory Board makes him a member of the mediation committee by law.

Maria-Elisabeth Schaeffler-Thumann and Prof. TU Graz e.h. KR Ing. Siegfried Wolf were elected additional shareholder representatives on the executive committee. Georg F. W. Schaeffler is a member of the executive committee by virtue of his position as Chairman of the Supervisory Board.

Robin Stalker and Dr. Holger Engelmann were elected additional shareholder representatives on the audit committee, of which Georg F. W. Schaeffler is a member by virtue of his position as Chairman of the Supervisory Board. Robin Stalker was appointed chairman of the audit committee. Robin Stalker is a long-standing member of the audit committee and had already chaired the audit committee from July 1, 2018 until his reappointment. In addition, Robin Stalker served as chief financial officer of a DAX company for many years. As a result, he is sufficiently experienced to chair the audit committee.

Maria-Elisabeth Schaeffler-Thumann, Prof. Dr. Bernd Gottschalk, and Dr. Holger Engelmann were elected additional shareholder representatives on the nomination committee, of which Georg F. W. Schaeffler is a member by virtue of his position as Chairman of the Supervisory Board.

Further, Prof. Dr. Hans-Jörg Bullinger, Georg F. W. Schaeffler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang were elected additional shareholder representatives on the technology committee. Prof. Dr. Hans-Jörg Bullinger was appointed chairman of the technology committee.

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

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

There were no conflicts of interest related to members of the Supervisory Board in 2019..

Appointments to the Board of Managing Directors

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

Prof. Dr.-Ing. Gutzmer left Schaeffler AG's Board of Managing Directors effective October 1, 2019. On October 1, 2019, the Supervisory Board passed a resolution appointing Uwe Wagner to succeed him effective immediately for a term of office of three years. On March 1, 2019, Matthias Zink was reappointed for a further five-year term of office beginning on January 1, 2020.

In accordance with the internal rules of procedure of the Board of Managing Directors, Klaus Rosenfeld is responsible for the CEO Functions, Dietmar Heinrich for Finance, Andreas Schick for Operations, Supply Chain Management, and Purchasing, Corinna Schittenhelm for Human Resources, Michael Söding for the Automotive Aftermarket division, Dr. Stefan Spindler for the Industrial division, Uwe Wagner for Research and Development, and Matthias Zink is responsible for the Automotive OEM division.

Topics of Supervisory Board plenary meetings

In 2019, the Supervisory Board held four regular meetings, one strategy meeting, on extraordinary meeting, and one initial meeting following the annual general meeting. In addition, one resolution was passed in writing.

In its meetings, the Supervisory Board regularly dealt with the Schaeffler Group's results of operations and financial indicators. It also ensured that it was briefed on the work of the committees on a regular basis. The personnel decisions regarding the Board of Managing Directors also represented an important aspect of the work of the Supervisory Board.

The Supervisory Board met for an extraordinary meeting via conference call on February 5, 2019, to discuss the preliminary extent to which targets related to the variable remuneration of the Managing Directors had been met as well as the targets for 2019. The final extent to which these targets and objectives were met was then determined, as well as the targets for 2019 set, at the meeting on March 1, 2019.

At its first regular meeting of the year on March 1, 2019, the Supervisory Board passed resolutions regarding the appointment and reappointment of members of the Board of Managing Directors. In light of the emerging decline in global automobile production, the Supervisory Board decided to adjust the budget for 2019 and the long-range plan for the years 2019 to 2023. The meeting also discussed the separate and consolidated financial statements of the Schaeffler Group for 2018. This also involved KPMG reporting to the Supervisory Board on the audit of the separate financial statements, the consolidated financial statements, and the dependency report, as well as on the limited assurance engagement performed on the combined separate group non-financial report 2018. Also at this meeting, the Supervisory Board adopted the separate financial statements and approved the consolidated financial statements, the closing statement of the Board of Managing Directors on the dependency report, and the proposal for the appropriation of earnings. In addition, it approved the report of the Supervisory Board to the annual general meeting 2019 and the Supervisory Board's proposed resolutions on the items on the agenda of the annual general meeting 2019.

The new Supervisory Board held its initial meeting following the election of the shareholder representatives on the Supervisory Board by the annual general meeting on April 24, 2019. At this meeting, the Chairman of the Supervisory Board and the additional Deputy Chairperson were re-elected. The new shareholder representatives on the committees were elected as well.

At its regular meeting on May 3, 2019, the Supervisory Board heard a report on the results of operations and the results of the first quarter of 2019 as well as a presentation on the Schaeffler Group's robotics activities.

On October 1, 2019, the Supervisory Board held its strategy meeting, in which the Board of Managing Directors presented its strategy considerations for the Schaeffler Group. The proposals were discussed in detail and at length. In addition, the Supervisory Board consented to Prof. Dr.-Ing. Gutzmer's resignation effective October 1, 2019, and appointed Uwe Wagner to the Board of Managing Directors effective October 1, 2019.

At its third regular meeting on October 2, 2019, the Supervisory Board heard a report on the Schaeffler Group's most recent results of operations and the results of the first half of 2019. The Supervisory Board discussed the status of the review of the remuneration of the members of the Board of Managing Directors and the company's retirement benefits for Managing Directors. There was also a presentation on introducing a commercial paper program and on obtaining new lines of credit, and both were approved.

At its fourth and final regular meeting on December 13, 2019, the Supervisory Board was briefed on the Schaeffler Group's most recent results of operations and the results of the third quarter of 2019. It also approved the budget for 2020 and the long-range plan for the years 2020 to 2024. At the meeting, the Supervisory Board was also informed of a plan to place a promissory note loan [Schuldscheindarlehn]. The Supervisory Board resolved to establish an ad hoc committee consisting of three shareholder representatives and three employee representatives for the purpose of approving the terms and conditions of the promissory note loan. The Supervisory Board discussed changes in the remuneration of the members of the Board of Managing Directors and the company's future retirement benefit scheme for Managing Directors. The Supervisory Board also approved the updated declaration of conformity with the German Corporate Governance Code (section 161 AktG).

Topics of Supervisory Board committee meetings

The executive committee of the Supervisory Board held a total of four regular meetings and three extraordinary meetings held via conference call during the reporting period. Executive committee meetings were used to prepare the plenary meetings of the Supervisory Board, especially the personnel decisions to be made by the Supervisory Board. The executive committee approved the acquisition of Xtronic GmbH at its meeting on May 2, 2019, the collaboration with ABT e-Line GmbH to electrify light commercial vehicles at its extraordinary meeting held via conference call on November 12, 2019, and the disposal of the Unna and Kaltennordheim plants at its extraordinary meeting held via conference call on December 4, 2019. The executive committee also approved external activities of members of the Board of Managing Directors at its meetings on February 28, 2019, and September 30, 2019, and at its extraordinary meeting held via conference call on November 21, 2019.

The audit committee held four regular meetings in 2019. The audit committee addressed the interim reports and the separate and consolidated financial statements including the non-financial report as well as the dependency report. Compliance, internal audit, risk management, and the internal control system were reported on at audit committee meetings on a regular basis. Non-audit services provided by the auditors were discussed and approved. In addition, the audit committee was briefed on the establishment of an information security management system, the process for avoiding warranty risks, and on the project to more efficiently implement financial reporting standard IFRS 15.

The Supervisory Board recommended to the annual general meeting 2019 that it appoint KPMG AG Wirtschaftsprüfungsgesellschaft auditors of the separate and consolidated financial statements and auditors for purposes of reviews of interim financial statements and financial information. The audit committee engaged KPMG AG Wirtschaftsprüfungsgesellschaft as auditors and determined areas of focus for the audit. The audit committee also proposed to the Supervisory Board that it engage KPMG AG Wirtschaftsprüfungsgesellschaft to perform a limited assurance engagement on the non-financial report.

The technology committee held two regular meetings during the reporting period. At its first meeting, the technology committee was briefed on the results of the Schaeffler Technology Dialog, the divisions' technological trends, and developments in the fields of IT and digitalization. The second meeting heard a report on concepts for industrializing new products and on sustainability in production. Various production technologies were demonstrated to technology committee members during a guided tour of the plant.

During the reporting period, the nomination committee held one meeting via conference call on March 6, 2019. The meeting discussed the selection of shareholder representative candidates for the Supervisory Board and recommended candidates to the Supervisory Board for nomination at the annual general meeting. Based on these recommendations, the Supervisory Board approved the nominees for the Supervisory Board elections to be held at the annual general meeting on April 24, 2019, in a resolution passed in writing dated March 11, 2019.

In a resolution passed in writing dated August 28, 2018, the Supervisory Board had approved the refinancing arrangement and the creation of a debt issuance program and established an ad hoc committee consisting of three shareholder representatives and three employee representatives for the purpose of approving the terms and conditions of the various bonds being issued under the debt issuance program.

At the two meetings held by the ad hoc committee via conference call during the reporting period, the committee was briefed on the terms and conditions of the planned transaction and the issuance of bonds denominated in EUR under the debt issuance program.

The mediation committee did not hold any meetings during the reporting period.

All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board and the committees they were on in 2019.

Separate and consolidated financial statements 2019

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the separate financial statements, the consolidated financial statements, and the combined management report as at December 31, 2019, prepared by the Board of Managing Directors in accordance with German commercial law, including the accounting records and the accounting-related internal control system as well as the early warning risk identification system. The consolidated financial statements of Schaeffler AG as at and for the year ended December 31, 2019, were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional requirements of German commercial law pursuant to section 315e (1) German Commercial Code.

KPMG AG Wirtschaftsprüfungsgesellschaft has also audited the report on relations with affiliated companies ("dependency report") prepared by the Board of Managing Directors in accordance with section 312 German Stock Corporations Act. The report covers the period from January 1, 2019, to December 31, 2019.

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

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

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

The Schaeffler Group has prepared a combined separate group non-financial report for 2019. KPMG AG Wirtschaftsprüfungsgesellschaft performed a limited assurance engagement on the non-financial report. KPMG AG Wirtschaftsprüfungsgesellschaft found that, based on the limited review procedures performed, nothing has come to its attention that causes it to believe that the combined separate group non-financial report has not been prepared, in all material respects, in accordance with legal requirements.

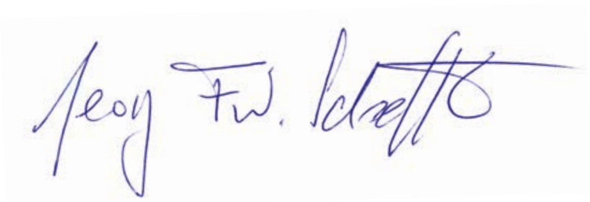
The audit committee discussed the financial statement documents, the combined separate group non-financial report, the dependency report, the long-form audit reports, and the report on the limited assurance engagement with the Board of Managing Directors and the auditors on March 6, 2020. The audit committee scrutinized the development of earnings for 2019, the financial position and net assets as at the reporting date, and, particularly, provisions for risks. The financial statement documents, the combined separate group non-financial report, the dependency report, and the long-form audit reports were also dealt with in the Supervisory Board meeting convened to approve the financial statements on March 6, 2020. The required documents had been distributed to all members of the audit committee and the

Supervisory Board in due time before these meetings to give members sufficient opportunity to examine them. The auditor was present during the discussion. He reported on significant findings of the financial statement audit and limited assurance engagement and was available to provide additional information to the audit committee and the Supervisory Board. Based on its own examinations of the separate financial statements, the dependency report (including the closing statement of the Board of Managing Directors), the combined separate group non-financial report, and the consolidated financial statements together with the combined management report, and based on recommendations made by the audit committee, the Supervisory Board concurs with the result of the auditors' audits. There was no cause for objection, including objection to the closing statement on the dependency report prepared by the Board of Managing Directors. The Supervisory Board has approved the separate financial statements and the consolidated financial statements. The separate financial statements have thus been adopted.

The Supervisory Board has reviewed the appropriation of retained earnings proposed by the Board of Managing Directors and will, together with the Board of Managing Directors, propose to the annual general meeting the payment of a dividend of EUR 0.44 per common share and EUR 0.45 per common non-voting share in respect of 2019.

On behalf of the Supervisory Board, I would like to express my sincere gratitude to the members of the Board of Managing Directors, to management, and to all other employees of Schaeffler AG and the group companies for their commitment and dedication and their constructive teamwork in 2019.

For the Supervisory Board



Georg F. W. Schaeffler

Chairman

Herzogenaurach, March 6, 2020

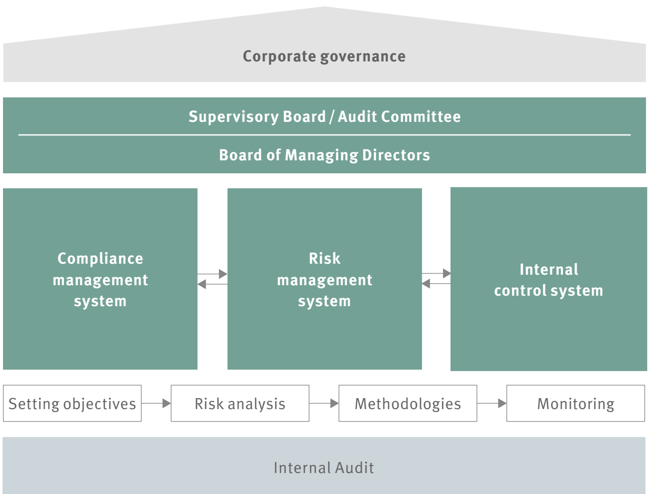
3. Governance structure

The Schaeffler Group considers maintaining the corporate culture of a global family business essential and intends to play a leading role as a listed family business. The Schaeffler Code of Conduct drives its behavior and the nature of the business relationships that are consistent with its corporate values. The governance structure promotes transparency and supports the values “Sustainable”, “Innovative”, “Excellent”, and “Passionate”.

The components of the **governance structure** support the operating business units in effectively identifying and managing risk.

In 2019, the Schaeffler Group has continued to improve the processes within its governance structure with a view to meeting the needs of its customers while at the same time protecting the company. The governance structure is aimed at promoting the coordinated operation of the subsystems and, hence, the early identification of risks to the continued existence and development of the Schaeffler Group. Clearly assigned responsibilities and a robust internal control system are in place to manage significant risks.

Schaeffler Group governance structure



The Group Compliance and Risk Committee (GCRC) represents a key governance component in this regard, increasing transparency in internal structures, the organization, and in responsibilities. The GCRC is chaired by the Schaeffler Group’s Group Chief Compliance Officer. It consists of the heads of the relevant governance functions (including Compliance, Legal, Risk Management, Internal Control System, and Controlling). The GCRC is responsible for assisting the Board of Managing Directors with its organizational responsibilities with respect to compliance and risk management. Among the key objectives of the GCRC are defining and delineating responsibilities and interfaces and preventing redundancies in the process. In addition, it is expected to create a consistent and complete view of the risk situation in the divisions, functions, and regions based on a uniform measurement and prioritization methodology. A further objective of the GCRC is developing and monitoring risk mitigation activities. The Compliance & Risk Working Group consisting of staff representatives from the functions represented on the GCRC provides operational support to the GCRC.

The activities of the subsystems within the governance structure are coordinated based on the internationally recognized three lines of defense model. It assigns clear responsibility for dealing with risks to the company’s continued existence and development

Three lines of defense model

and is based on the principle that primary responsibility for a risk lies with its originator.

First line of defense: At the first tier, operating business units are responsible for performing controls within all business processes to prevent risk. If prevention is not feasible, risks have to be identified and reduced to an appropriate level. Hence, the employees of the Schaeffler Group's operating units represent the first line of defense against potential risks. The Schaeffler Code of Conduct encourages them to turn to their supervisor or the corresponding control function with any questions or concerns they might have regarding dealing with risks and inappropriate business practices. If needed, there is a whistleblowing system available for confidentially reporting violations of the Schaeffler Code of Conduct, especially regarding illegal business practices.

Second line of defense: At the second tier, risk functions (including Internal Control System, Controlling, Risk Management, Compliance, and Legal) define global standards and controls, regularly monitor compliance with them, and report on their effectiveness. The Risk Management function is also responsible for regular and independent risk assessment.

Third line of defense: The third tier is the audit by Internal Audit. Independent and objective audits are designed to ensure process efficiency in risk management, internal controls, and corporate governance.

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

3.1 Compliance management system

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

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

The CMS is based on the three pillars of prevention, detection, and reaction and is part of the second line of defense within the Schaeffler Group's governance structure. The CMS in its current state is the result of a comprehensive revision initiated by the Board of Managing Directors as part of the "Compliance Fit & Proper" program. An independent audit firm confirmed the appropriateness and implementation of the Schaeffler Group's compliance management system in accordance with the Principles for the Proper Performance of Reasonable Assurance Engagements Relating to Compliance Management Systems, IDW AsS 980, in 2018.

The CMS comprises, in particular, managing and monitoring the activities necessary to prevent, or detect early on, violations of law in the area of corruption, money-laundering, competition and antitrust law, and economic criminal activity. It also serves to actively manage risk and protect the company and its employees. The CMS consists of seven core components: compliance culture, compliance objectives, vulnerability analysis, compliance program, compliance organization, communication, and monitoring and improvement.

The compliance organization derives its arrangements for preventing violations of antitrust and competition legislation, corruption, economic crime, and money-laundering from a regular groupwide risk analysis using a risk-based approach. The risk analysis provides information on the current situation with respect to risks arising from operations and on the effectiveness of the preventive arrangements in place. The analysis is primarily based on interviews with management and employees of all divisions and regions. Its objective is to obtain information that is required to estimate the probability of occurrence and the size of the potential amount of damage and that is as close to the business processes as possible. These estimates are supplemented with sector and expert knowledge, experience with actual compliance violations, results of controls and audits, as well as by using operations-, market-, and country-specific risk criteria ranging from publicly available risk indicators, such as the Corruption Perception Index compiled by Transparency International, through to issues regarding the location-specific design of the Schaeffler Group's business model.

The Schaeffler Group's Group Chief Compliance Officer heads up the compliance organization and reports directly to the Chief Executive Officer. The Group Chief Compliance Officer also has a reporting line to the Chairman of the Supervisory Board and reports to the chairman of the audit committee on a regular basis.

The compliance department provides the Group Chief Compliance Officer with the support of a network of experienced compliance specialists spanning all of the Schaeffler Group's Europe, Americas, Greater China, and Asia/Pacific regions. He also utilizes a centralized team of experts located at the corporate head office in Herzogenaurach that consists of the "Advisory", "Risk Analysis & Solutions", and "Forensics & Investigations" departments. The responsibilities of this team of experts include defining and monitoring appropriate groupwide compliance standards and activities, consulting on compliance, and improving processes and controls. The team is also responsible for independently investigating alleged violations and following up on the necessary consequences. It analyzes the causes of misconduct, derives suggestions for remedial measures, and follows up on their implementation. Violations of laws and regulations or of internal rules on compliance with these are not tolerated and result in disciplinary action.

Measures designed to prevent compliance violations include the Schaeffler Group's Code of Conduct, guidelines on behavior in compliance with antitrust and competition legislation as well as on fighting corruption and protecting confidential information, web-based training and classroom training sessions, and a compliance helpdesk available for consultation on specific compliance issues. In addition to requirements relating to general conduct, the principles and practices described in the Schaeffler Code of Conduct also cover conduct vis-à-vis business partners and third parties, dealing with sensitive information, employees and co-workers, and requirements regarding the environment, health, and safety. In accordance with the corporate values, bribery or any form of corruption are not tolerated. All Schaeffler Group employees are expressly prohibited from engaging in corruption in any way. The same applies to conduct violating competition or anti-trust laws. The Schaeffler Group stays away from any transactions that cannot be effected or continued without unacceptable conduct.

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

The Schaeffler Group has further expanded its arrangements and measures for complying with legal requirements and internal rules in 2019.

The company continued to digitize its register of contacts with competitors. It contributes to transparency and supports the process for approving contacts with competitors in advance. The IT-based business partner due diligence workflow that is integrated in the existing business processes has commenced operations. This new process facilitates and improves business partner due diligence. Both underline the standard the Schaeffler Group expects of its business partners with respect to acting with integrity and abiding by rules.

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

3.2 Risk management system

Like the compliance management system, the risk management system is part of the second line of defense in the Schaeffler Group's governance structure. It comprises all activities and arrangements made to identify, assess, manage, and monitor risk. A risk is defined as the danger that events or actions will prevent a company from achieving its plan or successfully implementing its strategies. For all identified risks, the probability of occurrence and possible impact on achieving objectives are continually identified, assessed, appropriate action initiated and followed-up on.

More on the company's risk management system on pp. 48 et seq.

3.3 Internal control system

The second line of defense also comprises the Schaeffler Group's internal control system (ICS). The ICS consists of technological and organizational arrangements and controls that have been systematically designed to ensure compliance with guidelines and to prevent loss or damage that may be caused by the company's employees or by third parties. Controls can be performed both process-dependent or independently of the process. The Schaeffler Group's internal control system is based on the COSO model and consists of the following components: control environment, risk assessment, control activities, information and communication, and monitoring. It is focused on financial reporting and represents the arrangements and controls ensuring that the consolidated financial statements are prepared in accordance with financial reporting standards and ensuring accurate external financial reporting.

More on the company's internal control system on pp. 50 et seq.

3.4 Internal Audit

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

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

- direct organizational link to the Chief Executive Officer to ensure that there are no gaps in audit coverage
- neither the head of Internal Audit nor audit staff have any operational responsibilities
- reports annually on potential impairment of independence to the Chief Executive Officer, the Board of Managing Directors, and the audit committee
- the Board of Managing Directors has to approve and appropriately document the audit planning and significant changes therein
- The responsibilities of Internal Audit specifically include, but are not limited to, the following activities:
- audit and assessment of the appropriateness, efficiency, and effectiveness of the internal control system
- audit and assessment of the appropriateness, efficiency, and effectiveness of the management and supervisory processes
- audit and assessment of the finance and accounting systems, the information system, and the reporting system
- audit and assessment of the effectiveness of risk and compliance management
- audit and assessment of the effectiveness of arrangements for preventing and detecting fraud
- audit of arrangements for safeguarding assets
- audit and assessment of the implementation of and compliance with legal requirements and the company's internal rules ("orderliness")
- performance of special investigations with respect to fraud, conflicts of interest, and other irregularities

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

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

In its audit reports, Internal Audit communicates its findings, identifies the individuals responsible for implementation, and agrees on remediation measures, including a timeframe for their implementation. In a monitoring and follow-up process, Internal Audit monitors implementation of the remediation measures addressing identified deficiencies.

In accordance with the International Standards for the Professional Practice of Internal Auditing 2016 of the Institute of Internal Auditors (IIA), the head of Internal Audit has established a quality assurance and improvement program covering all of Internal Audit's responsibilities.

4. Remuneration report

This remuneration report describes the main features of the remuneration system for the Board of Managing Directors, i.e. the remuneration structure and amount. In addition, the remuneration report provides disclosures about benefits the company has promised to provide to the members of the Board of Managing Directors upon termination of their employment as well as disclosures on the remuneration of the Supervisory Board.

The remuneration report is in accordance with the requirements of the German Commercial Code (HGB) and International Financial Reporting Standards (IFRS) and is part of the group management report. It also reflects the recommendations of the German Corporate Governance Code.

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

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

As stipulated in the German Corporate Governance Code (GCGC) and section 87 AktG, the Supervisory Board sets the total remuneration and regularly reviews the remuneration scheme. To ensure that the total remuneration is appropriate, the Supervisory Board takes into account customary levels of remuneration both in other companies of comparable size within the same industry and country (horizontal comparison) and the wage and salary structure within the enterprise itself (vertical comparison of remuneration of Board of Managing Directors to the company's workforce).

The total remuneration of the Board of Managing Directors is performance- and success-based and supports the Schaeffler Group's operational and strategic objectives in a dynamic and international environment. The remuneration of each member of the Board of Managing Directors consists of a fixed amount as well as short- and long-term variable components. The variable component is largely long-term in nature. In addition, the members of the Board of Managing Directors receive pension commitments and the customary fringe benefits.

Remuneration of the Board of Managing Directors – system and components

Components	Performance metric	Range of remuneration	Conditions for payment	Payment cycle
Non-performance-based components				
Fixed remuneration	Function and responsibility	None	Contractually agreed	Monthly
Fringe benefits	Function and responsibility	None	Contractually agreed	Payment not applicable
Performance-based components				
Short-term bonus	For the CEO and the Chief Officers of the functions: Free cash flow (FCF Group) and Schaeffler Value Added (SVA Group) at group level (weighted equally) For the divisional CEOs: Free cash flow (FCF Group) and Schaeffler Value Added (SVA Group) at group level as well as divisional Schaeffler Value Added (SVA Division) and divisional cash flow (DCF Division) (weighted equally) The Supervisory Board has the ability to set additional strategic targets each year	0% –150%	Meeting annual targets	Annually
Long-term bonus Performance Share Unit Plan (PSUP)	Share price trend of Schaeffler common non-voting shares and meeting targets consisting of: 50% service condition and 25% relative Total-Shareholder-Return-(TSR)-based performance target and 25% cumulative FCF-based performance target	Maximum is the number of PSUs granted, minimum number is nil Share price cap: double the share price at grant date	Meeting service condition and/or targets	4 years after grant date
Retirement benefits			Retirement or triggering event	Generally monthly

Non-performance-based components

Fixed remuneration

Each ordinary member of the Board of Managing Directors receives an identical amount of fixed remuneration; the Chief Executive Officer receives twice this amount. Fixed remuneration is paid in twelve equal instalments each month.

Fringe benefits

Fringe benefits include the use of a company car, including for private purposes, and customary insurance benefits such as directors' and officers' liability insurance (D&O insurance). This D&O insurance policy includes a deductible provision that is in accordance with section 93 (2) (3) AktG. Tax on the pecuniary advantage related to fringe benefits granted is paid individually by each member of the Board of Managing Directors. No loans were granted to members of the Board of Managing Directors in 2019.

Performance-based components

Short-term variable component – short-term bonus

All members of the Board of Managing Directors receive an annual short-term bonus if the relevant targets are met. The employment contracts of the members of the Board of Managing Directors set out the individual target-based bonus based on achievement of 100% of the targets (individual target-based bonus).

The Supervisory Board determines the target tiers including the minimum and maximum targets on an annual basis. The targets underlying the remuneration reflect the strategic direction of the Schaeffler Group. The amount of the short-term bonus payable to the CEO and the Chief Officers of the functions is determined based on the extent to which the performance targets have been met. The performance targets are weighted equally and consist of free cash flow (FCF Group) of the Schaeffler Group and Schaeffler Value Added (SVA Group) of the Schaeffler Group. For the divisional CEOs, the performance targets used to determine the extent to which performance targets have been met consist of free cash flow of the Schaeffler Group (FCF Group) and

Schaeffler Value Added of the Schaeffler Group (SVA Group) and of divisional Schaeffler Value Added (SVA Division) as well as divisional cash flow (DCF Division), again weighted equally.

