SCHAEFFLER

Financial statements 2021

Schaeffler AG

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* Part of the group management report.

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Significant events 2021

Schaeffler Group pushes ahead with transformation under “Roadmap 2025”

Structural measures Europe

In September 2020, the Board of Managing Directors of Schaeffler AG adopted additional **structural measures in Europe** to further transform the Schaeffler Group and strengthen its ability to compete and realize future opportunities for the long term. The package of measures comprises two broad aims: The first is to adjust excess structural capacity by downsizing the workforce and to consolidate Schaeffler’s locations in Europe, especially in Germany. The second aim is to strengthen the company’s competitiveness and expand local capabilities.

Under the package of measures, the Schaeffler Group is clustering and consolidating local technology and production capabilities at the group’s locations in Herzogenaurach, Hoechstadt, Buehl, and Schweinfurt in order to strengthen selected locations in Germany and boost the competitiveness of the company as a whole. Preparations for the construction of the central laboratory facility in Herzogenaurach have already started in 2021: The previous infrastructure on the construction site has been torn down. In addition, the company has begun to set up the center of excellence for hydrogen technology in pre-existing buildings in Herzogenaurach and started construction of the new tool technology center in Hoechstadt during the year.

Negotiations with employee representatives have now been concluded at all locations affected. The Schaeffler Group plans to gradually close the production locations in Eltmann, Wuppertal, and Luckenwalde. In October 2021, negotiations in France were completed by agreeing on a voluntary severance scheme. As a result, all structural measures are now in the implementation stage. As a result of the mix of instruments achieved in downsizing the workforce, the cost incurred to date to implement the measures is less than the transformation expenses originally planned. The targets communicated in September 2020 with respect to sustainably lowering costs remain in place unchanged.

Automotive Technologies division organizational structure enhanced

In order to even more closely align the Schaeffler Group toward future-oriented technologies and the transition in the automotive industry, the Board of Managing Directors of Schaeffler AG has approved an amendment to enhance the **organizational structure of the Automotive Technologies division**. Effective January 1, 2022, the division manages its business based on the four business divisions (BDs) E-Mobility, Engine & Transmission Systems, Bearings, and Chassis Systems. This organizational change separates the powertrain-specific business from the powertrain-agnostic business more clearly than before. The largely powertrain-agnostic range of rolling bearing applications and products was previously part of the Transmission Systems and Chassis Systems BDs within the Automotive Technologies division. Since January 1, 2022, it has been housed in the new Bearings BD in order to access new markets in a highly competitive environment and increase the visibility of the bearing business as well as enhance it with a focus on applications and customers.

Additionally, the company plans to more closely focus the E-Mobility and Chassis Systems BDs on their future core business. For instance, the Chassis Systems BD will be able to concentrate on steering components, mechatronic chassis systems, and technologies for automated driving. Another example is the “Project House Thermal Management BEV” the division has established in the E-Mobility BD effective January 1, 2022, in order to expand its market position in thermal management for electric vehicles. Combining the Engine and Transmission Systems BDs is aimed at realizing additional synergies in the business with powertrains based on an internal combustion engine.

The Schaeffler Group invests in electric mobility plant

The Schaeffler Group commissioned its **first production plant worldwide dedicated to electric mobility** at its Szombathely location in Hungary on September 17, 2021. The plant, designed along high sustainability standards, will also be a new center of excellence for components and systems for electrified powertrains. In opening the new plant, the Schaeffler Group continues to transform the group and further expand forward-looking technologies.

The Schaeffler Group offers vaccinations against the coronavirus to employees

The Schaeffler Group has performed approximately 22,000 **vaccinations against the coronavirus** in Europe since June 2021. Vaccination centers were set up at the large locations such as at the corporate headquarters in Herzogenaurach as well as in Buehl, Schweinfurt, and Homburg. At the other locations, the company collaborated with service providers, organizations, or physicians in private practice. Employees in several other European countries were offered vaccinations as well. The vaccination centers have since been closed. Vaccinations are still ongoing at locations with a company medical service. In addition, the Schaeffler Group has been offering booster vaccinations to its employees at six locations in Germany since December 1, 2021.

Schaeffler aims for climate neutrality from 2040

In October 2021, the Schaeffler Group announced that it will be operating as a **climate neutral company from 2040**, that is, it will reduce greenhouse gas emissions as far as possible and offset any remaining emissions, for instance via carbon-sink projects. This objective covers both the Schaeffler Group's production and its supply chain. The company's own production facilities will already be climate neutral from 2030, and by 2025 it aims to prevent 75% of its production emissions. Greenhouse gas emissions from intermediates and raw materials arising in the supply chain will be reduced by 25% by 2030 and will be climate neutral from 2040. The base year for calculating the change in emissions is 2019. In order to achieve climate neutrality by 2040, measures are being defined and implemented groupwide for divisions, regions and functions. On the production side, key measures include switching to electricity from renewable sources and increasing efficiency in production with respect to energy and resources. Regarding the supply chain, in 2021, the Schaeffler Group entered into an agreement with Swedish start-up company H2greensteel to purchase green steel starting in 2025; green steel is largely produced using hydrogen and is, therefore, close to carbon-neutral.

More in the sustainability report under:
www.schaeffler-sustainability-report.com/2021

Changes to Executive Board

The Supervisory Board of Schaeffler AG has appointed Jens Schüler to the Board of Managing Directors of Schaeffler AG as **CEO of the Automotive Aftermarket division** for a three-year term of office effective January 1, 2022. Jens Schüler succeeds Michael Söding, who has retired effective December 31, 2021, at his own request after working for the Schaeffler Group for 20 years.

The Supervisory Board of Schaeffler AG has appointed Claus Bauer to the Board of Managing Directors of Schaeffler AG as **Chief Financial Officer (CFO)**, which includes responsibility for Finance and IT, for a two-year term of office effective September 1, 2021. Claus Bauer succeeds Dr. Klaus Patzak, who left Schaeffler AG at his own request effective July 31, 2021.

At its meeting on October 8, 2021, the Supervisory Board of Schaeffler AG renewed the contract with Uwe Wagner, **Chief Technology Officer**, early for another five years until September 30, 2027.

Additionally, the Board of Managing Directors of Schaeffler AG has appointed Sascha Zaps **Regional CEO Europe** and member of the Executive Board effective September 1, 2021. In his new role, Sascha Zaps succeeds Jürgen Ziegler, who has retired effective July 31, 2021.

Schaeffler AG holds virtual annual general meeting

On April 23, 2021, Schaeffler AG's **annual general meeting** passed a resolution to pay a dividend of EUR 0.24 (prior year: EUR 0.44) per common share and EUR 0.25 (prior year: EUR 0.45) per common non-voting share to Schaeffler AG's shareholders for 2020. This represents a dividend payout ratio of 49.7% (prior year: 43.0%) of net income attributable to shareholders before special items. The dividend was paid on April 28, 2021.

The Schaeffler Group adjusts outlook

The Board of Managing Directors of Schaeffler AG decided on May 11, 2021, as well as on July 26, 2021, and October 25, 2021, to adjust the **full-year outlook** for the Schaeffler Group and its divisions **for 2021**.

More on the results of operations compared to the outlook 2021 on pp. 26 et seq.

Combined management report

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

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

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

Rounding differences may occur.

References
Content of websites referenced in the group management report merely provides further information and is not part of the group management report and is unaudited. The unaudited corporate governance declaration including the corporate governance report in accordance with sections 289f HGB and 315d HGB, incl. the declaration of conformity pursuant to section 161 AktG as well as the reference to the combined seperate group non-financial report in accordance with section 289b (3), section 315b (3), and section 298 (2) HGB also form 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 s uch as “estimate”, “forecast”, “intend”, “predict”, “plan”, “assume”, or “expect”. Forward-looking statements bear risks and uncertainties. A variety of these risks and uncertainties are determined by factors not subject to the influence of the Schaeffler Group. Therefore, actual results can deviate substantially from those indicated.

* Part of the group management report.

1. Fundamental information about the group

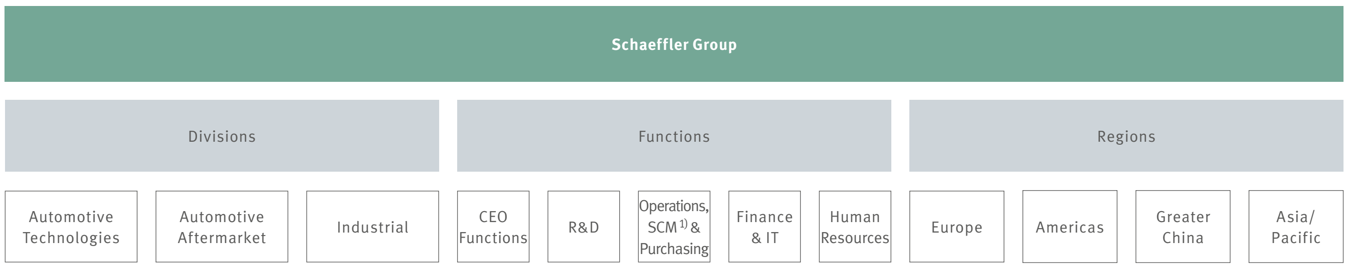
1.1 Organizational structure and business activities

The Schaeffler Group (also referred to as "Schaeffler" below) is a global automotive and industrial supplier. Employing a workforce of approximately 83,000, Schaeffler develops and manufactures components, systems, and services for powertrains and chassis, as well as rolling and plain bearing solutions 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

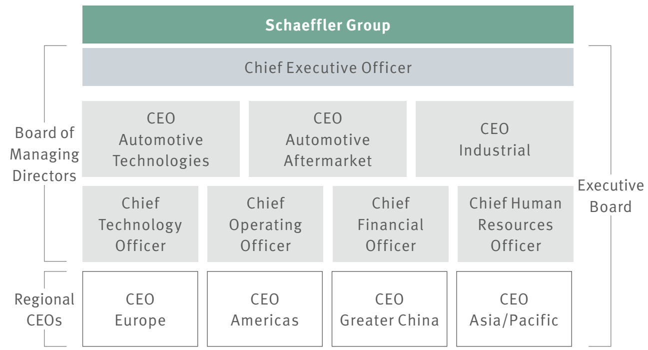
The Schaeffler Group is characterized by a three-dimensional organizational and leadership structure which differentiates between divisions, functions, and regions. Thus, the Schaeffler Group's business is managed based on the three divisions – Automotive Technologies, Automotive Aftermarket, and Industrial – which also represent the reportable segments. Effective January 1, 2022, the Automotive Technologies division manages its business based on the four business divisions E-Mobility, Engine & Transmission Systems, Bearings, and Chassis Systems. The Automotive Aftermarket and Industrial divisions are managed based on the regions Europe, Americas, Greater China, and Asia/Pacific.

Schaeffler Group organizational structure



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

Schaeffler Group leadership structure



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

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. Along with the Chairman of the Board of Managing Directors (Chief Executive Officer – CEO), the Board of Managing Directors comprises the CEOs of the Automotive Technologies (CEO Automotive Technologies), Automotive Aftermarket (CEO Automotive Aftermarket), and

Industrial (CEO Industrial) divisions and the Managing Directors responsible for the Schaeffler Group's functions (Chief Technology Officer, Chief Operating Officer, Chief Financial Officer, and Chief Human Resources Officer).

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

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

The Board of Managing Directors and the Supervisory Board comply with the recommendations of the German Corporate Governance Code in conducting their affairs and have issued the declaration of conformity pursuant to section 161 German Stock Corporations Act ("Aktiengesetz" – AktG) in December 2021. The corporate governance declaration including the corporate governance report in accordance with sections 289f German Commercial Code (Handelsgesetzbuch – HGB) and 315d HGB including the declaration of conformity pursuant to section 161 AktG is publicly available from the company's website.

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

Schaeffler Group functions

Schaeffler Group

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

Legal group structure

The Schaeffler Group included 148 (prior year: 150) domestic and foreign subsidiaries as at December 31, 2021. The parent company is Schaeffler AG, which is based in Herzogenaurach. The corporate headquarters of the Schaeffler Group are located in Herzogenaurach as well. As at December 31, 2021, 95 (prior year: 99) subsidiaries are domiciled in the Europe region. 23 (prior year: 24) further subsidiaries are domiciled in the Americas region, 15 (prior year: 14) in the Greater China region, and 15 (prior year: 13) in the Asia/Pacific region.

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

All 500 million of the common bearer shares are held by IHO Verwaltungs GmbH, which is part of IHO Holding. This represents an approximately 75.1% interest in Schaeffler AG. At the reporting date, 41.5 million shares of the 166 million common non-voting bearer shares in Schaeffler AG were held by the investor BDT Capital Partners. The remaining common non-voting bearer shares in Schaeffler AG were widely held as at December 31, 2021.

Acquisitions and disposals during the year

In a transaction that closed on August 2, 2021, the Schaeffler Group has acquired 100% of the shares of Bega International B.V. Bega International B.V. is a Dutch company manufacturing special tools for mounting and dismounting rolling bearings. The acquisition, which is part of the "Roadmap 2025", marks another step in the expansion of the service business of the Schaeffler Group's Industrial division.

On August 3, 2021, the Schaeffler Group signed an agreement to sell the global chain drive business of the Automotive Technologies division to a private equity fund. The transaction is aimed at aligning the Automotive Technologies division even more closely toward future-oriented technologies and new business fields. The transaction is expected to close in the first half of 2022 and is subject to all regulatory approvals being granted and other closing conditions being met that enable the acquirer to continue to operate the existing business.

As part of the structural measures being taken in Europe, the Schaeffler Group sold the Clausthal-Zellerfeld site to ift-whitecell engineering gmbh, a subsidiary of Whitecell Power AG, in a transaction that closed on November 2, 2021. In recent years, the Schaeffler Group has expanded the expertise in customized test rig services at the Clausthal-Zellerfeld site. The sale is congruent with the Schaeffler Group's portfolio strategy.

Business activities

Being an integrated automotive and industrial supplier, the Schaeffler Group develops and manufactures **components, systems, and services** for powertrains and chassis, as well as rolling and plain bearing solutions for a large number of industrial applications. Additionally, the company provides repair solutions in original-equipment quality for the automotive spare parts market worldwide.

The Schaeffler Group's business is managed based on the three operating **divisions – Automotive Technologies, Automotive Aftermarket,** and **Industrial** – which each have global responsibility and also represent the reportable segments in accordance with IFRS 8. The Automotive Technologies division is headquartered in Buehl. The Automotive Aftermarket division is currently managed from Langen and plans to move to its new headquarters in Frankfurt's Gateway Gardens district in 2022. The Industrial division is located in Schweinfurt. The corporate headquarters of the Schaeffler Group are located in Herzogenaurach.

Schaeffler Group revenue by division
in percent

Until December 31, 2021, the Automotive Technologies division managed its business based on the business divisions (BDs) E-Mobility, Engine Systems, Transmission Systems, and Chassis Systems. In order to even more closely align the Schaeffler Group toward future-oriented technologies and the transition in the automotive industry, the Board of Managing Directors of Schaeffler AG has approved an amendment to enhance the organizational structure. Effective January 1, 2022, the Automotive Technologies division manages its business based on the four **BDs E-Mobility, Engine & Transmission Systems, Bearings,** and **Chassis Systems.** The Automotive Aftermarket and Industrial divisions are managed regionally, based on the **regions Europe, Americas, Greater China,** and **Asia/Pacific.**

Automotive Technologies division

The **Automotive Technologies division** partners with the global automotive industry for passenger cars and commercial vehicles in developing and manufacturing components and systems for all-electric and hybrid powertrains, for internal combustion engines, as well as for chassis systems. The division also offers a wide range of rolling bearings that is largely powertrain-agnostic.

Effective January 1, 2022, the division's business is managed based on the four **business divisions (BDs) E-Mobility, Engine & Transmission Systems, Bearings,** and **Chassis Systems.** Combining the Engine and Transmission Systems BDs is aimed at realizing additional synergies in the business with powertrains based on an internal combustion engine. Additionally, the new Bearings BD will house the wide range of rolling bearing applications and products in order to realize synergies, drive innovation, and generate growth in new markets in a highly competitive environment. Additionally, implementing the new structure is designed to continue to push ahead with expanding the E-Mobility and Chassis Systems BDs.

Market and competitive environment

Demand for products of the Automotive Technologies division is closely linked to global vehicle production. Additionally, ecological reasons and regulatory requirements will increase demand for products that help reduce pollutants and meet prescribed limits. Buying incentives and an expanding charging infrastructure could contribute to an increase in demand for products for hybrid and electric powertrains. The **"Schaeffler Vision Powertrain"** scenario reflects this development expected by Schaeffler and forms the basis of the division's strategy considerations. In its "Schaeffler Vision Powertrain", the division predicts that in 2035, approximately 35% of all passenger cars and light commercial vehicles will have a hybrid powertrain, i. e., a combination of an electric motor and an internal combustion unit, and approximately 50% will have all-electric drive systems.

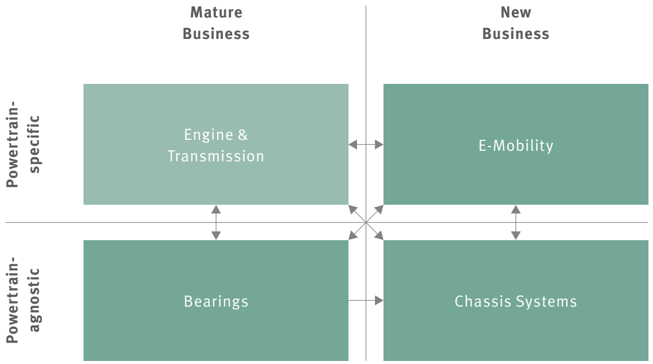
Additionally, as driving functionalities are increasingly being automated toward the autonomous vehicle, requirements regarding chassis applications are growing correspondingly. Therefore, paralleling the "Schaeffler Vision Powertrain", the division has developed a scenario entitled **"Schaeffler Vision Intelligent Connected Vehicle"** in which, by 2035, approximately 15% of passenger cars and light commercial vehicles manufactured will be driven in a highly automated and approximately 15% in a partly automated manner.

Being a supplier to the largest automobile manufacturers and automotive suppliers, the Automotive Technologies division operates in an intensely competitive market environment. It is facing competition mainly from other large automotive suppliers. In the future-oriented fields of electric mobility and autonomous driving, where software is growing more and more important, additional competitors new to the industry are entering the market, for instance those specializing in automation and connectivity. As a result, the division remains open to external partnerships such as the one with Mobileye entered into by the Chassis Systems BD during the year.

Product portfolio and growth areas

The products of the Engine & Transmission Systems and Bearings BDs are components and mechanical systems that are largely mature technologically and whose profitability will generate funds for future growth in new business areas. In contrast, the mechatronic and electric systems of the E-Mobility and Chassis Systems BDs represent new technologies for growth markets. While the business of the E-Mobility and Engine & Transmission Systems BDs is very specifically geared to powertrains, the products of the Bearings BD are largely – and those of the Chassis Systems BD entirely – agnostic toward the powertrain of the vehicles in which they are installed.

Automotive Technologies division – portfolio management



In the mature business areas, research and development activities and capital expenditures will be reduced, for instance, and intensified in the new business areas. Furthermore, employees are being trained in new technologies relating to mechatronic systems in the internal training program "Fit4Mechatronics".

The **E-Mobility BD** develops and manufactures mechanical, mechatronic, and electronic components and systems for powertrain electrification – from 48-volt mild hybrids and plug-in hybrids through to all-electric drives for both passenger cars and commercial vehicles. The product portfolio includes electric motors, electric axle transmissions, electric axle drives, power electronics, hybrid modules, electromechanical and hydraulic actuators, key components for fuel cells, as well as thermal management modules. The division has also established the “Project House Thermal Management BEV” effective January 1, 2022, in order to expand its market position in thermal management for electric vehicles. A strategic Electronics business unit was set-up at the same time. The high degree of vertical integration of products and systems allows components and systems to be industrialized entirely within the company. Electric axle transmissions are a key component of electric axle drives and have already been in volume production since 2017. 2021 saw the start of volume production of electric motors for hybrid modules, hybrid transmissions, and all-electric axle drives.

The **Engine & Transmission Systems BD** mainly offers components and sub-systems for engine and transmission applications in passenger cars and commercial vehicles with hybrid drives as well as those with conventional drives based on an internal combustion engine. Products include torque converters, hybrid dampers, clutches, variable valve train systems, valve-lash adjustment elements, and camshaft phasing systems. Given the long-term prospect of declining demand, combining the Engine Systems and Transmission Systems BDs into the Engine & Transmission Systems BD is aimed at realizing additional synergies.

The **Bearings BD** combines the Automotive Technologies division’s wide range of rolling bearing applications and products that was previously part of the Transmission Systems and Chassis Systems BDs. This core business includes products such as wheel bearings and needle roller bearings. The BD was established effective January 1, 2022, to realize synergies, drive innovation, and generate growth in new markets.

The **Chassis Systems BD** develops and manufactures mechanical components and mechatronic systems for steering and other chassis applications through to autonomous mobility concepts. Its product portfolio includes joint venture Schaeffler Paravan Technologie’s steer-by-wire system with “Space Drive” technology, active roll control systems for increased safety, and rear-wheel steering systems that make driving more comfortable. Effective January 1, 2022, the Mechatronic Systems – Chassis business unit was integrated into the Chassis Systems BD and divided into the Chassis Actuation Systems business unit and the strategic Advanced Steering business unit. In the strategic business area Smart Mobility, the division agreed on a collaboration with Mobileye, a subsidiary of the Intel Group that provides systems for automated driving. The partnership is designed to help develop autonomous shuttles to series production. Schaeffler’s Rolling Chassis, a modular platform for new mobility concepts, will be combined with the Mobileye Drive™ self-driving system.

Reorganizing the Automotive Technologies division’s business divisions and realigning its product portfolio is part of the divisional subprogram of the “Roadmap 2025”.

More on the “Roadmap 2025” on pp. 10 et seq.

Automotive Aftermarket division

The **Automotive Aftermarket** division is responsible for the Schaeffler Group’s global business with spare parts for passenger cars and commercial vehicles. The management model follows a regional approach using the **regions Europe, Americas, Greater China,** and **Asia/Pacific.**

Market and competitive environment

In the spare parts business, demand is influenced by three main drivers: continuing growth in the global vehicle population, an overall increase in the average age of the vehicle population, and increasing vehicle complexity. These factors are leading to an increase in the number of repairs that are increasingly requiring advanced repair solutions and services for repair shops. The division expects the largest increase in both vehicle population and demand for repairs up to 2025 to occur outside of Europe. For the Greater China region in particular, IHS Markit is forecasting the number of vehicles in the 7- to 10-year age range to increase significantly, approaching the level of the Europe region as early as by 2024.

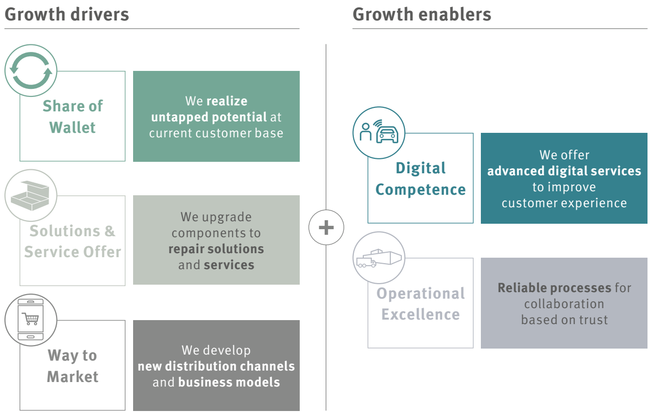
The structure of the spare parts market is changing. The sector is experiencing further consolidation at the wholesale level. At the same time, new market participants and intermediaries such as insurers or vehicle fleet operators are entering the aftermarket ecosystem. Additionally, growing vehicle digitalization and connectivity facilitate not only new business models in aftersales such as repair shop booking portals, but also increase the importance of digital distribution channels and platforms. Further, automotive technology trends such as electrification and the increasing prevalence of automated transmissions will influence the product portfolio in the foreseeable future. However, Schaeffler expects electric mobility, for instance, to affect the spare parts market to only a limited degree until 2030, since a relevant population of electric vehicles is not expected to be in place until after 2030. Longer-term trends such as autonomous driving and the shared economy are also expected to influence how vehicles will be used and maintained in the future.

Product portfolio and growth areas

The Automotive Aftermarket division's product portfolio comprises components and comprehensive repair solutions in original-equipment quality for engine, transmission, and chassis applications in the vehicles & light commercial vehicles, trucks & buses, and offroad customer sectors. The division is largely supplied by the Automotive Technologies division's manufacturing locations. The Automotive Aftermarket division operates under the Schaeffler corporate brand and distributes its range under the three product brands LuK, INA, and FAG. In addition, it offers comprehensive services for repair shops under the service brand REPXPERT. The product portfolio is largely 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 distribution channel comprises the automobile manufacturers' spare parts business as well as the supply of original spare parts to branded repair shops, i.e., those that are authorized by automobile manufacturers. IAM, on the other hand, 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 efficient 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. Meanwhile, online sales of spare parts are increasingly evolving into a further distribution channel within this sector.

Along with the potential for growth arising from the rising demand for repairs, mainly outside of Europe, the Automotive Aftermarket division has identified three drivers of growth in particular: (1) identifying new distribution channels and business models ("Way to Market"), (2) expanding the range of system solutions and services offered ("Solutions & Service Offer"), and (3) expanding the share of the portfolio with existing customers ("Share of Wallet").

Five core elements of profitable growth Automotive Aftermarket division



In addition to the traditional Automotive Aftermarket distribution channels, digitalization, – further accelerated by the coronavirus pandemic – offers new business models and sales channels ("Way to Market") in the form of data-driven business models and e-commerce. The division has utilized this opportunity, for instance in China, by creating the "ETC platform China", the first trading platform in the independent spare parts market that is operated by a supplier and links upstream and downstream sections of the supply chain. ETC is a B2B platform connecting manufacturers, dealers, and resellers of vehicle parts with each other and offering a comprehensive range of parts for engines, transmissions, and chassis. The platform developed by Schaeffler thus reflects the requirements and high degree of fragmentation of the value chain in the Chinese market and enables the company to participate even more extensively in the expected growth of the Chinese aftermarket. The platform, started under the digital agenda as part of the "Roadmap 2025", is constantly being improved upon and, in 2021, was expanded to include an "ETC App" for mobile devices.

The Automotive Aftermarket division believes that the growing technical complexity of vehicles as well as their increasing connectivity will offer additional growth opportunities for system solutions and services ("Solutions & Service Offer") in the coming years. Therefore, the division is continuing to evolve from a component supplier into a supplier of systems and integrated solutions by adding data-based services and innovative plug-and-play repair solutions to its range. At the same time, the division is strengthening its service offerings in order to support both repair shops and trade customers digitally as well as by offering on-site training. An example of this is the "REPXPERT Remote Support" Schaeffler Automotive Aftermarket has been piloting in Europe since 2021. This service will enable repair shops to obtain assistance during complex repairs, including via smartphones or tablets, by transmitting images and sound in real time and providing explanations of repairs via mixed reality. Along with such on-the-spot assistance for repairs, REPXPERT also continues to offer on-site training that is particularly important for independent repair shops and is also steadily expanding the range of digital information it offers. For instance, distribution partners and repair shop professionals will find a range of products and services yet significantly more extensive and can easily navigate back and forth between the website, the REPXPERT repair shop portal, and the newly integrated spare parts catalog.

In the division's view, the basis for realizing opportunities for growth, particularly for expanding the portfolio with existing customers ("Share of Wallet"), is to continually improve the customer experience and the collaboration with customers and partners. Customer satisfaction is driven by operational excellence. The issue here is not merely delivering intelligent repair solutions to customers quickly and reliably, but rather an interaction with the division that is entirely smooth and easy for the customer (convenience). Digital expertise is another key factor for improving the customer experience across the entire sales process using advanced digital services.

In response to the current changes in the market, the division enters into partnerships in the automotive ecosystem and looks for ways to provide repair shops with added value. For instance, together with industry partners, the division is working to promote digital connectivity of vehicles as well as non-discriminatory access to data, and is actively involved in the digital data market place CARUSO. CARUSO is a central platform providing harmonized vehicle data to the automotive aftermarket, thus linking suppliers and users of data.

In addressing the transition with respect to technology, markets, and customer needs in the spare parts market, the division ensures – as part of its divisional subprogram of the “Roadmap 2025” – a balance between initiatives promoting growth in the medium and long term on the one hand and measures to increase efficiency in the short term on the other.

More on the “Roadmap 2025” on pp. 10 et seq.

Industrial division

The Industrial division develops and manufactures bearing solutions, drive technology components and systems, as well as service solutions such as monitoring systems for a large number of industrial applications. Additionally, the division is working intensively on new products for the hydrogen economy. The management model of the Industrial division follows a regional approach with the **regions Europe, Americas, Greater China, and Asia/Pacific.**

Market and competitive environment

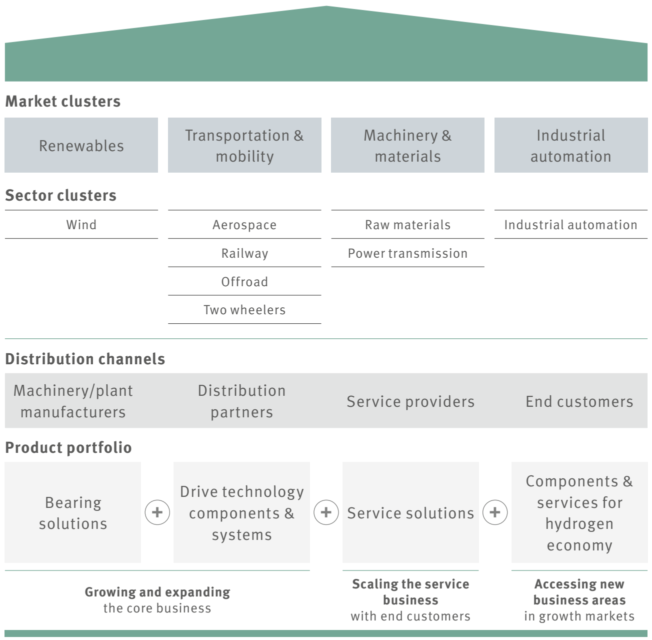
Demand for the Industrial division’s products is closely linked to the changes in global industrial production, particularly in the engineering, transport equipment, and electric equipment sectors. The Industrial division operates in a market that is widely diversified in terms of customers. Managing the business on a regional basis allows the division to closely target its response to local customer needs and to strengthen customer loyalty.

Cross-regional issues, such as the global technology and product strategy, are driven forward by the network linking the regions within the division as well as by a global key account management. Thus, the Industrial business is aligned along customer and market needs in order to grow sustainably and profitably.

Product portfolio and growth areas

The Industrial division’s product portfolio comprises a broad spectrum of components, systems, and service solutions for various industrial sectors. Industry 4.0 products and services as well as the hydrogen growth area are each concentrated in a strategic business area with global responsibility.

