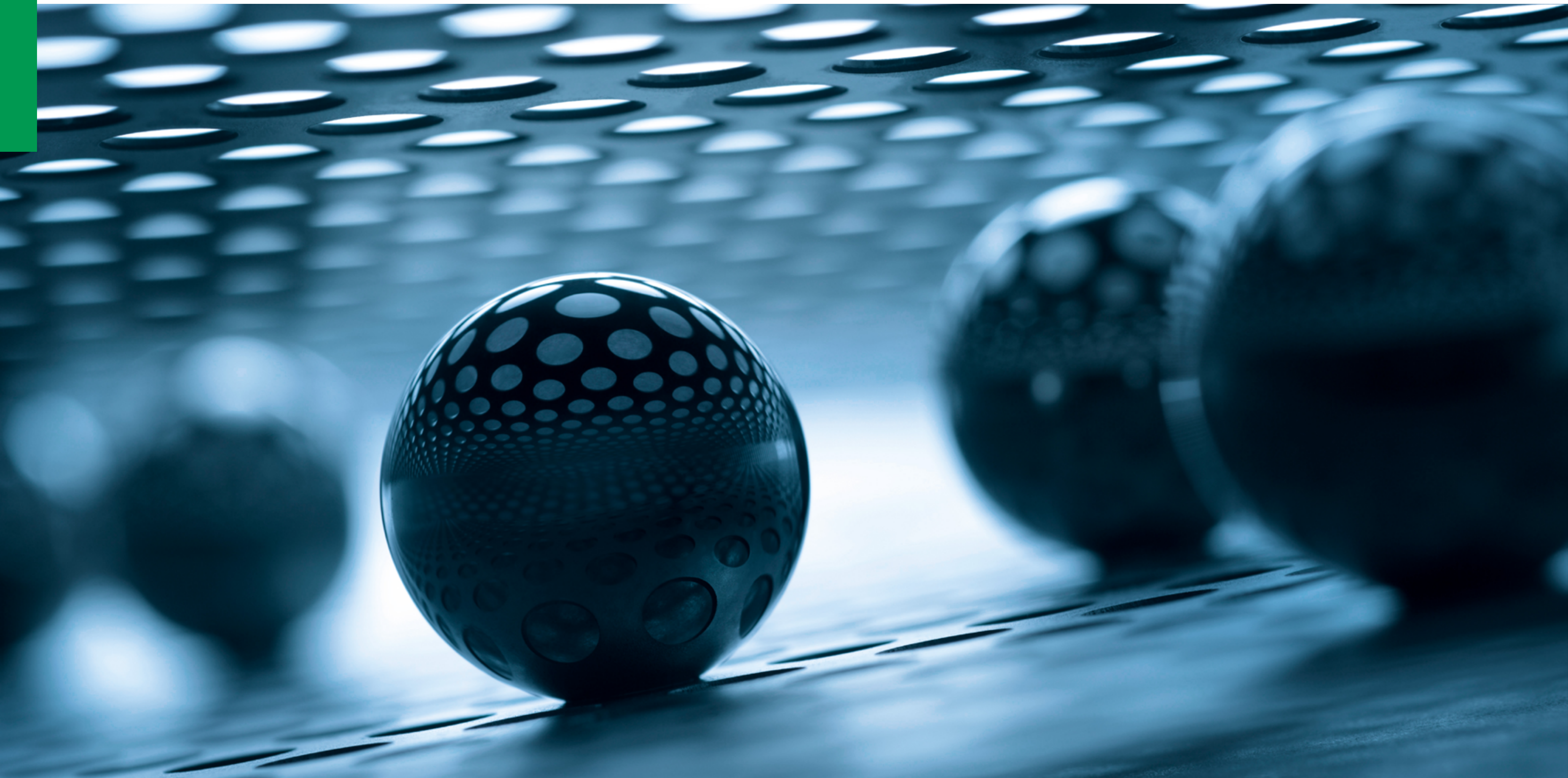
SCHAEFFLER

We pioneer motion

Annual Report 2021



Schaeffler Group at a glance

Income statement (in € millions)	**2021**	**2020**		Change
Revenue	13,852	12,589	10.0	%
• at constant currency			9.7	%
EBIT	1,264	-149	-	%
• in % of revenue	9.1	-1.2	10.3	%-pts.
EBIT before special items [1]	1,266	798	58.7	%
• in % of revenue	9.1	6.3	2.8	%-pts.
Net income (loss) [2]	756	-428	-	%
Earnings per common non-voting share (basic/diluted, in €)	1.14	-0.64	-	%
Statement of financial position (in € millions)	**12/31/2021**	**12/31/2020**		Change
Total assets	14,364	13,509	6.3	%
Additions to intangible assets and property, plant and equipment	670	639	5.0	%
Amortization, depreciation, and impairment losses excluding depreciation of right-of-use assets under leases and impairments of goodwill	907	952	-4.7	%
• Reinvestment rate	0.74	0.67		
Shareholders' equity [3]	3,165	2,022	1,143	€ millions
• in % of total assets	22.0	15.0	7.1	%-pts.
Net financial debt	1,954	2,312	-15.5	%
• Net financial debt to EBITDA ratio before special items [1]	0.9	1.3		
• Gearing ratio (Net financial debt to shareholders' equity [3], in %)	61.7	114.4	-52.6	%-pts.

Statement of cash flows (in € millions)	**2021**	**2020**		Change
EBITDA	2,230	1,111	› 100	%
Cash flows from operating activities	1,276	1,254	22	€ millions
Capital expenditures (capex) [4]	671	632	39	€ millions
• in % of revenue (capex ratio)	4.8	5.0	-0.2	%-pts.
Free cash flow (FCF) before cash in- and outflows for M&A activities	523	539	-16	€ millions
• FCF-conversion (ratio of FCF before cash in- and outflows for M&A activities to EBIT) [5]	0.4	-	-	%-pts.
Value-based management				Change
ROCE (in %)	16.0	-1.9	17.9	%-pts.
ROCE before special items (in %) [1]	16.0	10.0	6.0	%-pts.
Schaeffler Value Added (in € millions)	473	-944	-	%
Schaeffler Value Added before special items (in € millions) [1]	475	2	› 100	%
Employees	**12/31/2021**	**12/31/2020**		Change
Headcount	82,981	83,297	-0.4	%

Automotive Technologies division [6] (in € millions)	**2021**	**2020**		Change
Revenue	8,436	7,816	7.9	%
• at constant currency			7.4	%
EBIT	620	-344	-	%
• in % of revenue	7.4	-4.4	11.8	%-pts.
EBIT before special items [1]	585	263	› 100	%
• in % of revenue	6.9	3.4	3.6	%-pts.

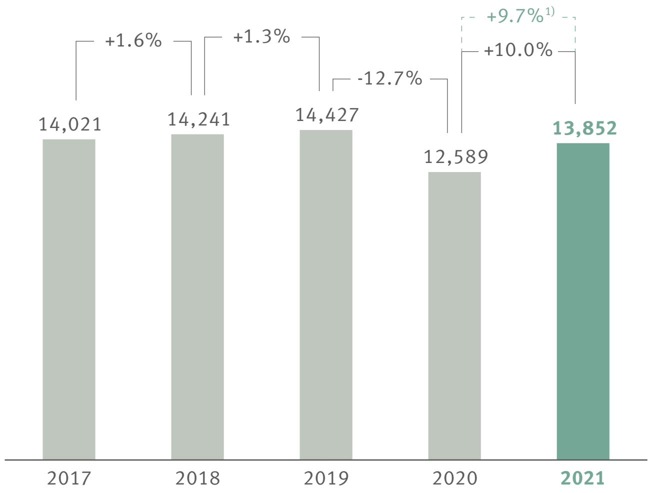
Automotive Aftermarket division [5] (in € millions)				Change
Revenue	1,848	1,642	12.6	%
• at constant currency			13.0	%
EBIT	272	228	19.3	%
• in % of revenue	14.7	13.9	0.8	%-pts.
EBIT before special items [1]	254	258	-1.4	%
• in % of revenue	13.8	15.7	-1.9	%-pts.

Industrial division [5] (in € millions)				Change
Revenue	3,568	3,132	13.9	%
• at constant currency			13.6	%
EBIT	372	-33	-	%
• in % of revenue	10.4	-1.0	11.5	%-pts.
EBIT before special items [1]	426	276	54.4	%
• in % of revenue	12.0	8.8	3.1	%-pts.