FCF Group is generally calculated based on the Schaeffler Group's cash flows from operating activities and from investing activities for the relevant year. SVA Group is generally based on the Schaeffler Group's EBIT less its cost of capital. SVA Division is determined in the same manner based on measures segmented in accordance with IFRS 8. The DCF Division performance target is calculated as the sum of EBIT plus depreciation, amortization, and impairment losses plus change in working capital less additions to property, plant and equipment and intangible assets.

The Supervisory Board can set other strategic targets in addition to the FCF, SVA, and DCF performance targets. The Supervisory Board exercised this right to set additional targets for 2019, the first time it has done so. For 2019, an additional target was established which provides an incentive to reduce the volatility of FCF over the course of 2019. To this end, the company measures the change in each of working capital (Delta Working Capital) and capital expenditures (Delta Capex) from the first to the fourth quarter of 2019. The objective is to reduce the sum of these two deltas. This additional target is weighted at 20% of the individual target-based bonus for 2019. Furthermore, the Supervisory Board can establish a multiplier ranging from 0.8 to 1.2 to reflect a Managing Director's individual performance. The short-term bonus may lapse in its entirety if the minimum targets are not met. In the event that maximum targets are exceeded, payment of all short-term bonuses is limited to 150% of the individual target-based bonus, regardless of whether an additional strategic target is set or a multiplier reflecting a Managing Director's individual performance is applied. The short-term bonus earned during a year is paid in a lump sum in euros once the extent to which targets have been met has been determined.

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

The Supervisory Board has implemented a share-based remuneration instrument in the form of a PSUP in order to align the interests of the Board of Managing Directors with those of the shareholders and to promote the sustainable development of the Schaeffler Group.

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

Vesting of PSUs is linked to the following three conditions:

- 50% of PSUs (base number) are granted subject to a service condition. The base number is only paid out if the member of the Board of Managing Directors remains employed as a member of a governing body of Schaeffler AG and is not under notice of termination at the end of the performance period.[4]
- 25% of the PSUs are granted subject to a long-term FCF-based performance target which involves a comparison of cumulative FCF for the performance period to the target FCF.
- 25% of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). Vesting is based on the extent to which the TSR for Schaeffler AG's common non-voting shares exceeds or falls short of the TSR of companies in the benchmark group (MDAX) over the performance period

The Supervisory Board sets the FCF- and TSR-based target amounts for each tranche when PSUs are granted.

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

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

PSUP performance targets (1)

Cumulative FCF for the performance period	Number of FCF PSUs vested in %
Cumulative FCF compared to target FCF ›~ 6.01%	100%
2.01% ‹ cumulative FCF compared to target FCF ‹ ~ 6.00%	75%
-2.00% ‹ cumulative FCF compared to target FCF ‹ ~ 2.00%	50%
-6.00% ‹ cumulative FCF compared to target FCF ‹ ~ -2.01%	25%
Cumulative FCF compared to target FCF ‹ ~ -6.01%	0%

PSUP performance targets (2)

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

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

The underlying share price of the 2019 tranche is EUR 8.50. The PSUs granted to each individual and the related fair values in 2019 are as follows:

PSUs granted in 2019

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

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

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

PSUs granted in 2018

	Grant amount (in € thousands)	Number of PSUs outstanding on December 31, 2018 [1]	Grant date fair value per PSU (in €)	Grant date fair value (in € thousands)
Klaus Rosenfeld (CEO)	1,300			
Base number of PSUs		46,363	12.48	579
FCF PSUs		23,181	12.48	289
TSR PSUs		23,181	7.92	184
Prof. Dr. Peter Gutzmer	950			
Base number of PSUs		33,880	12.48	423
FCF PSUs		16,940	12.48	211
TSR PSUs		16,940	7.92	134
Dietmar Heinrich	650			
Base number of PSUs		23,180	12.48	289
FCF PSUs		11,591	12.48	145
TSR PSUs		11,591	7.92	92
Andreas Schick [2]	488			
Base number of PSUs		17,386	10.63	185
FCF PSUs		8,693	10.63	92
TSR PSUs		8,693	6.00	52
Corinna Schittenhelm	650			
Base number of PSUs		23,180	12.48	289
FCF PSUs		11,591	12.48	145
TSR PSUs		11,591	7.92	92
Michael Söding [3]	650			
Base number of PSUs		23,180	12.48	289
FCF PSUs		11,591	12.48	145
TSR PSUs		11,591	7.92	92
Dr. Stefan Spindler	800			
Base number of PSUs		28,531	12.48	356
FCF PSUs		14,265	12.48	178
TSR PSUs		14,265	7.92	113
Matthias Zink	650			
Base number of PSUs		23,180	12.48	289
FCF PSUs		11,591	12.48	145
TSR PSUs		11,591	7.92	92
Managing Directors who left the company in 2018				
Oliver Jung [4]	713			
Base number of PSUs		25,410	12.48	317
FCF PSUs		12,705	12.48	159
TSR PSUs		12,705	7.92	101
Prof. Dr. Peter Pleus [5]	950			
Base number of PSUs		33,880	12.48	423
FCF PSUs		16,940	12.48	211
TSR PSUs		16,940	7.92	134
Total	**7,800**	**556,346**	**-**	**6,244**

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

The PSUs granted are classified and measured as cash-settled share-based compensation. The fair value for PSUs subject to the TSR-based performance target was determined using a binomial model. The fair value of the base number and of the PSUs subject to the FCF-based performance target was determined based on the price of the company's common non-voting shares as at the measurement date. The valuation model takes into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target tiers, expected dividend payments, as well as the volatility of the company's common non-voting shares and of the benchmark index).

The valuation as at the grant date of the 2019 tranche (prior year: 2018 tranche) reflects the following input parameters:

- risk-free interest rate for the remaining performance period of 0.07% (prior year: -0.29%) for a January 1, 2019, grant date; -0.82% for an October 1, 2019, grant date (prior year: 0.28% for a March 2, 2018, grant date)
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 7.37% (prior year: 3.38%) for a January 1, 2019, grant date; 7.81% for an October 1, 2019, grant date (prior year: 3.92% for a March 2, 2018, grant date)
- expected volatility of Schaeffler AG common non-voting shares of 36.83% (prior year: 28.90%) for a January 1, 2019, grant date; 36.28% for an October 1, 2019, grant date (prior year: 32.59% for a March 2, 2018, grant date)
- expected volatility of the benchmark index of 14.80% (prior year: 10.32%) for a January 1, 2019, grant date; 15.65% for an October 1, 2019, grant date (prior year: 12.03% for a March 2, 2018, grant date)
- expected correlation coefficient between the benchmark index and Schaeffler AG common non-voting shares of 0.53 (prior year: 0.45) for a January 1, 2019, grant date; 0.50 for an October 1, 2019, grant date (prior year: 0.50 for a March 2, 2018, grant date).

Retirement benefits

All current members of the Board of Managing Directors hold retirement benefit commitments. The pension resulting from the various individual retirement benefit commitments is generally calculated as a percentage of pensionable remuneration based on the duration of the individual's service on the Board of Managing Directors. This percentage amounts to 2.5% per year of membership on the Board of Managing Directors, and between 1.5% and 3% for one member of the Board of Managing Directors, gradually increasing over time. Pension commitments for each member of the Board of Managing Directors are tailored individually.

Pension payments commence in the form of retirement benefits if employment ends before or upon attainment of the age of 65, and in the form of disability benefits if employment ends due to disability. Beneficiaries are entitled to claim a reduced pension early as a retirement benefit beginning at age 59. Upon the death of the member of the Board of Managing Directors, the spouse is entitled to between 50% and 60% of the pension as a surviving dependants' pension. Surviving dependent children are entitled to 10% or 20% of the pension as a half- or full-orphan's pension, respectively.

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

The following tables summarize the service cost and defined benefit obligation of pension benefits earned up to December 31, 2019, calculated in accordance with IAS 19 and based on the beneficiary's current age and years of service. As a result of the change in the company's retirement benefits for the members of the Board of Managing Directors with a term of office extending beyond July 31, 2020, the benefits earned by each member of the Board of Managing Directors were fixed as at December 31, 2019, and deemed vested. No further benefits will be earned in relation to any service period beyond December 31, 2019. This applies to all members of the Board of Managing Directors with a term of office extending beyond July 31, 2020.

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

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

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

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

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

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

Change in remuneration system 2015

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

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

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

Members of the Board of Managing Directors whose employment has terminated are generally subject to a non-competition clause for a period of two years following termination of their employment agreement. In return, they are entitled to compensation in the amount of 50% of the average contractual remuneration granted to the member of the Board of Managing Directors for the last 12 months before the end of their employment. Such contractual remuneration includes both performance-based and non-performance-based remuneration components. Income from other employment of the member of the Board of Managing Directors is deducted from the compensation payment in accordance with section 74c HGB. Where employment ends on grounds of age, a non-competition clause for a period following termination of employment does not apply.

The employment agreement of Uwe Wagner, who was appointed to the Board of Managing Directors in 2019, includes a post-contract non-competition clause calling for corresponding compensation.

Prof. Dr.-Ing. Peter Gutzmer left the Board of Managing Directors of Schaeffler AG early as at October 1, 2019. His employment agreement remained in effect until December 31, 2019. The fixed remuneration, including fringe benefits, he continued to receive amounts to a total of EUR 166 thousand and his proportionate short-term bonus for 2019 is EUR 157 thousand. In connection with the post-contract non-competition clause, the company will make additional payments over a period from January 2020 to probably December 2021 in the amount of 50% of the average monthly contractual remuneration granted for the last 12 months before the end of Prof. Dr.-Ing. Gutzmer's employment. Oliver Jung left Schaeffler AG's Board of Managing Directors early effective March 31, 2018. His employment agreement remained in effect until September 30, 2018. The fixed remuneration including fringe benefits he continued to receive amounted to a total of EUR 304 thousand and his proportionate short-term bonus for 2018 was EUR 321 thousand.

External activities of members of the Board of Managing Directors

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

Appropriateness of the remuneration of the Board of Managing Directors

In accordance with section 87 AktG, the Supervisory Board of Schaeffler AG ensures that the remuneration of individual members of the Board of Managing Directors bears a reasonable relationship to the duties and performance of such member as well as the condition of the company. The Supervisory Board engaged Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to review the appropriateness of the Managing Directors' remuneration, most recently in 2019. Ernst & Young concluded that the total remuneration of the members of the Board of Managing Directors is customary and appropriate in comparison to that of other companies of comparable size within the same industry and country in terms of the amount, structure, and features of remuneration instruments.

4.2 Amounts of remuneration of the Board of Managing Directors

The fixed and variable components of remuneration are disclosed below. The following tables show the benefits granted and received for 2018 and 2019.

Benefits granted for 2019

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

Benefits received for 2019

	Klaus Rosenfeld		Dietmar Heinrich		Andreas Schick	
	Chief Executive Officer		Chief Financial Officer		Chief Operating Officer	
	since October 24, 2014		since August 1, 2017		since April 1, 2018	
in € thousands	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Fixed remuneration	1,200	1,200	600	600	600	450
Fringe benefits	32	28	30	20	34	19
Total	**1,232**	**1,228**	**630**	**620**	**634**	**469**
One-year variable remuneration	1,254	856	627	428	627	321
Multi-year variable remuneration						
• Long-term bonus: PSUP (4 years) - 2015 tranche [1)]	420	0	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2016 tranche	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2017 tranche	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2018 tranche	0	0	0	0	0	0
• Long-term bonus: PSUP (4 years) - 2019 tranche	0	0	0	0	0	0
Total	**2,906**	**2,084**	**1,257**	**1,048**	**1,261**	**790**
Pension expense	1,244	1,244	283	279	328	242
Total remuneration	**4,151**	**3,327**	**1,540**	**1,328**	**1,589**	**1,031**

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

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

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

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

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

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

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

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

The total remuneration for 2019 and 2018 is broken down by individual and by its various components in accordance with section 285 (9a) HGB and section 314 (1) (6a) HGB below.

Total remuneration (HGB) for 2019 by individual

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

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

Total remuneration (HGB) for 2018 by individual

	Remuneration components			
in € thousands	fixed	variable, short-term	variable, long-term[1]	Total remuneration
Klaus Rosenfeld (CEO)	1,228	856	1,052	3,135
Prof. Dr. Peter Gutzmer	629	642	768	2,039
Dietmar Heinrich	620	428	526	1,574
Andreas Schick [2]	469	321	329	1,119
Corinna Schittenhelm	625	428	526	1,578
Michael Söding [3]	630	500	526	1,656
Dr. Stefan Spindler	624	704	647	1,975
Matthias Zink	626	376	526	1,528
Managing Directors who left the company in 2018				
Oliver Jung [4]	157	160	576	893
Prof. Dr. Peter Pleus [5]	643	564	768	1,975
Total	**6,250**	**4,979**	**6,244**	**17,473**

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

The total expenses and income resulting from the PSUP for 2019 are broken down by individual in accordance with section 314 (1) (6a) (8) HGB in connection with IFRS 2.51a below.

PSUP expenses and income in 2019

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

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

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

PSUP expenses and income in 2018

in € thousands	Expenses and income (IFRS)
Klaus Rosenfeld (CEO)	-288
Prof. Dr. Peter Gutzmer	-102
Dietmar Heinrich	55
Andreas Schick [1]	27
Corinna Schittenhelm	-32
Michael Söding [2]	45
Dr. Stefan Spindler	-131
Matthias Zink	32
Managing Directors who left the company in 2018	
Oliver Jung [3]	-241
Prof. Dr. Peter Pleus [4]	173
Total	**-464**

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

4.3 Enhancement of the remuneration system effective January 1, 2020

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

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

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

Long-term variable remuneration

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

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The individual grant amount in euro is converted to PSUs based on the average closing price of Schaeffler's shares on the last 60 trading days before the grant date:

50% PSUs	Service condition	Extent to which target can be met: 0% – 100%	**Condition** Existing contract for employment as member of the Board of Managing Directors
25% PSUs	TSR condition	Extent to which target can be met: 0% – 200%	**Condition** TSR outperformance vs. sector basket (SXAGR / SXNGR)
25% PSUs	EPS condition	Extent to which target can be met: 0% – 200%	**Condition** Average annual growth in earnings per share (EPS CAGR)

Payout after four-year performance period

Number of PSUs × Share price on payment date (capped at 200% of share price at grant date)

Service condition

The amount paid depends on Schaeffler AG's share price trend. Payment is only made if the member of the Board of Managing Directors remains employed as a member of a governing body of Schaeffler AG and is not under notice of termination at the end of the performance period.[5]

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

TSR condition

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

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

EPS condition

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

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

Obligation to hold shares

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

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

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

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

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

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

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

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

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

Clawback

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

Cap on remuneration

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

Retirement benefits

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

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

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

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

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

Change in remuneration system 2020

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

4.4 Remuneration of the Supervisory Board

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

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

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

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

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

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

The company has obtained directors' and officers' liability insurance (D&O insurance) for all members of the Supervisory Board; the features of the policy's deductible provision are in accordance with section 93 (2) (3) AktG.

No advances or loans were granted to members of the Supervisory Board in 2019 or 2018. The following tables summarize the amount of remuneration of each member of the Supervisory Board.

Supervisory Board remuneration for 2019 [1]

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

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

Supervisory Board remuneration for 2018 [1]

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees [2]	Total remuneration
Bullinger, Prof. Dr. Hans-Jörg	50		6	56
Engelmann, Dr. Holger	50		6	56
Gottschalk, Prof. Dr. Bernd	50		5	55
Grimm, Andrea [3]	50		8	58
Lau, Susanne (since August 8, 2018) [3]	20		5	25
Lenhard, Norbert [3]	50	20	14	84
Luther, Dr. Siegfried	50	30	14	93
Mittag, Dr. Reinold [3]	50	20	14	84
Resch, Barbara [3]	50	20	11	81
Schaeffler, Georg F. W.	100	40	15	155
Schaeffler-Thumann, Maria-Elisabeth	75	20	0	95
Schmidt, Stefanie (until June 30, 2018) [3]	25		3	28
Spindler, Dirk	50		8	58
Stalker, Robin	50	30	12	92
Stolz, Jürgen [3]	50		6	56
Vicari, Salvatore [3]	50	20	14	84
Wechsler, Jürgen [3]	75	20	14	109
Wiesheu, Dr. Otto	50		6	56
Wolf, Prof. KR Ing. Siegfried	50	20	3	73
Worrich, Jürgen [3]	50	20	14	84
Zhang, Prof. Dr.-Ing. Tong	50		8	58
Total	**1.095**	**260**	**180**	**1.535**

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

Members of the Supervisory Board have not received any compensation for personal services, especially consulting and agency services, in 2019 or 2018.

5. Governing bodies of the company

5.1 Supervisory Board

The Supervisory Board consists of 20 members. Ten of these members are appointed by a resolution of the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act. The term of office of the shareholder representatives on the Supervisory Board ends at the conclusion of the annual general meeting 2024. The term of office of the employee representatives ends at the conclusion of the annual general meeting 2020.

Georg F. W. Schaeffler

Shareholder of INA-Holding Schaeffler GmbH & Co. KG
Chairman of the Supervisory Board of Schaeffler AG

Appointed: December 1, 2014
Committee memberships: chairman of the mediation, executive, and nomination committees and member of the audit and technology committees
Seats on supervisory and similar boards: member of the supervisory board of Continental AG, Hanover;
chairman of the advisory board of ATESTEO Management GmbH

Maria-Elisabeth Schaeffler-Thumann

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

Appointed: December 1, 2014
Committee memberships: member of the mediation, executive, and nomination committees
Seats on supervisory and similar boards: member of the supervisory board of Continental AG, Hanover

Jürgen Wechsler*

Former Regional Director of IG Metall Bavaria
Deputy Chairman of the Supervisory Board of Schaeffler AG

Appointed: November 19, 2015
Committee memberships: member of the mediation, executive, and technology committees
Seats on supervisory and similar boards: member of the supervisory board of BMW AG, Munich (until May 16, 2019);
deputy chairman of the Supervisory Board of Siemens Healthcare GmbH, Erlangen (until March 18, 2019)

Sabine Bendiek (since April 2019)

Managing Director Microsoft Deutschland GmbH

Appointed: April 24, 2019

Prof. Dr. Hans-Jörg Bullinger

Senator of
Fraunhofer-Gesellschaft zur Förderung angew. Forschung e.V.

Appointed: December 1, 2014
Committee memberships: chairman of the technology committee
Seats on supervisory and similar boards: chairman of the Supervisory Board of ARRI AG, Munich; member of the Supervisory Board of Bauerfeind AG, Zeulenroda-Triebes; member of the Supervisory Board of CO.DON AG, Berlin (since June 12, 2019); member of the Supervisory Board of Alfred Kärcher SE & Co. KG, Winnenden (until June 30, 2019); chairman of the Supervisory Board of TÜV SÜD AG, Munich; deputy chairman of the Supervisory Board of Wilo SE, Dortmund (until April 13, 2019)

* Employee representative on the Supervisory Board.

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

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

Prof. Dr. Bernd Gottschalk
Owner and Managing Partner of AutoValue GmbH

Appointed: December 1, 2014
Committee memberships: member of the nomination committee
Seats on supervisory and similar boards: deputy chairman of the Supervisory Board of JOST-Werke AG, Neu-Isenburg; member of the Supervisory Board of Plastic Omnium SA, Levallois-Perret, France; chairman of the Supervisory Board of Haldex AB, Stockholm, Sweden (since May 6, 2019)

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

Appointed: April 8, 2017

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

Appointed: August 8, 2018

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

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

Dr. Reinold Mittag*
Trade Union Secretary of IG Metall

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

Barbara Resch*
Wage secretary

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

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

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

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

Appointed: November 19, 2015

Robin Stalker
Chartered Accountant

Appointed: December 1, 2014
Committee memberships: chairman of the audit committee
Seats on supervisory and similar boards: member of the Supervisory Board of Commerzbank AG, Frankfurt/Main; deputy chairman of the Supervisory Board of Schmitz Cargobull AG, Horstmar

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

Appointed: November 19, 2015

Salvatore Vicari*
Chairman of the Works Council at the Homburg/Saar plant

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

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

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

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

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

* Employee representative on the Supervisory Board.

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

Appointed: December 1, 2014
Committee memberships: member of the technology committee

The following members left the Supervisory Board in 2019

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

Appointed: December 1, 2014
Term of office ended: April 24, 2019
Seats on supervisory and similar boards: member of the Supervisory Board of Evonik Industries AG, Essen; member of the board of directors of Sparkasse Gütersloh-Riethberg, Guetersloh

Dr. Otto Wiesheu (until April 24, 2019)
Lawyer

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

5.2 Supervisory Board committees

Mediation committee

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

Executive committee

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

Audit committee

Robin Stalker (Chairman), Dr. Holger Engelmann, Dr. Reinold Mittag, Georg F. W. Schaeffler, Salvatore Vicari, and Jürgen Worrich

Nomination committee

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

Technology committee

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

5.3 Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors currently has eight members: the Chief Executive Officer (CEO), the CEOs of the Automotive OEM, Automotive Aftermarket, and Industrial divisions, and the Managing Directors responsible for the functions (1) R&D, (2) Operations, Supply Chain Management & Purchasing, (3) Finance & IT, and (4) Human Resources. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board.

Klaus Rosenfeld
Chief Executive Officer

Responsible for: Quality; Schaeffler Consulting; Communications & Branding; Investor Relations; Legal; Internal Audit; Corporate Development & Strategy; Compliance & Corporate Security; Corporate Real Estate; Strategic IT & Digitalization
Appointed: October 24, 2014
Term of office ends: June 30, 2024
Seats on supervisory and similar boards: member of the Supervisory Board of Continental AG, Hanover; chairman of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach; member of the board of directors of Schaeffler Holding (China) Co. Ltd., Shanghai, China; member of the board of directors of Schaeffler India Ltd., Mumbai, India; member of the board of directors of Siemens Gamesa Renewable Energy S.A., Zamudio, Spain

Dietmar Heinrich
Chief Financial Officer

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

Andreas Schick
Chief Operating Officer

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

Corinna Schittenhelm
Chief Human Resources Officer

Responsible for: HR Strategy, Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Sustainability, Environment, Health & Safety; Human Resources Functions
Appointed: January 1, 2016
Term of office ends: December 31, 2023
Seats on supervisory and similar boards: member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach; member of TÜV SÜD Gesellschafterausschuss GbR, Munich (since April 1, 2019)

Michael Söding
CEO Automotive Aftermarket

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

Dr. Stefan Spindler
CEO Industrial

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

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

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

Matthias Zink
CEO Automotive OEM

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

The following member left the Board of Managing Directors in 2019

Prof. Dr.-Ing. Peter Gutzmer (until October 1, 2019)
Deputy CEO and Chief Technology Officer

Responsible for: Corporate R&D Management; Innovation & Central Technology; R&D Processes, Methods & Tools; Intellectual Property Rights; R&D Bearing; Information Technology; Strategic IT; Coordination Office Digitalization
Appointed: October 24, 2014
Term of office ended: October 1, 2019
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg (until November 21, 2019); member of the supervisory board of Continental AG, Hanover (until April 26, 2019); chairman of the advisory board of Schaeffler Bio-Hybrid GmbH, Herzogenaurach (until December 31, 2019); chairman of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach (until November 29, 2019)

Consolidated financial statements

1. Consolidated income statement

in € millions	Note	2019	2018 [1]	Change in %
Revenue	3.1	14,427	14,241	1.3
Cost of sales		-10,853	-10,558	2.8
Gross profit		**3,574**	**3,683**	**-3.0**
Research and development expenses		-849	-847	0.2
Selling expenses		-976	-1,004	-2.8
Administrative expenses		-557	-487	14.3
Other income	3.2	80	87	-7.9
Other expenses	3.3	-482	-78	> 100
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)		**790**	**1,354**	**-41.7**
Financial income	3.5	57	45	28.2
Financial expenses	3.5	-194	-199	-2.5
Financial result	**3.5**	**-137**	**-155**	**-11.3**
Income (loss) from equity-accounted investees		-17	-4	> 100
Earnings before income taxes		**636**	**1,195**	**-46.8**
Income taxes	3.6	-196	-300	-34.7
Net income		**440**	**895**	**-50.8**
Attributable to shareholders of the parent company		428	881	-51.4
Attributable to non-controlling interests		12	14	-16.7
Earnings per common share (basic/diluted, in €)	3.7	0.64	1.32	-51.5
Earnings per common non-voting share (basic/diluted, in €)	3.7	0.65	1.33	-51.1

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 “New accounting pronouncements” to the consolidated financial statements for further details.

2. Consolidated statement of comprehensive income

			2019			2018 [1]	
in € millions	Note	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Net income		**636**	**-196**	**440**	**1,195**	**-300**	**895**
Foreign currency translation differences for foreign operations		65	0	65	-10	0	-10
Net change from hedges of net investments in foreign operations	4.16	-1	0	0	-8	2	-6
Effective portion of changes in fair value of cash flow hedges [2]	4.16	22	-6	16	-59	17	-42
Net change in fair value of financial assets at fair value through other comprehensive income		-2	0	-2	0	0	0
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss		**84**	**-6**	**78**	**-77**	**19**	**-58**
Remeasurement of net defined benefit liability	4.13	-419	122	-297	-36	11	-25
Changes in scope of consolidation – defined benefit pension and other benefit plans		2	0	2	0	0	0
Total other comprehensive income (loss) that will not be reclassified to profit or loss		**-417**	**122**	**-295**	**-36**	**11**	**-25**
Total other comprehensive income (loss)		**-333**	**116**	**-217**	**-114**	**30**	**-83**
Total comprehensive income (loss)		**303**	**-80**	**223**	**1,082**	**-270**	**812**
Total comprehensive income (loss) attributable to shareholders of the parent company		286	-74	212	1,069	-264	805
Total comprehensive income (loss) attributable to non-controlling interests		17	-6	11	13	-6	7

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 “New accounting pronouncements” to the consolidated financial statements for further details.
[2] Including losses of EUR 27 m (prior year: gains of EUR 35 m) reclassified to profit and loss.