Industrial division customer and product portfolio



The division distributes its product portfolio via the relevant machinery and plant manufacturers, distribution partners, service providers, or directly to the end customer in eight sector clusters: (1) wind, (2) aerospace, (3) railway, (4) offroad, (5) two wheelers, (6) raw materials, (7) power transmission, and (8) industrial automation. In order to facilitate comprehensive insight that is oriented along the sales markets, the eight sector clusters are in turn assigned to four market clusters (1) renewables, (2) transportation & mobility, (3) machinery & materials, and (4) industrial automation.

The core business product portfolio in terms of **bearing solutions** mainly comprises rolling and plain bearings as well as linear guidance systems. These bearing solutions cover a wide range from high-speed and high-precision bearings with small diameters to large-size bearings several meters wide. Bearings are relevant to all sectors served by the Industrial division. Linear guidance systems are mainly used in machine tools in the industrial automation sector cluster. Bearing solutions and linear guidance systems still represent a significant basis for the division’s future growth. They are continually being enhanced and are supplemented with technical advice and customer-specific products in order to further expand this core business in the various sector clusters.

Based on internal market analyses, all sector clusters offer positive long-term growth perspectives. In light of ambitious climate targets, fields such as renewable energy, including the wind sector, hold significant potential for growth. The favorable outlook for the aerospace and railway sector clusters is based on growing passenger and freight volumes. In the two wheelers sector cluster, growing individual mobility and rising disposable income are the key growth drivers, and growth in the offroad sector cluster is mainly driven by higher demand for agricultural goods and increased construction activity due to population growth. Additional opportunities for growth in the raw materials sector cluster primarily arise from increased demand for raw materials as investment in infrastructure is expanding.

The power transmission sector cluster mainly addresses applications such as gearboxes and electric motors that are used as intermediate products in various sectors, thus offering considerable potential for growth as well. The same is true for the industrial automation sector cluster as a result of the growing need for efficient manufacturing solutions.

The second core element of the product portfolio are **drive-technology components and systems** which include, inter alia, direct drives and actuators. Its portfolio of innovative bearing supports, robot gearboxes, and drive motors positions the division as a partner to the rapidly growing robotics industry. Increasing automation and the goal of autonomous production offer considerable growth potential in this field. The division offers a wide range of products for both light industrial robotics as well as for collaborative robots known as cobots – from bearings such as the double-row angular contact needle roller bearing and joints for robot arms through to powerful linear actuators that extend the working range of robots.

The division's **service business** offers end customers a comprehensive product and service portfolio along the entire product life cycle – from condition monitoring, expert services and training, and lubrication systems through to maintenance tools, reconditioning bearings, and spare parts. The portfolio is being enhanced in all of these areas and new solutions are brought to market.

Condition monitoring and digital services for predictive maintenance continuously provide information on the condition of machines and equipment. The division has developed concepts to allow a range of customer applications to be transferred to the digital world and to be comprehensively optimized. For instance, platform concepts combine condition monitoring with lubrication systems and digital services to form application-specific Industry 4.0 solution packages for use in the paper, cement, steel, food, and other industries. The "OPTIME" condition monitoring system previously introduced to the European market in 2020 has since been implemented in more than 80 customer plants and 35 of the Schaeffler Group's plants. "OPTIME" provides access to new end customers and opens up cross-selling opportunities for the entire portfolio. Based on the "OPTIME" technology, the division also developed the new automated "SmartSinglepoint Lubricator" during the year that supplies lubricant to rolling bearings and linear units.

In the field of reconditioning bearings, for instance, Industry 4.0 condition monitoring contributes to growth in the service business. With its expert services and specialized tools, the division also offers mounting and dismounting services for rolling bearings. Additionally, reconditioning bearings combines growth with the key topic of sustainability that is part of the "Roadmap 2025". For instance, the division received the Railsponsible Supplier Award 2021 in the "Climate Change and Circular Economy" category for its digitalized "100% return" service for axlebox bearings. The division has further expanded its service portfolio by acquiring BEGA International B.V., a market leader in manufacturing special tools for mounting and dismounting rolling bearings. The acquisition enables the division to offer its customers services and solutions for bearings and other machine powertrain components along the entire lifecycle.

In the strategic **hydrogen** business area, where the focus is on electrolysis, growth will be achieved by accessing new markets. Along with components for hydrogen production using electrolyzers, such as bipolar plates, the focus is on integrated solutions like cell kits and intelligent stack systems and matching Industry 4.0 service concepts.

Under the "Roadmap 2025" divisional subprogram, the Industrial division focuses on growth and on expanding its core business, scaling up the service business, as well as on developing new business areas in growth markets. This also entails enhancing global production and overhead structures as well as distribution and delivery processes.

More on the "Roadmap 2025" on pp. 10 et seq.

1.2 Group strategy

The Schaeffler Group's overarching objective is to create value sustainably for its customers and business partners, employees and managers, as well as its investors and family shareholders. In order to achieve this objective, the company plans to rely on its key strengths – innovative strength, quality, systems know-how, and manufacturing expertise – to shape progress that moves the world. The claim "We pioneer motion" reflects this goal as well. The Schaeffler Group sees its mission in developing and delivering innovative and intelligent components, systems, and services that enable sustainable mobility and motion in cooperation with its customers, partners, and society. The company's positioning as an integrated automotive and industrial supplier has proven of value to achieving this mission many times over: Common technology and manufacturing capabilities create synergies across products, sectors, and divisions, as highlighted by the rolling bearing business in particular. Another example of this approach is hydrogen technology, which the Schaeffler Group aims to support across divisions by supplying components and systems. Further, diversification across several divisions, business models, and regions considerably stabilizes results of operations and earnings, as seen once more in 2021. Additionally, sustainability and digitalization are key strategic topics that will permanently shape the development of the Schaeffler Group and its markets.

Roadmap 2025

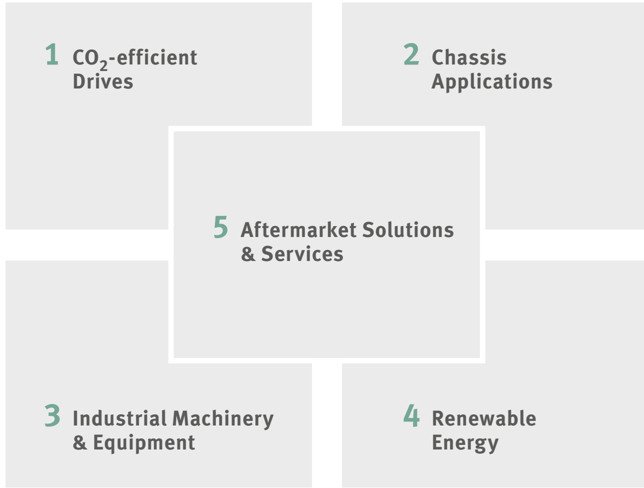
The strategic framework entitled "Roadmap 2025" consists of three main elements: "Strategy 2025", "Execution Program 2025", with its seven subprograms, and "Mid-term Targets 2025". These define the financial framework and reflect the overarching commitment to creating value sustainably.

Strategy 2025

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

The "Strategy 2025" is designed to concentrate on the company's strengths and to render it more focused and efficient in the various business areas. Its established vision of being the automotive and industrial supplier of choice that leads through innovation, agility, and efficiency forms the guiding principle for the Schaeffler Group. This vision illustrates that the customer will remain at the center of what the company does. Innovation, agility, and efficiency are three strategic dimensions that are particularly critical for success in the global competitive environment under current market conditions. The company therefore puts a particular focus on regularly reviewing and evaluating its performance in these categories.

Five focus areas for growth initiatives

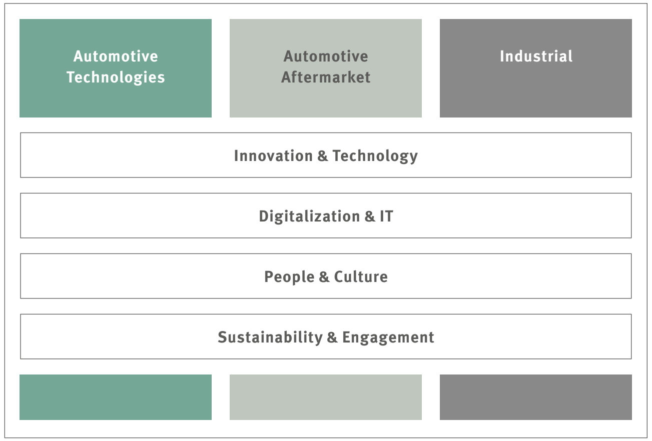


An analysis of what external trends are particularly relevant for the Schaeffler Group before, during, and after the coronavirus pandemic and of how the market environment has changed since 2016 identified five key future trends: sustainability & climate change, new mobility & electrified powertrain,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

Execution Program 2025

The strategy is executed via the “Execution Program 2025” with a total of seven subprograms. The seven subprograms are divided into three divisional (vertical) and four cross-divisional (horizontal) subprograms. All subprograms are focused on achieving the defined strategic priorities – innovation, agility, and efficiency. By combining and consolidating all relevant divisional and cross-divisional activities of the “Roadmap 2025”, the Execution Program 2025 not only supports the Schaeffler Group’s transformation but also contributes vitally to the profitable realization of cross-divisional synergies and the resulting further efficiency gains.

Divisional and cross-divisional subprograms



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

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

Mid-term Targets 2025

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

Mid-term Targets 2025

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

Schaeffler Group

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

Group parameters

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

1) Constant-currency revenue growth above global automobile production (IHS Markit).
2) From 2021 to 2025.
3) Latest in 2023.
4) See page 16 for definition of FCF-conversion.

At group level, the mid-term focus is on two indicators: Firstly, return on capital employed (ROCE), which is a measure of the company's value creation and is targeted to reach a range of 12 to 15% by 2023 at the latest. The second target relates to free cash flow conversion (FCF-conversion), a measure that expresses the ability to generate cash from EBIT and is targeted to fall into a range of 0.3 to 0.5 by 2023 at the latest. The Schaeffler Group's mid-term targets are complemented by group parameters relating to the capital structure and distribution of profits, signifying stable and reliable finance management. For the net debt to EBITDA ratio, one of these group parameters, the Schaeffler Group aims for a range of 1.2 to 1.7 for the period 2021 to 2025. The Schaeffler Group intends to continue to pay dividends of 30 to 50% of consolidated net income before special items.

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

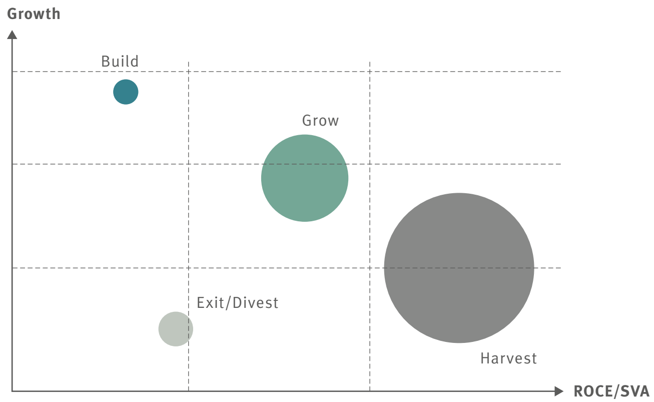
The Automotive Aftermarket division is aiming for average annual revenue growth – excluding the impact of currency translation – to exceed growth in global gross domestic product and an EBIT margin before special items of 13 to 15%, with the lower end of that range being reached by 2023 at the latest.

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

Capital allocation and portfolio management

In order to use its capital appropriately and in line with its strategy, the Schaeffler Group has developed a framework for long-term capital allocation that applies across all divisions.

Portfolio management



The framework identifies four fundamental portfolio strategies and provides a structure for investment and divestment decisions. The four strategies – **Build, Grow, Harvest** and **Exit/Divest** – are applied in all three divisions and their business areas and are always directly tied to a product, a sector cluster, and a region. Business areas are assigned to these strategies depending on their growth potential and return on capital employed (ROCE), which is the key target figure on group level within the mid-term targets 2025. New growth areas still at the start of their life cycle are assigned to the **"Build"** portfolio strategy, whereas existing business areas that can be further expanded with suitably high capital efficiency are classed under the **"Grow"** strategy. Business areas with lower growth potential are more strongly focused on profitability and efficiency, and are included in the **"Harvest"** category. And if certain areas are no longer core strategic activities, or are not sufficiently profitable, they are allocated to the **"Exit/Divest"** portfolio strategy.

Capital allocation management framework

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

[1] Capacity expansion and new products.

Thus, the four portfolio strategies also drive the Schaeffler Group's capital allocation process, which is primarily operationalized by managing investing activities, a key factor influencing free cash flow before cash in- and outflows for M&A activities. The investment amounts to be allocated are arrived at by linking the portfolio strategies directly to a framework for capital allocation. This framework identifies four different investment categories – (1) growth investments, (2) rationalization investments, (3) replacement investments, and (4) investments required in order to comply with regulatory requirements or ensure safety. The four portfolio strategies and four investment categories together form a matrix for the allocation of capital to the business areas.

Key topic of sustainability

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

The Sustainability Roadmap addresses significant action fields such as climate protection, occupational safety, and a sustainable supply chain and derives from them groupwide sustainability targets. In October 2021, the Schaeffler Group announced that it will be operating as a climate neutral company from 2040, that is, it will reduce greenhouse gas emissions as far as possible and offset any remaining emissions, for instance via carbon-sink projects. As part of the Schaeffler Climate Program, the company has set targets addressing the increase in energy efficiency, the purchasing of renewable electricity, and climate neutral production by 2030. Full climate neutrality including the supply chain is scheduled to be achieved by 2040. As was the case in the prior year, the company achieved an "A-" CDP climate rating in 2021. The CDP water rating was improved to "A-" (prior year: "B-"). Additional targets relate to the reduction of occupational accidents and the operation of a sustainable supplier management. The Schaeffler Group annually reports on the progress of business-relevant, non-financial topics in the areas of "customers & products", "environment & energy", "suppliers & raw materials", and "employees & society" as part of its regular sustainability report.

In 2021, Schaeffler AG has again integrated its group non-financial declaration into its separate sustainability report, which is not part of the group management report.

Combined separate group non-financial report in accordance with sections 289b (3) and 315b (3) HGB within the sustainability report at: www.schaeffler-sustainability-report.com/2021

Key topic of digitalization

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

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

Execution Program progress during the year

Started at the beginning of 2021, the Execution Program 2025 has already achieved a number of milestones for the Schaeffler Group in its first year. Particularly the concept of connecting, combining, and consolidating activities across divisions is responsible for the successes marking even the first year of the Execution Program 2025.

Under the divisional subprogram of the **Automotive Technologies division**, the division pushed ahead with enhancing the organization of its business divisions during the year in order to, for instance in the Bearings BD established effective January 1, 2022, access new markets in a highly competitive environment and increase the visibility of the bearing business as well as enhance it with a focus on applications and customers. In addition, the first production plant worldwide dedicated to electric mobility was commissioned during the year to manufacture components and systems such as electric motors and hybrid drives. Moreover, the E-Mobility BD won further nominations for customer projects and the business with mechatronic systems in chassis applications was strengthened, including by the cooperation with Mobileye announced at the IAS Mobility.

In the **Automotive Aftermarket division**, the previous warehouse in Langen was integrated in the new assembly and packaging center Europe ("Aftermarket Kitting Operation Europe", abbreviated as: AKO Europe). Additionally, the Greater China region expanded its "ETC platform China", a B2B platform connecting manufacturers, dealers, and resellers of vehicle parts with each other and offering a comprehensive range of parts for engines, transmissions, and chassis.

Under the divisional subprogram of the **Industrial division**, the product portfolio was further enhanced toward systems and services. For instance, the "OPTIME" condition monitoring system previously introduced to the European market in 2020 has since been implemented in more than 80 customer plants and 35 of the Schaeffler Group's plants. Further, at the digital Hannover Messe 2021, the division presented a portfolio of innovative bearing supports, robot gearboxes, and drive motors in order to position itself for the rapidly growing robotics industry.

As part of the cross-divisional **"Innovation & Technology"** subprogram, a high double-digit number of cobot systems were rolled out to increase the efficiency of the Schaeffler Group's production. In addition, strategic collaborations (including with "STARTUP AUTOBAHN" and SHARE programs) have intensified research activities across company boundaries (see "Research and development", pp. 17 et seq.). The opportunities offered by green hydrogen feature prominently in Schaeffler's "Roadmap 2025" as well. As an automotive and industrial supplier, the Schaeffler Group benefits from cross-divisional collaboration and utilization of synergies in developing and producing technologies for the hydrogen industry. The Industrial division has a strategic hydrogen business area that brings together and coordinates all of the division's various hydrogen activities. During the year, Schaeffler started acting as the consortium lead for a project, "Stack Scale up – Industrializing PEM Electrolysis", that aims to fast-track the development of new stack technologies and large-series production processes for low-temperature electrolysis core components. Schaeffler's core expertise in material, forming, and surface technology as well as the innovative field of electrochemistry will play a key role in developing new products and solutions for hydrogen technology. Schaeffler's expertise in industrializing will help to rapidly bring innovations to volume production.

The **"Digitalization & IT"** subprogram is designed to comprehensively dovetail the digital agenda with all areas of the company and to digitalize the plants, for instance via a newly developed digital transportation management system that allows for improved and transparent transportation planning. The introduction of the new "SAP S/4HANA" ERP system is progressing as well, as is the process of setting up further shared service centers in the Americas and Asia/Pacific regions.

The **"People & Culture"** subprogram continues to prioritize employee qualifications via new training programs such as Fit4Mechatronics or Fit4Production. Additional achievements include, inter alia, the introduction of a global onboarding framework and establishing "Be a pioneer" as an employer value proposition.

Under the **"Sustainability & Engagement"** subprogram, sustainability measures aimed at achieving the climate targets (scope 1–3) were implemented. In addition, opportunities for improvement will gradually be identified using a "site performance tracker" and implemented by taking specific action. Furthermore, construction is ongoing to enhance buildings and locations. The main focus of these activities is on constructing the new central laboratory facility that will concentrate on product development for sustainable and carbon-neutral mobility and energy ecosystems at the Herzogenaurach location.

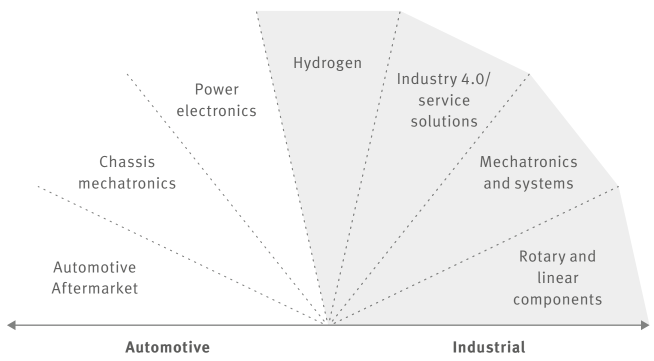
In September 2020, Schaeffler AG's Board of Managing Directors had approved **structural measures to be taken in Europe** in order to push ahead with the transformation of the Schaeffler Group and strengthen its ability to compete and realize future opportunities for the long term. Negotiations with employee representatives have now been concluded at all locations affected in Germany.

M&A strategy

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

At the core of this approach is an M&A radar that is applicable groupwide and defines several focus areas where the company is aiming to acquire expertise and generate inorganic growth both within the various divisions and across divisions.

M&A radar



The company's search for opportunities to expand the profile of its expertise and its portfolio specifically targets these clearly defined areas. It focuses on the acquisition of smaller, additive targets in the nine-figure range intended to complement and strengthen the technology spectrum, thus adding long-term value.

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

Group management

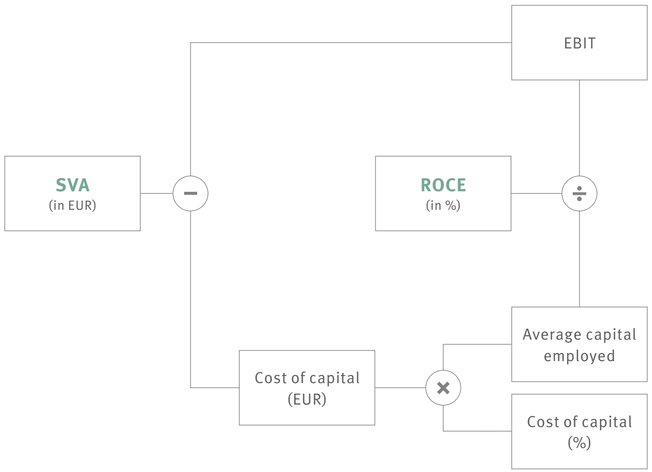
The overarching objective of the Schaeffler Group's management system is to create long-term value in order to meet the interests and expectations of investors. Generating an appropriate return on capital employed is essential to creating long-term value. This requires having earnings sustainably exceed the cost of debt and equity capital employed. The Schaeffler Group's internal management system comprises several levels. The strategic financial performance indicators underlying the Schaeffler Group's **value-based management** process are return on capital employed (ROCE) as well as Schaeffler Value Added (SVA). They are operationalized using key financial performance indicators.

Strategic financial performance indicators

ROCE is a strategic financial performance indicator that measures the rate of return on the company's capital and is defined as the ratio of **EBIT** to **average capital employed.** EBIT represents **earnings before financial result, income (loss) from equity-accounted investees, and income taxes** (since January 1, 2022: earnings before financial result and income taxes). The Schaeffler Group's average capital employed consists of the following balance sheet items: property, plant and equipment and intangible assets as well as working capital, which in turn comprises trade receivables and inventories net of trade payables. The annual average is determined as the mathematical average of the balance at the end of each of the four quarters (since January 1, 2022: determined as the mathematical average of the balance at the end of each of the twelve months). Management of capital employed is operationalized as part of the management of free cash flow, which includes management of investing activities and management of working capital. Starting in 2022, average capital employed also includes investments in joint ventures and associated companies as well as right-of-use assets under leases in order to reflect all significant operating assets. Similarly starting in 2022, the calculation also includes contract assets and costs to fulfill a contract net of contract liabilities and refund liablitites as well as assets held for sale net of related liabilities. If ROCE exceeds the cost of capital, the company is generating value by employing its resources. The pre-tax cost of capital amounts to 10%.

The Schaeffler Group's value added in absolute terms is measured using the strategic financial performance indicator SVA. **SVA** is defined as EBIT less the cost of capital incurred on average capital employed. Positive SVA means that the Schaeffler Group has created value beyond covering its cost of capital. ROCE and SVA are additionally determined based on EBIT before special items.

Strategic financial performance indicators



Key operating financial performance indicators

The indicators ROCE and SVA serve as indicators of the amount of shareholder value added. For purposes of management during the year, these strategic performance indicators are operationalized using key financial performance indicators. Thus, the Schaeffler Group focuses on continually monitoring and increasing the following three key operating financial performance indicators:

- **Constant-currency revenue growth**
- **EBIT margin before special items**
- **Free cash flow before cash in- and outflows for M&A activities**

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

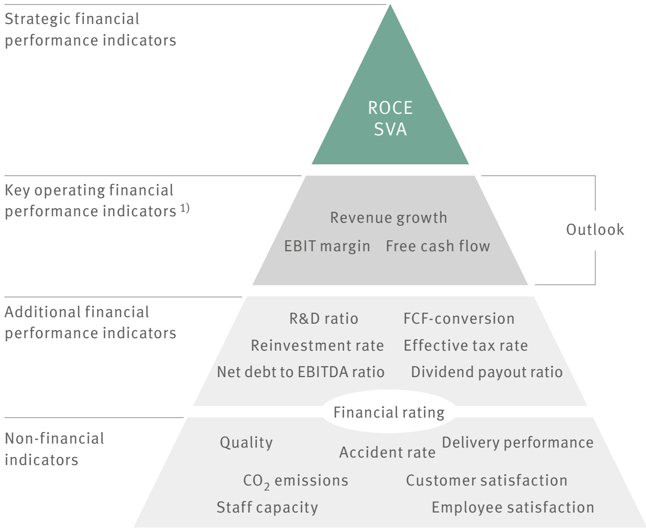
Constant-currency revenue growth: Revenue growth contributes to the company's value creation and, in addition, determines the resources required for the company's operations. Revenue growth measures the change in revenue compared to the prior year as a percentage. In order to make the evaluation of the company's results of operations as transparent as possible and to increase the comparability over time, the Schaeffler Group reports constant-currency revenue growth. Starting January 1, 2022, constant-currency revenue growth will be determined by translating revenue for the reporting periods at the average rates of the relevant prior year period rather than at standard exchange rates. Revenue growth is also analyzed in comparison to relevant market indicators in order to evaluate the development of the company's market position and competitive position.

EBIT margin before special items: The Schaeffler Group measures its operating earnings using the EBIT margin, which is a key factor influencing ROCE and SVA and, as such, is of particular importance for the Schaeffler Group's profitability. The EBIT margin is a relative indicator calculated as the ratio of EBIT to revenue. EBIT represents earnings before financial result, income (loss) from equity-accounted investees, and income taxes (since January 1, 2022: earnings before financial result and income taxes). The EBIT margin measures the company's operating profitability and is calculated before special items in order to make the operating performance more comparable over time. 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.

Free cash flow before cash in- and outflows for M&A activities: Free cash flow measures the amount of cash inflows for a period. It is defined as the sum of cash flows from operating activities, cash flows from investing activities, and principal repayments on lease liabilities. Along with profitability, the key factors affecting free cash flow are effective management of working capital as well as the level of capital expenditures. As a result, free cash flow impacts the development of capital employed over time. In order to make the evaluation of the company's results of operations as transparent as possible and improve comparability over time, the Schaeffler Group reports free cash flow, one of its key operating financial performance indicators, before cash in- and outflows for M&A activities. M&A activities consist of acquisitions and disposals of subsidiaries, interests in joint ventures, and other equity investments.

More on trends in the indicators discussed above under "Course of business" and on special items on pp. 28 et seq.

Management system



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

Additional financial performance indicators

In addition to the three key operating financial performance indicators, the Board of Managing Directors also continually tracks additional financial performance indicators including, among others, the reinvestment rate. The reinvestment rate is the ratio of additions to intangible assets and property, plant and equipment to depreciation, amortization, and impairment losses (excluding depreciation of right-of-use assets under leases and impairments of goodwill). To facilitate evaluation of the cash conversion cycle, the company determines FCF-conversion, which represents the ratio of free cash flow before cash in- and outflows for M&A activities to EBIT. The net financial debt to EBITDA ratio before special items is the ratio of net financial debt to EBITDA before special items. For this purpose, net financial debt is defined as the total of current and non-current financial debt net of cash and cash equivalents. Additional financial performance indicators also include the R&D ratio, the effective tax rate, the financial rating, and the dividend payout ratio. For these purposes, the dividend payout ratio is determined based on net income (loss) before special items. Starting in 2021, the company also calculates the measure free cash flow before cash in- and outflows for M&A activities and before special items as an additional indicator.

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

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

- **Automotive Technologies:** Nominations for customer projects won within one period are measured using the indicator "lifetime sales" on an ongoing basis and compared to current period revenue by calculating the "book-to-bill ratio", which provides an indication of the Automotive Technologies division's medium- to long-term potential for growth. Orders received for short-term delivery under master agreements with customers validly cover a period of approximately two months. Changes in this measure of capacity utilization are monitored on a weekly basis.

- **Automotive Aftermarket:** For the Automotive Aftermarket, no comparable leading indicators can be derived from the volume of order intake or orders on hand. This division holds regular discussions with major customers and observes its markets to obtain leading indications of the short-term demand situation.
- **Industrial:** The Industrial division uses the change in orders on hand due within the following three months as a leading indicator. This figure is monitored on a monthly basis.

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

Non-financial indicators

In addition to the financial performance indicators, management monitors additional key non-financial indicators. Such indicators are calculated using standardized reports during the year and include: quality, staff capacity (headcount (HCO) and full-time equivalents (FTE)), delivery performance, customer satisfaction, employee satisfaction, employee accident rate, and CO_2 emissions.

More in the sustainability report under:
www.schaeffler-sustainability-report.com/2021

For purposes of managing sustainability, the company measures additional non-financial indicators for the four fields of action addressed in the sustainability strategy. These indicators are used in managing the operation of the group's sustainability measures. Schaeffler AG's Supervisory Board has once again embedded sustainability targets as non-financial targets for 2022 in the short-term and, for the first time, also in the long-term variable remuneration of the Board of Managing Directors.

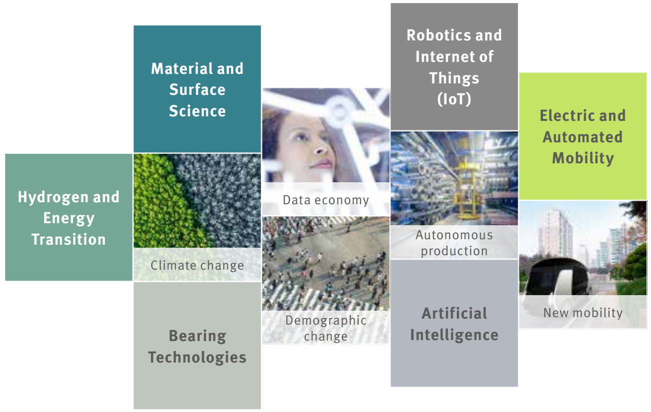
In managing the company, senior management considers it imperative that Schaeffler Group employees act strictly within the relevant legal limits and comply with corporate governance standards.

1.3 Research and development

Due to the technological transformation and the related challenges, Schaeffler focuses on innovation and on enhancing the company's technological and methodical capabilities. For that reason, the Schaeffler Group initiated a global R&D program named "4x4" in 2020 which addresses the four success factors innovation, technology, efficiency, and process.

In order to utilize the full potential of its innovations, the company defined six innovation clusters in which innovative ideas are checked against their market potential and Schaeffler's areas of expertise early on in the process. The six innovation clusters are integrated into "Innovation & Technology", a cross-divisional subprogram of the "Roadmap 2025". The customers' needs are always the main focus here. The innovation clusters serve as the basis for offering innovative and sustainable future-oriented technology in growth markets, and Schaeffler consistently relies on cross-divisional thinking, for instance when it comes to hydrogen technology.

Innovation clusters in research and development



In the **innovation cluster Hydrogen and Energy Transition**, the Schaeffler Group researches new technologies for generating, processing, and storing energy for automotive and industrial applications. Thus, the innovation cluster's activities focuses for 2021 included fuel cell development. As part of these activities, the company began establishing a pilot plant for producing metallic bipolar plates that will commence production in 2022. The plant performs all necessary production steps such as forming, joining, cleaning, and coating of bipolar plates. Another focus during the year was on producing green hydrogen using electrolysis. The new Industrial Hydrogen unit concentrates on bringing electrolysis technology to the point of marketability. In addition, the company acts as the consortium lead for a project, "Stack Scale up – Industrializing PEM Electrolysis", that fast-tracks the development of new stack technologies and large-series production processes for core components for low-temperature electrolysis core components.

Along with the production and processing of green hydrogen, the innovation cluster also focuses on storing the energy generated. Therefore, the company pushed ahead with developing components for electrochemical energy storage as well as alternative solutions for transporting hydrogen, such as liquid organic hydrogen carriers (LOHC).