[1] Please refer to pp. 33 et seq. for the definition of special items.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] Capital expenditures on intangible assets and property, plant and equipment.
[5] Only reported if free cash flow before cash in- and outflows for M&A activities and EBIT positive.
[6] Prior year information presented based on 2021 segment structure.

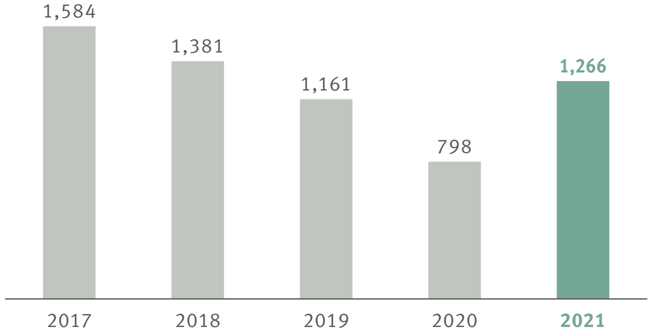
Key financials

Revenue
in € millions



1) Revenue growth at constant currency.

EBIT before special items
in € millions

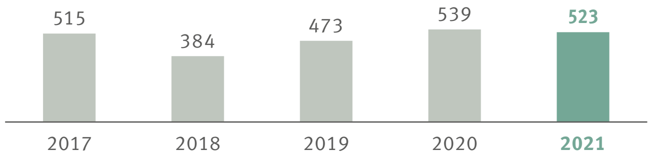


EBIT margin before special items

2017	2018	2019	2020	2021
11.3%	9.7%	8.1%	6.3%	9.1%

Schaeffler Group revenue by division
in percent

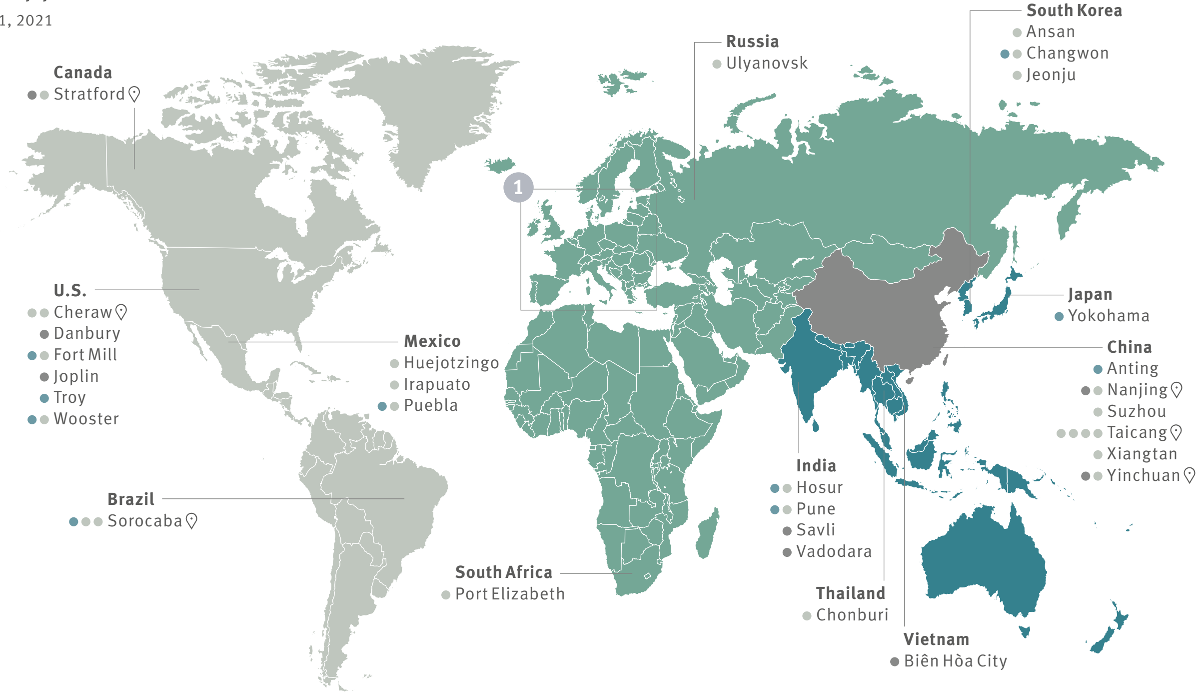
Free cash flow (FCF) before cash in- and outflows for M&A activities
in € millions



Schaeffler Group plants and R&D centers

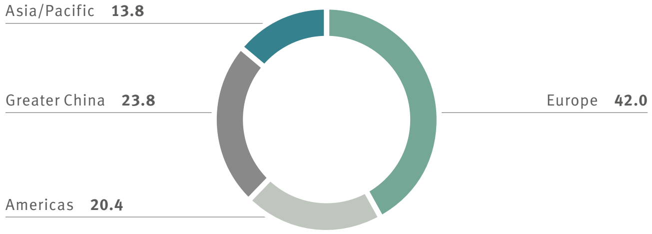
as at December 31, 2021

World



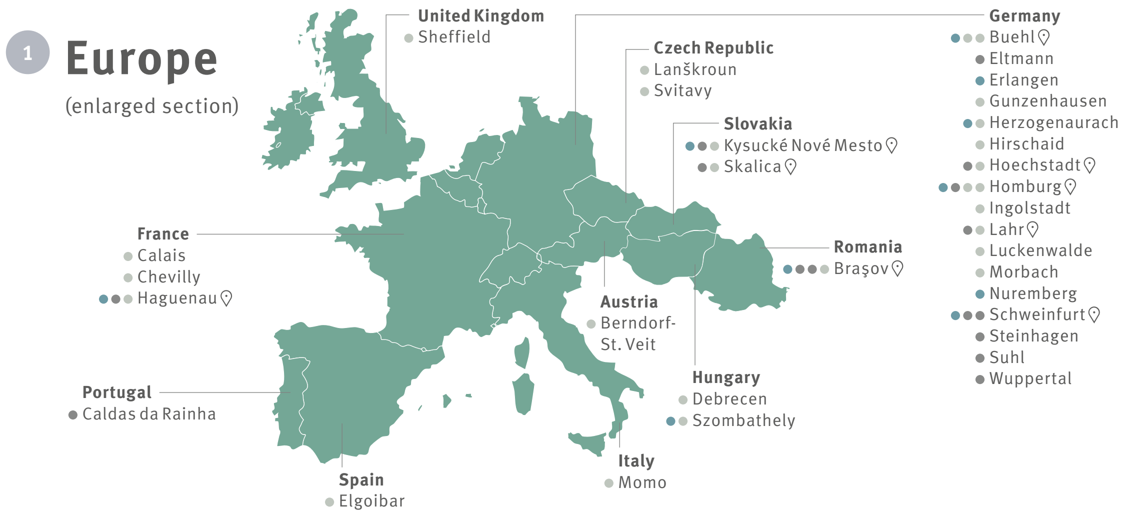
Schaeffler Group revenue by region

in percent by market view



Europe

(enlarged section)



Regions [1]	Europe	Americas	Greater China	Asia/ Pacific	Schaeffler Group
R&D centers	10	5	1	4	20
Plants	43	13	10	9	75
Automotive Technologies	28	10	8	6	52
Industrial	15	3	2	3	23
Campus locations	9	3	3	-	15

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

Highlights 2021

Considerable growth compared to prior year at all divisions;
revenue decline in H2 due to weak automobile production

Revenue at EUR **13.9** bn
(up 9.7% at constant currency)

(prior year: EUR 12.6 bn)

Positive margin trend mainly due to economies of scale in H1;
growing increase in procurement costs hampers margin trend in H2

EBIT margin before special items **9.1**%

(prior year: 6.3%)

Strong free cash flow despite restructuring expenditures

Free cash flow before cash in- and outflows
for M&A activities at EUR **523** m

(prior year: EUR 539 m)

Contents

Navigation aid

Further details in the report
Further details online

* Part of the group management report.

Message from the shareholders

Ladies and Gentlemen,

We celebrated our 75th anniversary this past year. Founded in 1946 as a refugee company, Schaeffler is now a leading global technology company. The key to our success has been, and still is today, a strong pioneering spirit as well as – especially in times of challenge – a great resilience, fighting spirit, and willingness to see and utilize the opportunities provided by pervasive change.