3. Consolidated statement of financial position

in € millions	Note	12/31/2019	12/31/2018 [1]	Change in %
ASSETS				
Intangible assets	4.1	728	627	16.1
Right-of-use assets under leases	4.2	193	-	> 100
Property, plant and equipment	4.3	5,355	5,318	0.7
Investments in joint ventures and associated companies	4.4	144	160	-10.3
Contract assets	3.1	6	11	-48.3
Other financial assets	4.8	126	106	18.9
Other assets	4.8	122	85	44.5
Deferred tax assets	4.5	713	520	37.1
Total non-current assets		**7,387**	**6,827**	**8.2**
Inventories	4.6	2,132	2,183	-2.3
Contract assets	3.1	66	45	47.0
Trade receivables	4.7	2,130	2,003	6.3
Other financial assets	4.8	120	131	-8.9
Other assets	4.8	273	267	2.5
Income tax receivables	4.5	89	102	-12.6
Cash and cash equivalents	4.9	668	801	-16.6
Assets held for sale	4.10	5	2	> 100
Total current assets		**5,483**	**5,534**	**-0.9**
Total assets		**12,870**	**12,362**	**4.1**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		666	666	0.0
Capital reserves		2,348	2,348	0.0
Other reserves		931	866	7.6
Accumulated other comprehensive income (loss)		-1,124	-907	23.9
Equity attributable to shareholders of the parent company		**2,822**	**2,973**	**-5.1**
Non-controlling interests		95	87	8.9
Total shareholders' equity	**4.11**	**2,917**	**3,060**	**-4.7**
Provisions for pensions and similar obligations	4.13	2,637	2,173	21.4
Provisions	4.14	168	172	-2.0
Financial debt	4.12	3,026	3,188	-5.1
Contract liabilities	3.1	7	2	> 100
Income tax payables	4.5	103	103	0.1
Other financial liabilities	4.15	36	8	> 100
Lease liabilities	4.2	144	0	> 100
Other liabilities	4.15	15	3	> 100
Deferred tax liabilities	4.5	137	131	4.7
Total non-current liabilities		**6,273**	**5,780**	**8.5**
Provisions	4.14	462	244	89.2
Financial debt	4.12	168	160	5.2
Contract liabilities	3.1	60	45	34.2
Trade payables	4.16	1,732	1,967	-11.9
Income tax payables	4.5	101	69	46.3
Other financial liabilities	4.15	545	481	13.4
Lease liabilities	4.2	50	0	> 100
Refund liabilities	4.16	232	236	-1.4
Other liabilities	4.15	329	320	3.0
Total current liabilities		**3,680**	**3,521**	**4.5**
Total shareholders' equity and liabilities		**12,870**	**12,362**	**4.1**

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

4. Consolidated statement of cash flows

in € millions	Note	2019	2018 [1]	Change in %
Operating activities				
EBIT		790	1,354	-41.7
Interest paid		-95	-94	1.8
Interest received		17	15	12.4
Income taxes paid		-222	-355	-37.6
Depreciation, amortization, and impairment losses		980	821	19.3
(Gains) losses on disposal of assets		-8	-3	> 100
Changes in:				
• Inventories		77	-166	-
• Trade receivables		-156	135	-
• Trade payables		-145	63	-
• Provisions for pensions and similar obligations		5	-29	-
• Other assets, liabilities, and provisions		337	-135	-
Cash flows from operating activities		**1,578**	**1,606**	**-1.7**
Investing activities				
Proceeds from disposals of property, plant and equipment		25	14	81.5
Capital expenditures on intangible assets		-22	-14	55.0
Capital expenditures on property, plant and equipment		-1,023	-1,218	-16.1
Acquisition of subsidiaries and interests in joint ventures	5.1	-105	-163	-35.4
Proceeds from disposal of subsidiaries and interests in joint ventures	5.1	4	0	> 100
Other investing activities		-26	-3	> 100
Cash used in investing activities		**-1,147**	**-1,384**	**-17.1**
Financing activities				
Dividends paid to shareholders and non-controlling interests		-364	-363	0.4
Receipts from bond issuances and loans	5.1	2,424	404	> 100
Redemptions of bonds and repayments of loans [2]	5.1	-2,572	-153	> 100
Principal repayments on lease liabilities		-60	0	-
Cash used in financing activities		**-572**	**-111**	**> 100**
Net increase (decrease) in cash and cash equivalents		**-140**	**110**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents		8	-8	-
Cash and cash equivalents as at beginning of period		801	698	14.7
Cash and cash equivalents as at December 31	**4.8**	**668**	**801**	**-16.6**

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 “New accounting pronouncements” to the consolidated financial statements for further details.
[2] Incl. cash inflows of EUR 37 m from the early termination of cross-currency derivatives in connection with the redemption of the USD bonds.

5. Consolidated statement of changes in equity

	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss)					Equity attributable to shareholders [1]	Non-controlling interests	Total
in € millions				Translation reserve [4]	Hedging reserve	Fair value reserve	Defined benefit plan remeasurement reserve	Total			
Balance as at January 01, 2018 before IFRS 9 and IFRS 15 adjustments [2]	**666**	**2,348**	**282**	**-267**	**15**	**0**	**-570**	**-822**	**2,474**	**107**	**2,581**
Adjustments IFRS 9			27						27		27
Adjustments IFRS 15			7						7		7
Balance as at January 01, 2018 [2]	**666**	**2,348**	**316**	**-267**	**15**	**0**	**-570**	**-822**	**2,508**	**107**	**2,615**
Net income			881					0	881	14	895
Other comprehensive income (loss)				-9	-42	0	-25	-76	-76	-7	-83
Total comprehensive income (loss)	**0**	**0**	**881**	**-9**	**-42**	**0**	**-25**	**-76**	**805**	**7**	**812**
Dividends			-361					0	-361	-2	-363
Transactions with non-controlling interests [3]			30	-9				-9	21	-25	-4
Total amount of transactions with shareholders			**-331**	**-9**				**-9**	**-340**	**-27**	**-367**
Balance as at December 31, 2018 [2]	**666**	**2,348**	**866**	**-285**	**-27**	**0**	**-595**	**-907**	**2,973**	**87**	**3,060**
Balance as at January 1, 2019 [2]	**666**	**2,348**	**866**	**-285**	**-27**	**0**	**-595**	**-907**	**2,973**	**87**	**3,060**
Net income			428					0	428	12	440
Other comprehensive income (loss) [5]				65	16	-2	-295	-217	-217	-1	-217
Total comprehensive income (loss)	**0**	**0**	**428**	**65**	**16**	**-2**	**-295**	**-217**	**212**	**11**	**223**
Dividends			-361					0	-361	-3	-364
Total amount of transactions with shareholders			-361					0	-361	-3	-364
Changes in the scope of consolidation			-2					0	-2		-2
Balance as at December 31, 2019	**666**	**2,348**	**931**	**-220**	**-12**	**-2**	**-890**	**-1,124**	**2,822**	**95**	**2,917**

[1] Equity attributable to shareholders of the parent company.
[2] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 "New accounting pronouncements" to the consolidated financial statements for further details.
[3] Merger of the two unlisted entities, INA Bearings India Private Limited and LuK India Private Limited, with Schaeffler India Ltd. The transaction increased Schaeffler AG's indirect interest in Schaeffler India Ltd. from approx. 51% to approx. 74%. Includes transaction costs of EUR 4 m.
[4] Including losses of EUR 17 m (prior year: EUR 0 m) reclassified to profit and loss.
[5] Including the impact of defined benefit pension and other benefit plans of EUR 2 m (prior year: EUR 0 m) due to changes in scope of consolidation.

See Note 4.11 to the consolidated financial statements for further details

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

in € millions	2019	2018 1)	2019	2018 1)	2019	2018 1)	2019	2018 1)
	Automotive OEM		Automotive Aftermarket		Industrial		Total	
Revenue	9,038	8,996	1,848	1,862	3,541	3,383	14,427	14,241
EBIT	282	662	283	341	225	351	790	1,354
• in % of revenue	3.1	7.4	15.3	18.3	6.4	10.4	5.5	9.5
EBIT before special items 2)	491	673	298	339	373	370	1,161	1,381
• in % of revenue	5.4	7.5	16.1	18.2	10.5	10.9	8.1	9.7
Depreciation, amortization, and impairment losses	-768	-661	-39	-27	-173	-134	-980	-821
Working capital 3) 4)	1,236	904	358	405	936	911	2,530	2,220
Additions to intangible assets and property, plant and equipment	702	1,049	68	56	163	170	933	1,275

Prior year information presented based on 2019 segment structure.
1) The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 “New accounting pronouncements” to the consolidated financial statements for further details.
2) EBIT before special items for legal cases, restructuring, and other. See Note 5.5 “Segment information” to the consolidated financial statements for further details.
3) Inventories plus trade receivables less trade payables.
4) Amounts as at December 31.

See Note 5.5 to the consolidated financial statements for further details

Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed corporation domiciled in Germany with its registered office located at Industriestr. 1-3, 91074 Herzogenaurach. The company was founded on April 19, 1982, and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated financial statements of Schaeffler AG as at December 31, 2019, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as the “Schaeffler Group”).

The Schaeffler Group is a global automotive and industrial supplier. Employing a workforce of approximately 87,700, the company develops and manufactures high-precision components and systems in engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications. These include innovative and sustainable technologies both for vehicles with only an internal combustion engine and for hybrid and electric vehicles, as well as components and systems for rotary and linear movements, and services, maintenance products, and monitoring systems for a large number of industrial applications. Additionally, the global business with spare parts provides repair solutions in original-equipment quality for the automotive spare parts market. The company earns revenue primarily from the sale of goods – in volume production for major customers as well as through its catalog business – and from services. Production of these goods is frequently based on development services, followed in some cases by the manufacture of tools required to produce the goods. Development services and manufacturing tools generate revenue as well.

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

1.2 Basis of preparation

In accordance with section 315e (1) HGB, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2019, have been compiled in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU) by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards as well as with the additional requirements of German commercial law. The term IFRS includes all International Financial Reporting Standards and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the IFRS Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). Comparative figures for the prior year were also determined based on these standards.

General presentation

These consolidated financial statements are presented in euros (EUR), the functional and presentation currency of the Schaeffler Group’s parent company. Unless stated otherwise, all amounts are in millions of euros (EUR m). The consolidated statement of financial position is classified using the current/non-current distinction.

The financial statements of all entities included in these consolidated financial statements have been prepared as of the same date as these consolidated financial statements.

As amounts (in EUR m) and percentages have been rounded, rounding differences may occur.

Estimation uncertainty and management judgment

In compiling financial statements, management exercises judgment in making appropriate estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and the basis on which assumptions are made are reviewed regularly. Changes in estimates are recognized in the period in which the changes are made as well as in all subsequent periods affected by the changes.

The following significant issues are subject to estimation uncertainty with respect to the application of accounting policies and management judgment:

- determination of the useful life of property, plant and equipment
- assessment of the lease term of leases with extension or termination options
- identification of cash-generating units and determination of recoverable amounts for purposes of impairment tests of goodwill and non-current assets
- evaluation of control over structured entities, associated companies, and joint ventures
- determination of valuation allowances on inventories
- assessment of the recoverability of deferred tax assets
- determination of expected credit losses on financial assets
- accounting for post-employment employee benefits, especially selecting actuarial assumptions
- recognition and measurement of provisions
- assessment of risks related to uncertain tax positions
- share-based payment
- determination of the fair value of financial instruments and
- identification of performance obligations under development contracts and of alternative uses for customer-specific products

Except for the measurement of defined benefit pension obligations, changes in assumptions made in the past and the resolution of previously existing uncertainties related to the above items did not have a significant impact in 2019. The discount rate used to measure defined benefit pension obligations was decreased to reflect lower interest rate levels, affecting the recognized amounts of the provision and shareholders' equity (see Note 4.13). In addition, the provisions for restructuring and for antitrust proceedings (see Note 4.14) were updated to reflect current information.

1.3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently by all Schaeffler Group entities for all periods presented in these consolidated financial statements.

Consolidation principles

All significant domestic and foreign subsidiaries of the Schaeffler Group that are directly or indirectly controlled by Schaeffler AG have been consolidated in the company's consolidated financial statements. Subsidiaries are consolidated in the consolidated financial statements from the date the Schaeffler Group obtains control until the date control ceases.

Subsidiaries are consolidated using the acquisition method as at the acquisition date. Non-controlling interests are measured at the non-controlling interests' proportionate share of the fair value of assets acquired and liabilities assumed (partial goodwill method). Balances and transactions with consolidated subsidiaries and any related income and expenses are eliminated in full in compiling the consolidated financial statements. Intercompany profits or losses on intra-group transactions are also eliminated in full. Deferred taxes on temporary differences related to the elimination of such balances and transactions are measured at the tax rate of the acquiring entity.

Investments in joint ventures are jointly controlled by their shareholders. Joint control exists only if decisions about the relevant activities require the unanimous consent of the parties. Parties having joint control hold rights to the net assets of the joint venture. Investments in joint ventures are accounted for using the equity method.

Investments in associated companies are also accounted for under the equity method if the Schaeffler Group has significant influence over the investee.

Carrying amounts of investments in equity-accounted investees are adjusted to reflect changes in the Schaeffler Group's interest in the equity of the investee. Goodwill capitalized in connection with the initial application of the equity method to the company's interest in the investee is not amortized. The carrying amount of the investment is tested for impairment when there is an indication of impairment ("triggering event").

Foreign currency translation

The exchange rates between the group's most significant currencies and the euro are as follows:

Selected foreign exchange rates

Currencies		12/31/2019	12/31/2018	2019	2018
1 € in		Closing rates		Average rates	
CNY	China	7.82	7.88	7.73	7.81
INR	Indien	80.19	79.73	78.85	80.72
KRW	Südkorea	1,296.28	1,277.93	1,304.75	1,299.23
MXN	Mexiko	21.22	22.49	21.56	22.71
USD	USA	1.12	1.15	1.12	1.18

Foreign currency transactions

Transactions denominated in a currency other than the entity's functional currency are translated at the exchange rate applicable on the date they are first recognized. Since receivables and payables denominated in foreign currencies are monetary items, they are translated into the functional currency of the applicable group company at the exchange rate as at the end of the reporting period and when they are realized. Non-monetary items are translated at historical rates.

Exchange gains and losses on operating receivables and payables and on derivatives used to hedge the related currency risk are presented within earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives obtained to hedge the related currency risk are reflected in financial result.

Foreign entities

Assets, including goodwill, and liabilities of subsidiaries whose functional currency is not the euro are translated at the spot rate at the end of the reporting period. The components of equity are translated at historical rates, and items in the consolidated income statement are translated at the weighted average rate for each reporting period. The resulting translation differences are recognized in other comprehensive income and reported in accumulated other comprehensive income. The impact of currency translation recognized in shareholders' equity is reversed to profit or loss when consolidation of the subsidiary ceases.

Items in the consolidated statement of cash flows are translated at the weighted average exchange rate for the period except for cash and cash equivalents, which are translated at the spot rate at the end of the reporting period.

Revenue recognition

Revenue is recognized when the related performance obligation is satisfied, i. e. when the customer obtains control of the promised goods or services. This occurs either at a point in time or over time. The transaction price is the amount of consideration to which the Schaeffler Group expects to be entitled in exchange for transferring the promised goods or services to the customer. The Schaeffler Group recognizes revenue in the amount of the agreed price relating to the relevant performance obligation. The Schaeffler Group's customers are granted rebates, bonuses, discounts, credits, price concessions, or other variable price concessions. These types of variable consideration are recognized as a reduction of revenue during the year based on historical experience, contractually agreed bonus scales, and prior period sales. Since it expects that the period between when control over a promised good or service transfers and when payment is received will be one year or less, the Schaeffler Group applies the practical expedient in IFRS 15.63 and does not adjust the promised amount of consideration for any financing component. Warranties provided in connection with the sale of goods or services are only intended to provide assurance that the product complies with agreed-upon specifications. Therefore, Schaeffler continues to account for warranties under IAS 37.

Customers typically have 30 to 60 days from the date the invoice is issued to pay for performance obligations under contracts with customers. Invoices are normally issued as at the date the performance obligation is satisfied.

Revenue for customer-specific products is recognized over time if these products have no alternative use due to their specifications and the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin.

Revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. The related expenses are expensed as cost of sales when revenue is recognized.

Recognition of revenue from the sale of tools depends on whether the customer obtains legal ownership of the tool and the Schaeffler Group has a contractual right to consideration.

The dates on which performance obligations under contracts with customers are satisfied can be summarized as follows:

Performance obligations under contracts with customers

Type of revenue	Date performance obligation satisfied
Revenue from the sale of goods	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Revenue from the sale of customer-specific products	Revenue is recognized over time for customer-specific products for which the Schaeffler Group has an enforceable right to payment for performance completed to date amounting to any costs incurred plus a reasonable profit margin. This will result in revenue being recognized before the date of actual delivery. Revenue for customer-specific finished goods is recognized at the amount of the full price of the finished good in the period in which the customer is obligated to take delivery. For customer-specific goods in progress, the amount of revenue for the period in which the customer is obligated to take delivery is derived from the acquisition cost of the goods in progress rather than being determined as the amount of the full price of the goods when they are finished. The method described above best represents the transfer of customer-specific products to the customer.
Revenue from the sale of tools	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Development service revenue	Revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. This revenue is recognized when the development services have been rendered in full.
Other service revenue	Revenue is mostly recognized at a point in time upon completion of the service.

Functional costs

Income and expenses are allocated to the various functional areas. Depreciation, amortization, and impairment losses on intangible assets and property, plant and equipment are allocated to the functional areas in which the asset is utilized.

In the past, termination benefit expenses were presented in the consolidated income statement under functional costs. This presentation was changed retrospectively in 2019. If certain criteria are met, termination benefit expenses are presented under other expenses. The change was designed to improve the presentation of the financial information.

Research and development expenses

Expenses incurred for research activities and advance development are expensed immediately.

Expenses for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract are recognized as cost of sales when the completed development service is transferred to the customer.

Development costs are only recognized as intangible assets once the capitalization criteria of IAS 38 are met.

Capitalized development costs are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over a period of six years beginning when the intangible asset is ready for use. Amortization expense is reported in cost of sales.

Financial result

Interest income and expense are recognized in the period to which they relate.

Earnings per share

Earnings per share are calculated by dividing net income attributable to Schaeffler AG’s shareholders by the weighted average number of common and common non-voting shares outstanding during the reporting period.

Goodwill

Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually and when there is an indication ("triggering event").

The impairment test is performed by comparing the carrying amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated with its recoverable amount. A cash-generating unit is the smallest unit with largely independent cash flows. Recoverable amount is the higher of fair value less costs of disposal and value in use of the cash-generating unit or group of cash-generating units. Value in use is determined using the discounted cash flow method. If circumstances giving rise to an impairment loss subsequently cease to exist, impairment losses on goodwill are not reversed.

Expected cash flows are based on a detailed five-year-forecast and on a perpetuity for the period beyond that timeframe. This detailed forecast is based on specific assumptions regarding macroeconomic trends (currency, interest, and commodity price trends), external sales forecasts and internal assessments of demand and projects, sales prices, and the volume of additions to intangible assets and property, plant and equipment. Please refer to the report on expected developments in the group management report for further details. Past trends and historic experience are also used in developing the forecast. The discount rate reflects current market expectations and specific risks. The key assumptions underlying value in use of a cash-generating unit are EBIT, the discount rate, and the long-term growth rate.

Other intangible assets and property, plant and equipment

Other intangible assets and property, plant and equipment are recognized at acquisition or production cost plus incidental acquisition costs and, where applicable, subsequent acquisition cost and are amortized or depreciated over their expected useful life on a straight-line basis, provided they have a determinable useful life. The expected useful lives of software and capitalized development costs are three and six years, respectively, and range from 15 to 25 years for buildings, from two to ten years for technical equipment and machinery and from three to eight years for other equipment. Impairment losses are recognized for impairments.

Leases

In 2019, the company accounted for leases using the accounting policies described below. See Note 1.4 "New accounting pronouncements" to the consolidated financial statements for further details.

Leases for assets with a value of more than EUR 5,000 or with a total lease term of more than 12 months are capitalized as discounted lease liabilities with corresponding right-of-use assets. Right-of-use assets are depreciated on a straight-line basis over the total lease term. Payments for leases of low-value assets, short-term lease payments, and variable lease payments are expensed.

In 2018, the company accounted for leases using the following accounting policies:

Lease payments classified as operating leases are expensed on a straight-line basis over the lease term. The Schaeffler Group's finance leases are immaterial.

Impairments of other intangible assets and property, plant and equipment

The Schaeffler Group tests other intangible assets and property, plant and equipment for impairment when there is an indication that these assets may be impaired ("triggering event").

The impairment test is performed by comparing the carrying amount of the cash-generating unit with its recoverable amount. The Schaeffler Group initially determines recoverable amount under the value in use concept using the discounted cash flow method. If value in use does not exceed the carrying amount of the cash-generating unit, recoverable amount is then determined using fair value less costs of disposal. The cash-generating unit is impaired if its carrying amount exceeds its recoverable amount.

Financial instruments

Regular-way sales and purchases of financial assets are accounted for using settlement date accounting.

Primary financial instruments

Primary financial instruments are initially measured at fair value or, in the case of trade receivables without any significant financing component, at the transaction price. Transaction costs directly attributable to the acquisition or issue of a financial instrument are only included in the carrying amount if the financial instrument is not measured at fair value through profit or loss. Subsequent measurement depends on how the financial instrument is categorized.

The Schaeffler Group fundamentally has three categories for the classification of financial instruments: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI), and measured at fair value through profit or loss (FVTPL). Financial assets are classified based on the Schaeffler Group's business model for managing the financial assets and on their contractual cash flow characteristics.

Financial assets at fair value through profit or loss

This category mainly includes a portion of the trade receivables that is available for sale under the ABCP program (asset-backed commercial paper) (see Note 4.16). Due to the short maturity of these receivables, their transaction price represents their fair value. The fair value of marketable securities, on the other hand, is derived from market prices.

Financial assets at fair value through other comprehensive income

Financial investments in strategic long-term minority investments are measured at fair value, and changes in fair value are recognized in other comprehensive income. Accumulated other comprehensive income is not reclassified to the consolidated income statement upon disposal.

Financial assets at amortized cost

This category comprises trade receivables (except those that are available for sale under the ABCP program), cash and cash equivalents, and other financial assets. These assets are measured at amortized cost less impairment losses recognized for expected credit losses. Schaeffler uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables. Under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using customer-specific probabilities of default and taking into account information about future conditions. Credit loss allowances for the remaining financial assets, primarily cash and cash equivalents, are measured using the general approach, i.e. at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly, the credit loss allowance recognized has to be based on lifetime expected credit losses. Impairments are initially recognized in an allowance account unless it is clear at the time the impairment loss occurs that the receivable will be either partially or entirely uncollectible. See the “Credit risk” section in the “Financial instruments” chapter for further details.

Trade receivables sold under receivable sale programs as well as the related liabilities are recognized to the extent of the credit risk retained (continuing involvement) (see Note 5.2).

Cash equivalents are liquid funds held for the purpose of meeting short-term cash commitments. Cash equivalents include term deposits and money market funds with an original maturity of three months or less, that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

Financial liabilities

Except for derivative financial instruments, the Schaeffler Group measures its financial liabilities at amortized cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are generally classified and measured at fair value through profit or loss unless they are subject to hedge accounting.

Derivatives embedded in financial liabilities are separated from the host instrument when the economic characteristics and risks of the embedded derivative are considered not closely related to the economic characteristics and risks of the host instrument.

Hedge accounting

In accordance with the option provided for hedge accounting in the transition requirements of IFRS 9, the Schaeffler Group will continue to apply the hedge accounting requirements of IAS 39 and intends to initially apply IFRS 9 at a later date.

Hedging relationships are accounted for using the cash flow and net investment hedge models. The effective portion of changes in the fair value of the hedging instrument is included in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in profit or loss.

Inventories

Inventories are measured at the lower of cost and net realizable value. The acquisition cost of raw materials, supplies, and purchased merchandise is determined using the moving average cost method. Work in progress and manufactured finished goods are valued at production cost and written down to net realizable value if lower.

Contract assets

Contract assets mainly result from revenue for customer-specific products recognized over time. This affects products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin. Contract assets are reclassified to trade receivables when they represent an unconditional right to receive the consideration. This is the case when the invoice is issued to the customer. The Schaeffler Group uses the simplified impairment approach for contract assets; under this approach, a credit loss allowance is recognized based on lifetime expected credit losses.

Income taxes

Deferred income taxes are accounted for using the asset and liability method.

Except where the recognition of deferred taxes is not permitted, deferred taxes are recognized on temporary differences between carrying amounts in the consolidated IFRS statement of financial position and the company’s tax balance sheets, on loss and interest carry-forwards, and on tax credits. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which temporary differences and unused tax loss and interest carry-forwards can be utilized. Group entities are assessed individually with respect to whether it is probable that profits will be generated in the future.

Deferred taxes are measured using the future tax rate. Future tax rate changes are reflected in this tax rate when they have been substantively enacted.

Management regularly reviews tax returns, mainly with respect to issues subject to interpretation, and reflects these in income tax payables as appropriate, based on amounts expected to be payable to taxation authorities. Any interest related to income taxes falling in the scope of IAS 37 is recognized at the amount required to settle the current obligation as at the reporting date. Appropriate provisions for potential risks related to uncertain tax positions have been recognized in accordance with IFRIC 23. Depending on which amount best reflects expectations, measurement is based on either the most likely amount or the expected value.

Assets and liabilities held for sale

Non-current assets or groups of non-current assets (incl. the associated liabilities) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale requires a commitment to a plan to sell the asset or group of assets and the sale must be highly probable within twelve months. Such assets and liabilities are presented separately in the statement of financial position. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Provisions for pensions and similar obligations

The Schaeffler Group provides post-employment benefits to its employees in the form of defined benefit plans and defined contribution plans.

The Schaeffler Group's obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions based on market expectations, including those related to anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds. The provisions for pensions and similar obligations recognized in the consolidated statement of financial position represent the present value of the defined benefit obligation at the end of the reporting period, net of the related plan assets measured at fair value where applicable. In addition to the pension funds maintained to fund the obligation, plan assets include all assets and rights under reimbursement insurance policies if the proceeds of the policy can be used only to make payments to employees entitled to pension benefits and are not available to satisfy claims of the company's other creditors. If plan assets exceed the related pension obligation, the net pension asset is presented under other assets to the extent the Schaeffler Group is entitled to a refund or reduction of future contributions to the fund.

Actuarial gains and losses arising from defined benefit plans are recognized in other comprehensive income, and interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and presented in financial result on a net basis.

Pension plan amendments, curtailments, and settlements during the year result in recalculation of service cost and net interest for the remainder of the period.

For defined contribution plans, the Schaeffler Group pays fixed contributions to an independent third party. As the Schaeffler Group does not in any way guarantee a return on the assets, neither up to the date pension payments commence nor beyond, the group's obligation is limited to the contributions it makes during the year. The contributions are recognized in personnel expense.

Provisions

Provisions are recognized when the Schaeffler Group has a present legal or constructive obligation as a result of a past event, it is probable that the outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at best estimate. Non-current provisions are recognized at present value calculated by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense and the impact of any changes in discount rates are presented within financial result.

Contract liabilities

Contract liabilities partly result from payments received from customers for development services. This revenue is recognized when the customer obtains control of the completed development services.

Share-based payment

The Schaeffler Group's Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan. The company recognizes a provision in the amount of the fair value of the payment obligation attributable to the period up to the reporting date. The liability is remeasured at the end of each reporting period from the grant date until settlement. The fair value per Performance Share Unit (PSU) is determined using a binomial option pricing model. The fair value is recognized as personnel expense over the period between grant date and settlement date.

1.4 New accounting pronouncements

New accounting pronouncements effective in 2019

The change in accounting policy resulting from the initial application of IFRS 16 effective January 1, 2019, has led to the transition adjustments discussed below.

Other amendments to International Financial Reporting Standards (IFRS) required to be applied for the first time have not had any significant impact on these financial statements.