The **innovation cluster Electric and Automated Mobility** addresses electrified powertrains and automated driving. At the IAA Mobility 2021, Schaeffler presented an in-house 800-volt power electronics system for electric axle applications in high-performance vehicles. The 3-in-1 electric axle, which combines the electric motor, transmission, and power electronics in one system, demonstrated how power electronics blend into the overall system. Furthermore, this system was expanded by an integrated thermal management module, which has the entire air conditioning system and an additional heat pump using CO_2 as a coolant integrated into the electric axle. Hence, this 4-in-1 electric axle can dissipate the heat generated by the electric motor directly to the electric motor's copper coils, improving the efficiency of battery-electric vehicles.

Moreover, for the rapidly growing e-bike market, the Schaeffler Group has developed the chainless "Free Drive" electric drive, an innovative "bike-by-wire" drive system, and presented it at the Eurobike 2021 in Friedrichshafen and the IAA Mobility 2021. The absence of a mechanical connection between the generator and motor means the "Free Drive" can provide maximum flexibility in the construction of 2-, 3-, or 4-wheelers, tailored to the requirements of the bicycle and the needs of the rider. The system is subject to minimum wear and tear and is low-maintenance as it has no wear parts or peripheral chain equipment.

In the **innovation cluster Robotics and Internet of Things (IoT),** the Schaeffler Group develops system solutions for Industry 4.0 and the growing robotics market. Its portfolio of innovative bearing supports, robot gearboxes, and drive motors positions the Schaeffler Group as a partner to the rapidly growing robotics industry. A new generation of axial flux motors and new transmissions with integrated torque sensors were presented at the digital edition of the Hannover Messe 2021. The motors feature a printed circuit board (PCB) design in a configuration patented by Schaeffler that leads to significantly higher power density than conventional direct current motors as well as increased flexibility in design and production. Not only were the motors enhanced by the Schaeffler Group, but the transmissions as well – they now have an integrated torque sensor. By coating transmission components with Schaeffler Sensotect PVD, stresses within robotics joints can be measured in real time in places where conventional sensors cannot be used. These types of mechatronic solutions by Schaeffler make it possible to use industrial robots and collaborative robots known as cobots in applications requiring particularly high speeds, precision, and increased load-bearing capacity, as well as a high level of safety and sensitivity for the interaction with humans.

The **innovation cluster Bearing Technologies** focuses on developing product fundamentals and solutions related to the overarching technological and social trends and challenges such as sustainability, electrification, digitalization, as well as renewable energy. Friction-improved rolling bearing technologies such as ceramic rolling elements, high-speed engine mounts, and the continual expansion of the X-life portfolio as well as automated lubrication systems such as the expanded calculation of oil operating life help further reduce CO_2 emissions over the entire product life cycle. This includes not only the production and operation stages of the product, but reconditioning of the various components as well. Additionally, it helps customers reduce maintenance costs and better plan maintenance intervals. As part of its digitalization activities, the Schaeffler Group is developing simulation programs for analyzing electric characteristics and for constructing rolling bearings. By labeling products with the Schaeffler Data Matrix Code, a type of QR code, data can be provided electronically.

The **innovation cluster Material and Surface Science** develops surfaces and coatings for existing and new applications.
This cluster also contributes significantly to achieving the Schaeffler Group's climate targets. For instance, the use of green steel and bio-based plastic helps to considerably reduce emissions. In addition, coating technology helps meet requirements specific to certain locations within the product with minimal use of materials. In 2021, Schaeffler commissioned a plant for coatings protecting against what are referred to as white etching cracks, a hydrogen-induced premature failure affecting, for instance, large-size wind power bearings, in Nanjing, China. In the field of chemical technologies, the company was able to reduce the amount of chemicals and water used in production processes, helping to conserve resources. Additionally, the company is implementing digital solutions to further expand its ability to monitor chemicals in production processes and thus increase the sustainability of Schaeffler's production.

In the **innovation cluster Artificial Intelligence (AI)**, the Schaeffler Group connects its product-related AI application activities under its "Roadmap 2025" digitalization strategy. For example, AI-based algorithms are being used to analyze data provided by sensors that are integrated into components, facilitating real-time measurement of forces and torques. Additionally, AI methods are also increasingly used in product development, for instance to simulate and design lighter components requiring less material. During the year, the Schaeffler Group has joined with eleven other partners to establish KI Park e.V., an incorporated society, in Berlin, Germany, to foster real-life applications in the field of artificial intelligence (KI is German for AI) and to develop the associated ethical and regulatory frameworks for Germany and the rest of Europe.

Another core element of the "4x4" R&D program is the targeted enhancement of R&D capabilities relating to the technological transformation. For example, the **"Fit4Mechatronics" training program** was enhanced in a joint project with Human Resources and the Schaeffler Academy.

The **new cross-divisional central laboratory facility** scheduled to start construction in Herzogenaurach in 2022 represents another key component of the company's strategy for innovation. Plans include a precision measurement section and materials development as well as an electronics laboratory and a large section dedicated to basic hydrogen technology development.

In order to safeguard its long-term technological competitive ability, the Schaeffler Group also performs research on strategic issues of the future in a global innovation network of universities, companies, research institutions, and start-ups under the group's Open Innovation strategy. The **Schaeffler Hub for Advanced Research (SHARE)** program comprises a global research network with leading universities around the world. Under the program, the Schaeffler Group works closely with Karlsruhe Institute for Technology, Germany (research focus: electric and automated mobility), Friedrich-Alexander University of Erlangen-Nuremberg, Germany (research focus: artificial intelligence for people and equipment in the digital world), Nanyang Technological University, Singapore (research focus: robotics and Industry 4.0), Southwest Jiatong University in Chengdu, China (research focus: components and systems for high-speed trains), and Ohio State University in Columbus, U.S. (research focus: solid state batteries). Along with further collaborations with universities, the Schaeffler Group has a strategic partnership with Fraunhofer-Gesellschaft that has been in place since 2017.

Strategic collaboration with start-ups represents a further component of the strategy for innovation. From within its innovation clusters, the Schaeffler Group reviews future-oriented technologies and innovative business models and realizes these in pilot projects with start-ups and small and medium-sized businesses. This approach lays the foundation for a successful long-term strategic cooperation, for instance in the form of R&D partnerships, supply relationships, or future customer relationships.

The Schaeffler Group became a new anchor partner to STARTUP AUTOBAHN during the year. The innovation platform now includes more than 30 partners and offers a network of 30,000 start-ups. STARTUP AUTOBAHN brings together established companies and start-ups with the objective of developing new technologies to the point of marketability. As an anchor partner, Schaeffler is establishing a network together with various start-ups that spans the company's six innovation clusters.

Research and development expenses

	2017	2018	2019	2020	2021
Research and development expenses (in € millions)	846	847	849	684	748
Research and development expenses (in % of revenue)	6.0	6.0	5.9	5.4	5.4
Average number of research and development staff	7,634	7,956	7,834	7,780	7,414

In 2021, the Schaeffler Group employed an average of 7,414 R&D staff (prior year: 7,780) at 20 R&D centers (prior year: 20) and additional R&D locations in a total of 23 countries. The Schaeffler Group filed 1,907 patent registrations with the German Patent and Trademark Office in 2020, making it the second most innovative company in Germany for the eighth consecutive year. In addition, Schaeffler Group employees internally reported 2,761 inventions in 2021 (prior year: 2,291).

1.4 Locations and production network

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

The company has a global production system. The plants, which employ approximately 65,000 staff, form the core of the Schaeffler Group's operations and are managed based on uniform principles on a cross-divisional basis. The global production system and the manufacturing technologies utilized in the plants represent key factors to the Schaeffler Group's worldwide success. The Schaeffler Group holds itself to the highest standards in comprehensive product quality and safety. The company uses a multitude of instruments to ensure and improve the quality of its products and processes. All of the Schaeffler Group's manufacturing locations have certified management systems in accordance with globally recognized quality norms, standards, and regulations. The Schaeffler Group applies the requirements of various norms relevant for certification[1] in the Schaeffler plants worldwide.

In order to be able to flexibly respond to constantly changing customer requirements and purchase requisitions, processes along the Schaeffler Group's entire operational value chain have been digitized further and (partially) automated during the year, partly by using artificial intelligence. In addition to the existing 4 digital pilot factories, another "6 digital accelerator" plants have been set up during the year in order to perform targeted testing of these approaches and roll them out to an even wider spectrum of use cases. In addition, suppliers are being integrated into the value chain via digital platforms such as SupplyOn, allowing them to respond to changing requirements at short notice. Technological initiatives additionally supported the objective above and aim to promote investing in agile, efficient, and sustainable production lines and facilities.

[1] IATF 16949:2016 Quality management system (standard of the automotive sector); ISO/TS 22163 Quality management system (ISO 9001:2015 and particular requirements for application in the railway sector); SAE AS 9100D:2016-09-20 Quality Management Systems (Requirements for Aviation, Space, and Defense Organizations); ISO 9001:2015 Quality management systems (standard of the industrial sector).

The Schaeffler Group develops new production technologies within its technology network and consistently enhances existing technologies in volume production. In this manner, the company is able to realize synergies and create cross-divisional production standards – for instance for manufacturing innovative components and systems such as electric motors or hybrid transmissions.

The Schaeffler Group has opened a new production facility at its Szombathely, Hungary, location during the year, creating 150 new jobs in electric mobility. The facility is the Schaeffler Group's first production plant fully dedicated to electric mobility and gives the group a new center of excellence for the production of components and systems for electrified powertrains. The facility's operational footprint has been gold-certified by the German Sustainable Building Council (DGNB) and is designed to make a major contribution toward achieving Schaeffler's goal of making its production activities worldwide carbon-neutral by 2030.

A changed market environment and the "Roadmap 2025" mean that the Schaeffler plants have to even more actively tackle the transformation. The contribution of the Schaeffler Production System (SPS) to the "Roadmap 2025" and to the transformation becomes particularly evident in light of the clear targets set with respect to efficiency, agility, and sustainability. Following completion of the pilot stage in Europe in 2020, SPS started in Asia/Pacific (Pune, India), Greater China (Taicang and Nanjing, China), and Americas (Cheraw, U.S. and Stratford, Canada) in 2021. An enhanced version of the MOVE system which primarily comprises the "Lean" principles, the SPS relies on three fundamental principles (Optimal Technology, Engaged Teams, Lean Processes). This enhancement facilitates more comprehensively addressing the new market challenges , for instance by combining improved technological concepts and lean processes. This enables the company to respond with shorter set-up times to volatile demand situations and with more flexible plant designs to uncertain market prospects. The SPS comprises the entire supply chain and production and creates the basis for working more efficiently, innovatively, and with more agility.

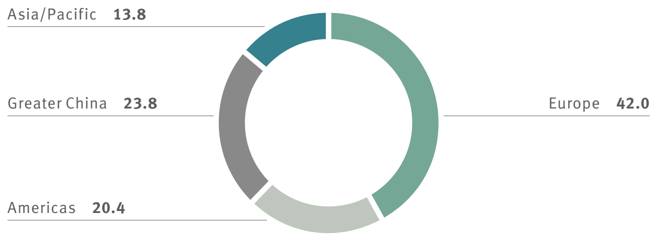
Schaeffler is investing in a new cross-divisional central laboratory complex at its corporate headquarters in Herzogenaurach as part of its "Roadmap 2025". This investment is aimed at securing the Schaeffler Group's competitiveness and ability to realize future opportunities as well as strengthening the position of its Herzogenaurach campus as a center of technological excellence. The central laboratory complex will span approximately 15,000 square meters of gross floor space and house 15 laboratories and more than 360 employees and will centralize and consolidate the Schaeffler Group's core expertise and capabilities in key areas of technology, primarily in measurement, testing and calibration systems, materials research and design, electrochemistry, and optimization of product lifespan, strength, and reliability. It will also contain a new electronics laboratory. The company's aims in consolidating all these activities include improving the transfer of knowledge and technology between its divisions and enhancing performance through shared use of resources. The complex is scheduled for completion in 2023.

The expansion of the production capacities in Nanjing strengthens the Schaeffler Group's production footprint in Asia and its business activities in the wind power sector. During the year, a new production building with an area of 22,000 square meters was put into operation. The focus in Nanjing – a location operated by the Industrial division – is on the production of large-size bearings with a diameter of more than 800 millimeters, which are primarily used in wind turbines, transmissions, and in heavy industry. The company plans to produce 10,000 units per year there. By opening the new building, Schaeffler has expanded its production capacities at the location, which has a total area of 260,000 square meters. As a result, Nanjing is now the largest production location for wind power bearings within the Schaeffler Group. The location employs more than 2,000 staff.

In the Greater China region, the first photovoltaic panels were commissioned at the headquarters and the research and development center in Anting in early July 2021. This is the first step toward generating solar power in the Greater China region. Additional photovoltaic systems will follow in Taicang and Nanjing. At a planned total output of 11.25 megawatts, Schaeffler Greater China's photovoltaic system will generate 11 gigawatt hours a year. Generating this amount of energy would require burning 3,470 tons of coal. Hence, the system saves 9,478 tons of CO_2 annually. The power generated will be used in research and development, production, and in the offices and will help reduce peak demand and CO_2 emissions.

Schaeffler Group revenue by region

in percent by market view



The **Europe region** combines the subregions Germany, Western Europe, Middle East & Africa, as well as Central & Eastern Europe. The Europe region contributed 42.0% (prior year: 42.7%) of consolidated revenue in 2021. Its Germany subregion represents the Schaeffler Group's largest sales market. The degree of localization[2] amounted to approximately 86% (prior year: 87%) in 2021. The Europe region employed a total of 53,006 employees as at December 31, 2021, representing 63.9% of the company's entire workforce. This figure includes the employees of the

[2] The degree of localization describes the relation of sales volume manufactured in a region – taking into account procurement flows – to that region's sales (sales by market view/prior year information presented based on 2021 segment structure).

group's headquarters in Herzogenaurach. The Europe region has 43 plants and 10 R&D centers. Its regional headquarters are located in Schweinfurt, Germany.

The **Americas region** consists of the subregions U.S. & Canada, South America, and Mexico. The Americas region contributed 20.4% (prior year: 20.7%) of revenue in 2021. The degree of localization amounted to approximately 56% (prior year: 57%) in the Americas region. A total of 11,599 staff were employed at 13 plants – consisting of 6 plants in the U.S., 3 in Mexico, and 2 each in Canada and Brazil – and 5 R&D centers as well as at distribution locations in North and South America as at December 31, 2021. The Americas region has its regional headquarters in Fort Mill in the U.S. The Schaeffler Group has been manufacturing in this region since 1953.

The **Greater China region** comprises mainland China, Taiwan, Hong Kong, and Macao. Its regional headquarters are located in Anting, China. Schaeffler's first subsidiary in the Greater China region was founded in Taicang, China, in 1995. The region generated 23.8% (prior year: 23.4%) of group revenue in 2021. The degree of localization amounted to approximately 57% (prior year: 56%). A total of 12,337 staff were employed as at December 31, 2021, at 10 plants and 1 R&D center in the Greater China region.

The **Asia/Pacific region** comprises the subregions South Korea, Japan, Southeast Asia, and India. 13.8% (prior year: 13.3%) of group revenue was generated by this region in 2021. The degree of localization amounted to approximately 42% (prior year: 43%) in 2021. The Asia/Pacific region had a total of 6,039 employees as at December 31, 2021. The regional headquarters are located in Singapore. The Schaeffler Group operates a total of 9 plants and 4 R&D centers in this region. The Schaeffler Group has been represented in this region since 1953.

2. Report on the economic position

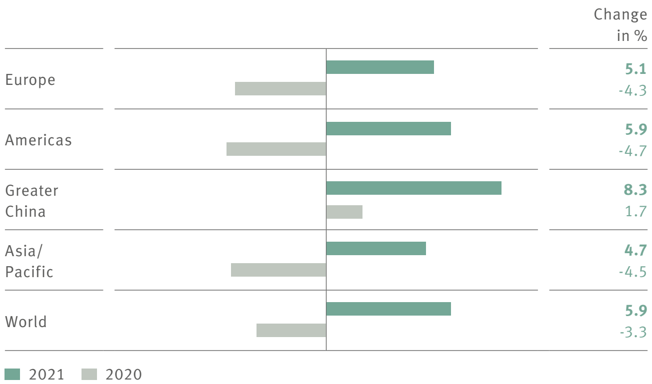
2.1 Economic environment

Macroeconomic environment

The global economic recovery that had emerged in the second half of the prior year continued in 2021 overall, although a number of factors hampered economic activity. Positive impacts such as those from successful development of vaccines against the coronavirus and supporting fiscal and monetary policy measures contrasted with, in particular, disruptions brought on by new variants of the virus, persistently interrupted global supply chains – especially in the manufacturing industry – as well as rising commodity and energy prices.

Both at the global level and in each of the four Schaeffler regions, the increase in gross domestic product reported for the first half of 2021 compared to the prior year basis weakened by the crisis was higher than that for the second half of 2021.

Gross domestic product



Source: Oxford Economics (February 2022).
Regions reflect the regional structure of the Schaeffler Group.

The euro region (5.2%), the U.S. (5.7%), and especially India (8.5%) and China (8.4%) all reported considerable full-year growth in gross domestic product for 2021. The Japanese economy recovered as well, albeit at a much lower growth rate of 1.6%. Against the background of the deteriorating pandemic situation, economic activity slowed in key economies worldwide – with China the significant exception – toward the end of the year.

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

Sector-specific environment

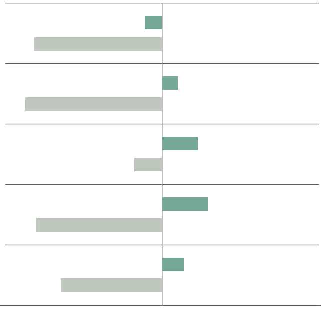
The trend in automobile production significantly affects the results of operations of the Schaeffler Group's Automotive Technologies division, while trends in vehicle population considerably impact the results of operations of the Automotive Aftermarket division. The global trend in industrial production in the mechanical engineering, transport equipment, and electrical equipment sectors [3] provides an indication of the development of the Industrial division's business. The results of operations of the Schaeffler Group's three divisions are also influenced by the technological transition such as the general trends toward electrification and digitalization.

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

Automobile production

The trend in global automobile production [4] was massively impacted by persistent supply shortages of semiconductors during the year. Production levels were held back by other factors – including new measures aimed at containing the coronavirus pandemic – as well, although to a much smaller extent. Both at the global level as well as in each of the four Schaeffler regions, considerable decreases were reported for the second half of 2021, while the first half of 2021 saw high growth rates compared to the prior year basis weakened by the crisis.

Automobile production



	Change in %	Million units
Europe	**-2.7**	**17.7**
	-20.4	18.2
Americas	**2.5**	**15.6**
	-21.8	15.2
Greater China	**5.7**	**25.1**
	-4.4	23.7
Asia/Pacific	**7.3**	**18.8**
	-20.0	17.5
World	**3.4**	**77.1**
	-16.1	74.6

2021 2020

Source: IHS Markit (February 2022).
Regions reflect the regional structure of the Schaeffler Group.

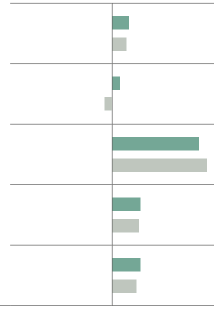
Within the Europe region, automobile production in the euro region declined by 6.0%. In the Americas region, the U.S. experienced growth of 3.5%, while Brazil reported growth of 8.9%. In Mexico, on the other hand, production levels were flat with prior year. The growth reported by the Greater China region in 2021 was mainly driven by a sharp increase in production in the first quarter of 2021 compared to the quite weak prior year basis. However, the number of vehicles produced in each of the remaining quarters of 2021 fell short of the corresponding prior year level as a result of significant production downtimes caused by the semiconductor issue. In the Asia/Pacific region, Japan experienced a decline of 4.0%. In South Korea, automobile production remained static at a level slightly ahead of the prior year level, while India (27.1%) reported vigorous growth.

Vehicle population and average vehicle age

Growth in global vehicle population [5] in 2021 was once more primarily driven by strong above-average growth in China. Preliminary information suggests that the average age of the global vehicle population rose to 10.1 years (IHS Markit, February 2022).

Within the Europe region, the vehicle population in the euro region increased by 0.7% to 214.2 million units with the average age rising slightly to 10.9 years. In the U.S., the most significant market in the Americas region, the vehicle population grew by 0.4% to 280.5 million vehicles; the mean age increased slightly to 9.9 years. In the Greater China region, China reported a considerable 6.9% increase in vehicle population to 269.3 million units while the average age rose to 6.4 years. Within the Asia/Pacific region, the vehicle population in Japan remained static at 74.2 million units while the mean age of the vehicle population was up slightly at 8.3 years. In India, however, the vehicle population expanded noticeably by 5.4% to a total of 51.2 million units with the mean age increasing to 8.1 years.

Vehicle population



	Change in %	Million units	Average age
Europe	**1.3**	**518.3**	**12.7**
	1.1	511.7	12.4
Americas	**0.6**	**418.1**	**10.4**
	-0.6	415.5	10.3
Greater China	**6.8**	**278.3**	**6.5**
	7.4	260.7	6.2
Asia/Pacific	**2.2**	**244.2**	**8.9**
	2.1	239.0	8.7
World	**2.2**	**1,458.9**	**10.1**
	1.9	1,426.9	9.9

2021 2020

Source: IHS Markit (February 2022).
Regions reflect the regional structure of the Schaeffler Group.

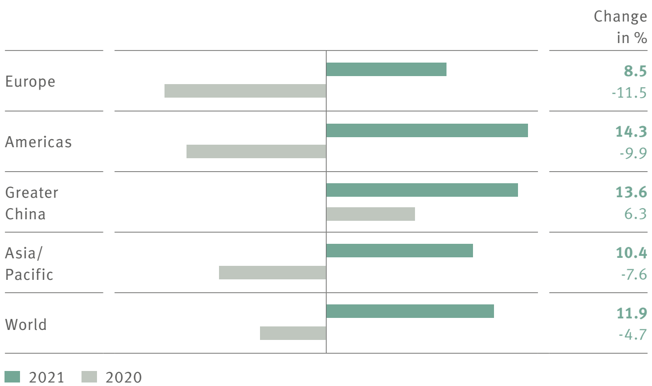
Industrial production

Based on preliminary estimates, global industrial production for the year was up 7.1% from the prior year level (Oxford Economics, December 2021). This growth is based on a recovery that has been nearly continuous since the third quarter of 2020; the upward trend in global industrial production was temporarily interrupted only in the third quarter of 2021 due to a decrease in China. Worldwide shortages in raw materials, intermediate products, and transport capacities noticeably slowed activity during the year and prevented an even more pronounced recovery. The trend reported in 2021 for the sectors particularly relevant to the Industrial division – mechanical engineering, transport equipment, and electrical equipment – was similar, with the comparatively even higher growth rate of 11.9% largely driven by the favorable trend in the mechanical engineering sector. Both at the global level and in each of the four Schaeffler regions, the increase in the relevant industrial production reported for the first half of 2021 compared to the prior year basis weakened by the crisis was higher than that for the second half of 2021.

[4] Measured as the number of vehicles up to six tons in weight produced.
[5] Measured as the number of passenger cars and light commercial vehicles less than 3.5 tons in weight.

In the Europe region, the euro region saw the relevant industrial production increase by 7.9%, largely driven by strong growth in the mechanical engineering sector. The considerable increase reported by the Americas region was largely due to growth in the U.S., where the relevant industrial production rose by 13.7%. The main impetus behind this rise came from vigorous growth in the aerospace sector; the mechanical engineering sector experienced an above-average increase in production year-on-year as well. In the Greater China region, all sectors of the relevant industrial production grew considerably. The Asia/Pacific region experienced a considerably higher growth rate in India (21.5%) compared to the quite low prior year level than did Japan (12.2%) and South Korea (1.8%). Both in Japan and South Korea as well as at the total regional level, the increase in the relevant industrial production was largely driven by the mechanical engineering sector whereas production in the transport equipment sector fell short of the prior year level in each of these economies. In India, on the other hand, industrial production grew considerably in all relevant sectors.

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



Source: Oxford Economics (December 2021).
Regions reflect the regional structure of the Schaeffler Group.

Procurement markets

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

A number of factors, including strong demand in particular, led to massive price increases for all input materials significant to the Schaeffler Group during the first half of the year, with some prices reaching new historic highs. Nearly all end-of-year prices were higher than as at the beginning of the year, most of them quite considerably so. On an annual average basis, all input materials significant to the Schaeffler Group were massively more expensive than in the prior year; this applies especially to steel, with prices doubling or nearly tripling in key procurement regions. (Bloomberg; EIA; ICIS; Platts).

Steel is used to manufacture rolling bearings and automotive components. Annual average prices for cold- and hot-rolled steel in the U.S. were approximately 143% and 174% higher than in the prior year, respectively, and both increased by over 100% in Europe. In China, the price increase amounted to approximately 35% and approximately 39%, respectively.

Aluminum is primarily used for pressure die castings, while copper is mainly required for use in electric motors and mechatronic components. On an annual average basis, the price of aluminum rose by approximately 45% and copper by approximately 51%.

The Schaeffler Group uses plastics, for instance to produce cages for rolling bearings, and lubricants serve to reduce friction in components and as preservatives. Plastics and lubricants are often made based on crude oil. The annual average price of crude oil was up approximately 69% from its prior year level. Based on the ICIS Global Petrochemical Index (IPEX), average prices of processed petrochemical products, including the plastics used by the Schaeffler Group, were approximately 54% higher than in the prior year.

2.2 Course of business 2021

Overall assessment of the 2021 business year by the Board of Managing Directors

In light of the challenging market environment in the second half of the year, the Schaeffler Group did well overall in 2021. The considerable revenue growth of 9.7% excluding the impact of currency translation considerably exceeded the prior year and was within the adjusted guidance. The Automotive Technologies division generated considerable revenue growth of 7.4% excluding the impact of currency translation which was attributable to the vigorous first half of 2021. In the second half of the year, growing bottlenecks in global supply chains, particularly those for semiconductors, significantly reduced customers' call-offs and considerably lowered sales volumes, driven by the market. On the whole, the Automotive Technologies division once more considerably outperformed global automobile production which increased by 3.4% in 2021. Unlike the Automotive Technologies division, the Automotive Aftermarket and Industrial divisions grew in the second half of the year as well, resulting in both divisions generating strong double-digit full-year growth rates of 13.0% and 13.6%, respectively.

The recovery of the business has considerably improved earnings in 2021. The strong EBIT margin before special items of 9.1% considerably exceeded that of the prior year and was within the adjusted guidance, primarily due to economies of scale. Volume decreases at the Automotive Technologies division and rising cost of materials due to the worldwide shortage of commodities in the second half of 2021 were partly mitigated by the encouraging earnings trend of the Industrial division.

Free cash flow before cash in- and outflows for M&A activities of EUR 523 m was in line with the prior year level and thus within the adjusted guidance. Along with the considerably improved EBITDA, the continued strict spending restraint with respect to investing activities has contributed to this strong result as well.

In addition to the favorable trend in its financial position and earnings, the company has also achieved significant milestones in the Execution Program 2025 of the "Roadmap 2025". As part of the structural measures in Europe, negotiations with employee representatives related to downsizing the workforce to adjust excess structural capacity and consolidate locations in Europe, especially in Germany, have been concluded at all locations affected. Further, the company started preparations for construction of the central laboratory facility and has begun to set up the center of excellence for hydrogen technology in Herzogenaurach and to construct the new tool technology center in Hoechstadt during the year in order to boost the company's competitiveness and strengthen selected locations in Germany. Additionally, the organizational structure of the Automotive Technologies division was enhanced in order to even more closely align the Schaeffler Group toward future-oriented technologies and the transition in the automotive industry. This organizational change separates the powertrain-specific business from the powertrain-agnostic business more clearly than before in order to, for instance in the new Bearings BD, access new markets in a highly competitive environment and increase the visibility of the bearing business as well as enhance it with a focus on applications and customers. Furthermore, the first production plant worldwide dedicated to electric mobility was commissioned during the year to manufacture components and systems such as electric motors and hybrid drives.

More on the "Roadmap 2025" on pp. 10 et seq.

Results of operations compared to outlook 2021

On February 22, 2021, the Board of Managing Directors of Schaeffler AG issued a full-year outlook on the development of key operating financial performance indicators of the Schaeffler Group and its three divisions for 2021. The **Schaeffler Group** expected its revenue to grow considerably in 2021, rising by more than 7% excluding the impact of currency translation. In addition, the company expected to generate an EBIT margin before special items of 6 to 8% in 2021. The Schaeffler Group also anticipated free cash flow before cash in- and outflows for M&A activities for 2021 to amount to approximately EUR 100 m. The group anticipated that its **Automotive Technologies division** would grow by 2 to 5 percentage points more than global automobile production of passenger cars and light commercial vehicles. On that basis, the company expected the Automotive Technologies division to generate revenue growth that would be considerably positive, excluding the impact of currency translation, and to slightly improve its EBIT margin before special items over the prior year by raising it to more than 4.5%. For the **Automotive Aftermarket division**, the group anticipated revenue growth, excluding the impact of currency translation, of 5 to 7% and an EBIT margin before special items slightly lower than in the prior year at more than 11.5% in 2021. The company expected its **Industrial division** to generate revenue growth of 4 to 6%, excluding the impact of currency translation, and an EBIT margin before special items in the high single-digits above 8.5% in 2021.

On May 11, 2021, as well as on July 26, 2021, the Board of Managing Directors of Schaeffler AG raised the full-year outlook for the key operating financial performance indicators of the Schaeffler Group for 2021 based, in particular, on market estimates that were raised from the estimates made in February 2021.

Comparison to outlook 2021

	Actual 2020				Outlook 2021	Actual 2021
Schaeffler Group		Issued 02/22/2021	Issued 05/11/2021	Issued 07/26/2021	Issued 10/25/2021	
Revenue growth [1]	-10.5%	› 7%	› 10%	› 11%	› 7%	9.7%
EBIT margin before special items [2]	6.3%	6 to 8%	7 to 9%	8 to 9.5%	8 to 9.5%	9.1%
Free cash flow [3]	EUR 539 m	~ EUR 100 m	› EUR 300 m	› EUR 400 m	› EUR 400 m	EUR 523 m

[1] Constant-currency revenue growth compared to prior year.
[2] Please refer to pp. 33 et seq. for the definition of special items.
[3] Before cash in- and outflows for M&A activities.