2021 was a year marked by uncertainty and fluctuation: Hopes of public life and the economy gradually stabilizing as a result of the vaccination campaigns materialized hardly at all. This was compounded by supply shortages and increases in materials prices – some quite significant – as well as a partly difficult political and economic environment. Despite these challenges, 2021 proved a good year for the Schaeffler Group on the whole, especially for the Industrial and Automotive Aftermarket divisions. The decline in automobile production over the course of the year due to supply shortages of semiconductors did not leave Schaeffler unscathed, however. Once again, its global network, its position as an automotive and industrial supplier, and the team spirit within the company proved invaluable.

Coping with the technological transformation offers opportunities, but requires significant effort. The Roadmap 2025 sets the course for the coming years and its implementation is making progress. The Schaeffler Group will consistently pursue this chosen path. We need to help shape the transformation in the industries relevant to Schaeffler. The Schaeffler Group has established important milestones in 2021, especially with respect to sustainability.

Georg F. W. Schaeffler **Maria-Elisabeth Schaeffler-Thumann**

Schaeffler does not limit its sustainability focus to its own processes and supply chains; rather, Schaeffler's products and services also enable its customers to save energy, minimize carbon emissions, and conserve resources. The production and use of hydrogen hold particular potential for the Schaeffler Group as well. And in order to improve the transfer of knowledge and technology between its divisions within both basic research and application, Schaeffler is investing in a new central laboratory complex in Herzogenaurach. The building will be constructed to state-of-the-art sustainability standards and operated as a green building in accordance with the DNGB (German Sustainability Council) Gold Standard.

Our heartfelt thanks and appreciation go to all employees of the Schaeffler Group – reliably and with dedication, they have achieved great accomplishments under the particular stresses of the coronavirus pandemic. We would like to especially mention the company medical services and medical centers as well as the members of the crisis management teams, who were exemplary in providing education and information and organized very successful vaccination campaigns as well as testing centers.

We would also like to sincerely thank our customers, shareholders, and our business and research partners for the trust they have continued to place in us and for the successful collaboration. We know that we have to consistently earn and reinforce their trust.

Yours sincerely,

Maria-Elisabeth Schaeffler-Thumann

Georg F. W. Schaeffler

Introduction by the Chief Executive Officer

Ladies and gentlemen,

The Schaeffler Group has achieved its targets for 2021 despite great challenges and risks – not only those related to the coronavirus pandemic and the unusually high global dynamic and volatility throughout the year. All three of our divisions and all four regions have contributed to this. That makes us proud.

The Schaeffler Group considerably increased both revenue and earnings in 2021. Particularly encouraging are the outperformance of our Automotive Technologies division – its constant-currency growth rate of 7.4 percent put it ahead of the market once again – and the strong contribution to earnings made by the Industrial division. In total, the Schaeffler Group's revenue grew by 9.7 percent excluding the impact of currency translation. With an EBIT margin before special items of 9.1 percent, we did better overall than originally expected. Free cash flow before cash in- and outflows for M&A activities totaled EUR 523 m. This strong performance permits us to propose to the annual general meeting the payment of a dividend of 50 cents per common non-voting share – an amount that is at the upper end of the dividend policy. To me, even more important than these figures is the confirmation that our positioning as a global automotive and industrial supplier proves invaluable and pays off, especially in difficult times.

With our Roadmap 2025 that we announced in late 2020 and are consistently executing, the Schaeffler Group is well positioned to remain sustainable and successful in the future. Digitalization and sustainability, and particularly decarbonization, continue to be the key drivers of our transformation.

Klaus Rosenfeld

We have taken a major step along this road in 2021. Meanwhile, our books are encouragingly filled up with orders for products, services, and technologies that help shape the sustainable future of mobility, industry, and energy all over the world.

As previously announced, we focused a large part of our efforts in 2021 on the five focus areas of the Roadmap 2025: CO_2-efficient Drives, Chassis Applications, Industrial Machinery & Equipment, Renewable Energy, and Aftermarket Solutions & Services. These areas offer high potential for growth and cover the entire product and service portfolio of all three of the Schaeffler Group's divisions. We are united not only by our common will to succeed, but also by our revised purpose and claim: "We pioneer motion to advance how the world moves."

Allow me to highlight a few examples that document our progress along this road. Let me start with CO_2-efficient Drives, definitely one of the areas where we have made the most progress this past year. We have considerably exceeded the target we had set ourselves for the order intake of the E-Mobility business division for 2021. Another milestone was the opening of our new electric mobility plant in the Hungarian city of Szombathely in September 2021, where we produce components and systems for electrified powertrains while setting maximum standards with respect to sustainability.

Developments are similarly encouraging in our second focus area, Chassis Applications, where we address the trend toward new forms of mobility and autonomous driving. An example from the field of autonomous driving is a flexible and scalable chassis platform for new, driverless mobility solutions for the transport of people or goods. At the IAA in Munich in September 2021, we announced a collaboration with Mobileye, a subsidiary of the Intel Group, that will enable us to offer an autonomous, flexible, and adaptable vehicle platform based on this technology.

In the Industrial Machinery & Equipment focus area, we have successfully positioned ourselves as an important supplier and partner to the rapidly growing robotics industry, particularly for lightweight robotics. At the Hannover Messe 2021, we presented our portfolio of innovative bearing supports, robot gearboxes, and drive motors that can be used in applications requiring higher speeds, precision, and cleanliness levels as well as increased load-bearing capacity. Also in this area, we rolled out our OPTIME condition monitoring solution worldwide over the course of 2021; with this technology we will continue to benefit from the growing industrial services market and establish new business models.

In Renewable Energy, our fourth focus area, we continued to further expand our position as a global leader in bearings for wind turbines in 2021. Here, too, quality, systems know-how, and manufacturing expertise are paying off. A highlight was the opening of a new 22,000 square meter production building for manufacturing large-size wind power bearings in Nanjing, China, in May 2021.

Our fifth focus area, Aftermarket Solutions & Services, has done similarly well. An example: Using the Remote Support technology we presented at the Automechanika in the summer of 2021, we can digitally assist repair shops with technical questions, for instance on repair procedures, step by step right by the vehicle via mobile devices through our Schaeffler REPXPERT service. Our e-commerce offerings helped considerably increase our product sales as well.

More and more, our sustainability targets are guiding our product development and our actions. Our customers are requesting products that are manufactured sustainably and that enable them to achieve their own sustainability targets. The target we set in October 2021 of operating as a climate neutral company, including our supply chain, by 2040 probably best highlights our ambitions with respect to protecting the environment and the climate. Please read our sustainability report if you would like to know more about our goals and measures in this important field. Additionally, I would like to point out that at Schaeffler, sustainability and digitalization go hand in hand. Not only because these great challenges are integral components of our Roadmap 2025, but because they ultimately hold great opportunities for us that we can only realize together.

On this basis, despite all the risks and uncertainties once more in store for us in 2022, we are looking ahead with optimism and confidence. Where is this confidence coming from here at Schaeffler? Because we have done a lot in recent years to make the Schaeffler Group even more competitive and future-proof. Because we have a widely diversified portfolio of services and products. And because we are a strong team. A team that we have staffed with leaders from within our own ranks in 2021. In Claus Bauer, we have a new CFO who understands our business and the Schaeffler Group perfectly. Jens Schüler has succeeded Michael Söding as CEO of our Automotive Aftermarket division effective January 1, 2022. And Sascha Zaps has taken the helm of the important Europe region as Regional CEO Europe effective September 1, 2021, following the departure of Jürgen Ziegler. This team is strong not only because it consists of expert, long-time Schaeffler Group executives, but because it exemplifies our three common leadership principles – transparency, trust, and teamwork. This fills me with particular pride!

Let me close with a heartfelt thank you to our employees, who have devoted their energy and dedication to the Schaeffler Group even in difficult times. This exemplary commitment to our customers and business partners around the world is what sets the Schaeffler Group apart. Not just today, but for the last 75 years.

Thank you for your interest in our annual report 2021.

Yours sincerely,

Klaus Rosenfeld
Chief Executive Officer

Executive Board

Uwe Wagner
Chief Technology Officer

Matthias Zink
CEO Automotive Technologies

Claus Bauer
Chief Financial Officer

Klaus Rosenfeld
Chief Executive Officer

Corinna Schittenhelm
Chief Human Resources Officer

Dr. Yilin Zhang
Regional CEO Greater China

Executive Board

Andreas Schick
Chief Operating Officer

Dr. Stefan Spindler
CEO Industrial

Sascha Zaps
Regional CEO Europe

Jens Schüler
CEO Automotive Aftermarket

Dharmesh Arora
Regional CEO Asia/Pacific

Marc McGrath
Regional CEO Americas

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.