IFRS 16

In January 2016, the IASB issued IFRS 16 Leases which replaces the requirements of IAS 17 and the related Interpretations. The Schaeffler Group has initially applied IFRS 16 effective January 1, 2019.

IFRS 16 introduces a uniform lessee accounting model requiring lessees to capitalize leases in their statement of financial position. Lessees capitalize the right to use the leased asset ("right-of-use asset") and recognize a liability representing its obligation to make lease payments. The new standard substantially carries forward the lessor accounting requirements in IAS 17, continuing to require lessors to classify leases as operating leases or finance leases. As permitted by the transition requirements, the Schaeffler Group is using the modified retrospective approach to transition to IFRS 16, i.e. the standard is only applied to the most recent reporting period presented in the financial statements (the year 2019). Prior year amounts are not adjusted. Upon initially applying IFRS 16, the company has measured the right-of-use asset at an amount equal to the lease liability, using the discount rate at the date of initial application. The Schaeffler Group's average incremental borrowing rate as at January 1, 2019, amounted to 1.8%.

The company has elected to apply the recognition exemptions for short-term leases with a term of up to twelve months and for leases of low-value assets. The Schaeffler Group also applies additional practical expedients. For all leases except real estate, lease and non-lease components are accounted for as a single lease component. Additionally, for leases not classified as leases under IAS 17 and IFRIC 4, the company does not reassess whether these leases meet the definition of a lease under IFRS 16.

The Schaeffler Group has examined the impact that applying IFRS 16 has on processes, systems, and contracts in a dedicated project. A significant impact of transitioning to the new standard results from capitalizing real estate and vehicle leases. Additional categories were identified: machinery, production equipment, and office equipment.

The initial application of IFRS 16 has resulted in the recognition of EUR 193 m in lease liabilities and right-of-use assets in the consolidated statement of financial position as at January 1, 2019. During the reporting period, this figure was adjusted retrospectively following the reassessment of certain contracts and an adjustment to the incremental borrowing rate in response to the decision on using duration taken by the IFRS Interpretations Committee in September 2019.

The following summaries provide an overview of the impact of IFRS 16 on the consolidated financial statements as at December 31, 2019.

IFRS 16 – impact on consolidated statement of financial position

in € millions	12/31/2019	Impact IFRS 16	12/31/2019 before applying IFRS 16
ASSETS			
Right-of-use assets under leases	193	193	0
Non-current assets	**7,387**	**193**	**7,194**
Current assets	**5,483**	**0**	**5,483**
Total assets	**12,870**	**193**	**12,677**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	**2,917**	**0**	**2,917**
Lease liabilities	144	144	0
Non-current liabilities	**6,273**	**144**	**6,129**
Lease liabilities	50	50	0
Current liabilities	**3,680**	**50**	**3,631**
Total shareholders' equity and liabilities	**12,870**	**193**	**12,677**

IFRS 16 – impact on consolidated income statement

in € millions	2019	Impact IFRS 16	2019 before applying IFRS 16
EBIT	**790**	**4**	**785**
Financial result	**-137**	**-4**	**-133**
Net income	**428**	**0**	**428**

IFRS 16 – impact on consolidated statement of cash flows

in € millions	2019	Impact IFRS 16	2019 before applying IFRS 16
EBIT	790	4	785
Interest paid	-95	-4	-91
Depreciation, amortization, and impairment losses	980	59	920
Cash flows from operating activities	**1,578**	**60**	**1,519**
Principal repayments on lease liabilities	-60	-60	0
Cash used in financing activities	**-572**	**-60**	**-512**
Net increase (decrease) in cash and cash equivalents	**-140**	**0**	**-140**

Unrecognized lease obligations as at December 31, 2018, can be reconciled to recognized lease liabilities as at January 1, 2019, as follows:

Reconciliation of unrecognized lease obligations

in € millions	
Operating rental and lease agreements as at December 31, 2018	**141**
Short-term leases with a lease term of up to 12 months	-2
Leases for which the underlying asset is of low value	-3
Operating rental and lease agreements as at January 01, 2019	**136**
Discounted at the incremental borrowing rate as at January 01, 2019	**128**
Extension and termination options reasonably certain to be exercised	65
Lease liabilities resulting from the initial application of IFRS 16 as at January 01, 2019	**193**
Lease liabilities resulting from finance leases as at January 01, 2019	0
Lease liabilities recognized as at January 01, 2019	**193**

New accounting pronouncements endorsed by the EU effective in 2020

The Schaeffler Group is not yet required to apply the following amendments to standards issued by the International Accounting Standards Board (IASB) in its financial statements for the financial year 2019, and none were adopted early.

New accounting pronouncements endorsed by the EU but not yet effective

Standard/Interpretation	Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to Conceptual Framework	01/01/2020	Revised definitions of assets and liabilities and new guidelines on measurement and derecognition, presentation and disclosure	None
Amendments to IFRS 9, IAS 39, IFRS 7	01/01/2020	Entities can continue to apply hedge accounting to hedging relationships despite the expected replacement of various benchmark interest rates	None
Amendments to IAS 1 and IAS 8	01/01/2020	Definition of material	None

New accounting pronouncements not endorsed by the EU

In addition, the IASB has issued the following new standards and amendments to existing standards which had not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue. The company has not applied any of them early, and is currently not planning to apply any of them early.

New accounting pronouncements – not yet endorsed by the EU

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to IFRS 3	Business Combinations	01/01/2020	Issuance of a definition of a business	None
IFRS 17	Insurance Contracts	01/01/2021	Principles for recognition, measurement, and presentation of as well as disclosures about insurance contracts	Under examination [1]
Amendments to IFRS 10, IAS 28		Undefined	Clarification of accounting for gains and losses on the sale or contribution of assets between an investor and its associate or joint venture	Under examination [1]

[1] Detailed statements regarding the extent of the impact are not yet possible.

2. Principles of consolidation

2.1 Scope of consolidation

In 2019, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 152 (prior year: 152) subsidiaries; 53 (prior year: 51) entities are domiciled in Germany and 99 (prior year: 101) in other countries.

Elmotec Statomat GmbH (previously: Elmotec Statomat Holding GmbH), Karben, and Xtronic GmbH, Boeblingen, were consolidated for the first time in 2019. The remaining changes are mainly attributable to entities newly founded or liquidated and to the sale of The Barden Corporation (UK) Ltd., Plymouth, and Schaeffler Friction Products Hamm GmbH, Hamm.

In the consolidated financial statements as at December 31, 2019, three (prior year: three) joint ventures and four associated companies (prior year: two) are accounted for at equity.

More on the Schaeffler Group's companies in Note 5.10

2.2 Acquisitions and disposals of companies

Acquisition of Elmotec Statomat Holding GmbH

The Schaeffler Group acquired a 100% interest in Elmotec Statomat Holding GmbH in a transaction that closed on January 31, 2019. Elmotec Statomat is a manufacturer of production machinery for the high-volume construction of electric motors. The acquisition represented a step toward expanding the Schaeffler Group's manufacturing expertise in the field of construction of electric motors and implementing its electric mobility strategy.

The purchase price of EUR 65 m, which was paid in cash, is preliminary. As at the reporting date, the consideration to be transferred for the acquisition of Elmotec Statomat has been adjusted to the expected amount of EUR 56 m. The reduction was primarily due to the amounts of financial debt, net working capital, and further liabilities and provisions in the closing balance sheet of Elmotec Statomat. In addition, the purchase agreement with the former shareholders of Elmotec Statomat Holding GmbH includes a value guarantee covering receivables more than 180 days past due. Should no cash be collected on these receivables within two years, the purchase price will be reduced retrospectively by the amount of the uncollectible receivables.

The allocation of the consideration to the assets and liabilities acquired was adjusted during the year following preparation of the closing balance sheet. Net assets acquired were reduced by EUR 4 m and goodwill by EUR 4 m compared to the date of initial consolidation. The remaining assets and liabilities reflected as a result of the acquisition were recognized at fair value.

The goodwill of EUR 40 m, which cannot be recognized for tax purposes and is therefore not tax-deductible, represents the value of the technology's planned further development.

Since the acquisition date, the Elmotec Statomat Group has generated EUR 26 m in revenue and contributed a net loss of EUR 11 m after tax to consolidated net income. If the transaction had closed as at January 1, 2019, consolidated revenue would have increased by EUR 1 m and consolidated net income would have decreased by EUR 2 m.

Acquisition of Xtronic GmbH

The Schaeffler Group has obtained control of Xtronic GmbH by entering into an agreement to acquire a 100% interest in Xtronic GmbH on May 3, 2019. Xtronic GmbH is a technology partner that develops customer-specific software and electronics solutions for the international automotive industry. The acquisition of Xtronic GmbH expands the Schaeffler Group's software and electronics capabilities and strengthens primarily the Chassis Systems and E-Mobility business divisions.

The purchase price of EUR 40 m paid in cash on July 1, 2019, is preliminary. EUR 5 m of this amount was paid into escrow as security for any possible claims the Schaeffler Group might have in connection with the acquisition agreement.

The allocation of the consideration to be transferred to the assets and liabilities acquired is still preliminary and was adjusted during the year following preparation of the closing balance sheet. Goodwill was reduced by EUR 4 m compared to the date of initial consolidation.

Based on information currently known, the goodwill of EUR 36 m, which cannot be recognized for tax purposes and is therefore not tax-deductible, represents the value of the technology's planned further development.

Since the acquisition date, Xtronic GmbH has generated EUR 9 m in revenue and contributed a net loss of EUR 1 m after tax to consolidated net income. If the transaction had closed as at January 1, 2019, consolidated revenue would have increased by EUR 4 m and consolidated net income would have decreased slightly.

The following table summarizes the assets acquired and liabilities assumed in the acquisitions described above as at the acquisition date at their fair value.

Assets acquired and liabilities assumed

in € millions	Elmotec Statomat Holding GmbH	Xtronic GmbH
Intangible assets	35	4
Right-of-use assets under leases	0	3
Property, plant and equipment	1	1
Other financial assets	1	0
Deferred tax assets	3	0
Inventories	15	4
Trade receivables [1]	17	2
Other assets	0	1
Provisions for pensions and similar obligations	4	0
Financial debt	17	2
Lease liabilities	0	3
Deferred tax liabilities	9	1
Provisions	7	0
Contract liabilities	8	2
Trade payables	10	0
Other liabilities	0	3
Net assets acquired	**17**	**4**
Purchase price	56	40
Goodwill	**40**	**36**

[1] Gross carrying amount Elmotec Statomat Holding GmbH EUR 21 m (including EUR 4 m not expected to be collected) and Xtronic GmbH EUR 2 m.

Disposals of companies

An impairment loss of EUR 14 m on assets temporarily held for sale was recognized in other expenses during the reporting period.

The Schaeffler Group sold The Barden Corporation (UK) Ltd., Plymouth, to HQW Holding (UK) Co. Limited in a transaction that closed on May 31, 2019. The Plymouth site mainly produced spindle bearings, machine parts, and specialized bearings in the Schaeffler Group's Industrial division. Production will be partially moved to the Schaeffler Group's existing manufacturing locations in other countries. The disposal decision was mainly aimed at improving the Schaeffler Group's cost structure and logistics network.

The Schaeffler Group sold Schaeffler Friction Products Hamm GmbH, Hamm, to the company's management team (management buyout) in a transaction that closed on June 30, 2019. The Hamm location mostly produced friction linings for dry double clutch transmissions in the Automotive OEM division. The company decided on the disposal because this business in Hamm has recently shown persistent and considerable declines. Alongside friction linings, the Hamm plant manufactured specialized friction solutions for the Industrial division, including applications for agriculture, lift and hoist systems, electromagnetic brakes and wind turbines.

The two disposals resulted in a loss on disposal of EUR 16 m that has been recognized in other expenses.

3. Notes to the consolidated income statement

3.1 Revenue

Revenue from contracts with customers can be analyzed by category and segment as follows:

IFRS 15 – analysis of revenue by category

	01/01-12/31		01/01-12/31		01/01-12/31		01/01-12/31	
	2019	**2018** [1]	**2019**	**2018** [1]	**2019**	**2018** [1]	**2019**	**2018**
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
Revenue by type								
• Revenue from the sale of goods	8,855	8,780	1,848	1,862	3,498	3,350	14,201	13,992
• Revenue from the sale of tools	114	111	0	0	8	0	121	111
• Revenue from development services	24	58	0	0	1	0	25	58
• Revenue from other services	44	44	0	0	33	30	77	75
• Other revenue	1	3	0	0	2	2	3	6
Total	**9,038**	**8,996**	**1,848**	**1,862**	**3,541**	**3,383**	**14,427**	**14,241**
Revenue by region [2]								
• Europe	3,781	4,014	1,355	1,395	1,867	1,904	7,003	7,313
• Americas	2,155	1,939	362	339	638	596	3,154	2,874
• Greater China	1,959	1,910	81	76	723	575	2,763	2,562
• Asia/Pacific	1,143	1,133	50	51	314	308	1,506	1,493
Total	**9,038**	**8,996**	**1,848**	**1,862**	**3,541**	**3,383**	**14,427**	**14,241**

[1] Prior year information presented based on 2019 segment structure.
[2] By market (customer location).

The following overview shows receivables, contract assets, and contract liabilities from contracts with customers.

Contract balances

in € millions	12/31/2019	12/31/2018
Trade receivables	2,130	2,003
Contract assets	72	56
Contract liabilities	67	47
Revenue recognized in the reporting period [1]		
• that was included in the contract liability balance at the beginning of the year	23	34
• from performance obligations satisfied in previous years	-2	9

[1] Amounts for the reporting period from January 1 to December 31.

Contract assets on hand as at December 31, 2019, resulted from revenue that has been recognized over time for customer-specific products.

Contract liabilities on hand as at December 31, 2019, represented payments received from customers for development services for which control had not yet been transferred to the customer as well as other advance payments received under contracts with customers.

As at December 31, 2019, the remaining performance obligations mainly represented outstanding performance obligations under development agreements. The related revenue is recognized when the customer obtains control of the development services. The company expects to recognize EUR 60 m (prior year: EUR 57 m) in revenue in connection with these performance obligations, largely over the next three years. Applying the practical expedient provided by IFRS 15.121 (a), the Schaeffler Group is omitting the disclosure of remaining performance obligations that are part of a contract that has an original expected duration of one year or less.

There were no significant changes in the balances of contract assets and contract liabilities during the reporting period.

3.2 Other income

Other income

in € millions	2019	2018
Gains on reversal of provisions	15	35
Miscellaneous other income	65	52
Total	**80**	**87**

Gains on reversal of provisions included EUR 2 m (prior year: EUR 23 m) in gains on the reversal of provisions for potential third party claims in connection with antitrust proceedings and other compliance cases. This line item also included income from the reversal of a EUR 9 m portion of a restructuring provision recognized in 2018; the reversal related to a production location affected which has been sold.

Miscellaneous other income included the refund of a penalty of EUR 13 m paid in 2015 in connection with antitrust proceedings in Korea as well as EUR 12 m in gains on the sale of properties and the buildings on them (prior year: EUR 8 m).

3.3 Other expenses

Other expenses

in € millions	2019	2018
Exchange losses	101	6
Miscellaneous other expenses	380	72
Total	**482**	**78**

Exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2019, netting foreign exchange gains and losses resulted in a net exchange loss of EUR 101 m (prior year: EUR 6 m).

Miscellaneous other expenses included mainly EUR 311 m in expenses related to personnel measures (prior year: EUR 48 m). In addition, an impairment loss of EUR 14 m on assets temporarily held for sale was recognized during the reporting period. Furthermore, disposals of subsidiaries resulted in a loss on disposal of EUR 16 m.

3.4 Personnel expense and headcount

Average number of employees by region

	2019	2018
Europe	61,634	63,001
Americas	12,596	13,243
Greater China	12,394	12,829
Asia/Pacific	3,155	3,159
Total	**89,778**	**92,232**

The number of employees as at December 31, 2019, was 87,748, 5.1% below the prior year level of 92,478.

The Schaeffler Group's personnel expense can be analyzed as follows:

Personnel expense

in € millions	2019	2018
Wages and salaries	3,833	3,743
Social security contributions	731	716
Other personnel expense	456	189
Total	**5,019**	**4,648**

The increase in personnel expense in 2019 was primarily due to pay increases arising from local collective agreements. Capacity decreased in all regions, especially in production and production-related areas.

Other personnel expense included EUR 141 m (prior year: EUR 138 m) in retirement benefit expenses and EUR 311 m (prior year: EUR 48 m) in expenses related to personnel measures.

3.5 Financial result

Schaeffler Group financial result

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

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

Interest expense on financial debt amounted to EUR 103 m in 2019 (prior year: EUR 99 m) and included a prepayment penalty of EUR 6 m (prior year: EUR 0 m) and EUR 12 m (prior year: EUR 0 m) in deferred transaction costs derecognized.

Net **foreign exchange** losses on financial assets and liabilities and net losses on derivatives amounted to EUR 16 m (prior year: EUR 1 m). These include the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross-currency swaps.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net gains of EUR 23 m (prior year: losses of EUR 43 m).

3.6 Income taxes

Income taxes

in € millions	2019	2018
Current income taxes	277	302
Deferred income taxes	-81	-2
Total	**196**	**300**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2019.

The average domestic tax rate was 28.7% in 2019 (prior year: 28.6%). This tax rate consisted of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.8% (prior year: 12.7%).

The current income tax benefit related to prior years amounted to EUR 10 m (prior year: EUR 3 m) in 2019. The Schaeffler Group had a deferred tax benefit of EUR 10 m related to prior years (prior year: EUR 44 m) in 2019.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to income tax expense as reported in the consolidated income statement. The calculation for 2019 is based on the Schaeffler Group's 28.7% (prior year: 28.6%) effective combined trade and corporation tax rate including solidarity surcharge.

Tax rate reconciliation

in € millions	2019	2018
Earnings before income taxes	636	1,195
Expected tax expense	**183**	**342**
Addition/reduction due to deviating local tax bases	5	5
Foreign/domestic tax rate differences	-29	-17
Change in tax rate and law	1	1
Non-recognition of deferred tax assets	11	18
Tax credits and other tax benefits	-13	-15
Non-deductible expenses and non-taxable income	57	16
Taxes for previous years	-20	-47
Other	1	-3
Reported tax expense	**196**	**300**

Foreign/domestic tax rate differences primarily represent the impact of differences in country-specific tax rates applicable to German and foreign entities.

Non-deductible expenses and non-taxable income includes non-deductible operating expenses and non-creditable with-holding taxes as well as deferred tax liabilities on dividends expected to be paid by subsidiaries.

Taxes for previous years mainly contain income tax benefits from reassessments of tax issues from prior years.

3.7 Earnings per share

Earnings per share

in € millions	2019	2018
Net income	440	895
Net income attributable to shareholders of the parent company	428	881
Earnings attributable to common shares	320	660
Earnings attributable to common non-voting shares	108	221
Average number of common shares issued in millions	500	500
Average number of common non-voting shares issued in millions	166	166
Earnings per common share (basic/diluted, in €)	**0.64**	**1.32**
Earnings per common non-voting share (basic/diluted, in €)	**0.65**	**1.33**

There were no dilutive items as at December 31, 2019, or in the prior year. Diluted earnings per share equal basic earnings per share.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

The carrying amounts of goodwill allocated to the groups of cash-generating units to which **goodwill** has been allocated were EUR 319 m for the Automotive OEM segment (prior year: EUR 243 m), EUR 76 m for the Automotive Aftermarket segment (prior year: EUR 76 m), and EUR 211 m for the Industrial segment (prior year: EUR 211 m) as at December 31, 2019.

For purposes of determining value in use, cash flows beyond the detailed forecasting horizon of 2024 are based on an annual growth rate of 1.0% (prior year: 1.0%) for all segments. Depending on the underlying business and its country of operation, the Schaeffler Group used an assumed pre-tax interest rate of 11.8% (prior year: 12.1%) as the weighted average discount rate for the Automotive OEM segment and 13.0% (prior year: 12.9%) for the Automotive Aftermarket segment as well as 11.7% (prior year: 12.1%) for the Industrial segment. This corresponds to a post-tax interest rate of 8.7% (prior year: 8.9%) for the Automotive OEM segment and 9.8% (prior year: 9.8%) for the Automotive Aftermarket segment as well as 8.7% (prior year: 8.9%) for the Industrial segment.

As the value in use of each of the groups of cash-generating units exceeded their carrying amount both for 2019 and the prior year, they were not impaired.

Based on the assumptions made, the recoverable amount of the Automotive OEM segment exceeded its carrying amount by EUR 740 m in 2019. If the EBIT figures for the various years that were used in the calculation were each reduced by 11.2%, the recoverable amount would equal the carrying amount. In addition, an increase in the post-tax discount rate to 9.8% would result in impairment. Using an annual growth rate of 0% starting in 2025 would still result in a recoverable amount exceeding the carrying amount.

As at December 31, 2019, **internally generated intangible assets** consisted largely of development costs with a net carrying amount of EUR 40 m (prior year: EUR 46 m) and did not include any assets not yet available for use that were not yet subject to amortization (prior year: EUR 1 m).

Amortization of intangible assets totaled EUR 30 m (prior year: EUR 27 m) and was recognized in the following line items in the consolidated income statement: Cost of sales EUR 16 m (prior year: EUR 9 m), research and development expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 9 m (prior year: EUR 13 m).

Intangible assets

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2018	**527**	**1,089**	**322**	**1,938**
Additions	3	13	1	17
Disposals	0	-34	0	-34
Transfers	0	1	0	1
Foreign currency translation	0	0	0	0
Balance as at December 31, 2018	**530**	**1,069**	**323**	**1,922**
Balance as at January 01, 2019	**530**	**1,069**	**323**	**1,922**
Additions from initial consolidation of subsidiaries	76	35	4	115
Disposals of subsidiaries	0	-1	0	-1
Additions	0	35	1	36
Disposals	0	-30	0	-30
Transfers	0	-21	0	-21
Foreign currency translation	0	2	1	3
Balance as at December 31, 2019	**606**	**1,089**	**329**	**2,024**
Accumulated amortization and impairment losses				
Balance as at January 01, 2018	**0**	**1,036**	**266**	**1,302**
Amortization	0	18	9	27
Disposals	0	-34	0	-34
Transfers	0	0	0	0
Foreign currency translation	0	0	0	0
Balance as at December 31, 2018	**0**	**1,020**	**275**	**1,295**
Balance as at January 01, 2019	**0**	**1,020**	**275**	**1,295**
Additions from initial consolidation of subsidiaries	0	0	0	0
Disposals of subsidiaries	0	-1	0	-1
Amortization	0	18	12	30
Disposals	0	-30	0	-30
Transfers	0	0	0	0
Foreign currency translation	0	1	1	2
Balance as at December 31, 2019	**0**	**1,008**	**288**	**1,296**
Net carrying amounts				
As at January 01, 2018	**527**	**53**	**56**	**636**
As at December 31, 2018	**530**	**49**	**48**	**627**
As at January 01, 2019	**530**	**49**	**48**	**627**
As at December 31, 2019	**606**	**81**	**41**	**728**

4.2 Right-of-use assets under leases

Right-of-use assets under leases

in € millions	Land, land rights, and buildings	Vehicles	Other equipment	Total
Historical cost				
Balance as at January 01, 2019	**140**	**43**	**9**	**193**
Additions from initial consolidation of subsidiaries	3	0	0	3
Additions	31	21	5	57
Disposals	-2	-3	0	-6
Transfers	0	0	0	0
Balance as at December 31, 2019	**172**	**61**	**14**	**247**
Accumulated depreciation and impairment losses				
Balance as at January 01, 2019	**0**	**0**	**0**	**0**
Depreciation	33	22	4	59
Disposals	-2	-3	0	-5
Transfers	0	0	0	0
Balance as at December 31, 2019	**31**	**19**	**4**	**54**
Net carrying amounts				
As at January 01, 2019	**140**	**43**	**9**	**193**
As at December 31, 2019	**141**	**42**	**10**	**193**

As at the date of initial application, other equipment consisted of EUR 5 m in production equipment, EUR 3 m in technical equipment and machinery, and EUR 1 m in office equipment.

Liabilities related to lease agreements capitalized are due as follows:

Lease liabilities

	12/31/2019	
in € millions	Discounted	Undiscounted
Less than one year	50	56
Between one and five years	88	97
More than five years	56	63
Total	**194**	**216**

The impact on the consolidated income statement and the consolidated statement of cash flows is as follows:

Impact on consolidated income statement

in € millions	2019
Depreciation	-59
Interest expense	4
Expense relating to short-term leases (lease term of up to 12 months)	6
Expense relating to leases of low-value assets	3
Variable lease payments	1

Impact on consolidated statement of cash flows

in € millions	2019
Variable lease payments, short-term leases (term of up to 12 months), leases of low-value assets recognized in EBIT	9
Principal repayments on lease liabilities	60
Interest paid	4

The impact of the initial application of IFRS 16 on the statement of cash flows was insignificant overall.

Future cash outflows for lease agreements not capitalized are as follows:

Future lease payments not capitalized

in € millions	12/31/2019
Expense for variable lease payments subsequent to the reporting date	1
Expense for extension or termination options not reflected in measurement	0
Expense relating to leases which have not yet commenced	5
Expense relating to short-term leases with a lease term extending beyond the reporting date	0
Total	**5**

The Schaeffler Group recognizes the exercise of extension options included in real estate leases only if such exercise is reasonably certain. Exercise is reassessed upon the occurrence of significant events or changes in circumstances that might lead to a change in assessment.

4.3 Property, plant and equipment

Property, plant and equipment

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2018	**2,567**	**8,719**	**1,126**	**969**	**13,381**
Additions	46	361	81	769	1,258
Disposals	-8	-179	-67	-3	-257
Transfers	108	412	34	-554	-1
Reclassification to IFRS 5	-6	0	0	0	-6
Foreign currency translation	1	-8	2	0	-5
Balance as at December 31, 2018	**2,709**	**9,305**	**1,176**	**1,181**	**14,370**
Balance as at January 01, 2019	**2,709**	**9,305**	**1,176**	**1,181**	**14,370**
Additions from initial consolidation of subsidiaries	0	0	1	0	1
Disposals of subsidiaries	-7	-45	-10	0	-63
Additions	39	303	59	496	897
Disposals	-18	-194	-50	-2	-264
Transfers	118	577	43	-718	21
Reclassification to IFRS 5	-16	-1	0	-5	-22
Foreign currency translation	10	29	4	5	48
Balance as at December 31, 2019	**2,834**	**9,974**	**1,223**	**957**	**14,988**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2018	**1,404**	**6,274**	**837**	**4**	**8,519**
Depreciation	82	619	92	0	793
Impairment losses	0	0	0	1	1
Disposals	-7	-175	-66	-1	-249
Transfers	-1	1	0	0	0
Reclassification to IFRS 5	-4	0	0	0	-4
Foreign currency translation	1	-9	1	0	-8
Balance as at December 31, 2018	**1,476**	**6,709**	**864**	**3**	**9,052**
Balance as at January 01, 2019	**1,476**	**6,709**	**864**	**3**	**9,052**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	-8	-45	-7	0	-60
Depreciation	79	689	101	0	869
Impairment losses	1	17	0	4	23
Disposals	-12	-189	-49	0	-250
Transfers	0	0	0	0	0
Reclassification to IFRS 5	-12	-1	0	-4	-17
Foreign currency translation	3	12	2	0	17
Balance as at December 31, 2019	**1,527**	**7,192**	**911**	**3**	**9,633**
Net carrying amounts					
As at January 01, 2018	**1,163**	**2,445**	**289**	**965**	**4,863**
As at December 31, 2018	**1,233**	**2,596**	**312**	**1,177**	**5,318**
As at January 01, 2019	**1,233**	**2,596**	**312**	**1,177**	**5,318**
As at December 31, 2019	**1,307**	**2,782**	**312**	**954**	**5,355**

Of the impairment losses recognized in the reporting period, EUR 9 m are included in cost of sales, EUR 2 m in administrative expenses, and EUR 12 m in other expenses. EUR 8 m of these impairments affected the Automotive OEM division and EUR 15 m the Industrial division, and the impairments were recognized in connection with the programs “RACE” and “FIT” as well as disposals of companies.