On October 25, 2021, the Board of Managing Directors of Schaeffler AG confirmed the raised outlook issued on July 26, 2021, for the **EBIT margin before special items** and **free cash flow before cash inflows and outflows for M&A activities** of the **Schaeffler Group**. The company expected to generate an EBIT margin before special items of 8 to 9.5% and free cash flow before cash in- and outflows for M&A activities of more than EUR 400 m and less than in the prior year. With respect to revenue, the **Schaeffler Group** was then expecting considerable **revenue growth** for 2021 of more than 7% **excluding the impact of currency translation**, following an expected growth rate of more than 11% in the outlook issued on July 26, 2021. This reflected, in the Automotive Technologies division, automobile production of passenger cars and light commercial vehicles in the third and fourth quarters of 2021 that was considerably lower than assumed previously. The group continued to anticipate its Automotive Technologies division to generate considerably positive revenue growth, excluding the impact of currency translation, and to grow by 2 to 5 percentage points more in 2021 than global automobile production of passenger cars and light commercial vehicles, which the then current base scenario by IHS Markit (October 2021) implied would grow at a rate of 0.3%. This change was partly offset by inclusion, in the guidance for the Schaeffler Group's revenue growth issued on October 25, 2021, of a raised market estimate for the Industrial division, which the company was then expecting to grow its revenue by 11 to 13% excluding the impact of currency translation.

By generating considerable revenue growth of 9.7% excluding the impact of currency translation, the **Schaeffler Group** met the guidance issued on February 22, 2021, as well as the adjusted revenue guidance issued on October 25, 2021. The EBIT margin before special items of 9.1% exceeded the guidance issued on February 22, 2021, and met the adjusted guidance issued on October 25, 2021. Free cash flow before cash in- and outflows for M&A activities of EUR 523 m exceeded the guidance issued on February 22, 2021, and was in line with the adjusted outlook issued on October 25, 2021.

On October 25, 2021, the group continued to anticipate its **Automotive Technologies division** to grow by 2 to 5 percentage points more than global automobile production of passenger cars and light commercial vehicles, and, on that basis, to generate revenue growth, excluding the impact of currency translation, that would be considerably positive. Additionally, the company expected the Automotive Technologies division to considerably improve its EBIT margin before special items over the prior year by raising it to just over 6%. The Automotive Technologies division generated considerable revenue growth of 7.4% excluding the impact of currency translation and considerably improved its EBIT margin before special items over the prior year to 6.9%, meeting both the guidance issued on February 22, 2021, and the adjusted guidance issued on October 25, 2021.

On October 25, 2021, the group anticipated the **Automotive Aftermarket division** to generate considerable revenue growth, excluding the impact of currency translation, of more than 10% and an EBIT margin before special items slightly lower than in the prior year at more than 12.5%. By generating considerable revenue growth of 13.0% excluding the impact of currency translation, the Automotive Aftermarket division exceeded the guidance issued on February 22, 2021, and met the adjusted guidance issued on October 25, 2021. The division's EBIT margin before special items of 13.8% met both the guidance issued on February 22, 2021, and the adjusted guidance issued on October 25, 2021.

On October 25, 2021, the group expected **Industrial division** revenue to grow by 11 to 13%, excluding the impact of currency translation, and continued to expect the EBIT margin before special items to improve considerably compared to the prior year, increasing to more than 10.5%. The revenue growth of 13.6%, excluding the impact of currency translation, generated by the Industrial division met both the guidance issued on February 22, 2021, and the adjusted guidance issued on October 25, 2021. The division's EBIT margin before special items of 12.0% exceeded the guidance issued on February 22, 2021, and met the adjusted guidance issued on October 25, 2021.

Comparison to outlook 2021

	Actual 2020				Outlook 2021	Actual 2021
Automotive Technologies		Issued 02/22/2021	Issued 05/11/2021	Issued 07/26/2021	Issued 10/25/2021	
Revenue growth [1]	-11.7%	positive growth, 2 to 5%-age points above LVP growth [4]	positive growth, 2 to 5%-age points above LVP growth [4]	positive growth, 2 to 5%-age points above LVP growth [4]	positive growth, 2 to 5%-age points above LVP growth [4]	7.4%
EBIT margin before special items [2]	3.4%	› 4.5%	› 6%	› 6%	› 6%	6.9%
Automotive Aftermarket						
Revenue growth [1]	-6.9%	5 bis 7%	6 bis 8%	› 10%	› 10%	13.0%
EBIT margin before special items [2]	15.7%	› 11.5%	› 11.5%	› 12.5%	› 12.5%	13.8%
Industrial						
Revenue growth [1]	-9.4%	4 bis 6%	7 bis 9%	9 bis 11%	11 bis 13%	13.6%
EBIT margin before special items [2]	8.8%	› 8.5%	› 9.5%	› 10.5%	› 10.5%	12.0%

1) Constant-currency revenue growth compared to prior year.
2) Please refer to pp. 33 et seq. for the definition of special items.
3) Before cash in- and outflows for M&A activities.
4) LVP growth: global growth in production of passenger cars and light commercial vehicles.

2.3 Earnings

Schaeffler Group earnings

The considerable overall growth in **revenue** across all divisions and regions during the year was mainly attributable to the increase in demand in the first half of 2021 from the very low basis for comparison. Over the course of the remaining reporting period, bottlenecks in global supply chains, particularly those for semiconductors, significantly reduced customers' call-offs and considerably lowered sales volumes in the **Automotive Technologies division** for the second half of the year. The **Industrial division** experienced an offsetting trend in the second half of 2021: It further expanded its sales volumes compared to the first half of 2021 as well as compared to the second half of the prior year, which was already marked by considerable catch-up effects due to the coronavirus pandemic. Although **Automotive Aftermarket division** revenue for the second half of 2021 was close to flat with the first six months of the year, the growth rate fell considerably, partly because the second half of 2020 was already considerably marked by catch-up processes following the earlier slumps.

The improvement in the **EBIT margin before special items** compared to the prior year was largely driven by economies of scale during the first six months of 2021 which resulted in a significantly improved gross margin. The structural cost reduction measures expanded in the prior year proved effective as well. The increase in cost of sales and functional costs was primarily attributable to a low basis for comparison, since the prior year included adjustments rapidly adopted to align expenses with the heavy decline in demand, such as short-time work. In the second half of 2021, the heavy market-driven decline in volumes in the Automotive Technologies division as well as the significant increase in procurement costs both had a growing adverse impact on net income.

See pp. 33 et seq. for a discussion of the special items recognized during the reporting period.

in € millions	2021	2020	Change in %
Revenue	**13,852**	**12,589**	**10.0**
• at constant currency			9.7
Revenue by division			
Automotive Technologies	8,436	7,816	7.9
• at constant currency			7.4
Automotive Aftermarket	1,848	1,642	12.6
• at constant currency			13.0
Industrial	3,568	3,132	13.9
• at constant currency			13.6
Revenue by region [1]			
Europe	5,823	5,379	8.2
• at constant currency			8.6
Americas	2,821	2,601	8.5
• at constant currency			10.3
Greater China	3,294	2,941	12.0
• at constant currency			8.8
Asia/Pacific	1,915	1,668	14.8
• at constant currency			16.1
Cost of sales	-10,412	-9,730	7.0
Gross profit	**3,439**	**2,859**	**20.3**
• in % of revenue	24.8	22.7	-
Research and development expenses	-748	-684	9.4
Selling and administrative expenses	-1,518	-1,372	10.6
Other income and expense	91	-952	-
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)	**1,264**	**-149**	**-**
• in % of revenue	9.1	-1.2	-
Special items [2]	1	946	-99.9
EBIT before special items	**1,266**	**798**	**58.7**
• in % of revenue	9.1	6.3	-
Financial result	-98	-185	-47.1
Income (loss) from equity-accounted investees	-44	-34	30.5
Income taxes	-348	-51	> 100
Net income (loss) [3]	756	-428	-
Earnings per common non-voting share (basic/diluted, in €)	1.14	-0.64	-

[1] Based on market (customer location).
[2] Please refer to pp. 33 et seq. for the definition of special items.
[3] Attributable to shareholders of the parent company.

The Schaeffler Group's **financial result** improved by EUR 87 m to EUR -98 m in 2021.

Schaeffler Group financial result

in € millions	2021	2020
Interest expense on financial debt [1]	-108	-100
Gains and losses on derivatives and foreign exchange	-1	-6
Fair value changes on embedded derivatives	0	-31
Interest income and expense on pensions and partial retirement obligations	-18	-22
Other	30	-26
Total	**-98**	**-185**

[1] Incl. amortization of transaction costs and prepayment penalties.

Interest expense on financial debt amounted to EUR 108 m in 2021 (prior year: EUR 100 m), which was slightly above the prior year level. No prepayment penalties were incurred during the reporting period (prior year: EUR 10 m). Derecognition of deferred transaction costs resulted in expenses of EUR 1 m (prior year: EUR 4 m).

There was no impact from embedded derivatives in 2021. In the prior year period, net losses of EUR 31 m were incurred in connection with the prepayment option for the bond series redeemed in November 2020.

EUR 30 m in income was included in Other in 2021 (prior year: EUR 26 m in expenses). This interest income primarily represents EUR 24 m in interest on excess social tax paid in the past in Brazil.

Income tax expense amounted to EUR 348 m in 2021 (prior year: EUR 51 m), resulting in an effective tax rate of 31.0% (prior year: -13.9%). The change in the effective tax rate compared to the prior year was primarily the result of higher pre-tax income. Additionally, the company incurred fewer one-off items adversely affecting the effective tax rate and less non-deductible expenses in 2021. The latter is partly attributable to lower deferred tax liabilities on dividends expected to be paid by subsidiaries and to non-creditable withholding taxes.

Net income attributable to shareholders of the parent company for 2021 rose to EUR 756 m (prior year: EUR -428 m). Net income was increased by EUR 22 m in special items. **Net income before special items** improved from the prior year, rising to EUR 748 m (prior year: EUR 321 m). The Board of Managing Directors and the Supervisory Board will propose a dividend for 2021 of EUR 0.49 (prior year: EUR 0.24) per common share and EUR 0.50 (prior year: EUR 0.25) per common non-voting share to the annual general meeting. This represents a dividend payout ratio of 43.9% (prior year: 50.3%) of net income attributable to shareholders before special items.

Basic and diluted earnings per common share increased to EUR 1.13 (prior year: EUR -0.65) in 2021. Basic and diluted **earnings per common non-voting share** amounted to EUR 1.14 (prior year: EUR -0.64). 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.

ROCE rose to 16.0% in 2021 (prior year: -1.9%); Schaeffler Value Added amounted to EUR 473 m (prior year: EUR -944 m). **ROCE before special items** improved considerably to 16.0% in 2021 (prior year: 10.0%); **Schaeffler Value Added before special items (SVA)** increased considerably as well, rising to EUR 475 m (prior year: EUR 2 m). The increases were attributable to the substantial improvement in EBIT before special items. Average capital employed was close to flat with the prior year level.

Automotive Technologies division earnings

The considerable growth in **revenue** during the year was attributable to the increase in volumes in the first half of 2021 from the very low basis for comparison across all business divisions (BDs) and regions. In the second half of 2021, however, volumes declined considerably compared to the prior year period, with bottlenecks in global supply chains, particularly those for semiconductors, significantly reducing customers' call-offs (LVP growth [2] H2 2021: -14.5%) and considerably lowering revenue, partly because the prior year period was already marked by noticeable catch-up effects following the earlier slumps. In contrast to the general market trend, the E-Mobility BD ended the second half of 2021 slightly ahead of the prior year level due in part to product ramp-ups, generating a full-year growth rate well in the double-digits. The division's revenue growth once again considerably exceeded the trend in automobile production in 2021:

Outperformance 2021

	Europe	Americas	Greater China	Asia / Pacific	Total
Revenue growth (in %) [1]	7.1	6.8	5.7	13.8	7.4
LVP growth (in %) [2]	-2.7	2.5	5.7	7.3	3.4
Outperformance (in percentage points)	**9.8**	**4.3**	**0.0**	**6.5**	**4.0**

[1] Constant-currency revenue growth compared to prior year.
[2] Growth in production of passenger cars and light commercial vehicles; source: IHS Markit (February 2022).

The improvement in the **EBIT margin before special items** compared to the prior year was largely driven by economies of scale during the first six months and by as yet low production costs, particularly in the first quarter, which resulted in a significantly improved gross margin. The structural cost reduction measures expanded in the prior year proved effective as well. The increase in cost of sales and functional costs was primarily attributable to a low basis for comparison, since the prior year included adjustments rapidly adopted to align expenses with the heavy decline in demand, such as short-time work. In the second half of 2021, the heavy market-driven decline in volumes as well as the significant increase in procurement costs both had a growing adverse impact on net income.

in € millions	2021	2020	Change in %
Revenue	**8,436**	**7,816**	**7.9**
• at constant currency			7.4
Revenue by business division			
E-Mobility BD	1,245	1,047	18.9
• at constant currency			17.8
Engine Systems BD	2,156	2,056	4.9
• at constant currency			4.8
Transmission Systems BD	3,741	3,508	6.6
• at constant currency			6.4
Chassis Systems BD	1,294	1,204	7.4
• at constant currency			7.1
Revenue by region [3]			
Europe	3,074	2,883	6.6
• at constant currency			7.1
Americas	1,870	1,772	5.5
• at constant currency			6.8
Greater China	2,211	2,023	9.3
• at constant currency			5.7
Asia/Pacific	1,281	1,138	12.6
• at constant currency			13.8
Cost of sales	-6,632	-6,382	3.9
Gross profit	**1,804**	**1,434**	**25.8**
• in % of revenue	21.4	18.3	-
Research and development expenses	-601	-540	11.4
Selling and administrative expenses	-672	-616	9.1
Other income and expense	90	-623	-
EBIT	**620**	**-344**	**-**
• in % of revenue	7.4	-4.4	-
Special items [4]	-35	608	-
EBIT before special items	**585**	**263**	**> 100**
• in % of revenue	6.9	3.4	-

Prior year information presented based on 2021 segment structure.
[1] Constant-currency revenue growth compared to prior year.
[2] Growth in production of passenger cars and light commercial vehicles; source: IHS Markit (February 2022).
[3] Based on market (customer location).
[4] Please refer to pp. 33 et seq. for the definition of special items.

Automotive Aftermarket division earnings

The considerable growth in **revenue** during the year was mainly attributable to the increase in volumes in the first half of 2021 from the low basis for comparison. Although the division's revenue for the second half of 2021 was close to flat with the first six months of 2021, the growth rate nevertheless declined considerably over the course of the year, since the second half of 2020 had already been marked by noticeable catch-up effects following the heavy slumps earlier that year. Full-year revenue recovered across all regions; considerably higher volumes in the **Europe** and **Americas regions** were the main drivers behind the division's growth. Especially the Independent Aftermarket business in the Central & Eastern Europe, Western Europe, South America, and U.S. & Canada subregions grew considerably. The OES business in the subregions of Germany and Western Europe grew considerably as well. The **Greater China region** considerably expanded its e-commerce business during the reporting period; this business contributed a majority of the division's growth in the region. The growth reported by the **Asia/Pacific region** resulted mainly from considerably higher volumes in the Independent Aftermarket and OES business in India.

The decrease in **EBIT margin before special items** from the prior year was primarily due to higher product expenses that considerably decreased the gross profit margin. In addition, selling expenses ramping up as planned as a result of the assembly and packaging center commencing operations have affected the EBIT margin before special items. Favorable one-off items in selling expenses related to an agreement reached on a retroactive reimbursement of expenses by a service provider as well as higher sales volumes had an offsetting impact.

in € millions	2021	2020	Change in %
Revenue	**1,848**	**1,642**	**12.6**
• at constant currency			13.0
Revenue by region [1]			
Europe	1,275	1,184	7.7
• at constant currency			8.1
Americas	363	301	20.7
• at constant currency			26.1
Greater China	101	77	31.3
• at constant currency			27.5
Asia/Pacific	109	80	35.7
• at constant currency			37.9
Cost of sales	-1,263	-1,073	17.7
Gross profit	**585**	**569**	**2.9**
• in % of revenue	31.7	34.6	-
Research and development expenses	-15	-18	-12.3
Selling and administrative expenses	-322	-287	12.2
Other income and expense	25	-35	-
EBIT	**272**	**228**	**19.3**
• in % of revenue	14.7	13.9	-
Special items [2]	-18	30	-
EBIT before special items	**254**	**258**	**-1.4**
• in % of revenue	13.8	15.7	-

Prior year information presented based on 2021 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 33 et seq. for the definition of special items.

Industrial division earnings

The considerable increase in **revenue** during the year was largely attributable to strong growth at Industrial Distribution as well as in the industrial automation, power transmission, and offroad sector clusters. The regional revenue trends varied widely over the course of the year. While the revenue trend in the **Europe region** was still rather moderate in the first half of 2021, the division generated considerable growth rates there in the second half of the year, especially at Industrial Distribution and in the industrial automation and power transmission sector clusters. In contrast, the **Greater China region** experienced a considerable decrease in its growth rate in the second half of 2021. The decline was mainly caused by a heavy decline in demand in the wind sector cluster following a pull-forward effect due to subsidies for offshore wind turbines ending at year-end as expected. The **Americas region**'s revenue trend was overall largely attributable to growth in Industrial Distribution. Growth in the **Asia/Pacific region** resulted primarily from increased volumes in India and was mainly due to the wind, two-wheelers, and offroad sector clusters as well as Industrial Distribution.

The considerable improvement in **EBIT margin before special items** compared to the prior year was largely driven by economies of scale. These economies of scale improved the gross margin and decreased functional costs as a percentage of revenue from 19.0% to 18.4%. The structural cost reduction measures expanded in the prior year proved effective as well. The increase in cost of sales and functional costs was primarily attributable to a low basis for comparison, since the prior year included adjustments rapidly adopted to align expenses with the heavy decline in demand, such as short-time work. In the second half of 2021, the significant increase in procurement costs had a growing adverse impact on net income.

in € millions	2021	2020	Change in %
Revenue	**3,568**	**3,132**	**13.9**
• at constant currency			13.6
Revenue by region [1]			
Europe	1,473	1,312	12.2
• at constant currency			12.3
Americas	588	528	11.3
• at constant currency			13.8
Greater China	982	840	16.8
• at constant currency			14.5
Asia/Pacific	525	451	16.6
• at constant currency			18.3
Cost of sales	-2,517	-2,275	10.6
Gross profit	**1,051**	**856**	**22.7**
• in % of revenue	29.4	27.3	-
Research and development expenses	-131	-126	4.0
Selling and administrative expenses	-524	-469	11.8
Other income and expense	-24	-294	-91.9
EBIT	**372**	**-33**	**-**
• in % of revenue	10.4	-1.0	-
Special items [2]	55	309	-82.3
EBIT before special items	**426**	**276**	**54.4**
• in % of revenue	12.0	8.8	-

Prior year information presented based on 2021 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 33 et seq. for the definition of special items.

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.

Please refer to the "Group management" chapter on pp. 15 et seq. for a detailed discussion of performance indicators.

EBIT for the year was impacted by **special items**, most of which were recognized in other income and expense. In the **restructuring** category, special items were recognized as part of the "Roadmap 2025" divisional subprograms, largely in connection with the partial reversal of a restructuring provision since the cost to date of implementing the structural measures announced in September 2020 is less than the transformation expenses originally planned. The targets communicated in September 2020 with respect to sustainably lowering costs remain in place unchanged. Expenses of consolidating the footprint in Europe had an offsetting impact (see "Significant events", pp. i2 et seq.). In addition, the category includes an adjustment to a provision for the set-up of a shared service center started in 2017. The **legal cases** category primarily includes income related to a court ruling and follow-up litigation dealing with the same issue in Brazil. The **Other** category comprises adjustments for expenses of remediating past environmental impacts and rehabilitating commercial land, the effect on net income of reversing an impact of currency translation related to a subsidiary that is no longer consolidated as it is no longer active, and special projects.

A reduction in the volume of the ABCP program was recognized for the prior year period in the financing category within free cash flow before cash in- and outflows for M&A activities and before special items.

Reconciliation

	2021	2020	2021	2020 [1]	2021	2020 [1]	2021	2020 [1]
Income statement (in € millions)		Total	Automotive Technologies		Automotive Aftermarket			Industrial
EBIT	**1,264**	**-149**	**620**	**-344**	**272**	**228**	**372**	**-33**
• in % of revenue	9.1	-1.2	7.4	-4.4	14.7	13.9	10.4	-1.0
Special items	**1**	**946**	**-35**	**608**	**-18**	**30**	**55**	**309**
• Legal cases	-32	21	-12	12	-16	3	-4	6
• Restructuring	-10	676	-23	347	-2	26	16	303
– including divisional Roadmap 2025 subprograms of	3	681	-15	350	-1	27	19	304
– including indirect areas shared service center of	-13	-5	-9	-3	-2	-1	-2	-1
• Other	43	249	0	249	0	0	43	0
EBIT before special items	**1,266**	**798**	**585**	**263**	**254**	**258**	**426**	**276**
• in % of revenue	9.1	6.3	6.9	3.4	13.8	15.7	12.0	8.8

[1] Prior year information presented based on 2021 segment structure.

Reconciliation

	2021	2020
Income statement (in € millions)		Total
EBIT	**1,264**	**-149**
• in % of revenue	9.1	-1.2
Special items	**1**	**946**
• Legal cases	-32	21
• Restructuring	-10	676
– including divisional Roadmap 2025 subprograms of	3	681
– including indirect areas shared service center of	-13	-5
• Other	43	249
EBIT before special items	**1,266**	**798**
• in % of revenue	9.1	6.3
Net income (loss) [2]	**756**	**-428**
Special items	**-22**	**946**
• Legal cases	-55	21
• Restructuring	-10	676
• Other	43	249
– Tax effect [3]	14	-197
Net income before special items [2]	**748**	**321**
Statement of financial position (in € millions)	**12/31/2021**	**12/31/2020**
Net financial debt	1,954	2,312
/ EBITDA	2,230	1,111
Net financial debt to EBITDA ratio	**0.9**	**2.1**
Net financial debt	1,954	2,312
/ EBITDA before special items	2,224	1,788
Net financial debt to EBITDA ratio before special items	**0.9**	**1.3**

	2021	2020
Statement of cash flows (in € millions)		
EBITDA	**2,230**	**1,111**
Special items	**-6**	**677**
• Legal cases	-32	21
• Restructuring	-17	656
• Other	43	0
EBITDA before special items	**2,224**	**1,788**
Free cash flow (FCF)	**500**	**552**
-/+ Cash in- and outflows for M&A activities	23	-13
FCF before cash in- and outflows for M&A activities	**523**	**539**
/ EBIT	1,264	-149
FCF-conversion [4]	**0.4**	**-**
FCF before cash in- and outflows for M&A activities	**523**	**539**
Special items	**307**	**263**
• Legal cases	-8	7
• Restructuring	308	176
• Other	7	0
• Financing	0	80
FCF before cash in- and outflows for M&A activities and before special items	**830**	**802**
Value-based management (in € millions)		
EBIT	1,264	-149
/ Average capital employed	7,910	7,957
ROCE (in %)	**16.0**	**-1.9**
EBIT before special items	1,266	798
/ Average capital employed	7,910	7,957
ROCE before special items (in %)	**16.0**	**10.0**
EBIT	1,264	-149
– Cost of capital	791	796
Schaeffler Value Added (SVA)	**473**	**-944**
EBIT before special items	1,266	798
– Cost of capital	791	796
SVA before special items	**475**	**2**

[1] Prior year information presented based on 2021 segment structure.
[2] Attributable to shareholders of the parent company.
[3] Based on each entity's specific tax rate and country-specific tax environment. The goodwill impairment included in "Other" in the prior year was treated as a non-deductible operating expense.
[4] Only reported if free cash flow before cash in- and outflows for M&A activities and EBIT positive.

2.4 Financial position and finance management

Cash flow and liquidity

Cash flow

in € millions	2021	2020	Change in %
Cash flows from operating activities	1,276	1,254	1.8
Cash used in investing activities	-716	-642	11.5
• including acquisition of subsidiaries, interests in joint ventures, and other equity investments	-19	15	-
• including disposal of subsidiaries, interests in joint ventures, and other equity investments	-4	-3	58.8
Cash provided by (used in) financing activities	-527	526	-
• including principal repayments on lease liabilities	-59	-60	-0.5
Net increase (decrease) in cash and cash equivalents	**33**	**1,138**	**-97.1**
Effects of foreign exchange rate changes on cash and cash equivalents	34	-50	-
Change in cash and cash equivalents due to changes in the scope of consolidation	-3	1	-
Cash and cash equivalents as at beginning of period	1,758	668	› 100
Cash and cash equivalents	**1,822**	**1,758**	**3.6**
Free cash flow (FCF)	**500**	**552**	**-9.4**
Free cash flow (FCF) before cash in- and outflows for M&A activities	**523**	**539**	**-3.0**

Free cash flow before cash in- and outflows for M&A activities for the year was flat with the prior year level, with capital expenditures slightly up from prior year almost entirely offset by the increase in cash flows from operating activities.

The slight increase in **cash flows from operating activities** in 2021 resulted primarily from the considerable EUR 1,119 m improvement in EBITDA over the prior year. Prior year EBITDA was considerably held back by restructuring expenses that were largely non-cash in nature and primarily related to the structural measures taken in Europe. In 2021, the main adverse factors were restructuring expenditures and an expansion of working capital.

Driven by the increase in business activity, cash outflows for working capital of EUR 288 m exceeded the prior year amount by a considerable EUR 279 m (prior year: EUR 10 m). EUR 695 m of the change from the prior year was due to an increase in inventories. Lower trade receivables and higher trade payables had an offsetting impact of EUR 119 m and EUR 297 m, respectively.

Capital expenditures on property, plant and equipment and intangible assets (capex) primarily focused on investing in new business areas of the Automotive Technologies division and expanding capacity for existing business areas of the Industrial division. The capex ratio was 4.8% of revenue (prior year: 5.0%).

More on investing activities on page 36.

Cash provided by (used in) financing activities includes the dividends of EUR 165 m (prior year: EUR 295 m) paid in the second quarter of 2021. Changes in financial debt resulted in EUR 302 m in net cash outflows during the year (prior year: net cash inflows of EUR 884 m).

More on financing activities on pp. 37 et seq.

Cash and cash equivalents increased by EUR 64 m as at December 31, 2021.

At December 31, 2021, cash and cash equivalents consisted primarily of bank balances and short-term deposits. EUR 221 m (prior year: EUR 253 m) of this amount related to countries with foreign exchange restrictions and other legal and contractual restrictions. In addition, the Schaeffler Group has a Revolving Credit Facility of EUR 1.8 bn (prior year: EUR 1.8 bn) and other bilateral lines of credit totaling EUR 138 m (prior year: EUR 285 m) of which EUR 11 m was drawn as at December 31, 2021. In addition, EUR 33 m of these revolving credit facilities was utilized (prior year: EUR 38 m) in the form of letters of credit and overdrafts on current accounts. Deducting bank balances in countries with foreign exchange restrictions and other legal and contractual restrictions results in total available liquidity of EUR 3,418 m.

Investing activities

Total additions to intangible assets and property, plant and equipment amounted to EUR 670 m (prior year: EUR 639 m). Approx. 64% of these additions related to the **Automotive Technologies division**, approx. 3% to the **Automotive Aftermarket division**, and approx. 33% to the **Industrial division.** The group's **reinvestment rate** for the reporting period amounted to 0.74 (prior year: 0.67).

Additions to intangible assets and property, plant and equipment by division

in € millions	2021	2020
Additions to intangible assets and property, plant and equipment – Schaeffler Group	**670**	**639**
Automotive Technologies	430	378
Automotive Aftermarket	20	26
Industrial	220	234
Reinvestment rate [1] – Schaeffler Group	**0.74**	**0.67**
Automotive Technologies	0.60	0.50
Automotive Aftermarket	0.71	1.21
Industrial	1.37	1.40

[1] The reinvestment rate is the ratio of additions to intangible assets and property, plant and equipment to depreciation, amortization, and impairment losses (excluding depreciation of right-of-use assets under leases and impairments of goodwill).

The majority of additions to intangible assets and property, plant and equipment related to the **Automotive Technologies division** and focused on machines for new products and on capacity expansions in the Europe and Greater China regions in 2021. In the Europe region, the Schaeffler Group has opened the first production plant dedicated to electric mobility at its Szombathely location in Hungary during the year. The stronger alignment toward future-oriented technologies has resulted in capital being reallocated from mature business areas to new business areas during the year.

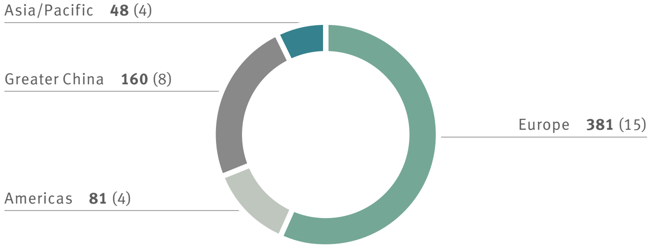
The **Automotive Aftermarket division** focused on investing in digital distribution channels in the Europe region.

The **Industrial division** invested primarily in expanding capacities in the Europe and Greater China regions. For the Brasov plant in Romania, the division invested in the construction of a new production building as well as in machines for railway bearings. Additional machinery was acquired for the production building for large-size bearings commissioned in Nanjing in the Greater China region during the year.

As part of the "Roadmap 2025", preparations for the construction of a new cross-divisional central laboratory facility was started at the Schaeffler Group's global headquarters in Herzogenaurach and the company invested in the construction of a tool-manufacturing center of excellence at the Hoechstadt location. The Schaeffler Group also invested in internal implementation of "SAP S/4HANA".

Schaeffler Group capital expenditures [1] by region

in € millions (change from prior year in € millions)



[1] Additions to intangible assets and property, plant and equipment.

Financial debt

The group's net financial debt decreased by EUR 358 m to EUR 1,954 m (prior year: EUR 2,312 m) in 2021.

Net financial debt

in € millions	12/31/2021	12/31/2020	Change in %
Bonds	3,480	3,476	0.1
Schuldschein loans	297	554	-46.5
Revolving Credit Facility	-1	-3	-50.9
Commercial paper	0	30	-100
Other financial debt	0	13	-97.0
Total financial debt	**3,776**	**4,071**	**-7.2**
Cash and cash equivalents	1,822	1,758	3.6
Net financial debt	**1,954**	**2,312**	**-15.5**

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 0.9 as at December 31, 2021 (prior year: 2.1). The net debt to EBITDA ratio before special items was 0.9 (prior year: 1.3).

On March 15, 2021, rating agency Fitch lowered its ratings for the Schaeffler Group from previously "BBB-" to "BB+" (outlook "stable").

On August 17, 2021, Moody's raised the outlook for its "Ba1" rating for the Schaeffler Group from "stable" to "positive".

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, 2021:

Schaeffler Group ratings
as at December 31

	2021	2020	2021	2020
		Company		Bonds
Rating agency		Rating/Outlook		Rating
Fitch	BB+/stable	BBB-/ negative	BB+	BBB-
Moody's	Ba1/positive	Ba1/stable	Ba1	Ba1
Standard & Poor's	BB+/stable	BB+/stable	BB+	BB+

Schaeffler AG has a Revolving Credit Facility of EUR 1.8 bn that was unutilized as at December 31, 2021, except for EUR 33 m (December 31, 2020: EUR 27 m) in the form of letters of credit. The exercise of a contractually agreed renewal option extended the maturity date of the Revolving Credit Facility to September 2024 on March 12, 2021.