Schaeffler on the capital markets

Capital market trends

A strong global economic recovery and still loose monetary and fiscal policy have resulted in a very positive development of the global equities markets in 2021. Spring was marked by significantly increased share prices and new highs. In the third quarter, a somewhat less dynamic global economy, global supply shortages, production stoppages, as well as high commodities and energy prices hampered automotive sector share prices in particular. In October and November, better-than-expected corporate results led to significant price increases and new highs in the equities markets. High levels of coronavirus infections in Europe and especially the emergence of a new, potentially more contagious variant of the coronavirus, however, drove many investors to reduce risk by reducing their positions in late November.

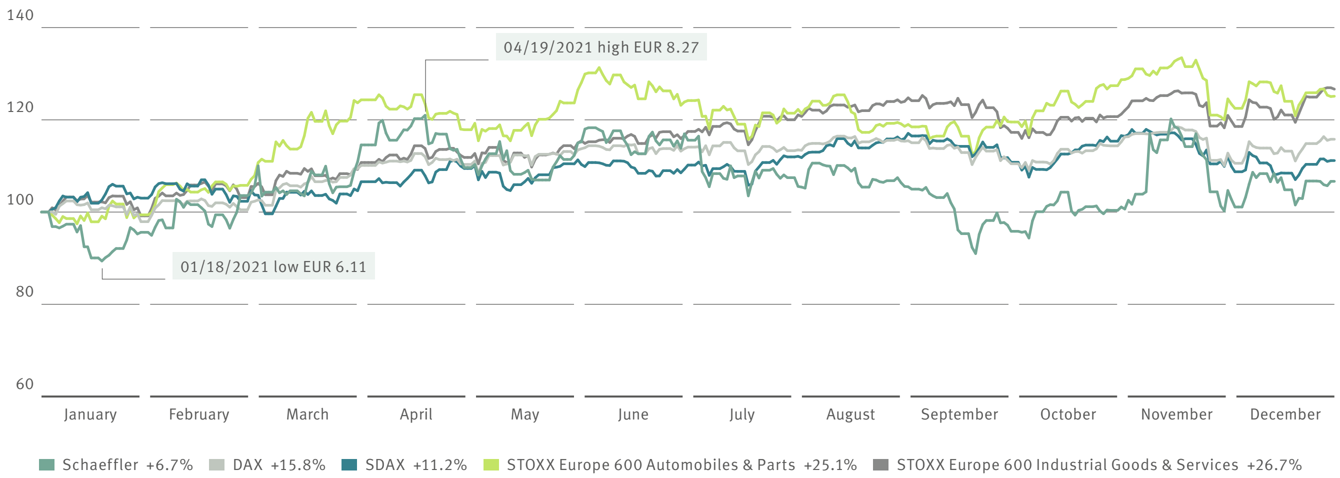
Schaeffler shares

Schaeffler AG's common non-voting shares closed 2021 up 6.7% from the prior year-end. As part of the dynamic trend in the first half of the year, Schaeffler shares exceeded the EUR 8 mark several times. Having decreased in the third quarter, the share price rose considerably (+12%) on November 9, 2021, when the company published quarterly results that exceeded analysts' expectations. Having mirrored the declining general market trend in late November, the shares closed at a XETRA closing price of EUR 7.29 m on December 31, 2021.

Schaeffler's market capitalization amounted to approximately EUR 1.2 bn at the end of 2021, based on share capital of 166 million common non-voting shares. The daily Xetra trading volume averaged approximately 760,000 shares in 2021. Above-average daily trading volumes were noted particularly on the day the quarterly results were published – November 9, 2021, – as well as over the next few days.

Schaeffler AG has a dividend policy of aiming to generally pay a dividend of 30-50% of consolidated net income adjusted for special items to its shareholders. For the year 2021, the Board of Managing Directors and the Supervisory Board will propose a dividend of EUR 0.49 per common share and EUR 0.50 per common non-voting share to the annual general meeting. This represents a dividend payout ratio of 43.9% of net income attributable to shareholders before special items, a value at the upper end of the target range.

Schaeffler share price trend 2021
in percent (12/31/2020 = 100)



Source: Bloomberg (closing prices).

Schaeffler share performance

	2021	2020
Share price at year-end 12/31 (in €) [1]	7.29	6.84
Share price (high; in €) [1]	8.27	10.16
Share price (low; in €) [1]	6.11	4.61
Average trading volume (number of shares)	756,669	677,107
DAX 12/31/ [1]	15,885	13,719
SDAX 12/31/ [1]	16,415	14,765
STOXX Europe 600 Automobiles & Parts 12/31/ [1]	660	527
STOXX Europe 600 Industrial Goods & Services 12/31/ [1]	797	629
Earnings per share (in €)		
• Common shares	1.13	-0.65
• Common non-voting shares	1.14	-0.64
Dividend per share (in €) [2]		
• Common shares	0.49	0.24
• Common non-voting shares	0.50	0.25

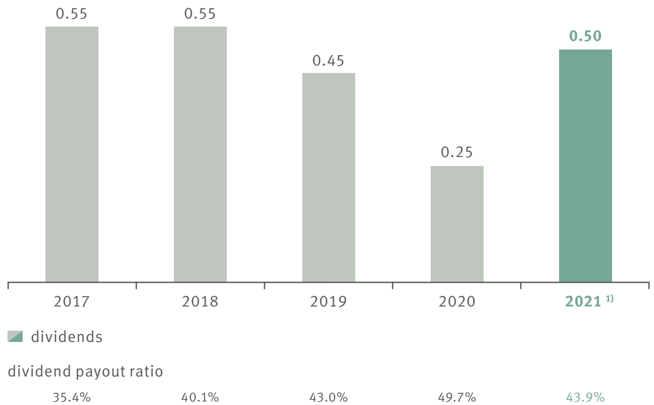
[1] Source: Bloomberg (closing prices).
[2] For the relevant year; proposed dividend for 2021.

Schaeffler shares – base data

ISIN	DE000SHA0159
German securities identification number (WKN)	SHA015
Stock symbol	SHA
German stock exchange	Frankfurt Stock Exchange (Prime Standard)
Index	SDAX
Share type	Common non-voting
Number of common non-voting shares as at 12/31/2021	166,000,000
Free float	75%

Dividend trend and dividend payout ratio

EUR per common non-voting share



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

Schaeffler Group bonds and ratings

The Schaeffler Group had a total of five series of bonds with an aggregate principal of EUR 3.5 bn outstanding as at December 31, 2021, all of them denominated in EUR. The bonds were issued by Schaeffler AG.

Schaeffler AG holds ratings by the three rating agencies Fitch, Moody's, and Standard & Poor's. The following summary shows the three rating agencies' ratings 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+

Information on the Schaeffler Group's bonds and ratings on pp. 37 et seq.

Investor relations

An open and continuous dialogue with equity and bond investors and other capital market participants is important to Schaeffler AG. Due to the coronavirus pandemic, IR activities in 2021 largely took place remotely.

Members of the Board of Managing Directors and the Investor Relations team held numerous one-on-one discussions with institutional investors and analysts during roadshows and investor conferences. The company regularly presented and discussed quarterly and annual results via conference calls. Discussions with analysts and investors focused on the results of operations and profitability of the various business areas and regions and the implications of the shortage of semiconductors as well as the heavy increase in the prices of energy and steel. In the Automotive Technologies division, especially the difference between the ways mature and new business areas are managed was of particular interest. In the field of electric mobility, discussions with analysts and investors primarily focused on the development of order intake, technological competitive advantages, and the Schaeffler Group's innovations. For the Industrial division, discussions mainly centered on growth opportunities in the components and systems business and development of innovative components related to producing and utilizing hydrogen. In addition, the Board of Managing Directors and the Investor Relations team explained the sustainability strategy and the related sustainability targets of the Schaeffler Group to capital market participants.

The company was covered by analysts representing a total of 17 banks (prior year: 19) as at February 11, 2022. Recommendations issued on Schaeffler AG's common non-voting shares were either "buy" or "overweight" by a total of eight banks, "hold" or "neutral" by seven banks, and "sell" or "underperform" by two banks. Their average upside target was EUR 8.28.