At December 31, 2019, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 288 m (prior year: EUR 465 m).

4.4 Investments in joint ventures and associated companies

Investments in joint ventures and associated companies consisted of EUR 140 m (prior year: EUR 158 m) in investments in joint ventures and EUR 3 m (prior year: EUR 2 m) in investments in associated companies.

The most significant joint venture is Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach, which was established in 2018.

The company is jointly controlled by its two limited partners, Schaeffler Technologies AG & Co. KG and Arnold Verwaltungs GmbH.

90% of its shares are held by Schaeffler Technologies AG & Co. KG, and Arnold Verwaltungs GmbH holds a 10% interest. The joint venture's two shareholders have joint control because decisions about the relevant activities require the unanimous consent of both shareholders.

The general partner of Schaeffler Paravan Technologie GmbH & Co. KG is Schaeffler Paravan Management GmbH (no shareholdings).

On October 1, 2018, the joint venture acquired the Space Drive "Drive-by-Wire" technology (from Paravan GmbH and Roland Arnold GmbH & Co. KG) and the "Schaeffler Mover" activities from Schaeffler Technologies AG & Co. KG. The objective of the company is the further development of the drive-by-wire technology and the development and sale of mobility systems.

The following summarized financial information can be derived from the financial statements of Schaeffler Paravan Technologie GmbH & Co. KG for 2019 prepared in accordance with IFRS. The summarized financial information is shown at 100%.

Schaeffler Paravan Technologie GmbH & Co. KG

in € millions	2019	2018
Current assets	6	4
• Liquid funds	0	1
Non-current assets	179	187
Total assets	**185**	**190**
Current liabilities	7	3
• Current financial liabilities	5	1
Non-current liabilities	12	2
• Non-current financial liabilities	10	1
Total liabilities	**19**	**5**
Revenue	7	1
Depreciation and amortization	-10	-2
Earnings before income taxes	-20	-4
Other comprehensive income	0	0
Income taxes	1	0
Total comprehensive income after taxes	**-19**	**-5**
Net assets	**166**	**185**
Proportionate share of net assets	149	167
Elimination of proportionate share of gain on contribution in kind	-9	-9
Carrying amount of investment	**140**	**158**

The impact of other equity-accounted joint ventures and of associated companies on the Schaeffler Group's net assets, financial position, and earnings as at the end of the reporting period was insignificant.

In 2019, the company entered into a contractual agreement with a joint venture regarding a convertible loan. In connection with the loan, there are put options outstanding on shares in the joint venture as well as currently effective contractually agreed rights to participate in decision-making. Dividend payments are contractually excluded until December 31, 2023.

4.5 Deferred tax assets and liabilities and income tax receivables and payables

Deferred tax assets and liabilities

The following items gave rise to recognized deferred tax assets and liabilities:

Deferred tax assets and liabilities

	12/31/2018 [1]						12/31/2019
in € millions	Net	Recognized in profit or loss	Changes in the scope of consolidation	Recognized in other comprehensive income	Net	Deferred tax assets	Deferred tax liabilities
Intangible assets	-22	9	-9	0	-22	6	-28
Property, plant and equipment	-48	-33	-1	0	-82	91	-173
Financial assets	6	11	0	-14	3	4	-1
Inventories	93	-7	0	0	86	107	-21
Trade receivables and other assets	20	-26	0	0	-6	184	-190
Provisions for pensions and similar obligations	341	30	0	122	493	561	-68
Other provisions and other liabilities	4	87	0	8	99	246	-147
Interest- and loss carry-forwards	25	-2	0	0	23	23	0
Outside basis differences	-30	12	0	0	-18	0	-18
Deferred taxes (gross)	**389**	**81**	**-10**	**116**	**576**	**1,222**	**-646**
Netting						-509	509
Deferred taxes (net)	**389**	**81**	**-10**	**116**	**576**	**713**	**-137**

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 “New accounting pronouncements” to the consolidated financial statements for further details.

The group had gross carry-forwards under the interest deduction cap of EUR 14 m (prior year: EUR 46 m) at the end of the reporting period. The company has recognized deferred tax assets on all interest carry-forwards.

As at December 31, 2019, the Schaeffler Group had gross loss carry-forwards of EUR 233 m (prior year: EUR 137 m) for corporation tax and EUR 43 m (prior year: EUR 35 m) for trade tax, including EUR 153 m (prior year: EUR 113 m) in corporation tax losses and EUR 35 m (prior year: EUR 24 m) in trade tax losses for which no deferred taxes have been recognized.

EUR 73 m (prior year: EUR 44 m) of the corporation tax loss carry-forwards on which no deferred tax assets were recognized can be carried forward for a limited period. The interest carry-forwards can be utilized indefinitely.

No deferred tax assets were recognized on EUR 30 m (prior year: EUR 56 m) in temporary differences, as it is not considered probable that they will be utilized in the future.

No deferred taxes have been recognized on EUR 2,386 m (prior year: EUR 2,156 m) in undistributed profits of certain subsidiaries, as the company intends to continually reinvest these profits rather than distributing them.

As at the end of the reporting period, certain group companies that have suffered losses have recognized EUR 13 m (prior year: EUR 4 m) in net deferred tax assets on loss carry-forwards. Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2019, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 405 m (prior year: EUR 290 m) and mainly related to hedges of net investments in foreign operations, changes in the fair value of derivatives designated as hedging instruments, as well as remeasurements of pensions and similar obligations.

Income tax receivables and payables

As at December 31, 2019, income tax receivables amounted to EUR 89 m (prior year: EUR 102 m) and did not include any non-current balances.

As at December 31, 2019, income tax payables amounted to EUR 204 m (prior year: EUR 172 m), including non-current balances of EUR 103 m (prior year: EUR 103 m). In current or future tax audits, the fiscal authorities and the Schaeffler Group may arrive at different conclusions regarding tax laws or tax-related facts. The fiscal authorities may change original tax assessments, increasing the Schaeffler Group's tax charges. Identifiable tax audit-related risks have been recognized as income tax payables in the Schaeffler Group's consolidated financial statements. Initial application of IFRIC 23 has not had any impact on the Schaeffler Group's consolidated financial statements.

4.6 Inventories

Inventories

in € millions	12/31/2019	12/31/2018
Raw materials and supplies	460	442
Work in progress	592	598
Finished goods and merchandise	1,079	1,142
Advance payments	1	2
Total	**2,132**	**2,183**

EUR 10,681 m (prior year: EUR 10,452 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2019.

The impairment allowance on inventories amounted to EUR 309 m (prior year: EUR 276 m) as at December 31, 2019.

4.7 Trade receivables

Trade receivables

in € millions	12/31/2019	12/31/2018
Trade receivables (gross)	**2,157**	**2,021**
Impairment allowances	-27	-18
Trade receivables (net)	**2,130**	**2,003**

Movements in impairment allowances on these trade receivables can be reconciled as follows:

Impairment allowances on trade receivables

in € millions	2019	2018
Impairment allowances as at January 01	**-18**	**-17**
Additions	-18	-5
Allowances used to cover write-offs	1	1
Reversals	8	3
Impairment allowances as at December 31	**-27**	**-18**

Aging of trade receivables

in € millions		12/31/2019	12/31/2018
Trade receivables (gross)		**2,157**	**2,021**
Not past due		**1,900**	**1,868**
Past due	up to 60 days	**201**	**102**
	61 – 120 days	**12**	**17**
	121 – 180 days	**9**	**7**
	181 – 360 days	**9**	**12**
	› 360 days	**26**	**15**

As at December 31, 2019, trade receivables outstanding with a carrying amount of EUR 178 m (prior year: EUR 166 m) net of retained credit risk had been sold under the ABCP program (see Note 5.2).

More on the Schaeffler Group's exposure to credit, currency, and liquidity risk in Note 4.16

4.8 Other financial assets and other assets

Other financial assets (non-current/current)

			12/31/2019			12/31/2018
in € millions	Non-current	Current	Total	Non-current	Current	Total
Loans receivable and financial receivables	37	0	37	38	0	38
Derivative financial assets	32	28	60	39	34	74
Miscellaneous other financial assets	57	92	148	29	97	126
Total	**126**	**120**	**246**	**106**	**131**	**237**

As at December 31, 2019, **non-current derivative financial assets** consisted mainly of derivatives used to hedge currency risk and prepayment options on financial debt. The current portion of derivative financial assets represented fair values of derivatives the Schaeffler Group uses to hedge currency risk.

Non-current miscellaneous other financial assets included marketable securities and loans receivable.

Current miscellaneous other financial assets comprised rights arising from the sale of receivables.

More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.16

Other assets (non-current/current)

			31.12.2019			31.12.2018
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	63	0	63	45	0	45
Tax receivables	1	226	228	1	224	225
Miscellaneous other assets	58	47	105	39	43	81
Total	**122**	**273**	**396**	**85**	**267**	**351**

Tax receivables consisted predominantly of value-added tax refunds receivable.

The majority of **miscellaneous other assets** represented the current and non-current portions of prepaid assets and deferred charges.

4.9 Cash and cash equivalents

At December 31, 2019, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 413 m (prior year: EUR 379 m) held by subsidiaries in Argentina, Brazil, Chile, China, Colombia, India, Peru, the Philippines, South Korea, South Africa, Taiwan, Thailand, Venezuela, and Vietnam and other countries. These subsidiaries are subject to exchange restrictions or other legal or contractual restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

4.10 Assets held for sale and liabilities associated with assets held for sale

Assets held for sale of EUR 5 m (prior year: EUR 2 m) largely relate to the planned disposal of properties and the buildings on them as well as machinery. The related impairment loss recognized amounted to EUR 6 m. The transactions are scheduled to close in the first quarter of 2020.

A property held for sale as at December 31, 2018, and the building on it were sold in the second quarter of 2019.

4.11 Shareholders' equity

Shareholders' equity

in € millions	12/31/2019	12/31/2018 [1]
Share capital	666	666
Capital reserves	2,348	2,348
Other reserves	931	866
Accumulated other comprehensive income (loss)	-1,124	-907
Equity attributable to shareholders of the parent company	**2,822**	**2,973**
Non-controlling interests	95	87
Total shareholders' equity	**2,917**	**3,060**

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

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

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

The common shares are held by IHO Verwaltungs GmbH. The common non-voting shares are widely held. Share capital is fully paid up and Schaeffler AG had no authorized or contingent capital or any resolutions with respect to these types of capital as at December 31, 2019.

Capital reserves remained unchanged at EUR 2,348 m as at December 31, 2019.

The change in **other reserves** in 2019 was largely attributable to consolidated net income and the dividends.

Distributions to shareholders are limited to Schaeffler AG's retained earnings as determined in accordance with German commercial law. For 2019, a dividend of EUR 295 m will be proposed to the Schaeffler AG annual general meeting. EUR 75 m of these dividends relate to the common non-voting shares. This represents a total dividend of EUR 0.45 (prior year: EUR 0.55) per common non-voting share and EUR 0.44 (prior year: EUR 0.54) per common share. As the proposed dividend is subject to shareholder approval at the annual general meeting, it has not been recognized as a liability in these consolidated financial statements.

Accumulated other comprehensive income consisted of the impact of currency translation, changes in the fair value of financial instruments designated as hedging instruments, and remeasurements of pensions and similar obligations.

As at December 31, 2019, **non-controlling interests** represented interests in the shareholders' equity of Schaeffler India Ltd.

4.12 Current and non-current financial debt

Financial debt (current/non-current)

in € millions	Due in up to 1 year 12/31/2019	Due in more than 1 year 12/31/2019	Total 12/31/2019	Due in up to 1 year 12/31/2018	Due in more than 1 year 12/31/2018	Total 12/31/2018
Bonds	0	2,781	2,781	0	2,019	2,019
Facilities Agreement	53	-5	48	160	986	1,146
Capital investment loan	0	249	249	0	183	183
Commercial paper	115	0	115	0	0	0
Other financial debt	1	0	1	0	0	0
Total	**168**	**3,026**	**3,194**	**160**	**3,188**	**3,348**

The reduction in financial debt compared to December 31, 2018, is primarily due to the prepayment of the term loan and the repayment of the Revolving Credit Facility. The impact of these repayments was partly offset by the newly issued bonds, the additional drawing under the capital investment loan, and the amount drawn under the multi-currency commercial paper program.

As at December 31, 2019, the group's debt consisted of four bond series with a principal of EUR 2.8 bn, a Revolving Credit Facility with a principal of EUR 1.8 bn, a capital investment loan with a principal of EUR 250 m, and EUR 115 m in short-term commercial paper.

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

Schaeffler Group syndicated loans

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

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

In addition, the group had further committed bilateral lines of credit in the equivalent of EUR 246 m (prior year: EUR 45 m), primarily in Germany and the U.S. EUR 234 m of these facilities were unutilized as at December 31, 2019 (prior year: EUR 31 m). Starting on the reporting date, the company only considers lines of credit committed if a commitment fee has been agreed. As a result, prior year amounts have been changed retrospectively.

The Schaeffler Group had the following bonds outstanding as at year-end:

Schaeffler Group bonds

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

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

The differences between principal and carrying amount are the result of accounting for these instruments at amortized cost calculated using the effective interest method. The carrying amount of the Revolving Credit Facility consisted of the amount drawn and unamortized transaction costs.

An additional EUR 40 m (prior year: EUR 23 m) in interest accrued on the bonds up to December 31, 2019, were reported in other financial liabilities (see Note 4.15).

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the leverage covenant is not met, which would result in the debt becoming due immediately. As in the prior year, the company has complied with the leverage covenant throughout 2019 as stipulated in the debt agreements.

4.13 Provisions for pensions and similar obligations

The post-employment benefits the Schaeffler Group provides to its employees include both defined benefit plans and defined contribution plans. While defined contribution plans generally entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are recognized in the consolidated statement of financial position. The provisions also include a minor amount of obligations similar to pensions.

Defined benefit plans

The Schaeffler Group's defined benefit plans include pension plans, termination payments mandatorily payable upon retirement regardless of the reason employment is terminated, and other post-employment benefits. The company's pension obligations relate to Germany, the U.S., and the United Kingdom, with the majority of the obligations attributable to Germany.

Germany

In Germany, the company grants pension benefits largely in the form of pension commitments based on pension units as well as under deferred compensation arrangements.

For the significant pension plans, pension benefits in the form of pension units largely result from the Schaeffler Company Pension Scheme ("Schaeffler Versorgungsordnung") and similar schemes that base the amount of the pension unit on eligible income and also contain a minimum guarantee. When the Schaeffler Company Pension Scheme was introduced in 2006, the other pension schemes in Germany were closed to new entrants. Benefits are always paid on an annuity basis. The pension obligations arising from these pension commitments are financed by provisions. Pension benefits are paid out of cash flows from operating activities.

In addition, employees have various deferred compensation arrangements to choose from. Some Schaeffler Group subsidiaries offer their staff a company pension model under which the employees contribute a portion of their pre-tax salary in return for a pension commitment. The compensation deferred is invested in equity, fixed-income, and money market funds under a lifecycle model, i.e. plan assets are moved to lower-risk asset classes as the beneficiary's age increases. In addition, the Schaeffler Group guarantees a minimum annual return. As benefits are paid in up to five annual installments starting when the beneficiary reaches retirement age, longevity risk is minimized. Benefit obligations resulting from the deferral of pre-tax compensation are covered by assets held separately under a contractual trust agreement (CTA).

U.S. and United Kingdom

Additional significant defined benefit pension plans cover employees in the U.S. and in the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2019, approx. 98% (prior year: 95%) of pension obligations in the U.S. and approx. 120% (prior year: 120%) of pension obligations in the United Kingdom were covered by plan assets. These pension plans were closed to new entrants in 2006 (U.S.) and 2009 (United Kingdom) and replaced with defined contribution plans. As a result, employees can no longer earn additional defined benefits.

Net defined benefit obligation

The company's obligations under defined benefit plans and the related plan assets are presented as follows in the consolidated statement of financial position as at December 31, 2019:

Amounts recognized in the statement of financial position for pensions and similar obligations

					12/31/2019					12/31/2018
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-2,539	-13	-1	-84	-2,637	-2,068	-13	0	-92	-2,173
Pension asset (plan assets net of related liabilities)	1	9	46	7	63	0	3	38	5	45
Net defined benefit liability	**-2,538**	**-4**	**45**	**-77**	**-2,574**	**-2,068**	**-10**	**38**	**-87**	**-2,127**

At the end of the reporting period, the defined benefit obligations and related plan assets amounted to the following:

Analysis of net defined benefit liability

					12/31/2019					12/31/2018
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Present value of defined benefit obligations (active members)	-1,636	-69	0	-208	-1,913	-1,271	-58	0	-203	-1,532
Present value of defined benefit obligations (deferred members)	-234	-28	-136	-5	-403	-167	-23	-111	-4	-305
Present value of defined benefit obligations (pensioners)	-886	-122	-86	-30	-1,124	-808	-113	-79	-27	-1,027
Present value of defined benefit obligations (total)	**-2,756**	**-219**	**-222**	**-243**	**-3,440**	**-2,246**	**-194**	**-190**	**-234**	**-2,864**
Fair value of plan assets	218	215	267	166	866	178	184	228	147	737
Net pension obligation recognized in the statement of financial position	-2,538	-4	45	-77	-2,574	-2,068	-10	38	-87	-2,127
Net defined benefit liability	**-2,538**	**-4**	**45**	**-77**	**-2,574**	**-2,068**	**-10**	**38**	**-87**	**-2,127**

Movements in the net defined pension benefit liability in 2019 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31

					2019					2018
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/ asset (+) as at January 01	**-2,068**	**-10**	**38**	**-87**	**-2,127**	**-1,977**	**-51**	**27**	**-77**	**-2,078**
Benefits paid	61	1	0	4	66	58	1	1	6	66
Gains (+)/losses (-) – settlements	0	0	0	3	3	0	0	0	0	0
Settlements paid	0	0	0	4	4	0	0	0	0	0
Service cost	-74	0	0	-13	-87	-68	0	-2	-14	-84
Net interest on net defined benefit liability	-41	0	1	-2	-42	-37	-1	0	0	-38
Employer contributions	13	0	0	12	25	-4	34	0	5	35
Employee contributions	0	0	0	0	0	0	0	0	0	0
Transfers in/out	-4	0	0	2	-2	0	11	0	0	11
Remeasurement of net defined benefit liability	-430	6	5	0	-419	-40	-2	12	-6	-36
Business combinations/ disposals of subsidiaries	5	0	0	0	5	0	0	0	0	0
Foreign currency translation	0	-1	1	0	0	0	-2	0	-1	-3
Net defined benefit liability (-)/ asset (+) as at December 31	**-2,538**	**-4**	**45**	**-77**	**-2,574**	**-2,068**	**-10**	**38**	**-87**	**-2,127**

Movements in defined benefit obligation

The opening and closing balances of the present value of the defined benefit obligation as at the end of the reporting period can be reconciled as follows:

Reconciliation of present value of defined benefit obligations January 01/December 31

					2019					2018
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-2,246**	**-194**	**-190**	**-234**	**-2,864**	**-2,162**	**-210**	**-216**	**-234**	**-2,822**
Benefits paid	64	11	11	14	100	62	11	9	21	103
Current service cost	-74	0	0	-14	-88	-68	0	0	-14	-82
Past service cost	0	0	0	1	1	0	0	-2	0	-2
Interest cost	-43	-8	-6	-7	-64	-41	-7	-6	-5	-59
Employee contributions	-11	0	0	0	-11	-12	-1	0	0	-13
Transfers in/out	-4	0	0	0	-4	0	13	0	0	13
Settlements paid	0	0	0	4	4	0	0	0	0	0
Gains (+)/losses (-) on settlements	0	0	0	3	3	0	0	0	0	0
Gains (+) / losses (-) – changes in financial assumptions	-468	-25	-26	-15	-534	0	12	11	-4	19
Gains (+) / losses (-) – changes in demographic assumptions	0	1	0	7	8	-29	1	1	-3	-30
Gains (+) / losses (-) – experience adjustments	21	0	0	1	22	4	-2	11	4	17
Business combinations/ disposals of subsidiaries	5	0	0	0	5	0	0	0	0	0
Foreign currency translation	0	-4	-11	-3	-18	0	-11	2	1	-8
Present value of defined benefit obligations as at December 31	**-2,756**	**-219**	**-222**	**-243**	**-3,440**	**-2,246**	**-194**	**-190**	**-234**	**-2,864**

Movements in and types of plan assets

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

Reconciliation of fair value of plan assets January 01/December 31

					2019					2018
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**178**	**184**	**228**	**147**	**737**	**185**	**159**	**243**	**157**	**744**
Benefits paid	-3	-10	-11	-10	-34	-4	-10	-8	-15	-37
Interest income on plan assets	2	8	7	5	22	4	6	6	5	21
Employee contributions	11	0	0	0	11	12	1	0	0	13
Employer contributions	13	0	0	12	25	-4	34	0	5	35
Transfers in/out	0	0	0	2	2	0	-2	0	0	-2
Return on plan assets excluding interest income	17	30	31	7	85	-15	-13	-11	-3	-42
Foreign currency translation	0	3	12	3	18	0	9	-2	-2	5
Fair value of plan assets as at December 31	**218**	**215**	**267**	**166**	**866**	**178**	**184**	**228**	**147**	**737**

The Schaeffler Group plans to contribute EUR 13 m (prior year: EUR 9 m) to plan assets in 2020.

Negative employer contributions in 2018 represent refunds of additional contributions made in the past to cover temporary shortfalls.

Plan assets consisted of the following:

Classes of plan assets

					12/31/2019					12/31/2018
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Equity instruments	111	22	82	5	220	88	18	54	4	164
Debt instruments	40	193	62	90	385	37	166	46	84	333
Real estate	0	0	33	5	38	0	0	26	3	29
Cash	42	0	1	1	44	28	0	2	0	30
(Reimbursement) insurance policies	25	0	0	7	32	25	0	0	7	32
Mixed funds	0	0	89	58	147	0	0	100	49	149
Total	**218**	**215**	**267**	**166**	**866**	**178**	**184**	**228**	**147**	**737**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments. Except for amounts related to real estate and reimbursement insurance policies, all amounts shown above represent market prices quoted in an active market.

Information on changes in the various classes of plan assets in Germany is provided by the fund manager in the form of performance reports and is regularly reviewed by investment committees. The investment strategy follows a lifecycle model: Plan assets are moved to lower-risk asset classes as the beneficiary's age increases.

Asset-liability studies are prepared for the funded defined benefit plans in the United Kingdom and in the U.S. at regular intervals, and the investment policy of each fund is based on the applicable study and any local legal requirements.

Comprehensive income

The following summarizes the various amounts recognized in comprehensive income for defined benefit plans:

Comprehensive income on defined benefit pension plans

					2019					2018
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Current service cost	74	0	0	14	88	68	0	0	14	82
Past service cost	0	0	0	-1	-1	0	0	2	0	2
• plan amendments	0	0	0	0	0	0	0	2	0	2
Gains (-)/losses (+) on settlements	0	0	0	-3	-3	0	0	0	0	0
Service cost	**74**	**0**	**0**	**10**	**84**	**68**	**0**	**2**	**14**	**84**
Interest cost	43	8	6	7	64	41	7	6	5	59
Interest income	-2	-8	-7	-5	-22	-4	-6	-6	-5	-21
Net interest on net defined benefit liability/asset	**41**	**0**	**-1**	**2**	**42**	**37**	**1**	**0**	**0**	**38**
Gains (-)/losses (+) – changes in financial assumptions	468	25	26	15	534	0	-12	-11	4	-19
Gains (-)/losses (+) – changes in demographic assumptions	0	-1	0	-7	-8	29	-1	-1	3	30
Gains (-)/losses (+) – experience adjustments	-21	0	0	-1	-22	-4	2	-11	-4	-17
Return on plan assets excluding interest income	-17	-30	-31	-7	-85	15	13	11	3	42
Remeasurements of net defined benefit liability/asset	**430**	**-6**	**-5**	**-0**	**419**	**40**	**2**	**-12**	**6**	**36**
Total comprehensive (income) loss on defined benefit obligations	**545**	**-6**	**-6**	**12**	**545**	**145**	**3**	**-10**	**20**	**158**

Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

Net pension expense in the consolidated income statement

					2019					2018
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Cost of sales	43	0	0	9	54	40	0	0	10	50
Research and development expenses	14	0	0	0	14	13	0	0	1	14
Selling expenses	5	0	0	1	6	5	0	0	2	7
Administrative expenses	12	0	0	0	12	10	0	2	1	13
Included in EBIT	**74**	**0**	**0**	**10**	**84**	**68**	**0**	**2**	**14**	**84**
Interest expense	43	8	6	7	64	41	7	6	5	59
Interest income on plan assets	-2	-8	-7	-5	-22	-4	-6	-6	-5	-21
Included in financial result	**41**	**0**	**-1**	**2**	**42**	**37**	**1**	**0**	**0**	**38**
Total	**115**	**0**	**-1**	**12**	**126**	**105**	**1**	**2**	**14**	**122**

Maturity profile of defined benefit obligations

The weighted average duration of defined benefit obligations is 20.7 years (prior year: 18.8 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 22.1 years (prior year: 20.1 years), 11.6 years (prior year: 10.8 years), and 21.2 years (prior year: 20.9 years), respectively.

Over the next ten years, the company expects to make the following payments for the defined benefit obligations it has as at year-end:

Payments expected to be made in coming years

in € millions	Erwartete Auszahlungen
2020	96
2021	102
2022	106
2023	110
2024	115
2025-2029	598

Actuarial assumptions

At each reporting date, defined benefit obligations are measured based on certain actuarial assumptions.

The assumptions used, in particular discount rates, future salary increases, and future pension increases, are determined separately for each country.