In addition, the group had further bilateral lines of credit in the equivalent of EUR 138 m (prior year: EUR 285 m), primarily in Germany, the U.S., and South Korea. EUR 127 m of these facilities were unutilized as at December 31, 2021 (prior year: EUR 262 m).

On November 11, 2021, Schaeffler AG prepaid variable-interest Schuldschein tranches with a volume of EUR 259 m originally due in May 2023.

In December 2021, Schaeffler AG terminated EUR 150 m in bilateral lines of credit originally due on September 30, 2023, early.

Schaeffler AG had the following bonds outstanding under its debt issuance program as at December 31, 2021:

Schaeffler Group bonds

ISIN	Currency	Principal in millions 12/31/2021	Principal in millions 12/31/2020	Carrying amount in € millions 12/31/2021	Carrying amount in € millions 12/31/2020	Coupon	Maturity
DE000A2YB699 1)	EUR	545	545	544	543	1.125%	03/26/2022
DE000A2YB7A7	EUR	800	800	796	795	1.875%	03/26/2024
DE000A289Q91	EUR	750	750	747	747	2.750%	10/12/2025
DE000A2YB7B5	EUR	650	650	645	645	2.875%	03/26/2027
DE000A3H2TA0	EUR	750	750	747	746	3.375%	10/12/2028
Total		**3,495**	**3,495**	**3,480**	**3,476**		

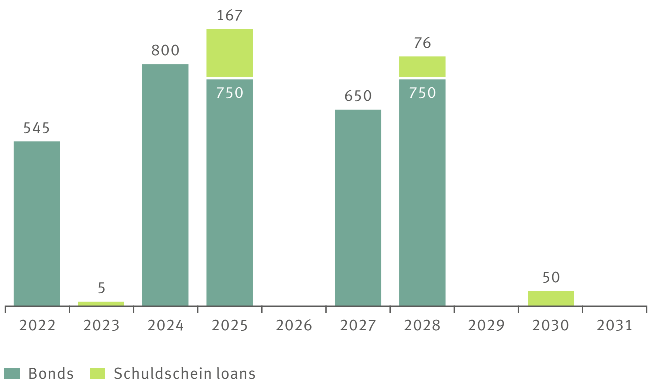
1) Principal outstanding: EUR 544,668,000 (since October 14, 2020). Early redemption on March 1, 2022, was announced on January 17, 2022.

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 2021 as stipulated in the debt agreements.

The company's maturity profile, which consists of Schuldschein loans and the bonds issued by Schaeffler AG, was as follows as at December 31, 2021:

Maturity profile

Principal outstanding as at December 31, 2021, in € millions



Finance management

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

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

External group financing is primarily provided by capital and money market instruments, Schuldschein loans, as well as syndicated and bilateral lines of credit from international banks. One such line of credit is a contractually agreed Revolving Credit Facility of EUR 1.8 bn available to cover any short- to medium-term liquidity needs. Furthermore, Schaeffler AG has established a commercial paper program with an aggregate volume of EUR 1.0 bn to cover short-term liquidity needs. In addition, the Schaeffler Group uses receivable sale programs to a limited extent to manage liquidity and improve its working capital. For this purpose, the company has access to a receivable sale program for revolving sales of trade receivables. The program has a total volume of up to EUR 200 m, of which EUR 150 m were utilized as at December 31, 2021. The receivable sale program replaced the previous asset-backed commercial paper program (prior year: EUR 150 m) in September 2021. Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

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

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

2.5 Net assets and capital structure

Consolidated statement of financial position (abbreviated)

in € millions	12/31/2021	12/31/2020	Change in %
ASSETS			
Non-current assets	7,194	7,109	1.2
Current assets	7,170	6,399	12.0
Total assets	**14,364**	**13,509**	**6.3**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	3,165	2,022	56.5
Non-current liabilities	6,516	7,801	-16.5
Current liabilities	4,683	3,686	27.1
Total shareholders' equity and liabilities	**14,364**	**13,509**	**6.3**

The increase in **non-current assets** was due to an increase in other financial assets and other assets. Currency translation increased property, plant and equipment. These increases were partially offset by a low reinvestment rate and a decrease in deferred tax assets. The decrease in deferred tax assets resulted from lower provisions for pensions and similar obligations as well as from utilization of deferred tax assets on loss and interest carry-forwards.

More on investing activities on pp. 36 et seq.

Current assets rose mainly due to higher inventories and trade receivables resulting from increased business activity. The increase in cash and cash equivalents had an impact as well.

Shareholders' equity including non-controlling interests rose primarily due to net income as well as favorable items in accumulated other comprehensive income. The dividends paid to Schaeffler AG's shareholders reduced shareholders' equity. The equity ratio was 22.0% as at December 31, 2021 (December 31, 2020: 15.0%).

Non-current liabilities decreased mainly because a bond series of EUR 545 m due in 2022 was reclassified to current financial debt and EUR 259 m in Schuldschein loans were repaid. Provisions for pensions and similar obligations declined as well, mainly driven by an increase in the average discount rate to 1.5% (December 31, 2020: 0.9%), and non-current provisions were down since EUR 284 m in provisions related to the "Roadmap 2025" divisional subprograms were reclassified to current provisions.

Current liabilities increased mainly as a result of the reclassification of a bond series from non-current financial debt as discussed above and due to higher trade payables. The decrease in provisions was partly related to the "Roadmap 2025" divisional subprograms, including EUR 266 m utilized and EUR 59 m reversed. The reclassification of EUR 284 m from non-current provisions as discussed above had an offsetting impact.

The Schaeffler Group's off-balance sheet commitments include mainly contingent liabilities.

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

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

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

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

Schaeffler AG earnings

Income statement of Schaeffler AG (abbreviated)

in € millions	2021	2020	Change in %
Revenue	24	15	60.0
Cost of sales	-22	-14	57.1
Gross profit	**2**	**1**	**100**
General and administrative expenses	-137	-124	10.5
Net other operating income	-20	-61	-67.2
Income from equity investments	813	500	62.6
Interest result	-169	-134	26.1
Income taxes	-39	-28	39.3
Earnings after income taxes	**450**	**154**	**> 100**
Net income for the year	**450**	**154**	**> 100**
Retained earnings brought forward	0	0	0.0
Withdrawal from other revenue reserves	0	15	- 100
Retained earnings	**450**	**169**	**> 100**

In performing its function as management holding company of the Schaeffler Group, Schaeffler AG incurred EUR 137 m (prior year: EUR 124 m) in general and administrative expenses. The increase was largely due to higher variable remuneration and the absence of savings attributable to short-time work.

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 of withdrawals of EUR 800 m (prior year: EUR 500 m) from Schaeffler Technologies AG & Co. KG and EUR 13 m (prior year: EUR 0 m) from Schaeffler Finance B.V..

Interest result deteriorated from prior year due to a further write-down of the investment in Schaeffler Immobilien AG & Co. KG of EUR 54 m (prior year: EUR 17 m). Total interest expense of EUR 153 m (prior year: EUR 156 m) includes EUR 86 m (prior year: EUR 78 m) related to bonds and, in the prior year, the intercompany loan payable to Schaeffler Finance B.V. that was outstanding until November 2020.

Income taxes amounted to EUR 39 m in 2021 (prior year: EUR 28 m) and consisted exclusively of current income taxes. Schaeffler AG has had deferred tax assets since 2016. It has opted out of recognizing deferred tax assets in accordance with section 274 (1) sentence 2 HGB. Consequently, just as in the prior year, the company did not have any deferred tax expense or benefit in 2021.

Net income for the year amounts to EUR 450 m (prior year: EUR 154 m) in 2021 and equals retained earnings for 2021. In the prior year, EUR 15 m was withdrawn from other revenue reserves.

The Board of Managing Directors and the Supervisory Board will propose to the annual general meeting to pay a dividend for 2021 of EUR 0.49 (prior year: EUR 0.24) per common share and EUR 0.50 (prior year: EUR 0.25) per common non-voting share and to carry forward the remaining retained earnings of EUR 122 m to the following year.

The Board of Managing Directors considers the results of operations of Schaeffler AG, which are highly dependent on the course of business of the Schaeffler Group, to be good overall in light of the challenging market conditions in the second half of the year.

Schaeffler AG financial position and net assets

Balance sheet of Schaeffler AG (abbreviated)

in € millions	12/31/2021	12/31/2020	Change in %
ASSETS			
Fixed assets	14,322	14,115	1.5
Current assets	10,136	9,990	1.5
Prepaid expenses and deferred charges	33	30	10.0
Excess of plan assets over post-employment benefit liability	3	4	-25.0
Total assets	**24,495**	**24,138**	**1.5**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	7,438	7,149	4.0
Provisions	251	273	-8.1
Liabilities	16,805	16,716	0.5
Deferred income	0	0	0.0
Total shareholders' equity and liabilities	**24,495**	**24,138**	**1.5**

Fixed assets consisted primarily of shares in Schaeffler Technologies AG & Co. KG. The carrying amount of the investment in Schaeffler Immobilien AG & Co. KG was written down by EUR 53.7 m in 2021 (prior year: EUR 17.4 m).

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 800 m (prior year: EUR 500 m) that had not yet been paid as at December 31, 2021. Schaeffler Technologies AG & Co. KG paid EUR 500 m in respect of the prior year's net income to Schaeffler AG in 2021, and Schaeffler AG used these funds entirely to pay off existing liabilities due to Schaeffler Technologies AG & Co. KG.

Schaeffler AG manages the Schaeffler Group's cash pool and held bank balances of EUR 1,198 m (prior year: EUR 979 m) at the end of the reporting period.

On April 23, 2021, Schaeffler AG's annual general meeting passed a resolution to pay a dividend of EUR 162 m (prior year: EUR 295 m) to Schaeffler AG's shareholders for 2020 and to add the remaining retained earnings of EUR 7 m (prior year: EUR 159 m) to revenue reserves.

The decrease in provisions was mainly attributable to the utilization of tax provisions for trade and corporation taxes, partially offset by an increase in provisions for pensions.

The company repaid EUR 259 m in Schuldschein loans in 2021. A long-term loan payable to an affiliated company was increased by EUR 61 m in 2021.

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. 37 et seq.

Closing statement on the dependency report

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

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

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

2.7 Other components of the group management report

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

- “Corporate governance declaration including the corporate governance report” on pp. 59 et seq.,
- “Governance structure” on pp. 67 et seq.,
- “Governing bodies of the company” on pp. 72 et seq.

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

Corporate governance declaration including the corporate governance report in accordance with sections 289f HGB and 315d HGB incl. 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/2021

3. Supplementary report

On January 17, 2022, Schaeffler AG called the bond series (ISIN DE000A2YB699) with an outstanding principal of EUR 545 m and an original due date of March 26, 2022. Its early redemption is scheduled for March 1, 2022.

In a transaction that closed on February 1, 2022, the Schaeffler Group has acquired 100% of the shares of Melior Motion GmbH. The acquisition of this supplier of precision gearboxes for robotics and other applications in automation expands the robotics portfolio of the Schaeffler Group's Industrial division.

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, 2021.

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. The risk tolerance is the maximum amount of risk the company can bear without jeopardizing its continued existence over time. It represents the maximum loss that does not yet result in the breach of a covenant or 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

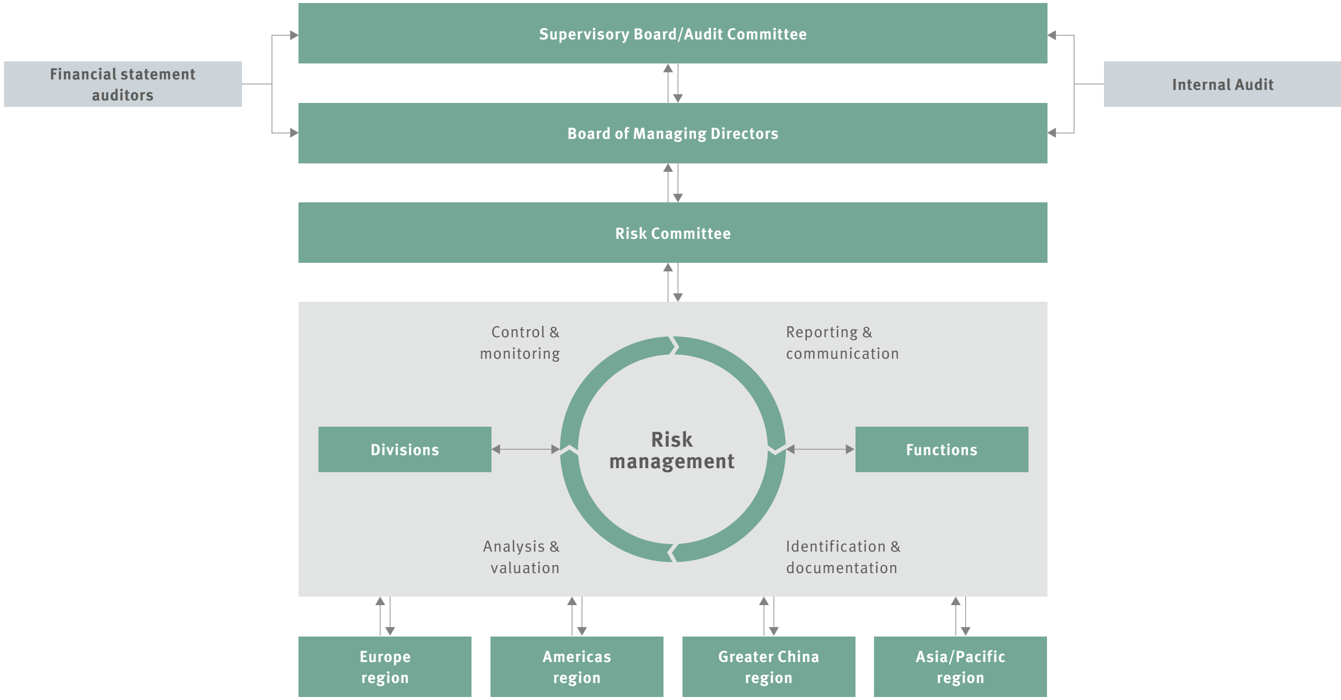
The Schaeffler Group intentionally takes risks in order to meet its corporate objectives.

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. 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.

Structure of risk management system



The risk management system consists of a multi-phase process spanning various levels and organizational units in order to appropriately reflect the matrix structure of the Schaeffler Group. In a bottom-up process, risks are identified and analyzed at the subsidiary level. Based on this analysis, the next step is a top-down analysis by the appropriate global management of the functions and divisions. They assess the risks identified within the subsidiaries, taking into account interdependencies within the Schaeffler Group. This approach ensures that all dimensions of the Schaeffler Group's matrix structure are reflected in the risk management system. During the year, the company established a risk committee that is headed up by the Chief Financial Officer and includes representatives of the divisions and functions. The committee's task is to validate the risk position following completion of the quarterly risk survey and review process as the basis for reports to the Board of Managing Directors. Risks are identified at all material Schaeffler Group companies on a semiannual basis. Additionally, any significant risks are added to and updated in the risk management system on an ongoing basis. Operating management is responsible for identifying risks. The timeframe for identifying risks is five years, longer than the outlook horizon.

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

Combined separate group non-financial report in accordance with sections 289b (3) and 315b (3) HGB within the sustainability report at: www.schaeffler-sustainability-report.com/2021

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.

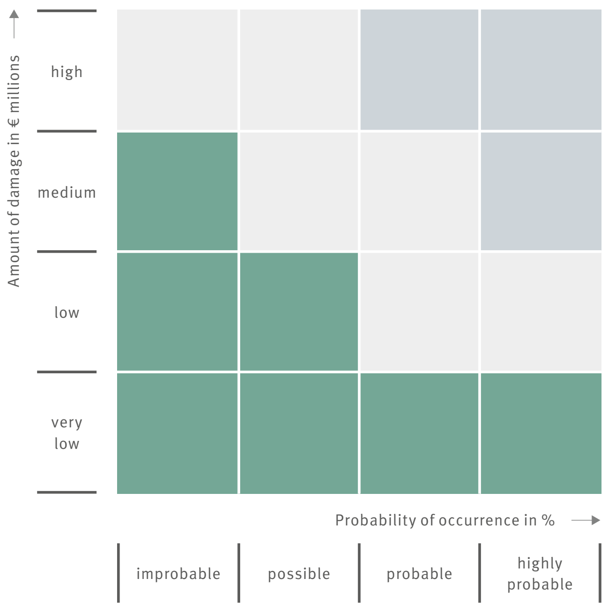
Subsidiaries included are selected using a defined selection process based on revenue and earnings (EBIT) as well as risk factors specific to the business. This selection process ensures that all Schaeffler Group subsidiaries that are relevant from a materiality perspective are included in the risk management system. In 2021, 41 of 149 Schaeffler Group entities were included, representing 95% of revenue. The remaining 108 entities are subject to an abbreviated risk survey process ensuring that all risks to the existence of the company as a going concern are identified.

The risk management system only deals with risks with a potential amount of damage above EUR 5 m on a gross basis. Risks are assessed based on their amount of damage and their probability of occurrence. The assessment classifies the amount of damage of each risk in one of four categories: very low, low, medium, and high. Classification is performed based on the amount of damage for one year. The probability of occurrence is assessed using percentages and is classified in the four categories "improbable", "possible", "probable", and "highly probable". The combination of estimated amount of damage and probability of occurrence determines the risk class, which is classified as either low, medium, or high based on its impact on net assets, the financial position, and earnings. Risks are assigned to the various risk classes using the risk matrix. In assessing risks, the Schaeffler Group differentiates between gross exposures and net exposures. Measures already in place can reduce the gross exposure with respect to both amount of damage and probability of occurrence. The net exposure represents the amount of damage and the probability of occurrence after taking into account any risk mitigation measures in place at the reporting date.

Under an enhancement made to the risk management system, the total risk position is determined by aggregating risks using a Monte Carlo simulation based on the net exposures identified. This results in a quantitative risk position in terms of the deviation from budgeted cash flows and budgeted EBIT. The Schaeffler Group uses the 95 percent quantile of the resulting risk distribution to determine the deviation from budgeted cash flows and EBIT as a worst-case analysis. There is a 95% probability that the deviation from budget will be less than the amount thus determined. The resulting amount for the aggregated risks is then compared to the company's risk tolerance. Any relevant interdependencies between the Schaeffler Group's risks are determined and presented qualitatively.

Identified risks are actively managed to achieve the company's intended level of risk mitigation. Management is responsible for taking 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. The measures are internally reviewed for effectiveness on a regular basis.

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.

Risk Management reports to the Board of Managing Directors on the risk situation semiannually. 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, any significant changes in the risk position are reported timely to the Board of Managing Directors in a defined process. Reports to the audit committee are made annually.

Internal Audit includes the reported risks in its risk-based audit approach and assists with monitoring implementation of risk management measures.

In response to the growing complexity of the risk management system and to ensure data is protected, Schaeffler captures 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 assessments 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 have been implemented within the system of internal controls over financial reporting of the Schaeffler Group:

- 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 guidelines 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 in a detailed plan setting out the process and deadlines for their compilation.
- 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 assessments of the quarterly and annual consolidated financial statements at the corporate level.

As at each year-end, management assesses the appropriateness and effectiveness of the ICS in place. To this end, the Schaeffler Group uses a standardized methodology to identify the group companies and processes relevant to ICS, define the required controls, and document them in accordance with uniform requirements. This is then followed up with a review of the effectiveness of the defined controls that is performed using a risk-based approach, either by the reporting unit itself, by Internal Audit, or as part of the audit of the consolidated financial statements. This review involves evaluating and assessing risks as well as reporting on them to management with the relevant responsibility at all organizational levels of the companies and the group. Where control weaknesses exist, actions to eliminate these weaknesses have to be defined.

Regardless of the assessed level of the effectiveness of the Schaeffler Group's internal control system, the effectiveness of any internal control system is inherently limited. No control system, no matter how effective, can prevent or detect all inaccuracies.

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

4.3 Risks

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

Strategic risks

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

Strategic market risks

The Schaeffler Group operates in a highly competitive and technologically fast-paced environment.

The Automotive Technologies division's component business is facing considerable pricing pressure driven by increasing demands for price reductions on the part of customers, purchasing cooperatives, and certain focused and leaner competitors, especially in the emerging markets. The company is currently unable to fully pass these demands for price reductions on to its own suppliers and cannot absorb them entirely with its existing structure. Additionally, accelerated electrification will lead to lower component revenue in the medium term.

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.

The Industrial division is confronted with technological changes in wind power gearbox applications that could lead to an increasing shift away from conventional rolling bearing solutions and a resulting decline in revenue. The Schaeffler Group is responding to this trend by establishing internal expertise and capabilities with respect to alternate bearing technologies while continually monitoring the market. Should it not achieve its explicit objective of developing a new competitive technology, this could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings.

Macroeconomic developments

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

Given the strongly expansive monetary and fiscal policy, especially in the U.S. and in the euro region, as well as global catch-up effects on demand triggered in connection with the coronavirus pandemic, persistent supply shortages, and high energy prices, inflation expectations could increase and reinforce the recent high inflation rates or cause them to rise further. This could trigger a more rapid tightening of monetary policy than anticipated.

Rising prices could be reflected in higher production costs. Meanwhile, rising prices could reduce purchasing power, hampering demand for the company's products. On the whole, unexpectedly large and persistent price increases could slow economic growth and, at the level of the company, any resulting large increases in production and personnel costs and hampering of demand in the medium term could have a medium impact on the net assets, financial position, and earnings of the Schaeffler Group.

Electric mobility

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

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

Operating risks

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

Coronavirus pandemic

A renewed escalation of the coronavirus pandemic could require drastic and comprehensive containment measures and heavily hamper the economic recovery achieved so far as well as international trade.

The future implications and duration of the coronavirus pandemic still cannot be predicted, especially if preventive measures available are found to be insufficiently effective. The resulting market uncertainty could result in unforeseen fluctuations in customer demand. Additionally, unforeseeable lockdown measures may be imposed on suppliers, customers, or company operating facilities or customers may experience supply shortages, triggered especially by the scarcity of semiconductors.

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

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

Procurement risks and delivery performance

The Schaeffler Group's purchasing function ensures optimal supply of goods and services to the company, focusing on quality, cost, and delivery performance. Extensive cooperation with suppliers increases the quality of goods and services supplied. Improving logistics connections to suppliers helps secure supply.

Procurement risks arise mainly from fluctuations in market prices, currently as a result of heavy increases in the price of energy and especially of steel. As steel is used to manufacture rolling bearings and automotive components, rising prices affect all of the Schaeffler Group's divisions. Rising market prices could have a high impact on the Schaeffler Group's financial position and earnings.

The Schaeffler Group continues to strive to at least partially offset price increases in the procurement markets by adjusting sales prices accordingly, albeit with some delay. Should the Schaeffler Group be unable to implement price increases vis-à-vis customers, this could have an adverse impact on the group's financial position and earnings.

The delivery performance represents a key competitive factor for a long-term relationship of trust with customers; this competitive factor is being constantly enhanced by systematic improvements in production and delivery logistics. The Industrial and Automotive Aftermarket divisions operate high-performance distribution centers to better supply the market with only a few logistics locations.

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

Market developments

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

In the Automotive Technologies division, demand is not only affected by global economic conditions, but also by other factors, including changes in consumption patterns, fuel prices, and interest rate levels. Especially the persistent uncertainty regarding the future development of the Chinese market and the political environment in Europe could continue to jeopardize market growth. The large number of economic factors affecting global demand for automobiles leads to significant volatility in automobile production, which makes forecasting sales exactly considerably more difficult. A change in forecasted market trends could have a high impact on the Schaeffler Group's net assets, financial position, and earnings.

Markets are analyzed on an ongoing basis in order to detect changes in market structure or regulations early on. The company uses managed cost efficiency programs to flexibly and dynamically reduce the amount of damage from unexpected market slow-downs. Should prices deteriorate unexpectedly, the amount of damage arising from this risk is reduced by renegotiating with suppliers.

There is a general risk that a few customer projects may be stopped before the end of the project or, once volume production has commenced, realized volumes are lower than originally planned. Deviation from the scenario originally agreed could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings. Close collaboration with its customers enables the Schaeffler Group to respond to deviations early on.

Production risk

As the Schaeffler Group's production is very capital-intensive, a large proportion of its costs are fixed. As a result, a decrease in utilization of plant capacity increases the company's costs and reduces its profitability. Being a global corporation, the Schaeffler Group regularly reviews market conditions and compares them to its footprint in the region. Several factors play a role in this process, including the economy, supply and demand, as well as decisions made by original equipment manufacturers. Improving the global footprint could require plants or parts of plants to be relocated. Remaining spare capacity and unused non-current assets can lead to additional costs.

The Schaeffler Group's production and manufacturing locations are located all over the world and are subject to high environmental standards. This is 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 with a medium impact on the Schaeffler Group's net assets, financial position, and earnings. The group's environmental management system, which has been rolled out worldwide, is subject to a constant quality assurance process and is enhanced as needed. Despite high environmental standards, identification of past environmental impacts potentially requiring restoration measures cannot be ruled out. These could have a high impact on the Schaeffler Group's net assets, financial position, and results of operations.

At several locations, facilitating full utilization of capacity may require having only one of a given type of machine available. The failure of one of these bottleneck machines can lead to a bottleneck in supply to internal and external customers, especially in the Automotive Technologies division. The period between failure of the bottleneck machine and when alternative means of production are set up is key here. Alternative means of production can either be set up by a Schaeffler Group plant with comparable production lines or provided by an alternative supplier.

Establishing safety stock can also help reduce losses. To minimize the probability of occurrence, the risk is mitigated by continuous maintenance. However, failure of bottleneck machines represents a medium risk to the Schaeffler Group's financial position and earnings.

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

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. Along with conventional production risk, the increasing electrification of the Schaeffler Group's products means that cyber risks could result in warranty and liability risk in the future. The Schaeffler Group responds to such risks by adopting strict quality control measures and continuous improvement processes 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.

Change in market share

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

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

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

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, the Schaeffler Group has to comply with varying laws and regulations around the globe. It is possible that violations of existing national or international law, including regulatory requirements of the EU, occur despite careful observance of such legal requirements. Circumstances identified as not meeting the requirements of the compliance management system are immediately addressed with appropriate action. The consequences of non-compliance could have a medium impact on the Schaeffler Group's net assets, financial position, and earnings as well as on its reputation. The Schaeffler Group cooperates with the authorities with respect to investigations of possible instances of non-compliance and responds appropriately to weaknesses identified. Continual training supports employees in acting in conformity with compliance. This also serves as a precaution against the Schaeffler Group being harmed by, for instance, CEO fraud.

More on the company's compliance management system on pp. 68 et seq.

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

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.

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.

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 2021 by existing financing instruments and by the refinancing arrangements completed.

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

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

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

Impairments

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

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

Risk assessment

	Amount of damage in €	Probability of occurrence in %	Risk class	Change from prior year
Strategic risks				
• Strategic market risks	high	possible	medium	↗
• Macroeconomic development	high	improbable	medium	new
• Electric mobility	medium	possible	medium	→
Operating risks				
• Coronavirus pandemic	high	highly probable	high	↗
• Procurement risks	high	highly probable	high	new
• Delivery performance	medium	highly probable	high	↗
• Market development	medium	highly probable	high	↗
• Production risk	medium	highly probable	high	↗
• Failure of bottleneck machines	high	improbable	medium	→
• Warranty and liability risks	high	improbable	medium	→
• Change in market share	high	improbable	medium	→
• Product piracy risks	low	probable	medium	→
• Information security risks	low	probable	medium	→
Legal risks				
• Compliance risks	high	improbable	medium	→
Financial risks				
• Tax risks	medium	highly probable	high	↗
• Pension risks	high	possible	medium	→
• Currency risks	high	possible	medium	→
• Liquidity risk	high	improbable	medium	→
• Impairments	high	improbable	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 the Schaeffler Group's 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:

Growing demand for automobiles in emerging countries

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

New mobility

The increasing number of people living in megacities will make public transportation within cities, such as metros, rapid transit systems, and streetcars, as well as between cities, e.g., by high-speed train, more and more attractive and important in the long term. Especially rail vehicles represent an extremely interesting growing market for the Schaeffler Group. Reliable and innovative rolling bearing solutions for applications ranging from bogie to the powertrain are key to modern rail vehicles – and also promise growth for mechatronic products in the age of digitalization in mobility. In addition, the high stresses and resulting wear and tear as well as safety regulations make this market not only a market of the future with respect to original equipment but also one that offers attractive business potential in the Aftermarket business. Despite temporary restrictions of public transportation of passengers and goods due to the coronavirus pandemic, transport volumes are expected to expand again in the long term as the economy recovers.

Private mobility

The coronavirus pandemic can lead to a lasting change in mobility behavior. The current increase in private mobility at the expense of public transit, mobility service providers, and flexible mobility concepts such as car sharing may continue. The influence of the pandemic can turn out to be positive for the Automotive Aftermarket division in two respects. Firstly, rediscovery of private mobility can lead to a favorable development of the vehicle fleet, which represents a key driver of aftermarket growth. Secondly, more extensive use of private vehicles can result in increased wear and tear or require more maintenance.

Climate change

In the context of global climate change and as a result of climate policy, worldwide demand for renewable energy is growing. The Schaeffler Group supports the expansion of renewable energy generation with the necessary components and solutions. Primarily the Schaeffler Group's innovative bearing solutions for wind turbines help make wind turbines more reliable and reduce the cost of generating renewable energy.

Electric mobility in the Automotive Aftermarket

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

Similar to the automotive aftermarket, the industrial sector is experiencing increasing electrification of mobility applications as well, for instance in construction machinery, agricultural machinery, and two wheelers. The Schaeffler Group is addressing this trend by offering a range of solutions for electrified powertrains that is coordinated across divisions.

Fleet management

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

Strategic business area hydrogen

Driven by increasing awareness of sustainability and ambitious climate targets, hydrogen is currently gaining considerable importance as a source of energy. Significant market growth is expected in the coming years, especially for what is referred to as green hydrogen, which is produced via electrolysis. In this carbon-neutral electrolysis process, hydrogen is produced using renewable energy. One critical success factor for the market ramp-up of these technologies is establishing reliable supply chains as well as industrializing and scaling up the related core components.

Schaeffler has created the strategic business area hydrogen and aims to establish itself within the value chain for hydrogen technologies. Schaeffler's strategic focus in this regard is on scaling up critical core components – such as bipolar plates and electrolysis stacks – by applying its existing core expertise and capabilities in materials forming, surface technology, and industrialization, and additional expertise in electrochemistry. Having successfully entered the market in 2021, Schaeffler will considerably expand its hydrogen activities and establish market references in 2022.

Operational opportunities

Digitalization

The global digital transition and connectivity of components and systems facilitate increased efficiency of machines and plants of the company and its customers. The Schaeffler Group offers numerous Industry 4.0 solutions for this. Its systems and components are situated within machines exactly where important data can be generated and captured using intelligent sensors. Condition-monitoring solutions and cloud-based digital services for predictive maintenance provide information about the condition of machines and plants on a continuous basis. The Schaeffler Group's interconnected products and services help gather important process parameters and condition-related information to improve processes and increase the efficiency of machines and plants.