Analyst opinions for Schaeffler AG shares [1)]

Banks	Recommendation	Price target in €
Bankhaus Metzler	Buy	13.00
Berenberg Bank	Buy	8.80
BofA Merrill Lynch	Neutral	7.00
Citigroup	Neutral	7.30
Deutsche Bank	Buy	9.00
DZ Bank	Buy	9.00
Exane BNP Paribas	Underperform	6.90
HSBC	Buy	8.30
J.P. Morgan Cazenove	Overweight	9.00
Jefferies	Hold	7.90
Jyske Bank	Buy	9.00
Kepler Cheuvreux	Hold	7.30
Morgan Stanley	Underweight	6.50
Oddo BHF	Outperform	9.50
Stifel	Hold	7.60
UBS	Neutral	7.20
Warburg Research	Hold	7.50

1) Recommendations up to February 11, 2022.

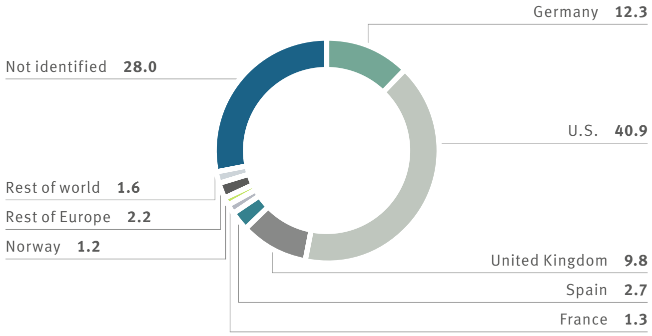
For further detail please contact:

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

See back cover for financial calendar.

Shareholder structure

Geographic distribution
in percent



The geographic distribution of Schaeffler's institutional shareholders as at November 30, 2021, was determined using a shareholder identification survey (Share ID). The identification rate was 72.0%. This means that, out of the 166 million common non-voting shares, the survey was able to attribute 119.5 million shares to 150 institutional investors in approximately 30 countries. As at the reporting date, 41.5 million shares, the largest holding, were held by strategic investor BDT Capital Partners. A total of 68.2 million shares were held by institutional investors domiciled in the U.S. At year-end, 12.3% or 20.3 million shares were held by institutional shareholders in Germany. The unidentified portion of 28.0% represented private investors and others.

Group management report

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

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

Impact of currency translation/constant-currency
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

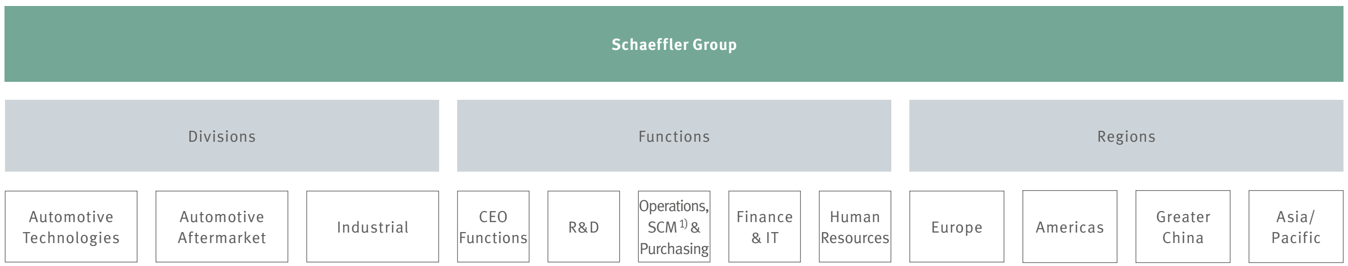
1.1 Organizational structure and business activities

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

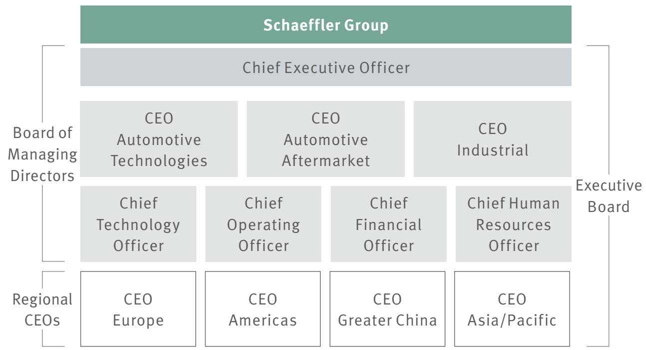
The Schaeffler Group is characterized by a three-dimensional organizational and leadership structure which differentiates between divisions, functions, and regions. Thus, the Schaeffler Group’s business is managed based on the three divisions – Automotive Technologies, Automotive Aftermarket, and Industrial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

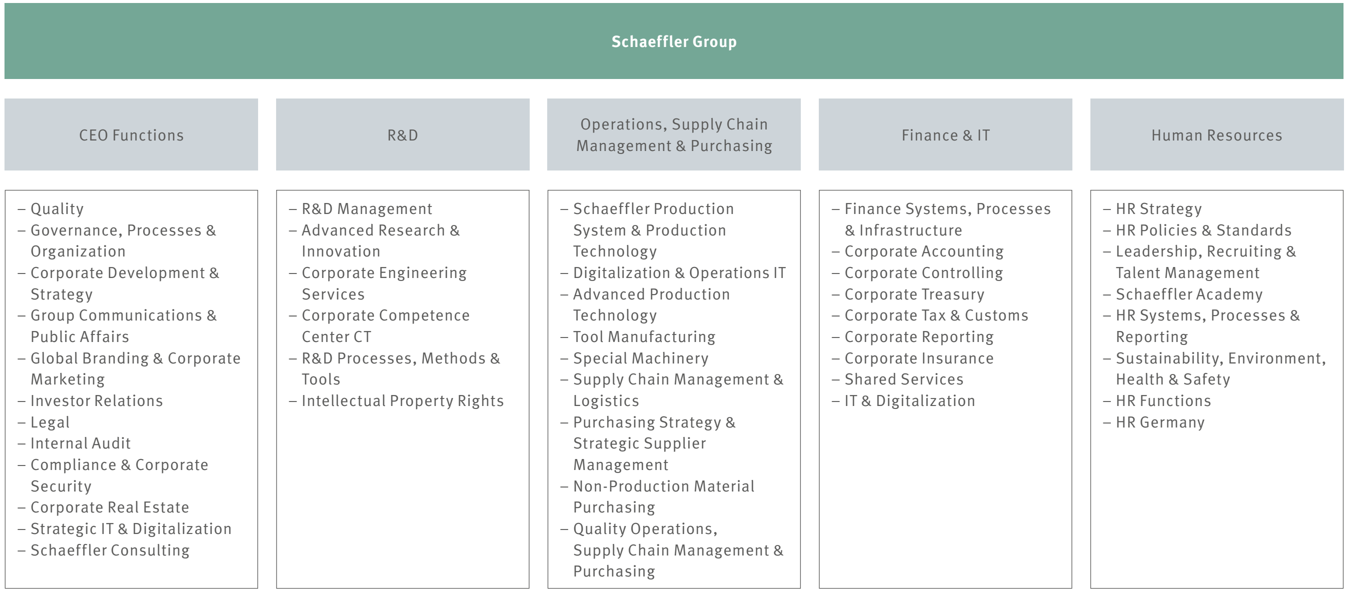
The Board of Managing Directors is directly responsible for managing the company, setting objectives and strategic direction, and managing the implementation of the growth strategy, taking into account the interests of shareholders, employees, and other stakeholders of the company in order to add long-term 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



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.

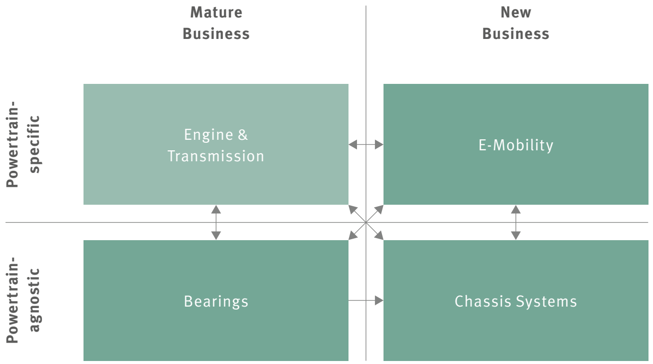
Additionally, as driving functionalities are increasingly being automated toward the autonomous vehicle, requirements regarding chassis applications are growing correspondingly. Therefore, paralleling the "Schaeffler Vision Powertrain", the division has developed a scenario entitled **"Schaeffler Vision 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.