The weighted averages of the principal actuarial assumptions for the Schaeffler Group are as follows:

Actuarial assumptions

	2019					2018				
	Germany	U.S.	United Kingdom	Other countries	Total [1]	Germany	U.S.	United Kingdom	Other countries	Total [1]
Discount rate as at December 31	1.0%	3.2%	2.0%	2.1%	1.3%	1.9%	4.3%	2.9%	2.7%	2.2%
Future salary increases	3.3%	n.a. [2]	n.a. [2]	2.9%	3.2%	3.3%	n.a. [2]	n.a. [2]	3.0%	3.2%
Future pension increases	1.8%	2.5%	3.1%	0.1%	1.8%	1.8%	2.5%	3.3%	0.1%	1.9%

[1] Average discount rate for the Schaeffler Group.
[2] The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Mortality assumptions are based on published statistics and country-specific mortality tables. Starting in 2018, the “RICHT-TAFELN 2018 G” mortality tables developed by Prof. Dr. Klaus Heubeck and published by HEUBECK-RICHTTAFELN-GmbH are used for the German plans. These tables are generation tables, which specifically include appropriate assumptions to take into account future increases in life expectancy.

Sensitivity analysis

Selecting the assumptions discussed above is key to the calculation of the present value of the defined benefit obligation. The following table shows the sensitivity of the present value of the defined benefit obligation to changes in one of the key assumptions.

Sensitivity analysis of present value of defined benefit obligation

		2019					2018				
in € millions		Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0%	-512	-23	-40	-25	-600	-378	-19	-34	-24	-455
	Minus 1.0%	721	28	53	30	832	519	23	45	29	616
Future salary increases	Plus 1.0%	67	n.a. [1]	n.a. [1]	18	85	50	n.a. [1]	n.a. [1]	18	68
	Minus 1.0%	-58	n.a. [1]	n.a. [1]	-15	-73	-43	n.a. [1]	n.a. [1]	-16	-59
Future pension increases	Plus 1.0%	273	0	23	3	299	219	0	19	3	241
	Minus 1.0%	-199	0	-20	-3	-222	-162	0	-17	-2	-181

[1] The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Another key parameter in the measurement of the Schaeffler Group’s pension obligations is life expectancy. An increase in life expectancy in the most significant countries by one year would lead to an increase in the present value of the corresponding obligation by EUR 141 m (prior year: EUR 106 m) in Germany, EUR 7 m (prior year: EUR 6 m) in the U.S., and EUR 10 m (prior year: EUR 8 m) in the United Kingdom.

As in the prior year, the above sensitivities were calculated using the same method as for the present value of the pension obligations as at the balance sheet date. The sensitivities presented above do not take into account interaction between assumptions; rather, the analysis assumes that each assumption changes separately. In practice, this would be unusual, as assumptions are frequently correlated.

Risk and risk management

The existing defined benefit plans expose the Schaeffler Group to the usual actuarial risks.

The existing plan assets are managed independently on a decentralized basis in the various countries.

Defined contribution pension plans

In 2019, the Schaeffler Group incurred EUR 35 m (prior year: EUR 32 m) in expenses related to defined contribution plans. At EUR 16 m (prior year: EUR 14 m), the majority of this amount relates to plans in the U.S.

4.14 Provisions

Provisions

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
Balance as at January 01, 2019	**97**	**83**	**73**	**12**	**150**	**416**
Additions	224	51	66	10	50	400
Utilization	-40	-33	-24	-7	-51	-156
Reversals	-5	-10	-12	-6	-5	-38
Interest expense	5	0	0	0	0	6
Foreign currency translation	0	1	0	0	1	2
Balance as at December 31, 2019	**281**	**91**	**103**	**9**	**145**	**630**

Provisions consisted of the following current and non-current portions. Non-current provisions are due in one to five years.

Provisions (non-current/current)

			12/31/2019			12/31/2018
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	96	185	281	76	22	97
Restructuring	26	65	91	50	33	83
Warranties	0	103	103	0	73	73
Other taxes	0	9	9	0	12	12
Other	47	98	145	46	104	150
Total	**168**	**462**	**630**	**172**	**244**	**416**

Provisions for employee benefits included EUR 60 m (prior year: EUR 52 m) in provisions for long-time service awards and partial retirement programs primarily classified as non-current. The increase in provisions for employee benefits compared to the prior year is mainly due to voluntary severance schemes in Germany and France that were run as part of the efficiency programs “RACE” in the Automotive OEM division, “GRIP” in the Automotive Aftermarket division, and “FIT” in the Industrial division.

Restructuring provisions included EUR 33 m for the reorganization of the indirect functions at various locations under the “Shared Services” initiative for the Europe region. Implementation of these measures is expected to be completed by 2022. In addition, the company has recognized EUR 70 m in restructuring provisions for the program “RACE” which had a remaining balance of EUR 40 m as at December 31, 2019.

Warranty provisions consisted, in particular, of provisions for specific cases for which an outflow of resources within one year is considered probable.

Other provisions include, inter alia, provisions for potential third party claims in connection with antitrust proceedings of EUR 21 m (prior year: EUR 31 m).

Non-current provisions decreased by EUR 4 m to EUR 168 m (prior year: EUR 172 m), primarily due to reclassifications of provisions between non-current and current provisions related to maturities.

Current provisions rose by EUR 218 m to EUR 462 m (prior year: EUR 244 m). The increase resulted mainly from provisions recognized in connection with the efficiency programs.

4.15 Other financial liabilities and other liabilities

Other financial liabilities (non-current/current)

			12/31/2019			12/31/2018
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	14	365	379	2	283	284
Derivative financial liabilities	1	53	54	2	65	67
Miscellaneous other financial liabilities	21	127	148	5	133	138
Total	**36**	**545**	**581**	**8**	**481**	**489**

Amounts payable to staff primarily included profit sharing accruals and liabilities for personnel-related measures.

Derivative financial liabilities mainly included forward exchange contracts used to hedge the Schaeffler Group's currency risk. The change was primarily attributable to increased market values.

Miscellaneous other financial liabilities mainly consisted of payments received from customers for receivables sold under the ABCP program (see Note 5.2) and accrued interest.

More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.16

Other liabilities (non-current/current)

			12/31/2019			12/31/2018
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	0	97	97	0	123	123
Social security contributions payable	0	43	43	1	46	46
Advance payments received	0	3	3	0	8	8
Other tax payables	0	140	140	0	123	123
Miscellaneous other liabilities	15	46	61	2	20	22
Total	**15**	**329**	**344**	**3**	**320**	**323**

Amounts payable to staff primarily contained accrued vacation and overtime accounts.

Social security contributions payable consisted mainly of unpaid contributions to social security schemes.

Other tax payables included, in particular, value-added taxes payable and payroll withholding taxes payable.

4.16 Financial instruments

The carrying amounts and fair values of financial instruments by class of the consolidated statement of financial position and by category per IFRS 7.8 are summarized below. Derivatives designated as hedging instruments are shown as well.

Financial instruments by class and category in accordance with IFRS 7.8

		12/31/2019		12/31/2018 [1]	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	Amortized cost	2,098	2,098	1,914	1,914
Trade receivables – ABCP program	FVTPL	32	32	89	89
Other financial assets					
• Other investments	FVOCI	37	37	38	38
• Marketable securities	FVTPL	23	23	17	17
• Derivatives designated as hedging instruments	n.a.	11	11	43	43
• Derivatives not designated as hedging instruments	FVTPL	49	49	31	31
• Miscellaneous other financial assets	Amortized cost	125	125	108	108
Cash and cash equivalents	Amortized cost	668	668	801	801
Financial liabilities, by class					
Financial debt	FLAC	3,194	3,357	3,348	3,364
Trade payables	FLAC	1,732	1,732	1,967	1,967
Refund liabilities	n.a.	232	232	236	236
Lease liabilities [2]	FLAC	194	0	0	0
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	28	28	40	40
• Derivatives not designated as hedging instruments	FVTPL	27	27	27	27
• Miscellaneous other financial liabilities	FLAC	527	527	422	422
Summary by category					
Financial assets at amortized cost (Amortized cost)		2,892	2,892	2,823	2,823
Financial assets at fair value through profit or loss (FVTPL)		104	104	137	137
Financial assets (equity instruments) at fair value through other comprehensive income (FVOCI)		37	37	38	38
Financial liabilities at amortized cost (FLAC)		5,647	5,616	5,737	5,753
Financial liabilities at fair value through profit or loss (FVTPL)		27	27	27	27

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 "New accounting pronouncements" to the consolidated financial statements for further details.
[2] Disclosure of fair value omitted in accordance with IFRS 7.29 (d).

The carrying amounts of trade receivables, including the receivables available for sale under the ABCP program, miscellaneous other financial assets, cash and cash equivalents, trade payables, refund liabilities, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments.

Other investments include the following unconsolidated investments (shares in incorporated companies and cooperatives):

Investments designated as at FVOCI

in € millions	Fair value as at 12/31/2019	Fair value as at 12/31/2018
Investments in SupplyOn AG	5	7
Investment in Gemeinschaftskraftwerk GmbH	2	2
Investment in IAV GmbH	28	28
Other investments	2	1
Total	**37**	**38**

Since these investments are of a strategic long-term nature, they are designated as at fair value through other comprehensive income. Fair value is measured using an EBIT multiple methodology using sector- and size-specific EBIT multiples. All inputs are observable in the market. There were no partial disposals of such investments in 2019, and no accumulated gains or losses were reclassified within equity. Marketable securities consist primarily of debt instruments in the form of money market fund units.

Hedge accounting is only applied to derivatives designated as hedges of currency risk in cash flow hedges. The Schaeffler Group uses cross-currency swaps and forward exchange contracts as hedging instruments here.

Please refer to the notes on the various balance sheet line items for the amount of financial assets pledged as collateral.

The fair values of financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes to the consolidated financial statements were determined using the following valuation methods and inputs:

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities as well as bonds payable included in financial debt.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period, as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Derivatives embedded in bond agreements are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates (CDS rates). The fair value of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The derivatives embedded in a convertible loan and the loan issued with a conversion right are measured based on option pricing models. Inputs to the model include data from the company's plans and budgets, market information, and management expectations.

The following table summarizes the fair values and levels of financial assets and liabilities. Financial assets and liabilities whose carrying amount is assumed to represent their fair value have been omitted.

Financial assets and liabilities by fair value hierarchy level

in € millions	Level 1	Level 2	Level 3	Total
December 31, 2019				
Marketable securities	23	-	-	23
Derivatives designated as hedging instruments	-	11	0	11
Derivatives not designated as hedging instruments	-	48	1	49
Trade receivables – ABCP program	-	32	0	32
Other investments	-	37	0	37
Miscellaneous other financial assets	-	0	10	10
Total financial assets	**23**	**128**	**11**	**162**
Financial debt	2,938	419	0	3,357
Derivatives designated as hedging instruments	0	28	0	28
Derivatives not designated as hedging instruments	0	26	1	27
Total financial liabilities	**2,938**	**473**	**1**	**3,412**
December 31, 2018				
Marketable securities	17	-	-	17
Derivatives designated as hedging instruments	-	43	0	43
Derivatives not designated as hedging instruments	-	31	0	31
Trade receivables – ABCP program	-	89	0	89
Other investments	-	38	0	38
Miscellaneous other financial assets	-	0	0	0
Total financial assets	**17**	**201**	**0**	**218**
Financial debt	2,020	1,344	0	3,364
Derivatives designated as hedging instruments	-	40	0	40
Derivatives not designated as hedging instruments	-	27	0	27
Total financial liabilities	**2,020**	**1,411**	**0**	**3,431**

The company reviews its financial instruments at the end of each reporting period for any required transfers between levels. No transfers between levels were made during the period.

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

Net gains and losses by category of financial instruments in accordance with IFRS 7.20

					2019	2018
	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation		
Financial assets (equity instruments) at fair value through other comprehensive income	-	0	-	-	0	0
Financial assets and liabilities at fair value through profit or loss	-1	-97	-	-	-98	-32
Financial assets at amortized cost	16	-	-7	4	13	23
Financial liabilities at amortized cost	-112	-	-	-7	-118	-132
Total	**-97**	**-97**	**-7**	**-3**	**-204**	**-141**

Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and in interest expense on financial debt, respectively (see Note 3.5).

The net loss on financial assets and liabilities at fair value through profit and loss of EUR 98 m (prior year: EUR 32 m) relates primarily to derivatives. EUR 93 m (prior year: EUR 18 m) of this net loss is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in gains of EUR 23 m (prior year: losses of EUR 43 m).

Financial risk management

Its financial instruments expose the Schaeffler Group to various risks.

The Schaeffler Group's Board of Managing Directors has the overall responsibility for establishing and overseeing the group's risk management system. The finance organization is responsible for developing and monitoring this risk management system and regularly reports to the Schaeffler Group's Chief Financial Officer on its activities in this area.

Group-wide risk management policies are in place to identify and analyze the Schaeffler Group's risks, set appropriate risk limits and controls, monitor risks, and adhere to the limits. Risk management procedures and systems are reviewed on a regular basis to reflect changes in market conditions and the Schaeffler Group's activities.

The Schaeffler Group has guidelines for the use of hedging instruments, and compliance with these guidelines is reviewed on a regular basis. Internal execution risk is minimized by strict segregation of duties.

Please refer to the "Report on opportunities and risks" in the combined management report for further details on the group's financial risk management.

The Schaeffler Group distinguishes between liquidity risk, credit risk, and market risk (interest rate, currency, and other price risk).

Liquidity risk

The risk that the Schaeffler Group will not be able to meet its payment obligations as they come due is referred to as liquidity risk. The Schaeffler Group's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they come due without incurring unacceptable losses or risking damage to the Schaeffler Group's reputation.

Short- and medium-term liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period of up to twelve months. Both liquidity status and liquidity forecast are reported regularly to the Chief Financial Officer.

The Schaeffler Group uses equity, cash pooling arrangements, intercompany loans, receivable sale programs, and existing lines of credit based on the relevant legal and tax regulations to ensure that it can meet the financing requirements of its operations and financial obligations. To this end, the Schaeffler Group has access to a Revolving Credit Facility of EUR 1.8 bn (prior year: EUR 1.3 bn) currently bearing interest at Euribor plus 0.5% as well as other bilateral lines of credit of EUR 246 m.

The Schaeffler Group's contractual payments of interest and principal on financial debt, trade payables, refund liabilities, miscellaneous other financial liabilities, and derivative liabilities are summarized as follows:

Cash flows related to non-derivative and derivative financial liabilities

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1 – 5 years	More than 5 years
December 31, 2019					
Non-derivative financial liabilities	**5,685**	**5,823**	**2,657**	**1,907**	**1,259**
• Financial debt	3,194	3,309	188	1,863	1,258
• Trade payables	1,732	1,732	1,725	7	0
• Refund liabilities	232	240	234	6	0
• Miscellaneous other financial liabilities	527	542	510	31	1
Derivative financial liabilities	**55**	**55**	**54**	**1**	**0**
Total	**5,740**	**5,878**	**2,711**	**1,908**	**1,259**
December 31, 2018					
Non-derivative financial liabilities	**5,973**	**6,310**	**2,878**	**2,798**	**634**
• Financial debt	3,348	3,671	242	2,795	634
• Trade payables	1,967	1,975	1,975	0	0
• Refund liabilities	236	236	236	0	0
• Miscellaneous other financial liabilities	422	428	425	3	0
Derivative financial liabilities	**67**	**67**	**65**	**2**	**0**
Total	**6,040**	**6,377**	**2,943**	**2,800**	**634**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans and bonds. Contractual cash flows for derivative financial liabilities consist of the undiscounted expected cash flows translated at closing rates.

Credit risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is referred to as credit risk. Regardless of any credit insurance, the maximum credit risk to the Schaeffler Group is represented by the carrying amount of the underlying financial asset.

Credit risk arising on trade receivables is managed by constantly monitoring customers' financial status, creditworthiness, and payment history. Additional measures to manage credit risk include efficient collection procedures and the use of commercial credit insurance. All relevant rules are outlined in a Schaeffler Group guideline. The company considers a receivable impaired when there are substantial objective indications.

Objective evidence consists of certain events indicating that a default has occurred, such as involvement of a collection agency, collection procedures, foreclosure, and insolvency proceedings. The company determines an individual impairment percentage based on the nature of the event that has occurred and applies that rate to the relevant receivable. Receivables are not derecognized until either the insolvency proceedings are completed or Schaeffler no longer expects to collect the receivable. As at December 31, 2019, the contractual amount outstanding of receivables subject to enforcement measures amounted to EUR 2 m (prior year: EUR 14 m). For expected credit losses, the Schaeffler Group uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables; under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using rating-specific probabilities of default obtained from an external scoring provider that take into account information about future conditions. Expected credit losses are calculated by applying these term-weighted probabilities of default to receivables with medium credit risk that are not impaired. For countries without credit insurance, the company establishes homogeneous portfolios per country and uses the average country-specific probability of default to calculate expected credit losses.

The company uses the following credit risk rating classes to calculate expected credit losses:

Expected credit losses on trade receivables by risk class

	12/31/2019		
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
Risk class 1: high credit quality	1,113	0	0%
Risk class 2–3: medium credit quality	1,015	6	1%
Risk class 4: secured	7	0	0%
Risk class 5: negative credit quality and/or insolvent	22	21	95%
Total	**2,157**	**27**	**1%**

	12/31/2018		
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
Risk class 1: high credit quality	1,164	0	0%
Risk class 2–3: medium credit quality	823	5	1%
Risk class 4: secured	17	0	0%
Risk class 5: negative credit quality and/or insolvent	17	13	76%
Total	**2,021**	**18**	**1%**

Customers with sound credit quality are assigned to risk class 1. The Schaeffler Group serves these customers without any restrictions. The Schaeffler Group anticipates that expected credit losses on these receivables will be insignificant. Risk classes 2 to 3 contain customers with medium credit quality, partly covered by credit insurance. The company only calculates expected credit losses for receivables that are not insured. Risk class 4 consists of export customers to whom the company makes deliveries against letters of credit or based on cash against documents. No credit losses are expected for this class. Risk class 5 comprises customers that are insolvent or have negative credit quality. Deliveries to customers in this class can only be made upon provision of security or against prepayment with the approval of credit management; as a result, no expected credit losses are recognized for this group of customers. Specific impairment allowances are recognized for receivables in risk class 5 based on objective evidence. As at the reporting date, EUR 22 m (prior year: EUR 17 m) of the receivables in risk class 5 are considered impaired, while receivables in the other risk classes are not impaired.

As at December 31, 2019, 35% (prior year: 35%) of trade receivables were covered by commercial credit insurance. For EUR 749 m (prior year: EUR 707 m) in receivables covered by credit insurance, neither specific impairment allowances nor expected credit losses are recognized, while impairment allowances are recognized on EUR 6 m (prior year: EUR 2 m) in receivables covered by credit insurance.

Trade receivables in the Automotive OEM division are subject to a concentration of risk on several automobile manufacturers (see Note 5.5) totaling 35.3% (prior year: 35.8%) of trade receivables.

Credit loss allowances for other financial assets, primarily cash and cash equivalents, are measured using the general approach, i.e. at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly because the external rating has deteriorated, the credit loss allowance recognized has to be based on lifetime expected credit losses. The carrying amounts of bank deposits and other financial assets can be summarized by rating class as follows:

Credit rating of cash and cash equivalents

			12/31/2019
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
BBB- to AAA	494	0	0%
B- to BB+	172	1	1%
C to CCC+	0	0	-
D	0	0	-
External rating not available	2	0	0%
Total	**668**	**1**	**0%**

			12/31/2018
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
BBB- to AAA	744	0	0%
B- to BB+	55	1	1%
C to CCC+	0	0	-
D	0	0	-
External rating not available	2	0	0%
Total	**801**	**1**	**0%**

Due to investment grade ratings and the credit risk monitoring system in place, Schaeffler Group's cash and cash equivalents and other financial assets (of EUR 125 m) carry low credit risk, which makes tracking their credit risk unnecessary. For all other financial assets, the company does not consider credit risk to be significantly increased unless financial assets are more than 30 days past due or the probability of default changes (relatively) by more than 20%. No cash and cash equivalents were impaired as at the reporting date. The probabilities of default used to determine expected credit losses for cash and cash equivalents and for other financial assets are based on credit default swap spreads quoted in the market; these credit spreads take into account forward-looking macro-economic factors. Expected credit losses for these items were insignificant as at the reporting date.

Credit risk inherent in derivative financial instruments is the risk that counterparties will fail to meet their payment obligations in full. To mitigate this risk, such contracts are only entered into with selected banks.

The Schaeffler Group's Board of Managing Directors does not have any indications that the debtors will not meet their payment obligations with respect to trade receivables that are neither past due nor impaired. Except for amounts recognized in impairment allowances, there are no indications that the counterparties to other financial assets, i.e. marketable securities, derivative financial assets, and miscellaneous other financial assets, will be unable to meet their future contractual obligation.

Interest rate risk

Variable interest features give rise to the risk of rising interest rates on financial liabilities and falling interest rates on financial assets. This risk is measured, assessed, and, where necessary, hedged using derivative interest rate hedging instruments.
The hedged item is the Schaeffler Group's interest-bearing net financial debt.

The Schaeffler Group's financial debt can be summarized by type of interest as follows:

Variable and fixed interest financial debt

	12/31/2019	12/31/2018
in € millions	Carrying amount	
Variable interest instruments	**298**	**1,329**
• Financial debt	298	1,329
Fixed interest instruments	**2,896**	**2,019**
• Financial debt	2,896	2,019

The sensitivity calculation assumes that all other variables, particularly exchange rates, remain constant and that contractual arrangements prevent interest rates from falling below 0%. With regard to variable interest instruments, a shift in the yield curve of 100 basis points (Bp) as at December 31, 2019, would affect (increase/decrease) net income and shareholder's equity as follows:

Sensitivity analysis: Shift in yield curve

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2019				
Variable interest instruments	-1	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	-25	31	0	0
Total	**-26**	**31**	**0**	**0**
As at December 31, 2018				
Variable interest instruments	-7	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	0	27	0	0
Total	**-7**	**27**	**0**	**0**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge.

Currency risk

The Schaeffler Group is exposed to currency risk on sales, purchases, loans payable and receivable, as well as financial debt that are denominated in a currency other than the functional currency of the relevant Schaeffler Group entity.

Currency risk from operations

The international nature of the Schaeffler Group's operations involves the flow of goods and cash in a wide range of currencies. This gives rise to currency risk, as the value of assets denominated in a currency with a falling exchange rate declines while the value of liabilities denominated in a currency whose exchange rate is rising will increase.

The Schaeffler Group's significant currency risk exposures from operations by currency based on face values as of the end of each reporting period are as follows:

Currency risk from operations

in € millions	USD	CNY	RON	PLN
December 31, 2019				
Estimated currency risk from operations	911	515	-254	195
Forward exchange contracts	-755	-452	203	-142
Remaining currency risk from operations	**156**	**63**	**-51**	**53**
December 31, 2018				
Estimated currency risk from operations	848	613	-244	172
Forward exchange contracts	-653	-511	177	-130
Remaining currency risk from operations	**195**	**102**	**-67**	**42**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with the Schaeffler Group's finance organization. Thus, this exposure represents the difference between hedged items, both recognized and in the form of expected future foreign currency cash flows that have not yet been recognized, on the one hand, and hedging instruments that have been recognized in the statement of financial position, on the other hand. Currency risk in countries with foreign exchange restrictions (see Note 4.9) is monitored by the Schaeffler Group's finance organization. The most significant currency risk exposures in these countries arise on the Chinese renminbi and the U.S. dollar and amount to an estimated EUR 52 m and EUR 46 m, respectively (prior year: EUR 80 m and EUR 57 m, respectively).

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risk from operations in respect of forecasted sales and purchases over the next twelve months using mainly forward exchange contracts.

IFRS 7 requires entities to disclose the impact of hypothetical changes in exchange rates on net income and shareholders' equity using sensitivity analyses. Exchange rate changes are applied to all of the Schaeffler Group's financial instruments as at the end of the reporting date. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk.

The sensitivity analysis for currency risk from operations is based on a hypothetical 10% weakening of the euro against each of the significant foreign currencies as of December 31, 2019, assuming all other variables, particularly interest rates, remain constant.

The following table shows the effect on net income and shareholders' equity of translating balances at the closing rate and of measuring instruments at fair value:

Sensitivity analysis: changes in foreign exchange rates – operations

	12/31/2019		12/31/2018	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	23	-77	16	-66
CNY	20	-43	16	-54
RON	5	22	-6	21
HUF	-2	13	-1	10
PLN	1	-14	3	-14

Conversely, a 10% rise in the euro against the significant foreign currencies as at December 31, 2019, would have had the same but opposite effect on net income and shareholders' equity, again holding all other variables constant.

Currency risk from financing

Loans and deposits between Schaeffler Group companies denominated in a currency other than the functional currency of the entities are fully hedged on a net basis using forward exchange contracts.

In May 2019, the bonds denominated in USD with a principal of USD 600 m were redeemed in full and the cross-currency swaps with a notional amount of USD 400 m held to hedge these bonds were closed out. The company does not currently have any debt denominated in foreign currency.

Derivative financial instruments and hedging relationships

Using derivative financial instruments to manage risk is one component of the Schaeffler Group's risk management system. Notional amounts and fair values of derivative financial instruments as at the reporting date were as follows:

Übersicht derivative Finanzinstrumente

	12/31/2019		12/31/2018	
in € millions	Notional amount	Fair value	Notional amount	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	1,847	28	1,637	35
• thereof: hedge accounting	980	11	741	12
Cross-currency swaps	49	1	402	31
• thereof: hedge accounting	49	1	402	31
Financial liabilities				
Currency hedging				
Forward exchange contracts	2,588	53	2,670	67
• thereof: hedge accounting	1,209	28	1,368	40

As at December 31, 2019, the Schaeffler Group held the following instruments to hedge its currency risk:

Hedging instruments

				Maturity
		2019		2018
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year
Currency risk				
Forward exchange contracts				
Notional amount of hedging instruments (in € millions)	4,435	0	4,184	123
Average rates of forward exchange contracts				
EUR:USD	1.1372	-	1.1906	1.2385
EUR:CNY	7.9920	-	8.0885	8.4547
EUR:HUF	329.6846	-	320.5170	-
EUR:RON	4.9053	-	4.7740	-
Cross-currency swap				
Notional amount of hedging instruments (in € millions)	10	41	7	356
Average rate of currency swap EUR:USD	1.0630	1.0630	1.0631	1.2746

The Schaeffler Group measures the effectiveness of the hedging relationship between the hedged item and the hedging instrument using interest rates, terms to maturity, interest repricing dates, maturity dates, and notional and principal amounts. The hedging ratio between the hedged item and the hedging instrument is 100%. The company uses the hypothetical derivative method to test whether the designated derivative effectively hedges the cash flows of the hedged item. Possible sources of ineffectiveness include counterparty credit risk and changes in the timing of hedged transactions. No ineffectiveness occurred during the period.