Legal opportunities

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

Increased standards due to new legislation

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

Increasing technological standards in the truck market

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

Financial opportunities

Financial markets

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

4.5 Overall assessment of Schaeffler Group opportunities and risks

The Board of Managing Directors estimates that the Schaeffler Group's situation with respect to risks has deteriorated compared to the prior year. Particularly the impact of rising materials prices, maintaining the continuity of the Schaeffler Group's delivery performance, and risks arising from uncertainty regarding market developments contribute to a deterioration in the Schaeffler Group's situation with respect to 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

Global economic growth in 2022 will primarily depend on the future course of the coronavirus pandemic and, as a result, remains subject to increased risk. Further risks to global economic growth stem particularly from persistently interrupted global supply chains and continuing high inflationary pressure. Additionally, any tightening of monetary policy could adversely affect international financial market trends and global economic growth.

In light of the forecast by Oxford Economics (February 2022), the Schaeffler Group expects **global gross domestic product** to grow by 4 to 4.5% in 2022 (2021: 5.8%).

Taking into account the forecasts by IHS Markit (February 2022), the Schaeffler Group expects **global automobile production**, measured as the number of vehicles up to six tons in weight produced, to expand by 4% (2021: 3.4%) to approximately 80 million in 2022.

In light of the IHS Markit forecast (February 2022), the Schaeffler Group anticipates growth in **global vehicle population** in 2022, measured as the number of passenger cars and light commercial vehicles less than 3.5 tons in weight, to be similar to that seen in 2021, with the average vehicle age rising slightly (2021: 2.2% and 10.1 years, respectively).

Taking into account the forecasts by Oxford Economics (December 2021), the Schaeffler Group expects **global industrial production** to grow by approximately 4% (2021: 7.1%) in 2022, while production in the sectors particularly relevant to the company – mechanical engineering, transport equipment, and electrical equipment – is anticipated to increase by a total of approximately 4.5% (2021: 11.9%).

5.2 Schaeffler Group outlook

The **Schaeffler Group** expects its revenue to grow by 7 to 9% excluding the impact of currency translation in 2022.

In addition, the company expects to generate an EBIT margin before special items of 6 to 8% in 2022. This expectation reflects, in particular, a higher cost of materials compared to the prior year.

Moreover, the Schaeffler Group anticipates free cash flow before cash in- and outflows for M&A activities for 2022 of more than EUR 300 m and less than in the prior year. This expectation reflects a further volume-driven increase in working capital, higher capital expenditures, and continued high restructuring expenditures compared to the prior year.

Outlook 2022 – group

Schaeffler Group	Actual 2021	Actual 2021 adjusted comparative figure	Outlook 2022
Revenue growth [1]	9.7%	10.2%	7 to 9%
EBIT margin before special items [2]	9.1%	8.8%	6 to 8%
Free cash flow [3]	EUR 523 m	EUR 523 m	› EUR 300 m; below prior year

[1] Constant-currency revenue growth compared to prior year.
[2] Please refer to pp. 33 et seq. for the definition of special items.
[3] Before cash in- and outflows for M&A activities.

Outlook 2022 – divisions

	Actual 2021	Actual 2021 adjusted comparative figure	Outlook 2022
Automotive Technologies			
Revenue growth [1]	7.4%	7.8%	Considerable growth, 2 to 5%-age points above LVP growth [3]
EBIT margin before special items [2]	6.9%	6.4%	› 4%; below prior year
Automotive Aftermarket			
Revenue growth [1]	13.0%	13.9%	Slight revenue growth
EBIT margin before special items [2]	13.8%	13.9%	› 12%; below prior year
Industrial			
Revenue growth [1]	13.6%	14.2%	Considerable revenue growth
EBIT margin before special items [2]	12.0%	11.8%	› 11%; below prior year

[1] Constant-currency revenue growth compared to prior year.
[2] Please refer to pp. 33 et seq. for the definition of special items.
[3] LVP growth: global growth in production of passenger cars and light commercial vehicles.

The group anticipates that its **Automotive Technologies division** will grow by 2 to 5 percentage points more than global automobile production of passenger cars and light commercial vehicles in 2022. On that basis, the company expects the Automotive Technologies division to generate considerable revenue growth, excluding the impact of currency translation, and an EBIT margin before special items of more than 4% and less than in the prior year. This expectation reflects, in particular, a higher cost of materials compared to the prior year.

For the **Automotive Aftermarket division**, the group anticipates slight revenue growth in 2022, excluding the impact of currency translation, and an EBIT margin before special items of more than 12% and less than in the prior year. This expectation reflects continued increases in product costs, a favorable one-off impact on selling expenses in the prior year that is not expected to recur, and the cost of continuing the division's digitalization activities.

The company expects its **Industrial division** to generate considerable revenue growth in 2022, excluding the impact of currency translation, and an EBIT margin before special items of more than 11% and less than in the prior year. This expectation reflects, in particular, a higher cost of materials compared to the prior year.

The main reasons for the adjustment to the comparative figures for the prior year are changes made to the calculation of constant-currency revenue growth – also referred to as revenue growth excluding the impact of currency translation – and of the EBIT margin before special items in order to strengthen the management of the group. Starting January 1, 2022, constant-currency revenue growth will be determined by translating revenue for the reporting periods at the average rates of the relevant prior year period rather than at standard exchange rates. The EBIT margin before special items will include income (loss) from equity-accounted investees starting January 1, 2022. Further divisionalization to strengthen the divisions' management of the business has a slight impact as well.

These changes have also been reflected in the outlook for 2022 presented above. The outlook for 2022 further reflects the acquisitions and disposals of subsidiaries, joint ventures, and other equity investments set out in the consolidated financial statements for 2021.

Herzogenaurach, February 22, 2022

The Board of Managing Directors

Corporate Governance

* Part of the group management report.

1. Corporate governance declaration including corporate governance report

The corporate governance declaration required by sections 289f and 315d HGB has been combined for Schaeffler AG and the group. Therefore, the following discussion applies to Schaeffler AG and the group unless noted otherwise below. In the following corporate governance declaration, the Supervisory Board and the Board of Managing Directors report on the corporate governance of Schaeffler AG in accordance with Principle 22 of the German Corporate Governance Code.

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

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

1.1 Declaration of conformity pursuant to section 161 AktG

In December 2021, the Board of Managing Directors and the Supervisory Board issued the following declaration of conformity pursuant to section 161 AktG:

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

Since making its last Declaration of conformity in December 2020, Schaeffler AG has complied with all the recommendations of the Government Commission on the German Corporate Governance Code in the version of December 16, 2019, ("Code") published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger), with the exceptions described below and will also comply with the recommendations in the future with the exceptions described below:

Schaeffler AG has not complied with the recommendation in section C.2 of the Code. According to this recommendation, an age limit shall be set for the members of the Supervisory Board and stated in the declaration on corporate governance. The Supervisory Board of Schaeffler AG will not set such age limit because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board.

Schaeffler AG has not complied with the recommendation in section C.4 of the Code. According to this recommendation, a Supervisory Board member who is not a member of any Management Board of a listed company shall not accept more than five Supervisory Board mandates at non-group listed companies or comparable functions, with an appointment as Chair of the Supervisory Board being counted twice. Prof. TU Graz e.h. KR Ing. Siegfried Wolf was elected Chairman of the Supervisory Board of Vitesco Technologies Group Aktiengesellschaft on October 4, 2021. As a result, Prof. TU Graz e.h. KR Ing. Siegfried Wolf exceeds the maximum number of supervisory board mandates recommended by recommendation C.4 of the Code.

Prof. TU Graz e.h. KR Ing. Siegfried Wolf has announced that he will resign from one of his Supervisory Board mandates in 2022. Due to the only temporary exceeding of the recommended maximum number of mandates, the Supervisory Board does not consider its appropriate composition affected.

Herzogenaurach, December 2021

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.

The Schaeffler Group has revised its Code of Conduct during the year. It reflects the corporate strategy – "Roadmap 2025" – and increased customer and business partner requirements regarding responsible corporate governance. Along with the established compliance topics, the new Schaeffler Code of Conduct focuses on integrity and value-based compliance.

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. The sustainability roadmap is reviewed regularly and amended as needed.

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

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

The German Stock Corporations Act requires Schaeffler AG to have a two-tier board with strict separation between the executive body, the Board of Managing Directors, and the supervisory body, the Supervisory Board, in terms of personnel and functions. The Board of Managing Directors has direct responsibility for managing the company. The members of the Board of Managing Directors are jointly responsible for managing the company. The Chief Executive Officer coordinates the activities of the members of the Board of Managing Directors. The Supervisory Board appoints, 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, including appropriate protection, to report violations of the law within the company; this opportunity is also provided to third parties.

More on compliance on pp. 67 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 2021. 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 2021.
- **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 2021.
- **Internationality:** Sufficient international experience should be represented on the Board of Managing Directors to appropriately reflect the international nature of the Schaeffler Group’s business. The members of the Board of Managing Directors should have different nationalities. The objective should be that all members of the Board of Managing Directors have experience working abroad and/or are experienced in international business. Having at least one member with a non-German nationality, ideally from a market relevant to Schaeffler, on the Board of Managing Directors in the long term is considered desirable. To be appointed to the Board of Managing Directors, a candidate must have international experience. At the first and second level of management immediately below the Board of Managing Directors, the majority of employees should have experience working abroad and be experienced in international business. All members of the Board of Managing Directors are experienced in international business.

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

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. 74 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 in the separate remuneration report at: www.schaeffler.com/remuneration

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

Membership of the Supervisory Board

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

Since Schaeffler AG is a publicly listed company subject to co-determination based on parity, its Supervisory Board consists of at least 30% female and at least 30% male members in accordance with section 96 (2) AktG.

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

In accordance with Recommendation C.1 of the German Corporate Governance Code, the Supervisory Board has set the following concrete targets for its membership, considering the company's specific situation and appropriately taking into account the company's international operations, any potential conflicts of interest, the number of independent Supervisory Board members considered appropriate by the shareholder representatives on the Supervisory Board, and a set limit on the length of time a member may serve on the Supervisory Board, as well as diversity. The Supervisory Board has stated the following objectives for its membership:

- Members should have the knowledge, skills, and technical experience required to properly perform their duties and be able to devote sufficient time to these duties.
- The Supervisory Board aims to maintain the current proportion of members with an international background.
- Members of the Supervisory Board should not serve on the governing body of or in a consulting capacity to significant competitors of the Schaeffler Group.
- The Supervisory Board should not include more than two former members of the Board of Managing Directors.
- The Supervisory Board shall include at least five shareholder representatives that are independent of the company and its Board of Managing Directors, and independent from any controlling shareholder (according to Recommendation C.6 of the German Corporate Governance Code).

The Supervisory Board currently considers eight shareholder representatives to be independent from the company, its Board of Managing Directors, and its controlling shareholders; these are: Sabine Bendiek, Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Ulrike Hasbargen, Robin Stalker, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang.

According to Recommendation C.7 of the German Corporate Governance Code, more than half of the shareholder representatives shall be independent from the company and the Board of Managing Directors. The Supervisory Board currently considers all shareholder representatives to be independent of the company and its Board of Managing Directors. Certain members of the Supervisory Board hold senior positions with other companies or hold shares, in some cases indirectly, in companies with which the Schaeffler Group maintains relationships in the course of its ordinary business activities. The Supervisory Board believes that none of these relationships are significant.

According to Recommendation C.9 of the German Corporate Governance Code, if the company has a controlling shareholder and the Supervisory Board has more than six members, at least two of the shareholder representatives shall be independent from the controlling shareholder. The Supervisory Board currently considers eight shareholder representatives to be independent from the controlling shareholders, namely Sabine Bendiek, Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Ulrike Hasbargen, Robin Stalker, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang.

In addition to the objectives set out above, the Supervisory Board developed a profile of expertise for the Board as a whole at its meeting on December 15, 2017, and expanded that profile at its meeting on December 17, 2021. According to this profile, the Supervisory Board should collectively cover the following areas of technical expertise. 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.

It is sufficient if an area of expertise is covered by at least one member of the Supervisory Board, with at least one member of the audit committee required to possess expertise in financial reporting and at least one other member of the audit committee required to possess expertise in auditing.

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.

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

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

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

The Supervisory Board as a whole has the knowledge, skills, and technical experience required to properly perform its duties. The Supervisory Board as a whole is familiar with the industries and sectors in which the Schaeffler Group operates, and it has the professional experience and internationality required under the diversity scheme. Conflicts of interest related to members of the Supervisory Board must be disclosed to the Supervisory Board immediately; there were no such conflicts of interest in 2021.

No member of the Supervisory Board currently serves on a governing body or in a consulting role with respect to a key competitor or has a personal relationship with a key competitor. No member of the Supervisory Board was previously a Managing Director of Schaeffler AG.

More on avoiding conflicts of interest on page 65.

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.

Prof. TU Graz e.h. KR Ing. Siegfried Wolf exceeds the maximum number of supervisory board mandates recommended by recommendation C.4 of the German Corporate Governance Code. According to this recommendation, a Supervisory Board member who is not a member of any management board of a listed company shall not accept more than five supervisory board mandates at non-group listed companies or comparable functions, with an appointment as chair of the supervisory board being counted twice.

Prof. TU Graz e.h. KR Ing. Siegfried Wolf was elected chairman of the supervisory board of Vitesco Technologies Group Aktiengesellschaft on October 4, 2021. As a result, Prof. TU Graz e.h. KR Ing. Siegfried Wolf exceeds the maximum number of supervisory board mandates recommended by recommendation C.4 of the Code.

Prof. TU Graz e.h. KR Ing. Siegfried Wolf has announced that he will resign from one of his supervisory board mandates in 2022. Due to the only temporary exceeding of the recommended maximum number of mandates, the Supervisory Board does not consider its appropriate composition affected.

The Chairman of the Supervisory Board is elected by the Supervisory Board from among its members. He coordinates the activities of the Supervisory Board, chairs its meetings, and represents the Supervisory Board externally. As suggested in Suggestion A.3 of the German Corporate Governance Code, the Chairman of the Supervisory Board is available for discussions with investors, in close coordination with the Board of Managing Directors and focusing on Supervisory Board-related issues.

Membership and mode of operation of Supervisory Board committees

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

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

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

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

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

The audit committee makes a recommendation to the Supervisory Board regarding auditors to be appointed, together with its reasons for the recommendation; where the audit has been put out to tender, the recommendation includes at least two candidates. The audit committee engages the auditors, determines the areas of focus for the audit, and agrees the audit fees with the auditors. In addition, the audit committee monitors the independence of the external auditors, and, as such, is responsible for approving engagements for non-audit services. The audit committee also monitors the qualifications and efficiency of the auditors as well as the rotation of audit team members and evaluates the quality of the financial statement audit as well as the services of the auditors including additional services they have rendered.

The audit committee is responsible for awarding the audit engagement on the non-financial report. On behalf of the Supervisory Board, the audit committee advises and oversees the Board of Managing Directors regarding financial reporting, the financial reporting process, the effectiveness of the internal control system, the risk management system, Internal Audit, the financial statement audit, and compliance.

The audit committee consists of six members. The Chairman of the Supervisory Board is a member of the committee by virtue of this position. The chairman of the audit committee shall be particularly knowledgeable about and experienced in the application of accounting principles and internal control procedures as well as familiar with financial statement audits and independent. The Chairman of the Supervisory Board may not chair the audit committee. The audit committee is required to include at least one member of the Supervisory Board possessing expertise in auditing and at least one other member possessing expertise in financial reporting. The chairman of the audit committee may be counted toward this requirement.

The chairman of the audit committee, Robin Stalker, meets these requirements as he is a former chief financial officer of Adidas AG and a long-serving member of the audit committee of Schaeffler AG. Dr. Holger Engelmann meets the requirements as he is the chairman of the management board of Webasto SE, a former chief financial officer of Webasto AG, and a long-serving member of the audit committee of Schaeffler AG.

The other committee members are Andrea Grimm, Thomas Höhn, and Jürgen Wechsler.

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

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

Self-assessment of the Supervisory Board and its committees

The Supervisory Board assesses, at regular intervals, how effectively the Supervisory Board as a whole and its committees fulfill their tasks. The most recent internal self-assessment occurred in 2020. Another self-assessment is expected to be completed in the first quarter of 2022. The self-assessment involves asking the members of the Supervisory Board to provide assessments regarding issues relating to the categories structure and function, meetings, preliminary discussions, supply of information, role of the Chairman of the Supervisory Board, working on committees, and issues regarding the Board of Managing Directors. Individual assessments are consolidated by an independent party and evaluated by the Supervisory Board.

Cooperation between Board of Managing Directors and Supervisory Board

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

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

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

Avoiding conflicts of interest

The members of the Supervisory Board are required to immediately disclose any conflict of interest to the Chairman of the Supervisory Board. The members of the Board of Managing Directors are required to disclose any conflicts of interest to the Chairman of the Supervisory Board and the Chief Executive Officer and to inform the other members of the Board of Managing Directors. Significant transactions between the company and members of the Board of Managing Directors or parties related to them require the Supervisory Board's approval. Consulting and other service contracts as well as contracts for specific deliverables between the company and members of the Supervisory Board also require approval by the Supervisory Board. The Supervisory Board reports to the annual general meeting on any conflicts of interest and their resolution. Material conflicts of interest involving a member of the Supervisory Board that are not merely temporary shall result in the termination of that member's Supervisory Board mandate. Neither the members of the Board of Managing Directors nor those of the Supervisory Board have experienced any conflicts of interest in 2021.

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 the additional requirements of the HGB and are audited by the auditors and reviewed by the Supervisory Board. Before any interim financial information is made public, the Board of Managing Directors discusses such information with the Supervisory Board or the audit committee. The consolidated financial statements and the group management report are made publicly available within 90 days after the end of the year, mandatory interim financial information within 45 days after the end of the reporting period.

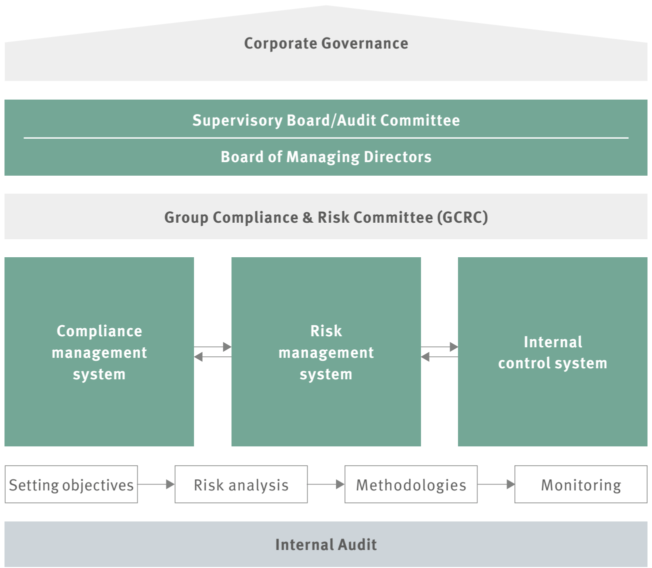
In addition, the consolidated financial statements include a discussion of transactions with shareholders considered related parties under applicable financial reporting standards.

It was agreed with Schaeffler AG's auditors that the Chairman of the Supervisory Board and the chairman of the audit committee would be informed promptly of any grounds for disqualification or indications of bias arising during the audit to the extent they are not remedied immediately. It was also agreed that the auditors would report on all findings and events coming to their attention during the performance of their audit that are significant to the responsibilities of the Supervisory Board. Under the agreement, the auditors have to inform the Supervisory Board and note in their long-form audit report if, during the course of the audit, they become aware of any facts rendering the declarations on the German Corporate Governance Code issued by the Board of Managing Directors and the Supervisory Board inaccurate. The audit committee monitors the auditors' independence. In a letter dated February 24, 2021, the auditors have issued a binding independence letter for the year ended December 31, 2021.

2. Governance structure

At Schaeffler, corporate governance stands for responsible management focused on adding long-term value. The components of the **governance structure** support the operating business units in effectively identifying and managing risk, establishing effective controls, and implementing measures to ensure compliance with legal requirements.

Schaeffler Group governance structure

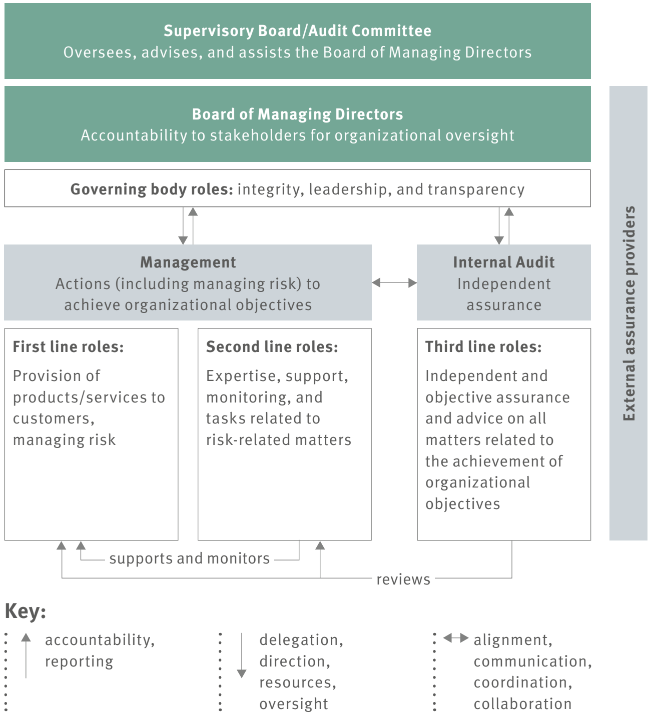


In 2021, the Schaeffler Group has continued to improve the processes within its governance structure with a view to meeting the requirements of customers, legislators, and other stakeholders while at the same time protecting the company. The governance structure is aimed at promoting the coordinated operation of the subsystems.

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

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

Three Lines Model



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

First line: The operating business units are responsible for establishing measures required to achieve objectives. They are responsible for managing the risks within the responsibilities assigned to them. Individual risks potentially jeopardizing the continued existence of the company must be avoided. Furthermore, any relevant risks have to be identified and managed using appropriate countermeasures. These include controls established in all business processes to test the effectiveness of risk mitigation measures. Additionally, the Schaeffler Code of Conduct encourages all managers and employees to turn to their supervisor or the corresponding control function with any questions or concerns they might have regarding dealing with inappropriate business practices. If needed, there is a whistleblowing system available for confidentially reporting violations of the Schaeffler Code of Conduct, especially regarding illegal business practices.

Second line: The risk functions (including Internal Control System, Controlling, Risk Management, Compliance, and Legal) define global standards and controls, regularly monitor compliance with them, and report on their effectiveness to the governing bodies. They support the first line in fulfilling its responsibilities. The Risk Management function is also responsible for regular and independent risk assessment.

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

With its corporate governance structure and its three lines model, the Schaeffler Group has established an internal control and risk management system and fulfills its obligation to manage the company responsibly.

2.1 Compliance management system

Integrity is a significant cornerstone of the Schaeffler Group’s manner of conducting business. Under the Schaeffler Code of Conduct, the Board of Managing Directors and all employees are required to comply with all applicable local, national, and international laws and regulations, wherever the Schaeffler Group does business. A compliance organization covering the entire Schaeffler Group provides them with support in doing so in order to turn rules into values that are being lived.

The compliance management system CMS is based on the three pillars of prevention, detection, and reaction and is part of the second line within the Schaeffler Group’s governance structure. An independent audit firm confirmed the appropriateness and implementation of the Schaeffler Group’s compliance management system in accordance with the Principles for the Proper Performance of Reasonable Assurance Engagements Relating to Compliance Management Systems, IDW AsS 980, in 2018.

The CMS comprises, in particular, managing and monitoring the activities necessary to prevent, or detect early on, violations of law in the area of corruption, money laundering, competition and antitrust law, and economic criminal activity. It also serves to actively manage risk and protect the company and its employees. The CMS consists of the seven core components of IDW AsS 980: compliance culture, compliance objectives, vulnerability analysis, compliance program, compliance organization, communication, and monitoring and improvement.

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

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

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

Measures designed to prevent compliance violations include the Schaeffler Group's Code of Conduct; guidelines on behavior in compliance with antitrust and competition legislation as well as on fighting corruption, preventing money laundering and terrorist financing, as well as on avoiding and dealing with conflicts of interest; web-based training and classroom training sessions; and a compliance helpdesk available for consultation on specific compliance issues.

The Schaeffler Group has revised its Code of Conduct during the year. It was aligned with the new corporate strategy and includes the changed expectations of the Schaeffler Group's customers and business partners. Along with the common compliance topics, the new Schaeffler Code of Conduct focuses on integrity and value-based compliance. In particular, the Schaeffler Code of Conduct expressly prohibits any Schaeffler Group employee from engaging in corruption in any way. The same applies to conduct violating competition or antitrust laws. The Schaeffler Group stays away from any transactions that cannot be effected or continued without unacceptable conduct.

Along with the Schaeffler Code of Conduct, the Schaeffler Group has also revised its Supplier Code of Conduct during the year. For the Schaeffler Group, sustainable procurement is a core issue. This applies to both the responsible handling of critical materials and to human rights and ecological and social standards. Suppliers of production materials are actively requested to acknowledge the Schaeffler Supplier Code of Conduct or to provide a copy of their own code of conduct. Additionally, the scope of the Schaeffler Supplier Code of Conduct has been extended to include defined suppliers of non-production materials. Hence, acknowledgment of the Schaeffler Group's Supplier Code of Conduct by the supplier represents a binding basis for any current and future business relations.

In a systematic training program that is specific to its various target audiences, the Schaeffler Group provides its employees and managers with the required understanding of compliance and makes them aware of compliance risks in their day-to-day business. Web-based and classroom training sessions are used to familiarize them with the Schaeffler Group Code of Conduct and the relevant group guidelines. Training sessions are continually refined and updated and adapted to the employees' areas of responsibility.

During the year, the web-based training program on antitrust and competition law and the training session on preventing corruption was revised and rolled out. These training sessions are intended for managers and selected staff. In addition, the mandatory web-based training program on fundamentals has to be completed by all employees. In addition to the common compliance issues such as corruption, antitrust and competition law, and money laundering, the training program also covers topics like data protection, information and cybersecurity, and compliance with human rights.

In addition, the company has also put arrangements in place 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 2021. With respect to antitrust and competition law, the guideline on dealing with competitors and business partners was revised. The guideline now makes the use of the digital Competitor Contacts and Associations Register rolled out in 2020 mandatory worldwide. It contributes to transparency and supports the process for approving contacts with competitors in advance.

The IT-based workflow on business partner due diligence and the electronic whistleblowing system contribute to the efficiency and effectiveness of compliance processes.

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

2.2 Risk management system

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

More on the company's risk management system on pp. 44 et seq.

2.3 Internal control system

The second line also comprises the Schaeffler Group's internal control system (ICS). The ICS consists of guidelines, procedures, and measures designed to ensure the effectiveness and efficiency of financial reporting, to ensure the propriety of financial reporting, and to ensure compliance with relevant legal requirements.

Schaeffler's ICS has its basis in the globally recognized framework of the Committee of Sponsoring Organizations of the Treadway Commission – Internal Control – Integrated Framework. The ICS consists of the following five components, which are interrelated with one another: control environment, risk assessment, control activities, information and communication, and monitoring.

More on the company's system of internal control over financial reporting on pp. 47 et seq.

2.4 Internal Audit

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

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

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

The responsibilities of Internal Audit specifically include, but are not limited to, the following activities:

- audit and assessment of the appropriateness, efficiency, and effectiveness of the internal control system
- audit and assessment of the appropriateness, efficiency, and effectiveness of the management and supervisory processes
- audit and assessment of the finance and accounting systems, the information system, and the reporting system
- audit and assessment of the effectiveness of risk and compliance management
- audit and assessment of the effectiveness of arrangements for preventing and detecting fraud
- audit of arrangements for safeguarding assets
- audit and assessment of the implementation of and compliance with legal requirements and the company's internal rules ("orderliness")
- performance of special investigations with respect to fraud, conflicts of interest, and other irregularities

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

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

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

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

3. Governing bodies of the company

3.1 Supervisory Board

The Supervisory Board consists of 20 members. Ten of these members are appointed by a resolution of the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act. The term of office of the shareholder representatives on the Supervisory Board ends at the conclusion of the annual general meeting 2024. The term of office of the employee representatives ends at the conclusion of the annual general meeting 2025.

Georg F. W. Schaeffler

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

Appointed: December 1, 2014
Committee memberships: Chairman of the mediation, executive, and nomination committees and member of the audit and technology committees
Seats on supervisory and similar boards: chairman of the advisory board of ATESTEO Management GmbH, Alsdorf (until August 31, 2021); member of the advisory board of ATESTEO Management GmbH, Alsdorf (since September 1, 2021); member of the Supervisory Board of Continental AG, Hanover; member of the Supervisory Board of Vitesco Technologies Group AG, Regensburg (since September 15, 2021)

Maria-Elisabeth Schaeffler-Thumann

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

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

Jürgen Wechsler*

Former Regional Director of IG Metall Bavaria
Deputy Chairman of the Supervisory Board of Schaeffler AG

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

Sabine Bendiek

Chief People & Operations Officer, Labor Relations Director SAP SE

Appointed: April 24, 2019

Prof. Dr. Hans-Jörg Bullinger

CEO of Fraunhofer Foundation

Appointed: December 1, 2014
Committee memberships: Chairman of the technology committee
Seats on supervisory and similar boards: member of the advisory board of Albert Handtmann Holding GmbH & Co. KG, Biberach (since January 1, 2021); 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; member of the advisory board of Friedhelm Loh Stiftung GmbH & Co. KG, Haiger (since January 1, 2021); member of the Supervisory Board of Vitesco Technologies Group AG, Regensburg (since September 15, 2021)

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: member of the Board of Directors of AEye, Inc., Dublin, U.S. (since August 16, 2021); member of the Supervisory Board of Benteler International AG, Salzburg, Austria; Deputy Chairman of the Supervisory Board of JOST-Werke AG, Neu-Isenburg; member of the Supervisory Board of Compagnie Plastic Omnium SA, Levallois-Perret, France

* Employee representative on the Supervisory Board.