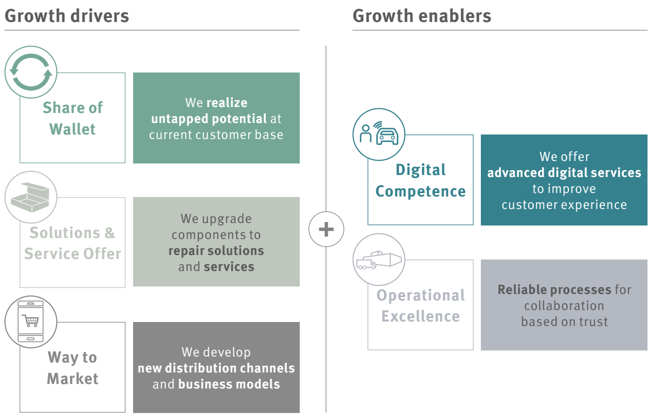
The structure of the spare parts market is changing. The sector is experiencing further consolidation at the wholesale level. At the same time, new market participants and intermediaries such as insurers or vehicle fleet operators are entering the aftermarket ecosystem. Additionally, growing vehicle 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

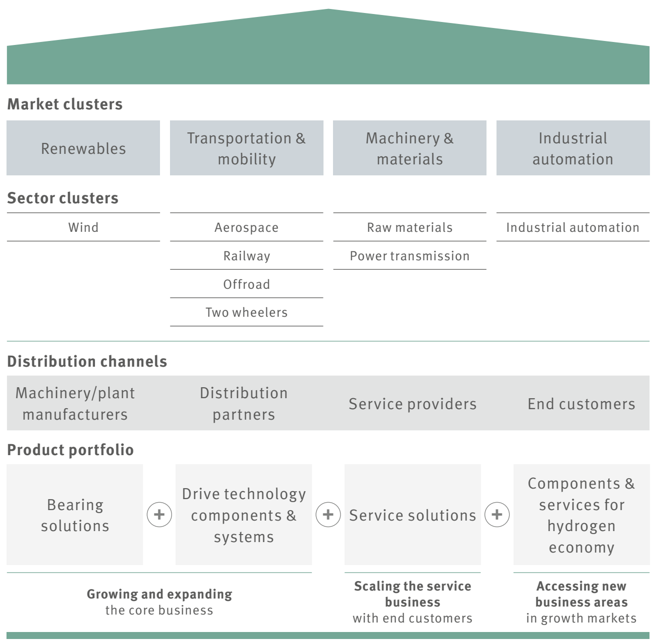
Demand for the Industrial division's products is closely linked to the changes in global industrial production, particularly in the engineering, transport equipment, and electric equipment sectors. The Industrial division operates in a market that is widely diversified in terms of customers. Managing 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

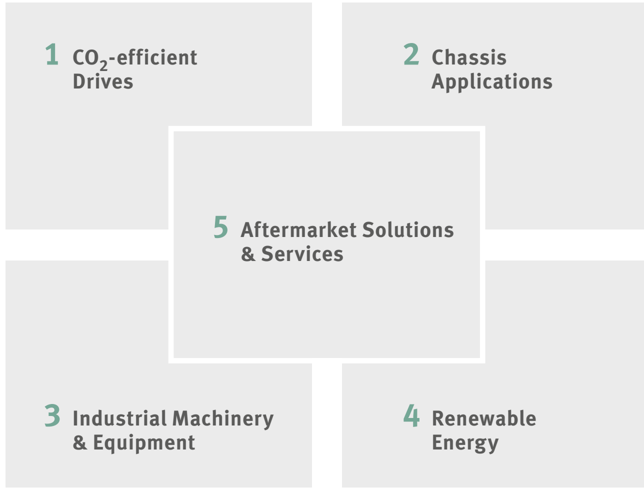
The strategic framework entitled "Roadmap 2025" consists of three main elements: "Strategy 2025", "Execution Program 2025", with its seven subprograms, and "Mid-term Targets 2025". These define the financial framework and reflect the overarching commitment to creating value sustainably.

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

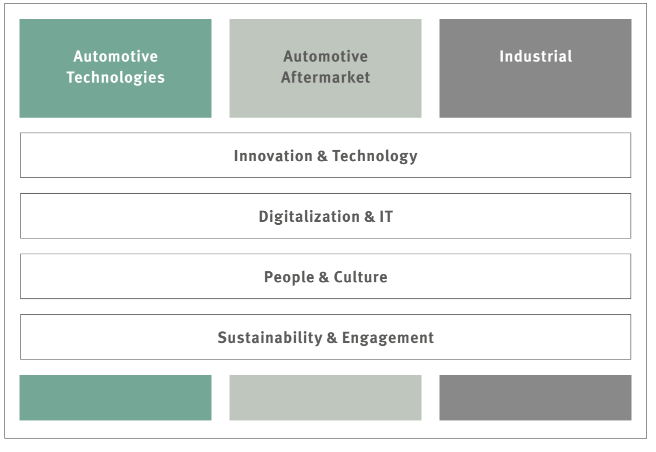


An analysis of what external trends are particularly relevant for the Schaeffler Group before, during, and after the coronavirus pandemic and of how the market environment has changed since 2016 identified five key future trends: sustainability & climate change, new mobility & electrified powertrain,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

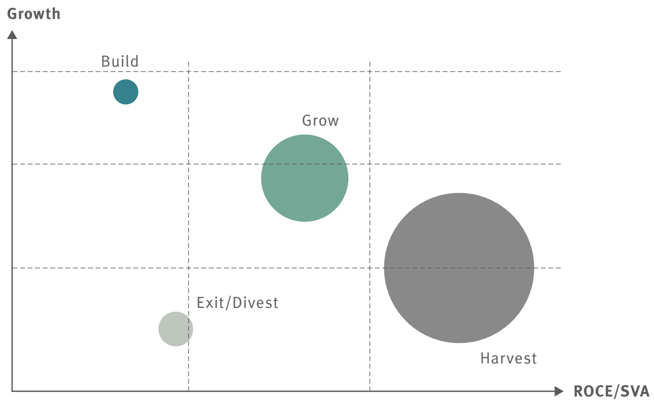
The Automotive Aftermarket division is aiming for average annual revenue growth – excluding the impact of currency translation – to exceed growth in global gross domestic product and an EBIT margin before special items of 13 to 15%, with the lower end of that range being reached by 2023 at the latest.

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

Portfolio fields / Capital expenditure categories	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.

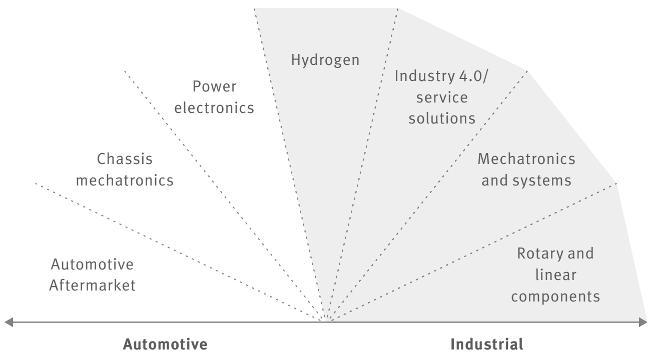
In September 2020, Schaeffler AG's Board of Managing Directors had approved **structural measures to be taken in Europe** in order to push ahead with the transformation of the Schaeffler Group and strengthen its ability to compete and realize future opportunities for the long term. Negotiations with 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

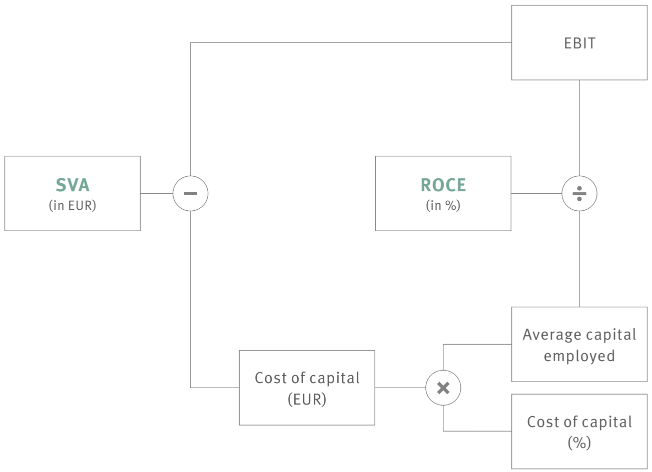
The overarching objective of the Schaeffler Group's management system is to create long-term value in order to meet the interests and expectations of investors. Generating an appropriate return on capital employed is essential to creating long-term value. This requires having earnings sustainably exceed 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.