Cash flow hedges

A portion of the Schaeffler Group's forward exchange contracts and cross-currency swaps in certain currencies are accounted for as cash flow hedges with perfect effectiveness. Both the majority of the forecasted transactions and the resulting impact on net income occur within one year of the end of the reporting period.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk from operations changed as follows:

Reconciliation of hedging reserve related to currency risk – operations

in € millions	2019	2018
Balance as at January 01	**-26**	**33**
Additions	-16	-26
Reclassified to income statement		
• to other income	0	-33
• to other expense	26	0
Balance as at December 31	**-16**	**-26**

The cross-currency swaps held to hedge the bonds denominated in U.S. dollars were closed out in May 2019 when the bonds were redeemed in full. As a result, the related cash flow hedge was terminated early, and accumulated losses of EUR 12 m (prior year: gains of EUR 0.3 m) were reclassified from accumulated other comprehensive income to financial result via other comprehensive income.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk from financing activities changed as follows:

Reconciliation of hedging reserve related to currency risk – financing activities

in € millions	2019	2018
Balance as at January 01	**-12**	**-12**
Additions	0	16
Reclassified to income statement		
• to financial income	0	-16
• to financial expense	12	0
Balance as at December 31	**0**	**-12**

Net investment in a foreign operation

The hedge of part of the Schaeffler Group's net investment in its U.S. subsidiaries with a principal of USD 200 m was terminated, as the bonds denominated in U.S. dollars were redeemed in full. As a result of the hedging relationship, accumulated foreign exchange gains of EUR 4 m (prior year: EUR 5 m) on designated financial debt were recognized in other comprehensive income and reported in accumulated other comprehensive income (translation reserve). The group currently no longer hedges any of its investments in its subsidiaries.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk from financing activities changed as follows:

Reconciliation of translation reserve related to net investments

in € millions	2019	2018
Balance as at January 01	**5**	**13**
Additions	-1	-8
Reclassified to income statement		
• to financial income	0	0
• to financial expense	0	0
Balance as at December 31	**4**	**5**

Other price risk

Other price risk normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IFRS 9, which is not the case for the Schaeffler Group.

Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

Offsetting financial assets and financial liabilities

Certain Schaeffler Group companies enter into derivatives based on the German Master Agreement for Financial Forward Transactions ("Deutscher Rahmenvertrag fuer Finanztermingeschaefte" – DRV) or on the master agreement of the International Swaps and Derivatives Association (ISDA). These agreements permit each counterparty to combine all amounts relating to outstanding transactions due on the same date and in the same currency, arriving at one net amount to be paid by one of the parties to the other. In certain cases, for instance when a credit event such as default occurs, all transactions outstanding under this agreement are terminated, their fair value upon termination is determined, and only a single net amount is payable in settlement of all of these transactions.

The German Master Agreements and ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position, as the Schaeffler Group does not currently have a legal right to settle the recognized amounts on a net basis. The right to settle net is only legally enforceable upon the occurrence of future events such as the insolvency of one of the parties to the contract. Hedging transactions entered into directly by Schaeffler Group subsidiaries do not permit net settlement, either.

The carrying amounts of the financial assets and liabilities subject to these agreements, except for the embedded options, are as follows:

Offsetting financial assets and financial liabilities

in € millions	12/31/2019	12/31/2018
Financial assets		
Gross amount of financial assets	28	66
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	28	66
Amounts subject to master netting arrangements		
• Derivatives	-25	-42
Net amount of financial assets	3	24
Financial liabilities		
Gross amount of financial liabilities	53	67
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	53	67
Amounts subject to master netting arrangements		
• Derivatives	-25	-42
Net amount of financial liabilities	28	25

4.17 Share-based payment

In connection with the Schaeffler AG listing in October 2015, the company implemented its first share-based payment instrument in the form of a Performance Share Unit Plan (PSUP) for members of Schaeffler AG's Board of Managing Directors. The virtual shares granted (known as Performance Share Units, PSUs) entitle the holder to a cash payment equal to the average share price of Schaeffler AG's common non-voting shares on the vesting date. The PSUs are granted in annual tranches. Each tranche has a performance period of four years beginning on January 1 of the year in which the tranche is granted. In October 2016, the Board of Managing Directors decided to extend the PSUP to selected members of the Schaeffler Group's senior management. The performance period of each tranche begins on January 1 of the relevant year. The grant date is generally January 1 of the relevant year, except f or members of the Board of Managing Directors and senior management becoming eligible for the PSUP during the year.

Vesting of PSUs is linked to the following three conditions:

- 50% of PSUs are granted subject to a service condition (base number). The base number is only paid out if the beneficiary remains employed with the Schaeffler Group and is not under notice of termination at the end of the performance period.[6]
- 25% of the PSUs are granted subject to a long-term performance target based on free cash flow (FCF), which involves a comparison of accumulated FCF for the performance period to the target FCF.
- 25% of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). To determine to what extent these PSUs have vested, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

The number of PSUs actually payable at the end of the performance period depends on the extent to which the performance targets have been achieved and whether the service condition has been met, and can vary between 0% and 100%. The amount payable per PSU is capped at double the underlying price of Schaeffler AG common non-voting shares at the grant date.

Obligations under the PSUP included in non-current provisions as at December 31, 2019, amounted to EUR 9.8 m (prior year: EUR 6.4 m). Current provisions amounted to EUR 4.0 m as at December 31, 2019 (prior year: EUR 1.8 m). Net expenses from the pro-rata addition to provisions for the PSUP for 2019 totaled EUR 7.3 m (prior year: net gains from the pro-rata reversal of provisions for the PSUP EUR 1.6 m). A total of 4,633,077 PSUs (prior year: 3,583,456 PSUs) were granted and outstanding as at December 31, 2019.

The average fair value of a PSU granted was EUR 7.04 (prior year: EUR 5.21) as at December 31, 2019. PSUs included in the base number as well as those subject to the FCF-based performance target are measured based on the price of Schaeffler AG common non-voting shares, taking into account the present value of dividends, which beneficiaries are not entitled to during the vesting period, as well as the cap.

The fair value of PSUs with a TSR-based performance target is determined using a binomial model. The valuation model used takes into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target range for the TSR-based performance target, dividends expected to be paid on Schaeffler AG common non-voting shares, as well as the volatility of Schaeffler AG common non-voting shares and the benchmark index MDAX). The valuation reflects the following input parameters:

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

Binomial model – input parameters

	12/31/2019	12/31/2018
Average risk-free interest rate for the remaining performance period	-0.68%	-0.91%
Expected dividend yield of Schaeffler AG common non-voting shares	5.71%	7.37%
Expected volatility of Schaeffler AG common non-voting shares	36.56%	36.83%
Expected volatility of the benchmark index	13.34%	14.80%
Expected correlation between the benchmark index and Schaeffler AG common non-voting shares	0.42	0.53

Expected future volatilities and the correlation between Schaeffler AG common non-voting shares and the benchmark group (MDAX) were estimated based on the daily closing prices of Schaeffler AG common non-voting shares and the benchmark group (MDAX) in the XETRA trading system of the German Stock Exchange.

4.18 Capital management

The Schaeffler Group has a strategy of pursuing profitable long-term growth. Capital is managed proactively to secure the existence of the company as a going concern for the long term and maintain financial flexibility for profitable growth in order to add long-term value to the company. A further aim is to ensure that a portion of the company's net income is paid out to shareholders in dividends.

Corporate capital management provides the financial resources required by Schaeffler Group entities, ensures the long-term availability of liquidity, and secures the Schaeffler Group's credit standing. Capital management also administers and continually improves the company's existing financial debt consisting of its external group financing arrangements. Further, capital management strives to improve the quality of the Schaeffler Group's balance sheet, measured in terms of the development of the ratio of net financial debt to equity including non-controlling interests (gearing ratio). The gearing ratio was 86.6% at December 31, 2019 (prior year: 83.2%).

The Schaeffler Group has an effective cash management system in place and has diversified its external financing in terms of, for instance, instruments and maturities. The Schaeffler Group can currently utilize cash and cash equivalents, cash flow from operations, a commercial paper program, various loan facilities, and debt and equity funding via the capital markets to meet its short-, medium-, and long-term financing needs. Currency risk is continually monitored and reported at the corporate level. Currency risks are aggregated across the group and hedged using hedging instruments.

In addition, the Schaeffler Group uses receivable sale programs to a limited extent to manage liquidity and improve its working capital. For this purpose, the company has access to an ABCP program of revolving sales of trade receivables with a committed volume of EUR 200 m (prior year: EUR 200 m) (see Note 5.2). Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

The Schaeffler Group's management will continue to value highly the group's ability to place financial instruments with a broad range of investors and to further improve financing terms. Credit ratings assigned by external rating agencies are key to this ability. In 2019, the Schaeffler Group obtained ratings from rating agencies Standard & Poor's, Moody's, and Fitch. As a basis for executing its growth strategy, the company intends to maintain the investment grade rating for the long term.

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The inputs to the calculation of the leverage covenant are defined in the debt agreements and cannot be derived directly from amounts in the consolidated financial statements. As in the prior year, the company has complied with the leverage covenant throughout 2019 as stipulated in the debt agreements. Based on its forecast, the Schaeffler Group also expects to comply with the leverage covenant in subsequent years.

In addition to the leverage covenant contained in the debt agreements, the Schaeffler Group regularly calculates further financial indicators, such as the gearing ratio referred to above as well as the net debt to EBITDA ratio. The net debt to EBITDA ratio – the ratio of net financial debt to EBITDA (earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation and amortization) – is calculated as follows:

Net financial debt to EBITDA ratio

in € millions	12/31/2019	12/31/2018 [1]
Current financial debt	168	160
Non-current financial debt	3,026	3,188
Financial debt	**3,194**	**3,348**
Cash and cash equivalents	668	801
Net financial debt	**2,526**	**2,547**
Earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation, amortization, and impairment losses (EBITDA) [2]	**1,769**	**2,175**
Net financial debt to EBITDA ratio [3]	**1.4**	**1.2**

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 "New accounting pronouncements" to the consolidated financial statements for further details.
[2] Includes special items totaling EUR 347 m (prior year: EUR 27 m).
[3] Net financial debt to EBITDA ratio incl. special items.

5. Other disclosures

5.1 Additional disclosures on the consolidated statement of cash flows

Changes in balance sheet items shown in the consolidated statement of cash flows cannot be derived directly from the consolidated statement of financial position, as they have been adjusted for the impact of foreign currency translation.

The total cash outflow for the acquisition of the interests in Elmotec Statomat GmbH (previously: Elmotec Statomat Holding GmbH) and Xtronic GmbH amounted to EUR 105 m. These were partially offset by EUR 4 m in proceeds received on the disposals of Schaeffler Friction Products Hamm GmbH and The Barden Corporation (UK) Ltd.

EUR 23 m in other investing activities represented loans granted, including EUR 23 m paid to joint ventures.

Summary of changes in financial debt

	Financial debt					Cross-currency swaps held for hedging purposes		Total
in € millions	Bonds	Facilities agreement	Capital investment loan	Commercial Paper	Other financial debt	Financial assets	Financial liabilities	
Balance as at January 01, 2019	**2,019**	**1,146**	**183**	**0**	**0**	**-29**	**0**	**3,319**
Changes from financing cash flows								
Receipts from loans	2,190	52	66	115	0	0	0	2,424
Repayments of loans	-1,431	-1,160	0	0	-18	37	0	-2,572
Total changes from cash flows	**759**	**-1,108**	**66**	**115**	**-18**	**37**	**0**	**-148**
Changes arising from obtaining or losing control of subsidiaries or other businesses	**0**	**0**	**0**	**0**	**18**	**0**	**0**	**18**
Effect of changes in foreign exchange rates	**9**	**0**	**0**	**0**	**0**	**0**	**0**	**9**
Changes in fair values	**0**	**0**	**0**	**0**	**0**	**-9**	**0**	**-9**
Other non-cash changes	**-6**	**9**	**0**	**0**	**0**	**0**	**0**	**4**
Balance as at December 31, 2019	**2,781**	**48**	**249**	**115**	**1**	**0**	**0**	**3,194**

5.2 Involvement with unconsolidated structured entities

The Schaeffler Group sells a portion of its trade receivables to a structured entity under an ABCP program (asset-backed commercial paper). The structured entity obtains its funding primarily from the capital markets. The receivables are sold on a revolving basis at their face value less variable reserves and a variable fee discount. The structured entity has engaged the Schaeffler Group to service the receivables in return for an arm's-length fee. The structured entity has the right to remove the Schaeffler Group as the servicer and to engage someone else to service the receivables. The Schaeffler Group has concluded that it does not control the structured entity and, therefore, does not consolidate it.

The sold receivables (see Note 4.7) and the related liabilities are recognized to the extent of the credit risk retained (continuing involvement).

The following balances relate to the Schaeffler Group's involvement with the structured entity as at December 31, 2019:

Balances – involvement with the structured entity

in € millions	12/31/2019	12/31/2018
Carrying amount of receivables transferred	178	166
Carrying amount of risks and collateral retained in relation to the receivables transferred (recognized as other assets in the statement of financial position)	42	25
Payments received from customers on receivables sold and not yet passed on to the structured entity (recognized as other financial liabilities in the statement of financial position)	49	60
Carrying amount of receivables (classified as trade receivables) and the other liability resulting from the continuing involvement (classified in other financial liabilities in the statement of financial position)	4	4

The financing volume of EUR 200 m committed under the ABCP program remained unchanged from prior year.

5.3 Leases

The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Notes 1.4 "New accounting pronouncements" and 4.2 "Right-of-use assets under leases" to the consolidated financial statements for further details.

Under the accounting policies applicable in 2018, future minimum lease payments under non-cancelable operating rental and lease agreements were due as follows:

Rental and lease agreements

in € millions	12/31/2018
Less than one year	59
Between one and five years	74
More than five years	9
Total	**141**

The obligations consisted primarily of rental agreements for real estate and lease agreements relating to company vehicles and IT and logistics.

In 2018, the Schaeffler Group recognized EUR 98 m in expenses related to operating rental and lease agreements in profit or loss, including expenses for incidental costs and service agreements.

5.4 Contingent liabilities

As at December 31, 2019, the Schaeffler Group had contingent liabilities of EUR 75 m (prior year: EUR 74 m), including EUR 33 m (prior year: EUR 37 m) in contingent liabilities representing tax- and customs-related risks and EUR 28 m (prior year: EUR 30 m) in contingent liabilities related to legal cases. These do not include any items that individually have a material adverse impact on the Schaeffler Group's net assets, financial position, and earnings.

Since 2011, several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts for the automotive sector. The authorities are investigating possible agreements violating antitrust laws. Schaeffler Group companies are among the entities subject to these investigations. In addition, there is a risk that third parties may claim damages in connection with antitrust proceedings that are either ongoing or have been finalized. As at the end of the reporting period, the Schaeffler Group has recognized provisions for a portion of these investigations as well as for potential claims for damages. Additional penalties or claims for damages cannot be ruled out, but can currently not be estimated.

5.5 Segment information

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system, to the Schaeffler AG Board of Managing Directors. Schaeffler engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the Schaeffler Group's Board of Managing Directors and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

The Schaeffler Group's business is managed based on the three divisions – **Automotive OEM, Automotive Aftermarket**, and **Industrial** – which also represent the reportable segments. The Automotive OEM division business is organized into the four **business divisions E-Mobility, Engine Systems, Transmission Systems**, and **Chassis Systems**. The Automotive Aftermarket and Industrial divisions are managed regionally, based on the **regions Europe, Americas, Greater China**, and **Asia/Pacific**.

The segments offer different products and services and are managed separately because they require different technology and marketing strategies. Each segment focuses on a specific worldwide group of customers. Consequently, the amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and impairment losses are reported based on the current allocation of customers to divisions. The allocation of customers to segments and the allocation of indirect expenses was reviewed and adjusted during the year. To ensure that the information on the Automotive OEM division, Automotive Aftermarket division, and Industrial division segments is comparable, prior year information was also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

The following summary describes the operations of each of the Schaeffler Group's three reportable segments:

Automotive OEM

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

- The **E-Mobility BD** develops and manufactures products and system solutions for drive train electrification – from 48-volt mild hybrids and plug-in hybrids through to all-electric drives. The product portfolio includes hybrid modules, electric axle drives, electromechanical actuators, wet double clutches, primary components for continuously variable transmissions, and electric motors. The E-Mobility BD generated EUR 676 m in revenue during the year (prior year: EUR 493 m).
- The **Engine Systems BD** develops and manufactures components and systems such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems, and the thermal management module. The Engine Systems BD generated EUR 2,793 m in revenue during the year (prior year: EUR 2,782 m).
- The **Transmission Systems BD** develops and manufactures components and systems for transmissions. The product portfolio includes solutions for double-clutch, manual, automated, and automatic transmissions (e.g. torque converters, the dual-mass flywheel, clutches, transmission bearings). The Transmission Systems BD generated EUR 4,006 m in revenue during the year (prior year: EUR 4,167 m).
- The **Chassis Systems BD** develops and manufactures components and systems for the chassis. Its product spectrum ranges from wheel bearings through to mechatronic systems for active chassis. The Chassis Systems BD generated EUR 1,563 m in revenue during the year (prior year: EUR 1,554 m).

Automotive Aftermarket

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

The management model follows a regional approach using the **regions Europe, Americas, Greater China**, and **Asia/Pacific**. Within each region, products and services are sold via two distribution channels: the Original Equipment Service (OES) and the open (independent) spare parts market, known as the Independent Aftermarket (IAM). The OES comprises the automobile manufacturers' spare parts business, that is, supplying original spare parts to branded repair shops, i.e. those that are authorized by automobile manufacturers. IAM supplies independent, non-branded repair shops with components as well as repair solutions and services. IAM differentiates between two types of business: In addition to the traditional component business consisting of replacing parts, the Automotive Aftermarket division develops and distributes custom-assembled repair sets and kits for simple, efficient, and professional vehicle repairs. A global network of distributors, many of whom are organized in trade cooperatives, acts as the Automotive Aftermarket division's IAM sales market. The OES distribution channel's customers include the vehicle manufacturers.

The Europe region generated EUR 1,355 m in revenue during the year (prior year: EUR 1,395 m), the Americas region generated EUR 362 m in revenue during the year (prior year: EUR 339 m), the Greater China region generated EUR 81 m during the year (prior year: EUR 76 m), and the Asia/Pacific region generated EUR 50 m in revenue during the year (prior year: EUR 51 m).

Industrial

The Industrial division develops and manufactures components and systems for rotary and linear movements and offers services for various industrial sectors. The management model of the Industrial division follows a regional approach based on the **regions Europe, Americas, Greater China**, and **Asia/Pacific**. Within the regions, the direct business with customers is grouped into eight sector clusters: (1) wind, (2) raw materials, (3) aerospace, (4) railway, (5) offroad, (6) two wheelers, (7) power transmission, and (8) industrial automation. In addition, the business with distributors is managed by the Industrial Distribution unit.

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

The Europe region generated EUR 1,867 m in revenue during the year (prior year: EUR 1,904 m), the Americas region generated EUR 638 m in revenue during the year (prior year: EUR 596 m), the Greater China region generated EUR 723 m during the year (prior year: EUR 575 m), and the Asia/Pacific region generated EUR 314 m in revenue during the year (prior year: EUR 308 m).

Information on the operating activities of the three reportable segments is included below. Performance is measured based on EBIT, as the Board of Managing Directors believes that this information is most relevant in evaluating the results of the segments in relation to other entities that operate within these industries.

Reconciliation to earnings before income taxes

in € millions	2019	2018 1) 2)
EBIT Automotive OEM 1)	282	662
EBIT Automotive Aftermarket 1)	283	341
EBIT Industrial 1)	225	351
EBIT	**790**	**1,354**
Financial result	-137	-155
Income (loss) from equity-accounted investees	-17	-4
Earnings before income taxes	**636**	**1,195**

1) The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 "New accounting pronouncements" to the consolidated financial statements for further details.
2) Prior year information presented based on 2019 segment structure.

In 2019, the Schaeffler Group generated revenue of EUR 1,485 m (prior year: EUR 1,485 m) from one key customer, representing 10.3% (prior year: 10.4%) of total group revenue. In the Automotive OEM segment, this key customer accounted for 15.8% (prior year: 15.8%) of revenue.

In addition to the divisions and functions, the Schaeffler Group's multi-dimensional organizational structure is also based on the four regions Europe, Americas, Greater China, and Asia/Pacific. The Automotive OEM division, Automotive Aftermarket division, and Industrial division segments are managed on a global basis and operate production and distribution facilities in all four regions. Revenue and non-current assets of the four regions were as follows in 2019:

Information about geographical areas

	2019	2018	12/31/2019	12/31/2018
in € millions	Revenue 1)		Non-current assets 2)	
Europe	7,003	7,313	3,665	3,584
Americas	3,154	2,874	843	823
Greater China	2,763	2,562	1,193	1,155
Asia/Pacific	1,506	1,493	383	383
Total	**14,427**	**14,241**	**6,083**	**5,945**

1) Revenue by market (customer locations); prior year information presented based on 2019 segment structure.
2) Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

Germany, China, and the U.S. had revenue of EUR 2,372 m (prior year: EUR 2,601 m), EUR 2,761 m (prior year: EUR 2,539 m), and EUR 2,035 m (prior year: EUR 1,873 m) as well as non-current assets of EUR 2,285 m (prior year: EUR 2,202 m), EUR 1,193 m (prior year: EUR 1,155 m), and EUR 449 m (prior year: EUR 452 m), respectively.

Reconciliation of EBIT to EBIT before special items

	01/01-12/31		01/01-12/31		01/01-12/31		01/01-12/31	
	2019	2018 1) 2)	2019	2018 1) 2)	2019	2018 1) 2)	2019	2018 1)
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
EBIT	**282**	**662**	**283**	**341**	**225**	**351**	**790**	**1,354**
• in % of revenue	3.1	7.4	15.3	18.3	6.4	10.4	5.5	9.5
Special items	**209**	**11**	**15**	**-3**	**147**	**19**	**372**	**27**
• Legal cases	0	-13	0	-3	-13	-5	-13	-21
• Restructuring	209	24	15	0	160	23	384	48
• Other	0	0	0	0	0	0	0	0
EBIT before special items	**491**	**673**	**298**	**339**	**373**	**370**	**1,161**	**1,381**
• in % of revenue	5.4	7.5	16.1	18.2	10.5	10.9	8.1	9.7

1) The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.4 "New accounting pronouncements" to the consolidated financial statements for further details.
2) Prior year amounts are based on a retrospective change in segment structure.

5.6 Related parties

Related persons

All common shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler. Under the definitions of IAS 24, Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler and the close members of their family are related parties of the Schaeffler Group.

The Schaeffler Group does not have any significant direct business relations with Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler.

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Schaeffler Group, directly or indirectly. For the Schaeffler Group, the members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG represent key management personnel, making them and the close members of their family related parties of Schaeffler AG.

The remuneration of the Board of Managing Directors of Schaeffler AG for 2019 in accordance with IAS 24 totaled EUR 18 m (prior year: EUR 15 m), including EUR 12 m (prior year: EUR 11 m) in short-term benefits. Expenses of EUR 3 m (prior year: EUR 3 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 0 m (prior year: EUR 1 m), and share-based payments totaled EUR 3 m (prior year: EUR -1 m).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1-3) HGB amounted to EUR 15 m (prior year: EUR 18 m) in 2019.

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

The following share-based remuneration was granted to members of the Board of Managing Directors in 2019 under the Performance Share Unit Plan (PSUP) implemented in 2015: 380,262 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 5.36 and EUR 5.37, respectively), 162,135 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 5.36 and EUR 5.37, respectively) and 162,135 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 3.12 and EUR 2.17, respectively).

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

Short-term benefits paid to members of Schaeffler AG's Supervisory Board amounted to EUR 1.6 m (prior year: EUR 1.5 m).

The company did not pay any other benefits to its key management personnel.

The remuneration system for the Board of Managing Directors and the Supervisory Board of Schaeffler AG is outlined in the remuneration report. The remuneration report also includes information on the remuneration of individual members of the Board of Managing Directors and additional information required by section 314 (1) (6) HGB.

Former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors received remuneration of EUR 2 m in 2019 (prior year: EUR 3 m).

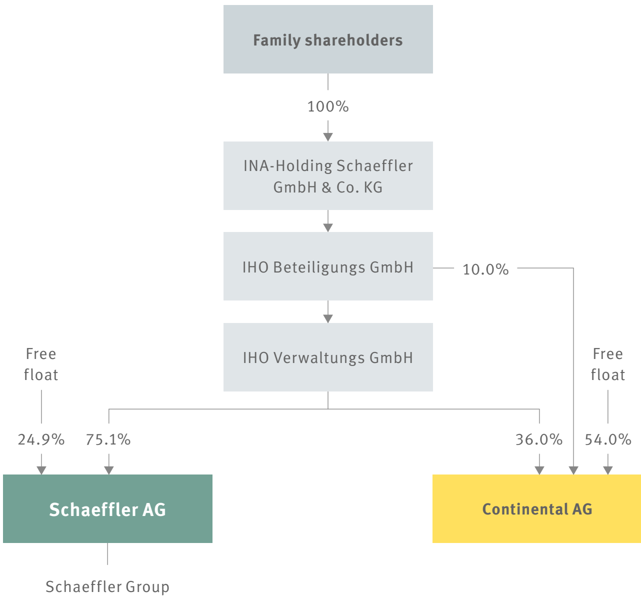
Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 28 m as at December 31, 2019 (prior year: EUR 21 m).

As at December 31, 2019, members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG and close members of their family held bonds issued by Schaeffler AG and Schaeffler Finance B.V. with a principal totaling EUR 0.0 m (prior year: EUR 0.5 m). Key management personnel and close members of their family received interest of EUR 0.0 m (prior year: EUR 0.0 m) on these bonds. Additionally, bonds issued in prior years with a value of EUR 0.3 m (prior year: EUR 0.0 m) held by key management personnel and close members of their family were redeemed.

Related entities

Pursuant to IAS 24, the Schaeffler Group's related entities consist – along with its joint ventures and affiliated companies – of the entities controlled or jointly controlled by Schaeffler AG's ultimate parent company, INA-Holding Schaeffler GmbH & Co. KG, or over which INA-Holding Schaeffler GmbH & Co. KG has significant influence.

Simplified ownership structure
as at December 31, 2019



As transactions with significant subsidiaries of Schaeffler AG have been eliminated upon consolidation, they need not be discussed here.

The company has granted an interest-bearing loan totaling EUR 15 m (prior year: EUR 2 m) to a joint venture. In total, the loan has resulted in interest income of EUR 0.5 m. In November 2019, the company entered into a contractual agreement with a joint venture regarding an interest-bearing convertible loan maturing on December 31, 2023. In connection with the loan, there are put options outstanding on shares in the joint venture that are exercisable under certain conditions and contingent on certain future events occurring. The loan agreement has resulted in a loan receivable of EUR 10 m and a loan commitment of EUR 13 m as at the reporting date. Further payments under the loan commitment are contingent on certain conditions being met in the future. Further transactions with associated companies and joint ventures were insignificant in 2019.

In 2019 and 2018, Schaeffler Group companies had various business relationships with the group's related entities.