Andrea Grimm*
Deputy Chairperson of the Works Council Schaeffler Technologies AG & Co. KG

Appointed: December 1, 2014
Committee memberships: member of the audit committee

Ulrike Hasbargen (since April 23, 2021)
Tax consultant/auditor

Appointed: April 23, 2021
Seats on supervisory and similar boards: member of the Supervisory Board of Ernst & Young GmbH, Stuttgart

Thomas Höhn*
Trade Union Secretary IG Metall

Appointed: May 8, 2020
Committee memberships: member of the audit committee

Susanne Lau*
Industrial management assistant
Chairperson of the Works Council Hamburg
Chairperson of the Group Works Council of Schaeffler AG
Chairperson of the General Works Council of Schaeffler Automotive Aftermarket GmbH & Co. KG

Appointed: August 8, 2018

Barbara Resch*
Wage secretary

Appointed: November 19, 2015
Committee memberships: member of the executive committee
Seats on supervisory and similar boards: member of the Supervisory Board of ElringKlinger AG, Dettingen; member of the Supervisory Board of Rheinmetall AG, Duesseldorf

Jutta Rost*
Senior Vice President HR Functions

Appointed: May 8, 2020

Jürgen Schenk*
Chairman of the General Works Council Schweinfurt

Appointed: May 8, 2020
Committee memberships: member of the technology committee
Seats on supervisory and similar boards: member of the Supervisory Board of ACE Auto Club Europa e. V., Stuttgart

Helga Schönhoff*
Deputy Chairperson of the Works Council Schaeffler Automotive Bühl GmbH & Co. KG

Appointed: May 8, 2020

Robin Stalker
Chartered Accountant

Appointed: December 1, 2014
Committee memberships: chairman of the audit committee
Seats on supervisory and similar boards: Deputy Chairman of the Supervisory Board of Schmitz Cargobull AG, Horstmar; member of the Supervisory Board of Commerzbank AG, Frankfurt/Main; member of the Supervisory Board of Hugo Boss AG, Metzingen

Salvatore Vicari*
Chairman of the Works Council Homburg/Saar

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

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

Appointed: December 1, 2014
Committee memberships: member of the executive and technology committees
Seats on supervisory and similar boards: member of the Supervisory Board of CMBlu Energy, Alzenau (until December 14, 2021); member of the Supervisory Board of Continental AG, Hanover (until January 1, 2022); member of the Supervisory Board of Miba AG, Laakirchen, Austria; member of the Supervisory Board of Mitterbauer Beteiligungs-AG, Laakirchen, Austria; member of the Supervisory Board of OJSC GAZ Group, Nizhny Novgorod, Russia; member of the Supervisory Board of Porsche Automobil Holding SE, Stuttgart; Chairman of the Supervisory Board of SBERBANK Europe AG, Vienna, Austria; Chairman of the Supervisory Board of Steyr Automotive GmbH, Steyr, Austria (since October 19, 2021); Chairman of the Supervisory Board of Vitesco Technologies Group AG, Regensburg (since October 4, 2021)

Prof. Dr.-Ing. Tong Zhang
Director of the Institute of Fuel Cell Vehicle Technology at Tongji University in Shanghai, China

Appointed: December 1, 2014
Committee memberships: member of the technology committee

Markus Zirkel*
Chairman of the Works Council Hirschaid

Appointed: May 8, 2020
Committee memberships: member of the technology committee
Seats on supervisory and similar boards: member of the Supervisory Board of VR-Bank Bamberg Forchheim eG, Bamberg

* Employee representative on the Supervisory Board.

The following member left the Supervisory Board in 2021

Sabrina Soussan (until April 23, 2021)
CEO dormakaba International Holding AG

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

3.2 Supervisory Board committees

Mediation committee

Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann, Salvatore Vicari, and Jürgen Wechsler

Executive committee

Georg F. W. Schaeffler (Chairman), Barbara Resch, Maria-Elisabeth Schaeffler-Thumann, Salvatore Vicari, Jürgen Wechsler, and Prof. TU Graz e.h. KR Ing. Siegfried Wolf

Audit committee

Robin Stalker (Chairman), Dr. Holger Engelmann, Andrea Grimm, Thomas Höhn, Georg F. W. Schaeffler, and Jürgen Wechsler

Nomination committee

Georg F. W. Schaeffler (Chairman), Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, and Maria-Elisabeth Schaeffler-Thumann

Technology committee

Prof. Dr. Hans-Jörg Bullinger (Chairman), Georg F. W. Schaeffler, Jürgen Schenk, Salvatore Vicari, Jürgen Wechsler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, Prof. Dr.-Ing. Tong Zhang, und Markus Zirkel

3.3 Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors currently has eight members: the Chief Executive Officer (CEO), the CEOs of the Automotive Technologies, Automotive Aftermarket, and Industrial divisions, and the Managing Directors responsible for the functions (1) R&D, (2) Operations, Supply Chain Management & Purchasing, (3) Finance & IT, and (4) Human Resources. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board.

Klaus Rosenfeld
Chief Executive Officer

Responsible for: Quality; Governance, Processes & Organization; Corporate Development & Strategy; Group Communications & Public Affairs; Global Branding & Corporate Marketing; Investor Relations; Legal; Internal Audit; Compliance & Corporate Security; Corporate Real Estate; Strategic IT & Digitalization; Schaeffler Consulting
Appointed: October 24, 2014
Term of office ends: June 30, 2024
Seats on supervisory and similar boards: member of the Supervisory Board of Continental AG, Hanover; member of the board of directors of Siemens Gamesa Renewable Energy S.A., Zamudio, Spain; member of the Supervisory Board of Vitesco Technologies Group AG, Regensburg (since September 15, 2021); Supervisor of Schaeffler Holding (China) Co. Ltd., Shanghai, China; member of the board of directors of Schaeffler India Ltd., Mumbai, India (until October 28, 2021)

Claus Bauer (since September 1, 2021)
Chief Financial Officer

Responsible for: Finance Systems, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax & Customs; Corporate Reporting; Corporate Insurance; Shared Services; IT & Digitalization
Appointed: September 1, 2021
Term of office ends: August 31, 2023
Seats on supervisory and similar boards: member of the board of directors of FAG Bearings LLC., Joplin, U.S. (until October 31, 2021); member of the board of directors of LMC Bridgeport, Inc., Danbury, U.S. (until September 1, 2021); member of the board of directors of Schaeffler Aerospace USA Corporation, Danbury, U.S. (until October 31, 2021); member of the board of directors of Schaeffler Canada Inc., Stratford, Canada (until October 31, 2021); member of the board of directors of Schaeffler Group USA Inc., Fort Mill, U.S. (until October 31, 2021); member of the board of managers of Schaeffler Holding LLC, Danbury, U.S. (until October 31, 2021); member of the board of managers of Schaeffler Transmission, LLC, Wooster, U.S. (until October 31, 2021); member of the board of managers of Schaeffler Transmission Systems, LLC, Wooster, U.S. (until October 31, 2021); member of the board of directors of Schaeffler USA Finance LLC., Wilmington, U.S. (until September 15, 2021)

Andreas Schick
Chief Operating Officer

Responsible for: Schaeffler Production System & Production Technology; Digitalization & Operations IT; Advanced Production Technology; Tool Manufacturing; Special Machinery; Supply Chain Management & Logistics; Purchasing Strategy & Strategic Supplier Management; Non-Production Material Purchasing; Quality Operations, Supply Chain Management & Purchasing
Appointed: April 1, 2018
Term of office ends: March 31, 2026
Seats on supervisory and similar boards: member of the Supervisory Board of SupplyOn AG, Hallbergmoos; member of the board of directors of Schaeffler India Ltd., Mumbai, India (since September 12, 2021)

Corinna Schittenhelm
Chief Human Resources Officer

Responsible for: HR Strategy; HR Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Sustainability, Environment, Health & Safety; Human Resources Functions; Human Resources Germany
Appointed: January 1, 2016
Term of office ends: December 31, 2023
Seats on supervisory and similar boards: member of the shareholder committee of TÜV SÜD AG, Munich; member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach; member of the board of directors of Schaeffler India Ltd., Mumbai, India (since September 12, 2021)

Jens Schüler (since January 1, 2022)
CEO Automotive Aftermarket

Responsible for: Business Development & Strategy AAM; Global KAM, 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, 2022
Term of office ends: December 31, 2024
Seats on supervisory and similar boards: member of the shareholder committee of Caruso GmbH, Mannheim (since January 1, 2022); member of the shareholder committee of TecAlliance GmbH, Ismaning (since January 1, 2022)

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; Strategic Business Field Hydrogen Industrial; R&D Industrial; Operations & Supply Chain Management Industrial; Quality Industrial; Purchasing & Supplier Management Industrial; Divisional Controlling Industrial; HR Industrial
Appointed: May 1, 2015
Term of office ends: April 30, 2023

Uwe Wagner
Chief Technology Officer

Responsible for: R&D Management; Advanced Research & Innovation; Corporate Engineering Services; Corporate Competence Center CT; R&D Processes, Methods & Tools; Intellectual Property Rights
Appointed: October 1, 2019
Term of office ends: September 30, 2027
Seats on supervisory and similar boards: member of the Supervisory Board of IAV GmbH Ingenieursgesellschaft Auto und Verkehr, Berlin; member of the advisory board of Compact Dynamics GmbH, Starnberg; member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach; chairman of the advisory board of Xtronic GmbH, Boeblingen

Matthias Zink
CEO Automotive Technologies

Responsible for: Business Development & Strategy Automotive Technologies; Global Key Account Management Automotive Technologies; BD Bearings; BD Engine & Transmission Systems; BD E-Mobility; BD Chassis Systems; Operations & Supply Chain Management Automotive Technologies; Quality Automotive Technologies; Purchasing & Supplier Management Automotive Technologies; Divisional Controlling Automotive Technologies; Human Resources Automotive Technologies
Appointed: January 1, 2017
Term of office ends: December 31, 2024
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg; Supervisor of Schaeffler (China) Co. Ltd., Shanghai, China; chairman of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach; member of the Supervisory Board of Schaeffler Savaria Kft., Szombathely, Hungary (until April 2, 2021); member of the advisory board of Xtronic GmbH, Boeblingen

The following members left the Board of Managing Directors in 2021

Dr. Klaus Patzak (until July 31, 2021)
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax & Customs; Corporate Reporting; Corporate Insurance; Divisional Controlling Automotive Technologies; Divisional Controlling AAM; Divisional Controlling Industrial; Shared Services; IT & Digitalization
Appointed: August 1, 2020
Term of office ended: July 31, 2021
Seats on supervisory and similar boards: member of the Supervisory Board of Bayerische Börse AG, Munich; member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (until July 31, 2021)

Michael Söding (until December 31, 2021)
CEO Automotive Aftermarket

Responsible for: Business Development & Strategy AAM; Global KAM, 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 ended: December 31, 2021
Seats on supervisory and similar boards: member of the shareholder committee of Caruso GmbH, Mannheim (until December 31, 2021); member of the shareholder committee of TecAlliance GmbH, Ismaning (until December 31, 2021)

Financial statements 2021

1. Balance sheet

in €	12/31/2021	12/31/2020	Change in %
ASSETS			
Intangible assets	**775.00**	**23,003.00**	**-96.6**
Property, plant and equipment	**147,803.43**	**786,523.45**	**-81.2**
Shares in affiliated companies	14,027,449,665.75	14,091,411,258.16	-0.5
Loans receivable from affiliated companies	294,735,935.42	22,690,000.00	› 100
Long-term financial assets	14,322,185,601.17	14,114,101,258.16	1.5
Fixed assets	**14,322,334,179.60**	**14,114,910,784.61**	**1.5**
Trade receivables	0.00	837.52	-100
Receivables from affiliated companies	8,880,346,649.25	8,567,927,085.86	3.6
Receivables from entities to which the company is linked by equity ownership	33,019.69	25,900.98	27.5
Other assets	58,119,758.67	42,846,745.99	35.6
Receivables and other assets	8,938,499,427.61	8,610,800,570.35	3.8
Securities	0.00	399,927,206.96	-100
Cash at banks	1,197,685,519.13	979,055,382.10	22.3
Current assets	**10,136,184,946.74**	**9,989,783,159.41**	**1.5**
Prepaid expenses and deferred charges	33,205,653.15	29,663,504.66	11.9
Excess of plan assets over post-employment benefit liability	2,799,061.94	3,609,105.33	-22.4
Total assets	**24,494,523,841.43**	**24,137,966,554.01**	**1.5**

in €	12/31/2021	12/31/2020	Change in %
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	666,000,000.00	666,000,000.00	0.0
Capital reserves	2,359,000,000.00	2,359,000,000.00	0.0
Revenue reserves	3,962,548,253.49	3,955,224,179.27	0.2
Retained earnings	450,253,001.01	168,824,074.22	› 100
Shareholders' equity	**7,437,801,254.50**	**7,149,048,253.49**	**4.0**
Provisions for pensions and similar obligations	66,526,963.96	56,919,746.52	16.9
Tax provisions	30,704,608.98	60,564,935.77	-49.3
Other provisions	154,105,092.75	155,847,210.80	-1.1
Provisions	**251,336,665.69**	**273,331,893.09**	**-8.0**
Bonds	3,494,668,000.00	3,494,668,000.00	0.0
Bank debt	297,500,000.00	569,550,997.98	-47.8
Trade payables	4,826,081.82	10,380,639.29	-53.5
Amounts payable to affiliated companies	12,961,097,235.10	12,564,211,289.48	3.2
Other liabilities (including taxes of EUR 1,916,041.15 [prior year: EUR 2,077,108.44])	47,294,604.32	76,775,480.68	-38.4
Liabilities	**16,805,385,921.24**	**16,715,586,407.43**	**0.5**
Total shareholders' equity and liabilities	**24,494,523,841.43**	**24,137,966,554.01**	**1.5**

2. Income statement

in €	2021	2020	Change in %
1 Revenue	23,574,200.44	14,571,133.58	61.8
2 Cost of sales	-21,649,312.66	-13,559,701.26	59.7
3 Gross profit	**1,924,887.78**	**1,011,432.32**	**90.3**
4 General and administrative expenses	-136,905,092.47	-123,480,281.20	10.9
5 Other operating income	325,628,185.86	435,604,559.83	-25.2
6 Other operating expenses	-345,639,446.55	-496,991,839.32	-30.5
7 Income from equity investments	813,027,860.63	500,000,000.00	62.6
• affiliated companies EUR 813,027,860.63 (prior year: EUR 500,000,000.00)			
8 Income from other securities and long-term loans receivable	3,715,610.85	971,229.22	› 100
• affiliated companies EUR 3,715,610.85 (prior year: EUR 971,229.22)			
9 Other interest and similar income	34,535,042.88	38,582,615.62	-10.5
• affiliated companies EUR 19,379,436.35 (prior year: EUR 25,434,534.40)			
10 Write-downs of long-term financial assets and securities included in current assets	-54,089,015.75	-17,449,616.31	› 100
11 Interest and similar expenses	-153,013,823.45	-156,109,986.85	-2.0
• affiliated companies EUR 29,729,140.81 (prior year: EUR 61,642,865.50)			
12 Income taxes	-38,976,664.77	-28,273,309.33	37.9
13 Earnings after income taxes	**450,207,545.01**	**153,864,803.98**	**› 100**
14 Other taxes	45,456.00	-40,729.76	-
15 Net income for the year	**450,253,001.01**	**153,824,074.22**	**› 100**
16 Retained earnings brought forward	0.00	0.00	0.0
17 Withdrawal from other revenue reserves	0.00	15,000,000.00	-100
18 Retained earnings	**450,253,001.01**	**168,824,074.22**	**› 100**

3. Notes to the financial statements

3.1 General information on the financial statements

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

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

3.2 Accounting policies

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

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

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

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

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

Cash at banks is measured at face value.

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

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

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

Provisions for pensions and similar obligations are determined by actuarial calculations using the projected unit credit method (PUC) based on the "Heubeck-Richttafeln 2018 G" (prior year: "Heubeck-Richttafeln 2018 G") mortality tables. The valuation of pension provisions reflects future annual salary increases of 2.75% (prior year: 2.75%), pension increases of 1.0 to 1.75%, and an employee turnover rate of 2.1%. Pension obligations are discounted at the average of the previous ten years' market interest rate based on an assumed term of 15 years, as published by the German Central Bank ("Deutsche Bundesbank") as at December 31, 2021. This discount rate is 1.87% (prior year: 2.30%).

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

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

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

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

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

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

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

3.3 Notes to the balance sheet

Fixed assets

in € thousands	Licenses	**Intangible assets**	Furniture and fixtures	Assets under construction	**Property, plant and equipment**	Shares in affiliated companies	Loans receivable from affiliated companies	**Long-term financial assets**	**Total**
Historical cost									
Balance as at January 01, 2021	209	**209**	797	614	**1,411**	14,108,811	22,690	**14,131,501**	**14,133,121**
Additions	0	**0**	124	0	**124**	1,051	272,046	**273,097**	**273,221**
Disposals	0	**0**	-205	-599	**-804**	-11,319	0	**-11,319**	**-12,123**
Balance as at December 31, 2021	**209**	**209**	**716**	**15**	**731**	**14,098,543**	**294,736**	**14,393,279**	**14,394,219**
Accumulated amortization, depreciation, and write-downs									
Balance as at January 01, 2021	186	**186**	624	0	**624**	17,400	0	**17,400**	**18,210**
Additions	22	**22**	162	0	**162**	53,693	0	**53,693**	**53,877**
Disposals	0	**0**	-203	0	**-203**	0	0	**0**	**-203**
Balance as at December 31, 2021	**208**	**208**	**583**	**0**	**583**	**71,093**	**0**	**71,093**	**71,884**
Net book values									
as at January 01, 2021	**23**	**23**	**173**	**614**	**787**	**14,091,411**	**22,690**	**14,114,101**	**14,114,911**
as at December 31, 2021	**1**	**1**	**133**	**15**	**148**	**14,027,450**	**294,736**	**14,322,186**	**14,322,335**

The carrying amount of the shares in Schaeffler Immobilien AG & Co. KG, Herzogenaurach, was written down by EUR 53,693 thousand (prior year: EUR 17,400 thousand) in 2021 due to permanent impairment.

Long-term loans receivable from affiliated companies classified as fixed assets consist of EUR 216,800 thousand (prior year: EUR 0) due from Schaeffler Verwaltungsholding Vier GmbH, EUR 37,924 thousand (prior year: EUR 0) due from FAG Magyarország Ipari Kft., EUR 22,500 thousand (prior year: EUR 22,500 thousand) due from Schaeffler Invest GmbH, EUR 17,322 thousand (prior year: EUR 0) due from Schaeffler Brasil Ltda., and EUR 190 thousand (prior year: EUR 190 thousand) due from LuK do Brasil Embreagens Ltda.

Receivables and other assets

Receivables and other assets

in € thousands	12/31/2021 Due in up to one year	12/31/2021 Due in 1 to 5 years	12/31/2021 Due in more than 5 years	12/31/2020 Due in up to one year	12/31/2020 Due in 1 to 5 years	12/31/2020 Due in more than 5 years
Trade receivables	0	0	0	1	0	0
Receivables from affiliated companies	8,880,347	0	0	8,567,927	0	0
• including short-term loans of	8,021,600	0	0	8,024,302	0	0
• including other financial receivables of	29,084	0	0	20,647	0	0
• including trade receivables of	28,912	0	0	21,749	0	0
• including other receivables of	800,751	0	0	501,229	0	0
Receivables from entities to which the company is linked by equity ownership	33	0	0	26	0	0
• including trade receivables of	33	0	0	26	0	0
Other assets	58,120	0	0	42,847	0	0

Other receivables from affiliated companies largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 800,000 thousand (prior year: EUR 500,000 thousand), which has not yet been paid. Schaeffler Technologies AG & Co. KG paid EUR 500,000 thousand in respect of net income for the prior year to Schaeffler AG in 2021. Schaeffler AG in turn used these funds entirely to pay off existing liabilities due to Schaeffler Technologies AG & Co. KG.

Due to the imparity principle, the company has not capitalized forward exchange contracts with positive market values of EUR 125,365 thousand (prior year: EUR 98,934 thousand) used to hedge currency risk from operations. The notional amount of these contracts is EUR 3,896,429 thousand (prior year: EUR 3,259,691 thousand).

Securities

In the prior year, securities consisted exclusively of EUR 399,927 thousand in other investments in the form of money market funds.

Excess of plan assets over post-employment benefit liability

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

The Managing Directors' company retirement benefit commitments are protected from insolvency by reimbursement insurance from Allianz. The assets transferred to Allianz in connection with this insurance policy represent plan assets.

The remaining company retirement benefit commitments (employees covered by collective agreements and senior managers) are protected from insolvency via the statutory insolvency protection from the German mutual pension protection association ("Pensions-Sicherungs-Verein auf Gegenseitigkeit" – PSVaG). Additional protection in the form of transferred assets is not obtained for these retirement benefits.

Excess of plan assets over post-employment benefit liability

in € thousands	12/31/2021	12/31/2020
Settlement amount of pensions and similar obligations	29,149	31,457
Fair value of plan assets offset	31,947	35,066
Excess of plan assets over post-employment benefit liability	**2,799**	**3,609**
Acquisition cost of plan assets offset	**29,955**	**34,352**

in € thousands	2021	2020
Interest income on plan assets offset	1,418	870
Interest expense on pensions and similar obligations [1]	-10,622	-8,461
Net interest income (expense)	**-9,204**	**-7,591**

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

Shareholders' equity

Share capital

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

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

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

The extraordinary general meeting held on September 15, 2020, approved the creation of authorized capital. The Board of Managing Directors is authorized, subject to approval by the Supervisory Board, to increase share capital in one or more installments by August 31, 2025, by a total of up to EUR 200 m in return for cash contributions.

Schaeffler AG had neither contingent capital nor any resolutions for the creation of contingent capital as at December 31, 2021.

Capital reserves

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

Revenue reserves

Revenue reserves amount to EUR 3,963 m as at the reporting date (prior year: EUR 3,955 m) and consist entirely of other revenue reserves.

Retained earnings

In 2021, a dividend of EUR 162 m (prior year: EUR 295 m) was paid to shareholders from retained earnings, and the remaining EUR 7 m (prior year: EUR 159 m) was added to other revenue reserves.

Net income for the year amounts to EUR 450 m (prior year: EUR 154 m) in 2021 and equals retained earnings for 2021. In the prior year, EUR 15 m was withdrawn from other revenue reserves.

The Board of Managing Directors and the Supervisory Board will propose to the annual general meeting to pay a dividend for 2021 of EUR 328 m and to carry forward the remaining retained earnings of EUR 122 m to the following year.

Pension provisions

Pension provisions largely represent company retirement benefits for employees covered by collective agreements based on pension schemes and individual commitments made to senior managers.

Net amount of pensions and similar obligations

in € thousands	12/31/2021	12/31/2020
Settlement amount of pensions and similar obligations	-74,638	-60,903
Fair value of plan assets offset	8,111	3,983
Net amount of pensions and similar obligations	**-66,527**	**-56,920**
Acquisition cost of plan assets offset	**18,242**	**20,020**

Other provisions

Other provisions

in € thousands	12/31/2021	12/31/2020
Provisions for pending losses on open transactions	115,783	120,703
Provisions for profit sharing, other bonuses, and share-based payments	26,468	17,938
Miscellaneous other provisions	11,854	17,206
Total other provisions	**154,105**	**155,847**

The company has recognized EUR 115,783 thousand (prior year: EUR 120,703 thousand) in provisions for pending losses for negative market values of forward exchange contracts used to hedge currency risk from operations. The notional amount of these contracts is EUR 3,886,273 thousand (prior year: EUR 3,203,285 thousand).

Liabilities

Liabilities

in € thousands	Due in up to one year (12/31/2021)	Due in 1 to 5 years (12/31/2021)	Due in more than 5 years (12/31/2021)	Due in up to one year (12/31/2020)	Due in 1 to 5 years (12/31/2020)	Due in more than 5 years (12/31/2020)
Bonds (not convertible)	544,668	1,550,000	1,400,000	0	2,094,668	1,400,000
Bank debt	0	171,500	126,000	13,051	430,500	126,000
Trade payables	4,826	0	0	10,381	0	0
Amounts payable to affiliated companies	12,961,097	0	0	12,564,211	0	0
• including loans of	9,641,473	0	0	9,779,249	0	0
• including other financial debt of	3,296,066	0	0	2,722,291	0	0
• including trade payables of	1,265	0	0	5,124	0	0
• including other liabilities of	22,293	0	0	57,548	0	0
Other liabilities	47,295	0	0	76,478	297	0
• including taxes of	1,916	0	0	2,077	0	0

The company repaid EUR 259 m in Schuldschein loans in 2021.

A long-term loan payable to an affiliated company was increased by EUR 61 m in 2021. Additionally, the company has short-term loans payable to affiliated companies in connection with the Schaeffler Group's cash-pooling function and internal group financing.

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

Hedge accounting

At December 31, 2021, there is a micro-hedge relationship between cross-currency swaps with a notional amount of EUR 29,972 thousand (prior year: EUR 35,278 thousand). The hedging instrument has a positive fair value of EUR 894 thousand (prior year: EUR 3,530 thousand), and the hedged item has a negative fair value of EUR 894 thousand (prior year: EUR 3,530 thousand). The hedge covers the entire term to maturity of the hedged item (up to 2024).

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

Based on the net hedge presentation method, a total of EUR 894 thousand (prior year: EUR 3,530 thousand) in changes in the value of hedged items and EUR -894 thousand (prior year: EUR -3.530 thousand) in changes in the value of hedging instruments have not been recognized in the balance sheet.

Deferred taxes

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

3.4 Notes to the income statement

Analysis of revenue

Analysis of revenue

in € thousands	2021	2020
Domestic	22,461	13,144
Foreign	1,113	1,427
Total revenue	**23,574**	**14,571**

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

Disclosures required for the cost of sales format

Disclosures required for the cost of sales format

in € thousands	2021	2020
Wages and salaries	84,510	68,096
Social security, post-employment, and other employee benefit costs	12,103	10,297
• including post-employment benefits of	4,095	3,656
Personnel expense	**96,613**	**78,393**

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

Other operating income includes foreign exchange gains of EUR 321,439 thousand (prior year: EUR 429,779 thousand). Other operating expenses include foreign exchange losses of EUR 335,952 thousand (prior year: EUR 486,024 thousand).

Other interest and similar income does not include any income from discounting provisions in either the current or the prior year. Other interest and similar expenses includes EUR 11,272 thousand (prior year: EUR 16,231 thousand) in expenses from compounding provisions.

Expenses and income related to prior years

Expenses and income related to prior years

in € thousands	2021	2020
Tax expense and benefits related to prior years	-3,744	-5,555
Gains on reversal of provisions	1,021	1,359
Expenses related to prior years	**-2,723**	**-4,196**

3.5 Other disclosures

Contingent liabilities

The company had EUR 136,847 thousand (prior year: EUR 156,674 thousand) in guarantees outstanding for the benefit of affiliated companies at December 31, 2021.

Given the earnings of the affiliated companies, the company considers the financial risk to Schaeffler AG potentially arising from claims under its guarantees for the liabilities of others to be low.

The company is the general partner of the following companies:

- Schaeffler Technologies AG & Co. KG, Herzogenaurach,
- Schaeffler Immobilien AG & Co. KG, Herzogenaurach,
- Schaeffler Industrial Remanufacturing Services AG & Co. KG.