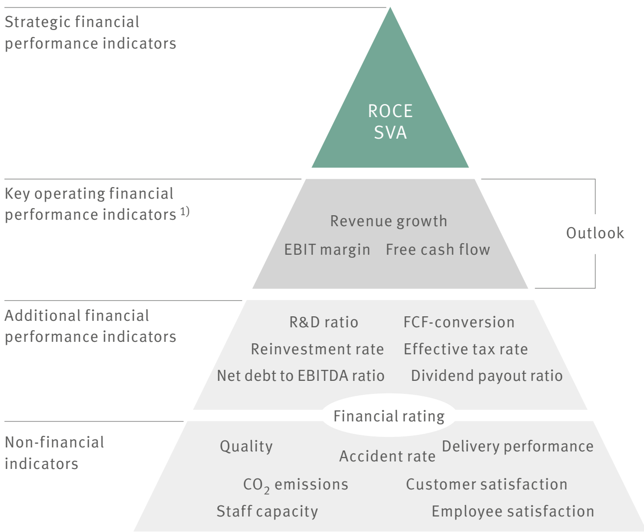
Constant-currency revenue growth: Revenue growth contributes to the company's value creation and, in addition, determines the resources required for the company's operations. Revenue growth measures the change in revenue compared to the prior year as a percentage. In order to make the evaluation of the 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.

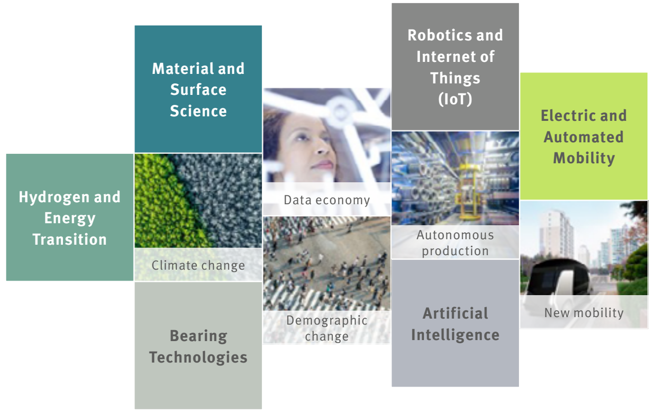
In managing the company, senior management considers it imperative that Schaeffler Group employees act strictly within the relevant legal limits and comply with corporate governance standards.

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.

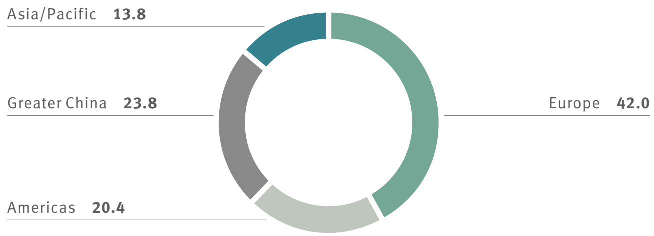
Schaeffler is investing in a new cross-divisional central laboratory complex at its corporate headquarters in Herzogenaurach as part of its "Roadmap 2025". This investment is aimed at securing the Schaeffler Group's competitiveness and ability to realize future opportunities as well as strengthening 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

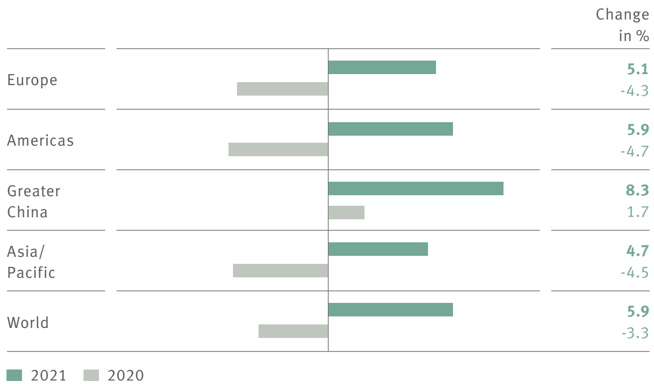
2.1 Economic environment

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.

More on foreign currency translation on pp. 95 et seq.

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

	Year	Change in %	Million units
Europe	2021	-2.7	17.7
	2020	-20.4	18.2
Americas	2021	2.5	15.6
	2020	-21.8	15.2
Greater China	2021	5.7	25.1
	2020	-4.4	23.7
Asia/Pacific	2021	7.3	18.8
	2020	-20.0	17.5
World	2021	3.4	77.1
	2020	-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

	Year	Change in %	Million units	Average age
Europe	2021	1.3	518.3	12.7
	2020	1.1	511.7	12.4
Americas	2021	0.6	418.1	10.4
	2020	-0.6	415.5	10.3
Greater China	2021	6.8	278.3	6.5
	2020	7.4	260.7	6.2
Asia/Pacific	2021	2.2	244.2	8.9
	2020	2.1	239.0	8.7
World	2021	2.2	1,458.9	10.1
	2020	1.9	1,426.9	9.9

2021 2020

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

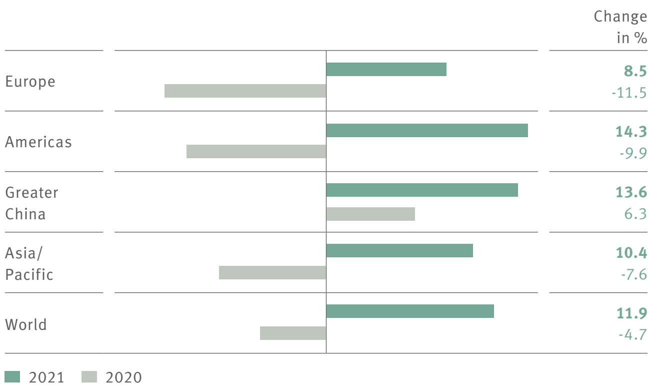
Industrial production

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. i9 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.

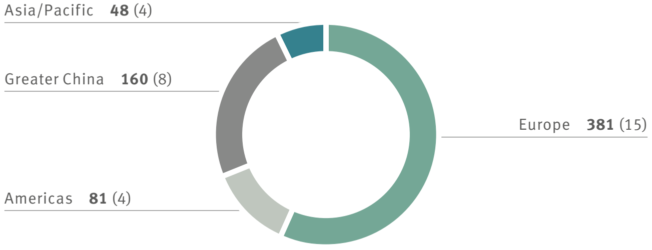
The **Automotive Aftermarket division** focused on investing in digital distribution channels in the Europe region.

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). [6]

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.

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

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**		

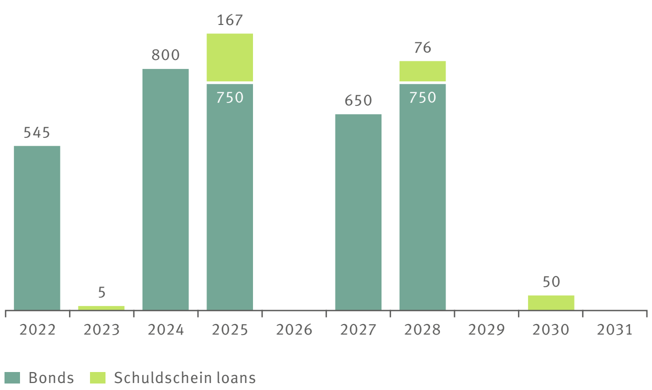
[1] Principal outstanding: EUR 544,668,000 (since October 14, 2020). Early redemption on March 1, 2022, was announced on January 17, 2022.

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%).

More on the consolidated statement of changes in equity on page 90.

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 (see Note 5.3 to the consolidated financial statements for further details).