On April 24, 2019, the Schaeffler AG annual general meeting passed a resolution to pay a total dividend of EUR 361 m in respect of 2018 (prior year: EUR 361 m), consisting of EUR 270 m (prior year: EUR 270 m) on the common shares held by IHO Verwaltungs GmbH and EUR 91 m (prior year: EUR 91 m) on the common non-voting shares.

Business relationships with Continental Group companies existed in the form of supply of vehicle components and tools, rendering of development and other services, and leases of commercial real estate. The transactions with the Continental Group were entered into at arm's-length conditions.

The following table summarizes all income and expenses from transactions with the Schaeffler Group's other related companies that have been recognized in the Schaeffler Group's consolidated financial statements. The summary also shows receivables and payables related to such transactions included in the consolidated financial statements as at the end of each reporting period. Transactions with other related entities arose largely from business relationships with the Continental Group.

Receivables and payables from transactions with other related entities

	12/31/2019	12/31/2018	12/31/2019	12/31/2018
in € millions		Receivables		Payables
Other related entities	33	32	19	17

Expenses and income from transactions with other related entities

	2019	2018	2019	2018 [1]
in € millions		Expenses		Income
Other related entities	98	100	105	135

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

Receivables from transactions with other related entities include EUR 33 m (prior year: EUR 32 m) in trade receivables.

5.7 Auditors' fees

Schaeffler AG incurred the following fees for services rendered by the global network of KPMG and KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG):

Auditors' fees

	2019	2018	2019	2018
in € millions		KPMG		thereof KPMG AG
Financial statement audit services	7.6	6.9	4.9	4.1
Other attestation services	0.6	0.3	0.3	0.2
Tax advisory services	0.1	0.8	0.0	0.7
Other services	0.2	0.2	0.1	0.1
Total	**8.5**	**8.2**	**5.3**	**5.1**

KPMG AG is considered Schaeffler AG's auditor. The fees paid to KPMG AG related to services rendered to Schaeffler AG and its German subsidiaries.

5.8 Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code pursuant to section 161 AktG in December 2019 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

5.9 Events after the reporting period

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

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

No other material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2019.

5.10 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler AG, which is based in Herzogenaurach.

List of shareholdings

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated I. Germany (53)			
CBF Europe GmbH	Wuppertal	DE	100.00
Compact Dynamics GmbH 2)	Starnberg	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG 1) 3)	Buehl	DE	100.00
Elmotec Statomat GmbH	Karben	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH 2)	Herzogenaurach	DE	100.00
K + K Industrieanlagen GmbH	Karben	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG 1) 3)	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG 1) 3)	Unna	DE	100.00
Schaeffler Aerospace Germany Beteiligungs GmbH	Schweinfurt	DE	100.00
Schaeffler Aerospace Germany GmbH & Co. KG 1) 3)	Schweinfurt	DE	100.00
Schaeffler AS Auslandsholding GmbH 2)	Buehl	DE	100.00
Schaeffler Automotive Buehl GmbH & Co. KG 1) 3)	Buehl	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG 1) 3)	Langen	DE	100.00
Schaeffler Beteiligungs-gesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungs-verwaltungs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Bio-Hybrid GmbH	Herzogenaurach	DE	100.00
Schaeffler Bühl Auslandsholding GmbH 2)	Buehl	DE	100.00
Schaeffler Bühl Beteiligungs GmbH 2)	Buehl	DE	100.00
Schaeffler Bühl Holding GmbH 2)	Buehl	DE	100.00
Schaeffler Bühl Verwaltungs GmbH 2)	Buehl	DE	100.00
Schaeffler Consulting GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Digital Solutions GmbH 2)	Chemnitz	DE	100.00
Schaeffler Engineering GmbH 2)	Werdohl	DE	100.00
Schaeffler Europa Logistik GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00
Schaeffler Friction Verwaltungs GmbH	Buehl	DE	100.00
Schaeffler Grundstücksverwaltungs-gesellschaft mbH	Buehl	DE	100.00
Schaeffler IAB Beteiligungs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler IAB Verwaltungs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Immobilien AG & Co. KG 1) 3)	Herzogenaurach	DE	100.00
Schaeffler Industrial Drives AG & Co. KG 1) 3)	Suhl	DE	100.00
Schaeffler Invest GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler KWK Verwaltungs GmbH	Langen	DE	100.00
Schaeffler Monitoring Services GmbH 2)	Herzogenrath	DE	100.00
Schaeffler Paravan Management GmbH	Herzogenaurach	DE	100.00
Schaeffler Qualifizierung und Beschäftigung GmbH 2)	Schweinfurt	DE	100.00
Schaeffler Raytech Verwaltungs GmbH	Morbach	DE	100.00
Schaeffler Schweinfurt Beteiligungs GmbH 2)	Schweinfurt	DE	100.00
Schaeffler Technologies AG & Co. KG 1) 3)	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Sechs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH 2)	Herzogenaurach	DE	100.00
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG 1) 3)	Herzogenaurach	DE	100.00
Xtronic GmbH	Boeblingen	DE	100.00
II. Foreign (99)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
Schaeffler Belrus OOO	Minsk	BY	100.00
Schaeffler Aerospace Canada Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Schaeffler Schweiz GmbH	Romanshorn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
ETC Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
RepXpert Automotive Aftermarket Services Consulting (Shanghai) LLP	Shanghai	CN	100.00
Schaeffler Automotive Aftermarket Services Consulting (Shanghai) Co.	Shanghai	CN	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler (Xiangtan) Co., Ltd.	Xiangtan	CN	100.00
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00

Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogotá	CO	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Production CZ s.r.o.	Lanškroun	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
Schaeffler (UK) Limited	Sheffield	GB	100.00
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	GR	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Savaria Kft.	Szombathely	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
Schaeffler India Ltd.	Mumbai	IN	74.13
INA Invest S.r.l.	Momo	IT	100.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Water Pump Bearing Italia S.r.l.	Momo	IT	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00
Schaeffler Korea Corporation	Changwon-si	KR	100.00
Schaeffler Kazakhstan GmbH	Almatay	KZ	100.00
SIA "Schaeffler Baltic"	Riga	LV	100.00
Rodamientos FAG S.A. de C.V.	Puebla	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Mexico City	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Transmision, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Finance B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Kongsberg	NO	100.00
Schaeffler Norge AS	Sandnes	NO	100.00
Schaeffler Peru S.A.C.	Lima	PE	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.00
Schaeffler Romania S.R.L.	Braşov	RO	100.00
Schaeffler SR d.o.o.	Belgrade	RS	100.00
Schaeffler Rus OOO	Ulyanovsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
Schaeffler Kysuce, spol. s r.o.	Kysucké Nové Mesto	SK	100.00
Schaeffler Skalica spol. s r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol s.r.o.	Kysucké Nové Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	100.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
FAG Bearings LLC	Danbury	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Aerospace USA Corporation	Danbury	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
Schaeffler Holding LLC	Danbury	US	100.00
Schaeffler Transmission Systems LLC	Wooster	US	100.00
Schaeffler Transmission, LLC	Wooster	US	100.00
Schaeffler Venezuela, C.A.	Caracas	VE	100.00
Schaeffler Vietnam Co., Ltd.	Biên Hòa City	VN	100.00
INA Bearings (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00

B. Joint ventures			
Germany (3)			
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [3]	Hanover	DE	50.00
Schaeffler Paravan Technologie GmbH & Co. KG [3]	Herzogenaurach	DE	90.00

C. Associated companies			
Foreign (4)			
Resitec Ltd.	Telford	GB	33.30
Statec S.r.l.	Turin	IT	35.00
Eurings Zrt.	Debrecen	HU	37.00
Colinx, LLC	Greenville	US	20.00

D. Unconsolidated entities			
Foreign (3)			
Schaeffler Intelligent Driving Technology (Changsha) Co., Ltd.	Changsha	CN	100.00
Elmotec Statomat (Bejing) Machinery Co. Ltd.	Beijing	CN	100.00
Statomat Special Machines (India) Pvt. Ltd.	Mumbai	IN	79.89

[1] Exemption under section 264b HGB.
[2] Exemption under section 264 (3) HGB.
[3] Schaeffler AG or another consolidated entity is the general partner.

5.11 Members of the Supervisory Board and of the Board of Managing Directors

Members of the Supervisory Board

Georg F. W. Schaeffler (Chairman),
Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson),
Jürgen Wechsler* (Deputy Chairperson),
Sabine Bendiek (since April 24, 2019),
Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann,
Prof. Dr. Bernd Gottschalk, Andrea Grimm*, Susanne Lau*,
Norbert Lenhard*, Dr. Reinold Mittag*, Barbara Resch*,
Sabrina Soussan (since April 24, 2019), Dirk Spindler*,
Robin Stalker, Jürgen Stolz*, Salvatore Vicari*,
Prof. TU Graz e.h. KR Ing. Siegfried Wolf, Jürgen Worrich*,
Prof. Dr.-Ing. Tong Zhang

The following members left the Supervisory Board in 2019

Dr. Siegfried Luther (until April 24, 2019)
Dr. Otto Wiesheu (until April 24, 2019)

Supervisory Board committees

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

Executive committee: Georg F. W. Schaeffler (Chairman), Norbert Lenhard, Barbara Resch, Maria-Elisabeth Schaeffler-Thumann, Jürgen Wechsler and Prof. TU Graz e.h. KR Ing. Siegfried Wolf

Audit committee: Robin Stalker (Chairman), Dr. Holger Engelmann, Dr. Reinold Mittag, Georg F. W. Schaeffler, Salvatore Vicari and Jürgen Worrich

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

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

Members of the Board of Managing Directors

Klaus Rosenfeld (Chief Executive Officer),
Dietmar Heinrich (Chief Financial Officer),
Andreas Schick (Chief Operating Officer),
Corinna Schittenhelm (Chief Human Resources Officer),
Michael Söding (CEO Automotive Aftermarket),
Dr. Stefan Spindler (CEO Industrial),
Uwe Wagner (Chief Technology Officer; since October 1, 2019),
Matthias Zink (CEO Automotive OEM)

The following member left the Board of Managing Directors in 2019

Prof. Dr.-Ing. Peter Gutzmer (Deputy Chief Executive Officer and Chief Technology Officer; until October 1, 2019)

* Employee representative on the Supervisory Board.

5.12 Preparation of consolidated financial statements

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

Herzogenaurach, March 5, 2020

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Dietmar Heinrich

Andreas Schick

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Uwe Wagner

Matthias Zink

Independent Auditors' Report

To Schaeffler AG, Herzogenaurach

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Schaeffler AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Schaeffler AG for the financial year from January 1 to December 31, 2019. In accordance with German legal requirements, we have not audited the content of the parts of the group management report which are listed in the "Other information" section of our report.

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

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code ("Handelsgesetzbuch" – HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the parts of the group management report which are listed in the "Other information" section. The management report includes references not provided for by the law that have been marked as unaudited. Our opinion covers neither these references nor any information referred to by these references.

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recognition and Measurement of Warranty Provisions

For the accounting policies used, please refer to Note 1.3 to the consolidated financial statements. Note 4.14 to the consolidated financial statements contains information about the amount of the Group's warranty provisions.

The Financial Statement Risk The calculation of provisions for warranty obligations is associated with unavoidable estimation uncertainties, is complex, and is subject to a high risk of change. The approach and assessment depend, among other things, on the discovery of identified defects, on the actual amount of damage, and on other factors within the framework of settlement procedures.

There is a risk to the financial statements that the recognition and measurement of provisions for warranty obligations may not be appropriate.

Our Audit Approach First, we assessed whether the recognition criteria for warranty provisions were met as at December 31, 2019, and whether all warranty cases were identified. In this regard, we had the legal department and other departments explain to us potentially material legal cases arising from warranty matters, inspected minutes of relevant meetings of the Board of Managing Directors, and obtained attorney confirmations. In addition, we inspected the underlying written correspondence and detailed documentation on the events and claims for damages relating to individual material cases.

Subsequently, we had the Board of Managing Directors, the Quality Department, and the Finance Department explain to us the assumptions underlying the valuation of the warranty provisions. In this context, we obtained an understanding of the extent of the deliveries affected as well as the estimated cost of replacements and exchanges for the individual warranty cases inspected.

Our Observations The assessments made with regard to warranty and goodwill obligations are appropriate.

Recoverability of Goodwill

For the accounting policies and assumptions used, please refer to Note 1.3 to the consolidated financial statements. Note 4.1 to the consolidated financial statements contains information about the amount of the Group's goodwill.

The Financial Statement Risk Goodwill amounts to EUR 606 m as at December 31, 2019, and is material to the Group's net assets.

The goodwill impairment test is complex and is based on a number of discretionary assumptions. These include the segments' expected business growth and earnings trend for the next five years, the assumed long-term growth rates, and the discount rate used.

There is a risk to the financial statements that an impairment existing at the reporting date is not identified. There is also a risk that the related note disclosures are not appropriate.

Our Audit Approach With the support of our valuation specialists, we assessed, among other things, the appropriateness of the significant assumptions used in the underlying company plans and budgets and the company's valuation model. This included a discussion of the expected business and earnings growth as well as of the assumed long-term growth rates with those responsible for the planning process. We also performed reconciliations to the budgets and long-range plans prepared by management and approved by the Supervisory Board.

In addition, we assessed the quality of the company's past plans by comparing projections for previous years with actual results and analyzing deviations. We compared the assumptions and inputs underlying the discount rate – particularly the risk-free interest rate, the market risk premium, and the beta factor – with our own assumptions and publicly available data.

We tested the company's calculations using items selected based on risk, in order to ensure the mathematical accuracy of the valuation model used.

Finally, we assessed whether the note disclosures on the recoverability of goodwill are appropriate. This also included an assessment of the note disclosure pursuant to IAS 36.134(f) regarding sensitivities in the event of a reasonably possible change of key assumptions underlying the valuation.

Our Observations The calculation method used to test goodwill for impairment is appropriate and consistent with the applicable valuation principles.

The company’s assumptions and inputs underlying the valuation are reasonable, and the related note disclosures are appropriate.

Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following unaudited parts of the group management report:

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

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

The other information does not comprise the consolidated financial statements, the information within the group management report whose content has been audited, or our auditors’ report.

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

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

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

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, any matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors' report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected group auditors by the annual general meeting on April 24, 2019. We were engaged by the Supervisory Board on July 4, 2019. We have been the group auditors of Schaeffler AG, a publicly-listed company, without interruption since the financial year 2015.

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

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

In addition to the consolidated financial statements, we have audited the annual financial statements of Schaeffler AG and conducted various audits of the annual financial statements of subsidiaries and joint ventures. As part of our audit, we performed a review of interim financial statements, as well as audited parts of the system of internal controls over financial reporting. In addition, we audited the combined separate group non-financial report of Schaeffler AG as well as performed various statutory and contractual audits, such as audits in accordance with the German Renewable Energy Act ("Erneuerbare-Energien-Gesetz" – EEG), EMIR audits in accordance with section 32 (1) of the German Securities Trading Act ("Wertpapierhandelsgesetz" – WpHG), comfort letter in connection with the debt issuance program, and concurrent review of divisional consolidation project. Further, we rovided support services in connection with an enforcement examination by the Financial Reporting Enforcement Panel (FREP) ("Deutsche Prüfstelle für Rechnungslegung e.V.").

Note on supplementary audit

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

German Public Auditor Responsible for the Engagement

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

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

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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

Responsibility statement by the company's legal representatives

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 18, 2020. As a result of a change in the assessment of the impact of the coronavirus on global economic growth subsequent to this date, the Board of Managing Directors of Schaeffler AG has decided to adjust the outlook for the Automotive Aftermarket and Industrial divisions in the combined management report and has prepared new consolidated financial statements on March 5, 2020, and released them for submission to the Supervisory Board of Schaeffler AG. To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Herzogenaurach, March 5, 2020

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Dietmar Heinrich

Andreas Schick

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Uwe Wagner

Matthias Zink

Contact details/imprint

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91074 Herzogenaurach, Germany

Responsible for content
Corporate Accounting, Schaeffler AG

Investor Relations
phone: +49 (0)9132 82 -4440
fax: +49 (0)9132 82 -4444
e-mail: ir@schaeffler.com

Schaeffler online
www.schaeffler.com

You can find up-to-date news about Schaeffler on our website at www.schaeffler.com/ir. You can also download all documents from this site.

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

Forward-looking statements
This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond Schaeffler AG's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies, and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. Schaeffler AG does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

Variances for technical reasons
For technical reasons (e.g. conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette shall be binding.

The reporting period comprises the financial year 2019, which runs from January 1 to December 31, 2019. This report reflects relevant information available by the editorial deadline on March 5, 2020.

Rounding differences may occur.

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

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

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Multi-year comparison

	2015	2016	2017	2018	2019
Income statement (in € millions)					
Revenue	13,179	13,338	14,021	14,241	14,427
EBIT	1,402	1,556	1,528	1,354	790
• in % of revenue	10.6	11.7	10.9	9.5	5.5
EBIT before special items [1)]	1,676	1,700	1,584	1,381	1,161
• in % of revenue	12.7	12.7	11.3	9.7	8.1
Net income [2)]	591	859	980	881	428
Earnings per common non-voting share (basic/diluted, in €)	1.28	1.30	1.48	1.33	0.65
Statement of financial position (in € millions)					
Total assets	12,480	11,564	11,537	12,362	12,870
Shareholders' equity [3)]	1,568	1,997	2,581	3,060	2,917
• in % of total assets	12.6	17.3	22.4	24.8	22.7
Net financial debt	4,889	2,636	2,370	2,547	2,526
• Net financial debt to EBITDA ratio before special items [1)]	2.1	1.1	1.0	1.2	1.2
• Gearing ratio (Net financial debt to shareholders' equity [3)], in %)	311.8	132.0	91.8	83.2	86.6
Statement of cash flows (in € millions)					
EBITDA	2,096	2,293	2,295	2,175	1,769
Cash flows from operating activities	1,372	1,876	1,778	1,606	1,578
Capital expenditures (capex) [4)]	1,025	1,146	1,273	1,232	1,045
• in % of revenue (capex ratio)	7.8	8.6	9.1	8.7	7.2
Free cash flow (FCF) before cash in- and outflows for M&A activities	370	735	515	384	473
• FCF conversion ratio (ratio of FCF before cash in- and outflows for M&A activities to EBITDA before special items, in %) [1)]	15.6	30.2	21.9	17.4	22.4
Value-based management					
Schaeffler Value Added before special items (in € millions) [1)]	952	939	787	557	284
ROCE before special items (in %) [1)]	23.1	22.3	19.9	16.7	13.2
Employees					
Headcount (at end of reporting period)	84,198	86,662	90,151	92,478	87,748

1) Please refer to pp. 30 et seq. for the definition of special items.
2) Attributable to shareholders of the parent company.
3) Including non-controlling interests.
4) Capital expenditures on intangible assets and property, plant and equipment.

Summary 1st quarter 2018 to 4th quarter 2019

Schaeffler Group

in € millions	2018 1st quarter	2018 2nd quarter	2018 3rd quarter	2018 4th quarter	2019 1st quarter	2019 2nd quarter	2019 3rd quarter	2019 4th quarter
Income statement								
Revenue	3,551	3,641	3,521	3,527	3,622	3,604	3,613	3,588
• Europe	1,878	1,882	1,773	1,781	1,846	1,793	1,707	1,657
• Americas	700	714	731	729	817	777	798	762
• Greater China	622	661	644	634	586	645	728	804
• Asia/Pacific	351	384	374	384	373	389	380	364
Cost of sales	-2,592	-2,668	-2,588	-2,711	-2,708	-2,705	-2,697	-2,743
Gross profit	960	973	934	816	913	899	917	844
• in % of revenue	27.0	26.7	26.5	23.1	25.2	25.0	25.4	23.5
Research and development expenses	-224	-220	-209	-195	-229	-215	-202	-204
Selling and administrative expenses	-361	-373	-367	-390	-392	-383	-381	-377
EBIT	391	382	376	204	230	253	312	-5
• in % of revenue	11.0	10.5	10.7	5.8	6.3	7.0	8.6	-0.2
Special items	0	22	-21	26	42	31	15	284
EBIT before special items [1]	391	404	356	231	272	284	327	279
• in % of revenue	11.0	11.1	10.1	6.5	7.5	7.9	9.1	7.8
Net income [2]	238	268	256	119	137	136	212	-56
Earnings per common non-voting share (basic/diluted, in €)	0.36	0.41	0.38	0.18	0.21	0.21	0.31	-0.08
Statement of financial position (in € millions)								
Total assets	11,876	12,023	12,336	12,362	14,561	12,993	13,127	12,870
Shareholders' equity [3]	2,778	2,691	2,948	3,060	3,169	2,736	2,757	2,917
• in % of total assets	23.4	22.4	23.9	24.8	21.8	21.1	21.0	22.7
Net financial debt	2,438	2,834	2,645	2,547	2,805	3,167	2,842	2,526
• Net financial debt to EBITDA ratio before special items [1) 4)]	1.1	1.2	1.1	1.2	1.3	1.6	1.4	1.2
• Gearing ratio (Net financial debt to shareholders' equity [3], in %)	87.8	105.3	89.7	83.2	88.5	115.8	103.1	86.6
Statement of cash flows (in € millions)								
EBITDA	587	584	584	421	472	490	558	249
Cash flows from operating activities	236	284	463	623	154	229	610	585
Capital expenditures (capex) [5]	306	289	261	376	373	221	229	222
• in % of revenue (capex ratio)	8.6	7.9	7.4	10.6	10.3	6.1	6.3	6.2
Free cash flow (FCF) before cash in- and outflows for M&A activities	-70	-5	203	257	-235	6	362	340
• FCF conversion ratio (ratio of FCF before cash in- and outflows for M&A activities to EBITDA before special items, in %) [1) 4)]	24.1	22.1	16.9	17.4	10.3	11.3	19.1	22.4
Value-based management								
Schaeffler Value Added before special items (in € millions) [1) 4)]	742	791	722	557	422	289	247	284
ROCE before special items (in %) [1) 4)]	19.3	19.8	18.8	16.7	15.0	13.4	12.9	13.2
Employees								
Headcount (at end of reporting period)	91,414	92,198	92,836	92,478	91,837	90,492	89,036	87,748

1) Please refer to pp. 30 et seq. for the definition of special items.
2) Attributable to shareholders of the parent company.
3) Including non-controlling interests.
4) Based on the last twelve months.
5) Capital expenditures on intangible assets and property, plant and equipment.

Automotive OEM division [1]

in € millions	2018 1st quarter	2018 2nd quarter	2018 3rd quarter	2018 4th quarter	2019 1st quarter	2019 2nd quarter	2019 3rd quarter	2019 4th quarter
Income statement								
Revenue	2,280	2,307	2,191	2,218	2,286	2,229	2,254	2,270
• E-Mobility BD	105	119	131	138	145	160	189	182
• Engine Systems BD	710	713	690	669	699	688	700	706
• Transmission Systems BD	1,077	1,075	995	1,020	1,035	976	995	999
• Chassis Systems BD	388	401	376	390	406	404	370	383
• Europe	1,058	1,047	948	961	1,024	977	898	881
• Americas	481	482	494	483	566	523	553	513
• Greater China	472	487	473	477	412	432	513	602
• Asia/Pacific	269	291	276	297	284	296	289	273
Cost of sales	-1,728	-1,763	-1,689	-1,806	-1,804	-1,775	-1,775	-1,818
Gross profit	552	544	502	412	482	454	478	451
• in % of revenue	24.2	23.6	22.9	18.6	21.1	20.4	21.2	19.9
Research and development expenses	-182	-176	-168	-153	-184	-171	-158	-162
Selling and administrative expenses	-164	-169	-165	-175	-176	-172	-169	-166
EBIT	218	197	180	66	59	85	140	-2
• in % of revenue	9.6	8.5	8.2	3.0	2.6	3.8	6.2	-0.1
Special items	0	10	-13	15	55	18	15	122
EBIT before special items [2]	218	207	167	81	113	103	155	120
• in % of revenue	9.6	9.0	7.6	3.6	5.0	4.6	6.9	5.3

Automotive Aftermarket division [1]

in € millions	2018 1st quarter	2018 2nd quarter	2018 3rd quarter	2018 4th quarter	2019 1st quarter	2019 2nd quarter	2019 3rd quarter	2019 4th quarter
Income statement								
Revenue	447	480	476	459	441	465	480	463
• Europe	338	363	355	340	321	335	359	339
• Americas	78	84	88	89	88	95	86	93
• Greater China	19	20	19	18	20	22	22	18
• Asia/Pacific	12	13	14	12	11	13	12	13
Cost of sales	-288	-308	-307	-298	-292	-308	-314	-303
Gross profit	159	172	170	161	149	156	166	160
• in % of revenue	35.6	35.8	35.6	35.1	33.7	33.7	34.6	34.5
Research and development expenses	-8	-8	-7	-7	-8	-7	-6	-6
Selling and administrative expenses	-73	-74	-76	-82	-76	-76	-76	-79
EBIT	80	99	89	73	64	73	83	63
• in % of revenue	18.0	20.6	18.8	15.9	14.4	15.7	17.2	13.7
Special items	0	0	-3	0	0	0	0	15
EBIT before special items [2]	80	99	86	73	64	73	83	78
• in % of revenue	18.0	20.6	18.2	15.9	14.4	15.7	17.2	16.9

Industrial division [1]

in € millions	2018 1st quarter	2018 2nd quarter	2018 3rd quarter	2018 4th quarter	2019 1st quarter	2019 2nd quarter	2019 3rd quarter	2019 4th quarter
Income statement								
Revenue	824	855	854	850	895	911	879	855
• Europe	482	473	469	480	501	480	449	437
• Americas	141	149	150	156	162	160	159	157
• Greater China	131	154	151	139	155	191	193	184
• Asia/Pacific	70	79	84	75	77	80	79	78
Cost of sales	-575	-597	-592	-607	-613	-622	-607	-622
Gross profit	249	258	262	244	282	289	272	233
• in % of revenue	30.2	30.1	30.6	28.7	31.6	31.7	30.9	27.3
Research and development expenses	-34	-36	-34	-35	-38	-37	-37	-35
Selling and administrative expenses	-124	-130	-125	-132	-140	-135	-136	-132
EBIT	92	86	107	66	108	95	89	-67
• in % of revenue	11.2	10.1	12.5	7.7	12.0	10.4	10.2	-7.8
Special items	0	11	-4	11	-13	13	0	147.0
EBIT before special items [2]	92	98	102	77	95	108	89	80
• in % of revenue	11.2	11.4	12.0	9.1	10.6	11.9	10.2	9.4

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

Financial calendar

March 10, 2020
Publication of annual results 2019

April 17, 2020
Annual general meeting 2020

May 6, 2020
Publication of results for the first three months 2020

August 4, 2020
Publication of results for the first six months 2020

November 10, 2020
Publication of results for the first nine months 2020

All information is subject to correction and
may be changed at short notice.

Schaeffler AG

Industriestr. 1-3
91074 Herzogenaurach
Germany

www.schaeffler.com

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