Other financial obligations

Other financial obligations

in € thousands	2021	2020	Change in %
Off-balance sheet payment obligations	2,542	3,969	-36.0
• including obligations under multi-year leases of	1,865	3,292	-43.3
• including obligations to affiliated companies of	677	677	0.0

Average number of employees for the year

Average number of employees

	2021	2020	Change in %
Salaried employees	547	500	9.4
Temporary staff	17	12	41.7
Total	**564**	**512**	**10.2**

Governing bodies of the company

Board of Managing Directors

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

Klaus Rosenfeld

Chief Executive Officer

Responsible for: Quality; Governance, Processes & Organization; Corporate Development & Strategy; Group Communications & Public Affairs; Global Branding & Corporate Marketing; Investor Relations; Legal; Internal Audit; Compliance & Corporate Security; Corporate Real Estate; Strategic IT & Digitalization; Schaeffler Consulting
Appointed: October 24, 2014
Term of office ended: June 30, 2024
Seats on supervisory and similar boards: member of the Supervisory Board of Continental AG, Hanover; member of the board of directors of Siemens Gamesa Renewable Energy S.A., Zamudio, Spain; member of the Supervisory Board of Vitesco Technologies Group AG, Regensburg (since September 15, 2021); Supervisor of Schaeffler Holding (China) Co. Ltd., Shanghai, China; member of the board of directors of Schaeffler India Ltd., Mumbai, India (until October 28, 2021)

Claus Bauer (since September 1, 2021)

Chief Financial Officer

Responsible for: Finance Systems, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax & Customs; Corporate Reporting; Corporate Insurance; Shared Services; IT & Digitalization
Appointed: September 1, 2021
Term of office ended: August 31, 2023
Seats on supervisory and similar boards: member of the board of directors of FAG Bearings LLC., Joplin, U.S. (until October 31, 2021); member of the board of directors of LMC Bridgeport, Inc., Danbury, U.S. (until September 1, 2021); member of the board of directors of Schaeffler Aerospace USA Corporation, Danbury, U.S. (until October 31, 2021); member of the board of directors of Schaeffler Canada Inc., Stratford, Canada (until October 31, 2021); member of the board of directors of Schaeffler Group USA Inc., Fort Mill, U.S. (until October 31, 2021); member of the board of managers of Schaeffler Holding LLC, Danbury, U.S. (until October 31, 2021); member of the board of managers of Schaeffler Transmission, LLC, Wooster, U.S. (until October 31, 2021); member of the board of managers of Schaeffler Transmission Systems, LLC, Wooster, U.S. (until October 31, 2021); member of the board of directors of Schaeffler USA Finance LLC., Wilmington, U.S. (until September 15, 2021)

Andreas Schick

Chief Operating Officer

Responsible for: Schaeffler Production System & Production Technology; Digitalization & Operations IT; Advanced Production Technology; Tool Manufacturing; Special Machinery; Supply Chain Management & Logistics; Purchasing Strategy & Strategic Supplier Management; Non-Production Material Purchasing; Quality Operations, Supply Chain Management & Purchasing
Appointed: April 1, 2018
Term of office ended: March 31, 2026
Seats on supervisory and similar boards: member of the Supervisory Board of SupplyOn AG, Hallbergmoos; member of the board of directors of Schaeffler India Ltd., Mumbai, India (since September 12, 2021)

Corinna Schittenhelm

Chief Human Resources Officer

Responsible for: HR Strategy; HR Policies & Standards; Leadership, Recruiting & Talent Management; Schaeffler Academy; HR Systems, Processes & Reporting; Sustainability, Environment, Health & Safety; Human Resources Functions; Human Resources Germany
Appointed: January 1, 2016
Term of office ended: December 31, 2023
Seats on supervisory and similar boards: member of the shareholder committee of TÜV SÜD AG, Munich; member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach; member of the board of directors of Schaeffler India Ltd., Mumbai, India (since September 12, 2021)

Jens Schüler (since January 1, 2022)

CEO Automotive Aftermarket

Responsible for: Business Development & Strategy AAM; Global KAM, 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, 2022
Term of office ended: December 31, 2024
Seats on supervisory and similar boards: member of the shareholder committee of Caruso GmbH, Mannheim (since January 1, 2022); member of the shareholder committee of TecAlliance GmbH, Ismaning (since January 1, 2022)

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; Strategic Business Field Hydrogen Industrial; R&D Industrial; Operations & Supply Chain Management Industrial; Quality Industrial; Purchasing & Supplier Management Industrial; Divisional Controlling Industrial; HR Industrial
Appointed: May 1, 2015
Term of office ended: April 30, 2023

Uwe Wagner
Chief Technology Officer

Responsible for: R&D Management; Advanced Research & Innovation; Corporate Engineering Services; Corporate Competence Center CT; R&D Processes, Methods & Tools; Intellectual Property Rights
Appointed: October 1, 2019
Term of office ended: September 30, 2027
Seats on supervisory and similar boards: member of the Supervisory Board of IAV GmbH Ingenieursgesellschaft Auto und Verkehr, Berlin; member of the advisory board of Compact Dynamics GmbH, Starnberg; member of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach; chairman of the advisory board of Xtronic GmbH, Boeblingen

Matthias Zink
CEO Automotive Technologies

Responsible for: Business Development & Strategy Automotive Technologies; Global Key Account Management Automotive Technologies; BD Bearings; BD Engine & Transmission Systems; BD E-Mobility; BD Chassis Systems; Operations & Supply Chain Management Automotive Technologies; Quality Automotive Technologies; Purchasing & Supplier Management Automotive Technologies; Divisional Controlling Automotive Technologies; Human Resources Automotive Technologies
Appointed: January 1, 2017
Term of office ended: December 31, 2024
Seats on supervisory and similar boards: member of the advisory board of Compact Dynamics GmbH, Starnberg; Supervisor of Schaeffler (China) Co. Ltd., Shanghai, China; chairman of the advisory board of Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach; member of the Supervisory Board of Schaeffler Savaria Kft., Szombathely, Hungary (until April 2, 2021); member of the advisory board of Xtronic GmbH, Boeblingen

The following members left the Board of Managing Directors in 2021

Dr. Klaus Patzak (until July 31, 2021)
Chief Financial Officer

Responsible for: Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Corporate Treasury; Corporate Tax & Customs; Corporate Reporting; Corporate Insurance; Divisional Controlling Automotive Technologies; Divisional Controlling AAM; Divisional Controlling Industrial; Shared Services; IT & Digitalization
Appointed: August 1, 2020
Term of office ended: July 31, 2021
Seats on supervisory and similar boards: member of the Supervisory Board of Bayerische Börse AG, Munich; member of the advisory board of Schaeffler Consulting GmbH, Herzogenaurach (until July 31, 2021)

Michael Söding (until December 31, 2021)
CEO Automotive Aftermarket

Responsible for: Business Development & Strategy AAM; Global KAM, 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 ended: December 31, 2021
Seats on supervisory and similar boards: member of the shareholder committee of Caruso GmbH, Mannheim (until December 31, 2021); member of the shareholder committee of TecAlliance GmbH, Ismaning (until December 31, 2021)

Supervisory Board

The company has a Supervisory Board consisting of 20 members in accordance with section 11 of its articles of incorporation. The members of the Supervisory Board are as follows:

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: chairman of the advisory board of ATESTEO Management GmbH, Alsdorf (until August 31, 2021); member of the advisory board of ATESTEO Management GmbH, Alsdorf (since September 1, 2021); member of the Supervisory Board of Continental AG, Hanover; member of the Supervisory Board of Vitesco Technologies Group AG, Regensburg (since September 15, 2021)

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

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

Jürgen Wechsler*
Former Regional Director of IG Metall Bavaria
Deputy Chairman of the Supervisory Board of Schaeffler AG

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

Sabine Bendiek
Chief People & Operations Officer, Labor Relations Director SAP SE

Appointed: April 24, 2019

Prof. Dr. Hans-Jörg Bullinger
CEO of Fraunhofer Foundation

Appointed: December 1, 2014
Committee memberships: Chairman of the technology committee
Seats on supervisory and similar boards: member of the advisory board of Albert Handtmann Holding GmbH & Co. KG, Biberach (since January 1, 2021); 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; member of the advisory board of Friedhelm Loh Stiftung GmbH & Co. KG, Haiger (since January 1, 2021); member of the Supervisory Board of Vitesco Technologies Group AG, Regensburg (since September 15, 2021)

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: member of the Board of Directors of AEye, Inc., Dublin, U.S. (since August 16, 2021); member of the Supervisory Board of Benteler International AG, Salzburg, Austria; Deputy Chairman of the Supervisory Board of JOST-Werke AG, Neu-Isenburg; member of the Supervisory Board of Compagnie Plastic Omnium SA, Levallois-Perret, France

Andrea Grimm*
Deputy Chairperson of the Works Council Schaeffler Technologies AG & Co. KG

Appointed: December 1, 2014
Committee memberships: member of the audit committee

Ulrike Hasbargen (since April 23, 2021)
Tax consultant/auditor

Appointed: April 23, 2021
Seats on supervisory and similar boards: member of the Supervisory Board of Ernst & Young GmbH, Stuttgart

Thomas Höhn*
Trade Union Secretary IG Metall

Appointed: May 8, 2020
Committee memberships: member of the audit committee

Susanne Lau*
Industrial management assistant
Chairperson of the Works Council Hamburg
Chairperson of the Group Works Council of Schaeffler AG
Chairperson of the General Works Council of Schaeffler Automotive Aftermarket GmbH & Co. KG

Appointed: August 8, 2018

Barbara Resch*
Wage secretary

Appointed: November 19, 2015
Committee memberships: member of the executive committee
Seats on supervisory and similar boards: member of the Supervisory Board of ElringKlinger AG, Dettingen; member of the Supervisory Board of Rheinmetall AG, Duesseldorf

Jutta Rost*
Senior Vice President HR Functions

Appointed: May 8, 2020

Jürgen Schenk*
Chairman of the General Works Council Schweinfurt

Appointed: May 8, 2020
Committee memberships: member of the technology committee
Seats on supervisory and similar boards: member of the Supervisory Board of ACE Auto Club Europa e. V., Stuttgart

Helga Schönhoff*
Deputy Chairperson of the Works Council Schaeffler Automotive Bühl GmbH & Co. KG

Appointed: May 8, 2020

* Employee representative on the Supervisory Board.

Robin Stalker
Chartered Accountant

Appointed: December 1, 2014
Committee memberships: chairman of the audit committee
Seats on supervisory and similar boards: Deputy Chairman of the Supervisory Board of Schmitz Cargobull AG, Horstmar; member of the Supervisory Board of Commerzbank AG, Frankfurt/Main; member of the Supervisory Board of Hugo Boss AG, Metzingen

Salvatore Vicari*
Chairman of the Works Council Homburg/Saar

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

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

Appointed: December 1, 2014
Committee memberships: member of the executive and technology committees
Seats on supervisory and similar boards: member of the Supervisory Board of CMBlu Energy, Alzenau (until December 14, 2021); member of the Supervisory Board of Continental AG, Hanover (until January 1, 2022); member of the Supervisory Board of Miba AG, Laakirchen, Austria; member of the Supervisory Board of Mitterbauer Beteiligungs-AG, Laakirchen, Austria; member of the Supervisory Board of OJSC GAZ Group, Nizhny Novgorod, Russia; member of the Supervisory Board of Porsche Automobil Holding SE, Stuttgart; Chairman of the Supervisory Board of SBERBANK Europe AG, Vienna, Austria; Chairman of the Supervisory Board of Steyr Automotive GmbH, Steyr, Austria (since October 19, 2021); Chairman of the Supervisory Board of Vitesco Technologies Group AG, Regensburg (since October 4, 2021)

* Employee representative on the Supervisory Board.

Prof. Dr.-Ing. Tong Zhang
Director of Institute of Fuel Cell Vehicle Technology at Tongji University in Shanghai, China

Appointed: December 1, 2014
Committee memberships: member of the technology committee

Markus Zirkel*
Chairman of the Works Council Hirschaid

Appointed: May 8, 2020
Committee memberships: member of the technology committee
Seats on supervisory and similar boards: member of the Supervisory Board of VR-Bank Bamberg Forchheim eG, Bamberg

The following member left the Supervisory Board in 2021

Sabrina Soussan (until April 23, 2021)
CEO dormakaba International Holding AG

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

Total remuneration of the company's governing bodies

Total remuneration of the Board of Managing Directors in accordance with section 285 (9a) (1-3) HGB amounted to EUR 20 m (prior year: EUR 19 m) in 2021.

The following share-based remuneration was granted to members of the Board of Managing Directors in 2021 under the Performance Share Unit Plan (PSUP) implemented in 2015 and amended in 2020: 512,081 Performance Share Units (PSU) subject to a service condition (fair value at grant date per PSU of EUR 5.47 for grant date February 26, 2021, and EUR 5.30 for September 1, 2021), a maximum of 512,082 PSUs subject to an EPS-based performance target (fair value at grant date per PSU of EUR 5.47 for February 26, 2021, and EUR 5.30 for September 1, 2021), a maximum of 512,082 PSUs subject to a TSR-based performance target tied to the sector basket (fair value at grant date per PSU of EUR 2.31 for February 26, 2021, and EUR 1.93 for September 1, 2021). The maximum number of EPS- and TSR-related PSUs corresponds to a target achievement rate of 200%.

The following share-based remuneration was granted to members of the Board of Managing Directors in the prior year: 334,071 Performance Share Units (PSU) subject to a service condition (fair value at grant date per PSU of EUR 7.37 for grant date February 4, 2020, EUR 7.55 for January 1, 2020, and EUR 5.03 for August 1, 2020), a maximum of 312,968 PSUs subject to an EPS-based performance target (fair value at grant date per PSU of EUR 7.37 for February 4, 2020, and EUR 5.03 for August 1, 2020), a maximum of 312,968 PSUs subject to a TSR-based performance target tied to the sector basket (fair value at grant date per PSU of EUR 3.77 for February 4, 2020, and EUR 2.23 for August 1, 2020), 10,556 PSUs with an FCF-based performance target (fair value at grant date per PSU of EUR 7.55 for January 1, 2020), and 10,556 PSUs with a TSR-based performance target tied to the MDAX (fair value at grant date per PSU of EUR 4.60 for January 1, 2020). The maximum number of EPS- and TSR-related PSUs corresponds to a target achievement rate of 200%.

The following PSUs were granted in the prior year (2020) in connection with the one-off smoothing component: 93,728 PSUs subject to a one-year performance period (fair value at grant date per PSU of EUR 8.89 for grant date February 4, 2020, and EUR 6.12 for August 1, 2020), 93,728 PSUs subject to a two-year performance period (fair value at grant date per PSU of EUR 8.34 for February 4, 2020, and EUR 5.73 for August 1, 2020), 93,728 PSUs subject to a three-year performance period (fair value at grant date per PSU of EUR 7.83 for February 4, 2020, and EUR 5.37 for August 1, 2020).

Short-term benefits paid to members of Schaeffler AG's Supervisory Board amounted to EUR 1.9 m (prior year: EUR 1.5 m).

The remuneration system for the Board of Managing Directors and the Supervisory Board of Schaeffler AG is outlined in the remuneration report.

Former members of the Board of Managing Directors of Schaeffler AG and its legal predecessors (and their surviving dependants) received remuneration of EUR 3 m in 2021 (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 31 m as at December 31, 2021 (prior year: EUR 29 m).

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

The difference between the amount recognized under section 253 (6) HGB for the provision for pensions and similar obligations based on the relevant average market interest rate for the past ten years and the amount that would have been recognized based on the relevant average market interest rate for the past seven years amounts to EUR 10,029 thousand (prior year: EUR 12,116 thousand).

Under section 268 (8) HGB, EUR 2,010 thousand (prior year: EUR 714 thousand) are not available for distribution, as they relate to assets recognized at fair value.

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

Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code pursuant to section 161 AktG in December 2021 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

Auditors' fees

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

Group affiliation

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

Events after the reporting period

No material events expected to have a significant impact on the net assets, financial position, or results of operations of Schaeffler AG occurred after December 31, 2021.

List of shareholdings

List of shareholdings of Schaeffler AG as at 12/31/2021

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income (loss) in € thousands
A. Affiliated companies I. Germany					
CATENSYS Germany GmbH	Herzogenaurach	DE	100.0	25	0
CBF Europe GmbH	Wuppertal	DE	100.0	-3,865	0
Compact Dynamics GmbH [1]	Starnberg	DE	100.0	5,212	0
Industriewerk Schaeffler INA-Ingenieurdienst-, GmbH [1]	Herzogenaurach	DE	100.0	558,435	0
LuK Unna GmbH & Co. KG	Unna	DE	100.0	2,760	-868
Schaeffler Aerospace Germany Beteiligungs GmbH	Schweinfurt	DE	100.0	52	2
Schaeffler Aerospace Germany GmbH & Co. KG	Schweinfurt	DE	100.0	78,992	1,657
Schaeffler AS Auslandsholding GmbH [1]	Bühl	DE	100.0	20,369	0
Schaeffler Automotive Buehl GmbH & Co. KG	Bühl	DE	100.0	1,864,203	420,708
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.0	1,032,968	144,786
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.0	390	-4
Schaeffler Beteiligungsverwaltungs GmbH [1]	Herzogenaurach	DE	100.0	40,841	0
Schaeffler Bühl Auslandsholding GmbH [1]	Bühl	DE	100.0	59,029	0
Schaeffler Bühl Beteiligungs GmbH [1]	Bühl	DE	100.0	56,928	0
Schaeffler Bühl Holding GmbH [1]	Bühl	DE	100.0	34,342	0
Schaeffler Bühl Verwaltungs GmbH [1]	Bühl	DE	100.0	1,809,970	0
Schaeffler Consulting GmbH [1]	Herzogenaurach	DE	100.0	2,025	0
Schaeffler Digital Solutions GmbH [1]	Chemnitz	DE	100.0	622	0
Schaeffler Elmotec Statomat GmbH	Karben	DE	100.0	6,264	-5,670
Schaeffler Engineering GmbH [1]	Werdohl	DE	100.0	5,348	0
Schaeffler Europa Logistik GmbH [1]	Herzogenaurach	DE	100.0	25	0
Schaeffler Friction Products GmbH [1]	Morbach	DE	100.0	5,131	0
Schaeffler IAB Beteiligungs GmbH [1]	Herzogenaurach	DE	100.0	4,567,977	0
Schaeffler IAB Verwaltungs GmbH [1]	Herzogenaurach	DE	100.0	1,322,860	0
Schaeffler IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.0	25	0
Schaeffler Immobilien AG & Co. KG	Herzogenaurach	DE	100.0	161,661	3,594
Schaeffler Industrial Drives AG & Co. KG	Suhl	DE	100.0	3,477	1,426
Schaeffler Industrial Remanufacturing Services AG & Co. KG	Herzogenaurach	DE	100.0	1,563	3,876
Schaeffler Invest GmbH [1]	Herzogenaurach	DE	100.0	100	0
Schaeffler KWK Verwaltungs GmbH	Langen	DE	100.0	29	-1
Schaeffler Monitoring Services GmbH [1]	Herzogenrath	DE	100.0	816	0
Schaeffler Paravan Management GmbH	Herzogenaurach	DE	100.0	29	1
Schaeffler Qualifizierung und Beschäftigung GmbH [1]	Schweinfurt	DE	100.0	122	0
Schaeffler Raytech Verwaltungs GmbH [1]	Morbach	DE	100.0	15,781	0
Schaeffler Schweinfurt Beteiligungs GmbH [1]	Schweinfurt	DE	100.0	726,565	0
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.0	14,408,187	3,978,300
Schaeffler Versicherungs-Vermittlungs GmbH [1]	Herzogenaurach	DE	100.0	8,282	0
Schaeffler Verwaltungsholding Drei GmbH [1]	Herzogenaurach	DE	100.0	1,893,562	0
Schaeffler Verwaltungsholding Eins GmbH [1]	Herzogenaurach	DE	100.0	5,910,725	0
Schaeffler Verwaltungsholding Sechs GmbH [1]	Herzogenaurach	DE	100.0	1,248,248	0
Schaeffler Verwaltungsholding Vier GmbH [1]	Herzogenaurach	DE	100.0	8,223	8,200
Schaeffler Verwaltungsholding Zwei GmbH [1]	Herzogenaurach	DE	100.0	1,748,118	0
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.0	2,176	-1,276
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.0	73	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.0	95,676	1,167
Xtronic GmbH	Böblingen	DE	100.0	748	-412
II. Foreign					
Schaeffler Middle East FZE	Jebel Ali	AE	100.0	8,828	390
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.0	6,099	1,588
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.0	48,136	7,033
Schaeffler Australia Pty Ltd.	Belrose	AU	100.0	14,033	580
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.0	11,061	528
Schaeffler Bulgaria OOD	Sofia	BG	100.0	706	120
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.0	59	2
Schaeffler Brasil Ltda.	Sorocaba	BR	100.0	163,666	76,057
Schaeffler Aerospace Canada Inc.	Stratford	CA	100.0	53,668	20,151

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income (loss) in € thousands
Schaeffler Canada Inc.	Oakville	CA	100.0	53,935	-81
Schaeffler Schweiz GmbH	Romanshorn	CH	100.0	4,833	1,255
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.0	1,775	394
CATENSYS Chain Drive (Nanjing) Co. Limited	Nanjing City	CN	100.0	10,000	0
ETC Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.0	1,224	-6,499
RepXpert Automotive Aftermarket Services Consulting (Shanghai) LLP	Shanghai	CN	100.0	2,069	-1,631
Schaeffler Automotive Aftermarket Services Consulting (Shanghai) Co.	Shanghai	CN	100.0	8,970	-5
Schaeffler (China) Co., Ltd.	Taicang	CN	100.0	669,822	224,527
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.0	240,760	34,090
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.0	80,921	12,057
Schaeffler (Xiangtan) Co., Ltd.	Xiangtan	CN	100.0	38,610	1,151
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.0	426	-223
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.0	65,410	6,219
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.0	789,783	408,191
Schaeffler Intelligent Driving Technology (Changsha) Co., Ltd.	Changsha	CN	100.0	1,312	-2,676
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.0	299,737	99,421
Schaeffler Colombia Ltda.	Bogotá	CO	100.0	801	383
Schaeffler CZ s.r.o.	Prague	CZ	100.0	7,542	1,254
Schaeffler Production CZ s.r.o.	Lanskroun	CZ	100.0	49,939	2,663
Schaeffler Danmark ApS	Aarhus	DK	100.0	12,399	530
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.0	53,033	6,326
Schaeffler Finland Oy	Espoo	FI	100.0	11,397	358
Schaeffler Chain Drive Systems SAS	Calais	FR	100.0	9,409	312
Schaeffler France SAS	Haguenau	FR	100.0	130,083	6,018
Schaeffler Automotive Aftermarket (UK), Limited	Hereford	GB	100.0	12	0
Schaeffler (UK) Limited	Sheffield	GB	100.0	66,745	2,587
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	GR	100.0	285	97
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.0	22,917	3,636
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.0	470	82
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.0	30,888	2,597
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.0	2,517	665
Schaeffler Savaria Kft.	Szombathely	HU	100.0	160,845	10,431
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.0	4,218	1,232
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.0	377	31
Schaeffler India Ltd.	Mumbai	IN	74.13	433,788	71,919
Statomat Special Machines (India) Pvt. Ltd.[2]	Mumbai	IN	79.89	80	-388
INA Invest S.r.l.	Momo	IT	100.0	25,095	-28
Schaeffler Italia S.r.l.	Momo	IT	100.0	65,324	7,298
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00	0	0
Schaeffler Water Pump Bearing Italia S.r.l.	Momo	IT	100.0	8,730	844
CATENSYS Japan K.K.	Yokohama	JP	100.0	2	0
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.0	41,309	9,575
CATENSYS Korea LLC	Ansan	KR	100.0	74	0
Schaeffler Ansan Corporation	Ansan-shi	KR	100.0	33,085	8,454
Schaeffler Korea Corporation	Changwon-si	KR	100.0	261,311	42,048
Schaeffler Kazakhstan GmbH	Almatay	KZ	100.0	83	1
SIA "Schaeffler Baltic"	Riga	LV	100.0	1,124	333
Rodamientos FAG S.A. de C.V.	Puebla	MX	100.0	665	-34
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Mexico City	MX	100.0	44,210	7,173
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	MX	100.0	139,477	0
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.0	4,361	-1,897
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.0	56,093	3,250
Schaeffler Transmisión, S. de R.L. de C.V.	Puebla	MX	100.0	200,102	51,314
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.0	9,706	543
BEGA International B.V.	Vaassen	NL	100.0	1,906	118
Hydron Energy B.V.	Noordwijkerhout	NL	100.0	420	73
Radine B.V.	Barneveld	NL	100.0	1,466	540
Schaeffler Nederland B.V.	Barneveld	NL	100.0	8,051	2,947
Schaeffler Norge AS	Sandnes	NO	100.0	5,697	252
Schaeffler Peru S.A.C.	Lima	PE	100.0	1,083	415
Schaeffler Philippines Inc.	Makati City	PH	100.0	1,569	1,218
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	100.0	1,284	743
Schaeffler Polska Sp. z o.o.	Warsaw	PL	100.0	40,443	8,646
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.0	20,286	1,753
Schaeffler Romania S.R.L.	Brasov	RO	100.0	208,336	19,780
Schaeffler SR d.o.o.	Belgrade	RS	100.0	426	73
Schaeffler Rus OOO	Ulyanovsk	RU	100.0	7,435	867
Schaeffler Russland GmbH	Moscow	RU	100.0	21,540	2,348
Schaeffler Sverige AB	Arlandastad	SE	100.0	15,276	798

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income (loss) in € thousands
Schaeffler Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.0	-3,629	-142
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.0	27,317	3,333
Schaeffler Slovenija d.o.o.	Maribor	SI	100.0	435	74
CATENSYS Slovakia, spol. s r.o.	Skalica	SK	100.0	5	0
Schaeffler Kysuce, spol. s r.o.	Kysucke Nove Mesto	SK	100.0	238,611	23,216
Schaeffler Skalica spol. s r.o.	Skalica	SK	100.0	148,672	13,526
Schaeffler Slovensko spol. s.r.o.	Kysucke Nove Mesto	SK	100.0	3,254	514
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	100.0	1,485	0
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.0	897	-10
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.0	4,558	-1,671
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.0	2,925	1,309
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.0	2,503	174
Schaeffler Ukraine GmbH	Kiev	UA	100.0	325	22
CATENSYS US Inc.	Wilmington	US	100.0	88	0
FAG Bearings LLC	Danbury	US	100.0	-21,126	-25,720
LuK Clutch Systems, LLC	Wooster	US	100.0	131,992	68
LuK-Aftermarket Services, LLC	Valley City	US	100.0	-3,328	0
Schaeffler Aerospace USA Corporation	Danbury	US	100.0	201,935	6,270
Schaeffler Group USA, Inc.	Fort Mill	US	100.0	767,881	-3,356
Schaeffler Holding LLC	Danbury	US	100.0	0	0
Schaeffler Transmission Systems, LLC	Wooster	US	100.0	478,318	49,575

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income (loss) in € thousands
Schaeffler Transmission, LLC	Wooster	US	100.0	168,639	5,672
Schaeffler Vietnam Co., Ltd.	Bien Hoa City	VN	100.0	20,423	1,219
INA Bearings (Pty) Ltd.	Port Elizabeth	ZA	100.0	123,331	21,051
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.0	20,445	5,954
B. Investments					
I. Germany					
Abt E-Line GmbH [2) 3)]	Kempten	DE	0.0	0	-344
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.0	27	-1
Contitech-INA GmbH & Co. KG	Hanover	DE	50.0	210	0
IAV GmbH Ingenieurgesellschaft Auto und Verkehr [2) 3)]	Berlin	DE	10.0	159,800	-13,400
Schaeffler Paravan Technologie GmbH & Co. KG	Herzogenaurach	DE	90.0	80,185	-47,564
II. Foreign					
Schaeffler-CARS Railway Technology Co. Ltd.	Tianjing City	CN	50.0	6,146	-1,498
Statec S.r.l. [2) 3)]	Turin	IT	35.0	1,133	183
Eurings Zrt. [2) 3)]	Debrecen	HU	37.0	5,541	17
Colinx, LLC [2) 3)]	Greenville	US	20.0	3,140	4

1) There is a profit and loss transfer agreement.
2) Information per 2020 financial statements.
3) Financial statements for 2021 not yet issued.

3.6 Preparation of financial statements

The Board of Managing Directors of Schaeffler AG prepared the financial statements on February 22, 2022, and released them for submission to the Supervisory Board of Schaeffler AG. The Supervisory Board of Schaeffler AG is responsible for examining and approving the financial statements.

Herzogenaurach, February 22, 2022

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Jens Schüler

Claus Bauer

Dr. Stefan Spindler

Andreas Schick

Uwe Wagner

Corinna Schittenhelm

Matthias Zink

Independent Auditors' Report

To Schaeffler AG, Herzogenaurach

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of Schaeffler AG, which comprise the balance sheet as at December 31, 2021, and the income statement for the financial year from January 1 to December 31, 2021, and notes to the financial statements, including the accounting policies presented therein. In addition, we have audited the management report of Schaeffler AG for the financial year from January 1 to December 31, 2021. In accordance with German legal requirements, we have not audited the content of the parts of the management report which are listed in the "Other information" section of our report.

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

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2021, and of its financial performance for the financial year from January 1 to December 31, 2021, in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the parts of the management report which are listed in the "Other information" section. The management report includes references not provided for by the law that have been marked as unaudited. Our opinion covers neither these references nor the information referred to by these references.

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

Basis for the Opinions

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

Key Audit Matter in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of Long-Term Financial Assets

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

The risk for the financial statements Long-term financial assets in Schaeffler AG's annual financial statements include EUR 14,027 m in shares in affiliated companies and EUR 295 m in loans receivable from affiliated companies as at December 31, 2021. The Company's long-term financial assets represent 58.47% of total assets, and therefore have a material impact on the Company's net assets.

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

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

The impairment test, including the calculation of fair value using the discounted cash flow method, is complex and depends to a large extent on the Company's estimates and judgments regarding the assumptions made. This applies, inter alia, to the estimation of future cash inflows and the company-specific growth rates, the determination of the discount rates, and the assessment of whether the impairment is permanent. Due to the technological transition in the automotive industry, underlying future cash inflows remain subject to an increased level of estimation uncertainty.

The company wrote down the shares in Schaeffler Immobilien AG & Co. KG by EUR 53.7 m in 2021.

There is a risk to the annual financial statements that long-term financial assets may not be recoverable.

Our audit approach We assessed whether there are any indications of a need to recognize a write-down on shares in affiliated companies based on evidence obtained in our audit. Our audit procedures included evaluating the forecast of future revenue and earnings trends for the various companies. We discussed the company-specific forecasts with those responsible for the planning process.

In addition, we assessed whether Schaeffler AG's expectations for market growth were within a reasonable range as compared to peer-group industry information and other publicly available information, as well as whether the company-specific budgeted and planned amounts, underlying assumptions, and company-specific growth rates were within a reasonable range. We had the company substantiate to us the need to include a transition period subsequent to the detailed forecasting phase until a steady state has been reached. In addition, we assessed the quality of the company's past plans by comparing projections for previous years with actual results and analyzing deviations.

We assessed the appropriateness of the assumptions used in determining the discount rate, including the weighted average cost of capital, as well as whether the calculation methodology used was appropriate. We consulted with our internal valuation specialists in order to assess the appropriateness of the method used to calculate the discount rate as well as the Company's plans and budgets.

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

The assumptions and estimates used by the Company are appropriate.

Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following unaudited parts of the management report:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors’ report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure, and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position, and financial performance of the Company in compliance with German legally required accounting principles.
- evaluate the consistency of the management report with the annual financial statements, its conformity with law, and the view of the Company’s position it provides.
- perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on Assurance in accordance with Section 317 (3a) HGB on the Electronic Reproduction of the Annual Financial Statements and of the Management Report Prepared for Publication Purposes

We have performed an assurance engagement in accordance with section 317 (3a) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the “ESEF documents”) contained in the file provided named “JA.xhtml” (SHA256-hash value: 1e1c532fa345d986f55a53aa8190d88c7ade5ffa7cb8a c773a7be314aafcd128) and prepared for publication purposes complies in all material respects with the requirements of section 328 (1) HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in these reproductions nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the above-mentioned electronic file provided and prepared for publication purposes complies, in all material respects, with the requirements of section 328 (1) HGB regarding the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance opinion and our audit opinions on the attached annual financial statements and the accompanying management report for the financial year from January 1, to December 31, 2021, contained in the “Report on the Audit of the Annual Financial Statements and of the Management Report” above.

We conducted our assurance engagement on the reproduction of the annual financial statements and the management report contained in the above-mentioned electronic file provided in accordance with section 317 (3a) HGB and the IDW Assurance Standard "Assurance in Accordance with Section 317 (3a) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes" (IDW AsS 410 (10/2021)). Our responsibilities under these requirements are described in further detail below. Our audit firm has applied the requirements for quality management systems set out in IDW Standard on Quality Management 1 "Requirements for Quality Management in Audit Firms" (IDW QS 1).

The company's management is responsible for preparing the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with section 328 (1) sentence 4 no. 1 HGB.

In addition, the company's management is responsible for such internal controls as they consider necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether due to fraud or error, with the requirements of section 328 (1) HGB regarding the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- identify and assess the risks of material non-compliance, whether due to fraud or error, with the requirements of section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- evaluate the technical validity of the ESEF documents, that is, whether the electronic file provided containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version in effect as at the reporting date, regarding the technical specifications for this electronic file.
- evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected auditors by the annual general meeting on April 23, 2021. We were engaged by the Supervisory Board on July 1, 2021. We have been the auditors of Schaeffler AG, a publicly-listed company, without interruption since the financial year 2015.

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

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

In addition to the annual financial statements, we have audited the consolidated financial statements of Schaeffler AG and conducted various audits of the annual financial statements of subsidiaries and joint ventures. As part of our audit, we audited parts of the system of internal control over financial reporting, including investigating the authorization concept. We audited the report on relations with affiliated companies prepared by the Board of Managing Directors of Schaeffler AG in accordance with section 312 AktG. In addition, we performed a review of the interim financial report as at June 30, 2021, 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) and EMIR audits in accordance with section 32 (1) of the German Securities Trading Act ("Wertpapierhandelsgesetz" – WpHG). Furthermore, we audited the remuneration report in accordance with IDW AuS 490 with reasonable assurance, performed TISAX audits, and conducted projects related to possible changes in accounting policies, the regulatory environment, as well as in relation to the reporting process for performance indicators regarding sustainability and the early risk detection system.

Other Matter – Use of the Auditors' Report

Our auditors' report should always be read in conjunction with the audited annual financial statements and the audited management report as well as the audited ESEF documents. The annual financial statements and the management report converted into ESEF format – including the versions to be published in the German Federal Gazette (Bundesanzeiger) – are merely electronic reproductions of the audited annual financial statements and the audited management report and do not replace these. In particular, the ESEF assurance report and our assurance conclusion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Matthias Koeplin.

Nuremberg, February 23, 2022

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Koeplin	Schieler
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility statement by the company's legal representatives

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

Herzogenaurach, February 22, 2022

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Andreas Schick

Jens Schüler

Uwe Wagner

Claus Bauer

Corinna Schittenhelm

Dr. Stefan Spindler

Matthias Zink