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

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

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

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

Schaeffler AG earnings

Income statement of Schaeffler AG (abbreviated)

in € millions	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. 76 et seq.,
- “Governing bodies of the company” on pp. 81 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

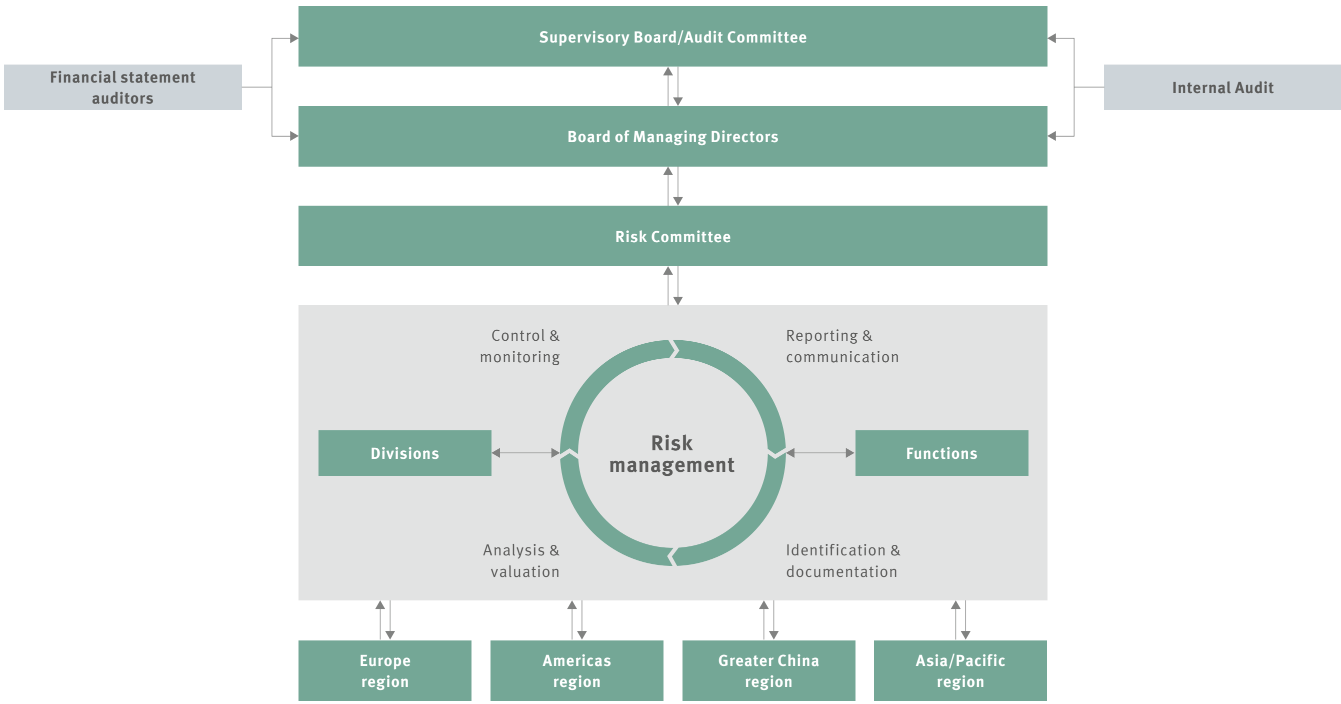
The Schaeffler Group intentionally takes risks in order to meet its corporate objectives.

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.

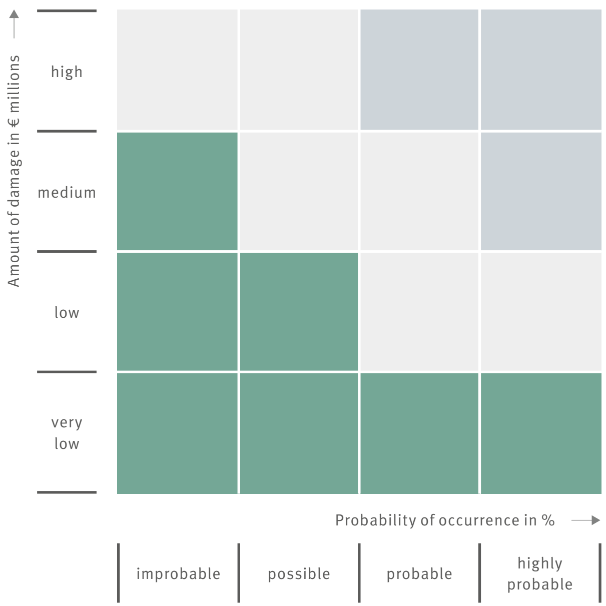
Subsidiaries included are selected using a defined selection process based on revenue and earnings (EBIT) as well as risk factors specific to the business. This selection process ensures that all Schaeffler Group subsidiaries that are relevant from a materiality perspective are included in the risk management 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. 77 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

	Actual 2021	Actual 2021	Outlook 2022
Schaeffler Group		adjusted comparative figure	
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. 76 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. 83 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.

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

2. Report of the Supervisory Board

Ladies and Gentlemen,

2021 was a good year overall for the Schaeffler Group, despite the persistently challenging environment. The favorable results, particularly for the first six months, allowed the group to raise the guidance. However, the decline in automobile production resulting from shortages in the supply of semiconductors and the persistent coronavirus pandemic led to uncertainty toward the end of the year and also affected the Schaeffler Group's revenue growth. In this situation, the Schaeffler Group with its global position as an automotive and industrial supplier proved its ability to offset fluctuations well once more. Our particular gratitude goes to all employees who contributed to this with their flexibility and reliability under the stresses of the coronavirus pandemic. One highlight at the end of the year, particularly from the point of view of the family shareholders, was the company's 75th anniversary which was marked in a virtual celebration at Schaeffler sites worldwide.

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

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

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

Further information in the corporate governance report.

Members of the Supervisory Board and its committees

The membership of the Supervisory Board changed as follows during the reporting period: Sabrina Soussan resigned from the Supervisory Board effective as at the close of the annual general meeting on April 23, 2021. By a resolution of the annual general meeting on April 23, 2021, Ulrike Hasbargen was elected to the Supervisory Board for a term ending at the close of the general meeting that passes a resolution on granting discharge to the Supervisory Board for 2023.

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

- Mediation committee established in accordance with section 27 (3) German Co-Determination Act:
  Georg F. W. Schaeffler (Chairman),
  Maria-Elisabeth Schaeffler-Thumann, Salvatore Vicari, and Jürgen Wechsler
- Executive committee:
  Georg F. W. Schaeffler (Chairman),
  Barbara Resch, Maria-Elisabeth Schaeffler-Thumann, Salvatore Vicari, Jürgen Wechsler, and
  Prof. TU Graz e.h. KR Ing. Siegfried Wolf

- Audit committee:
  Robin Stalker (Chairman),
  Dr. Holger Engelmann, Andrea Grimm, Thomas Höhn,
  Georg F. W. Schaeffler, and Jürgen Wechsler
- Technology committee:
  Prof. Dr. Hans-Jörg Bullinger (Chairman),
  Georg F. W. Schaeffler, Jürgen Schenk, Salvatore Vicari,
  Jürgen Wechsler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf,
  Prof. Dr.-Ing. Tong Zhang, and Markus Zirkel
- Nomination committee:
  Georg F. W. Schaeffler (Chairman),
  Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk,
  and Maria-Elisabeth Schaeffler-Thumann

There were no conflicts of interest related to members of the Supervisory Board during the reporting period.

Appointments to the Board of Managing Directors

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

Dr. Klaus Patzak left the Board of Managing Directors effective July 31, 2021, and Michael Söding effective December 31, 2021. The Supervisory Board appointed as ordinary members of the Board of Managing Directors Claus Bauer for a two-year term of office effective September 1, 2021, and Jens Schüler for a three-year term of office effective January 1, 2022. On October 8, 2021, Uwe Wagner was reappointed to the Board of Managing Directors for a further five-year term of office beginning on September 30, 2022.

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

Topics of Supervisory Board plenary meetings

The Supervisory Board held four regular meetings, one strategy meeting, and six extraordinary meetings in 2021.

The subject of the regular plenary discussions were the Schaeffler Group's results of operations and financial indicators. The Supervisory Board also dealt with acquisition and disinvestment projects as the need arose as well as with the company's risks. The Board of Managing Directors regularly reported to the Supervisory Board on the implications of the coronavirus pandemic for the Schaeffler Group. The Supervisory Board also ensured that it was briefed on the work of the committees on a regular basis in the plenary sessions. The personnel decisions regarding the Board of Managing Directors represented an important aspect of the work of the Supervisory Board as well. The Supervisory Board also met regularly without the Board of Managing Directors being present. These meetings dealt with matters relating to either the Board of Managing Directors itself or the Supervisory Board.

At an extraordinary meeting of the Supervisory Board held via conference call on February 9, 2021, the Supervisory Board dealt with preliminary target achievement for the variable remuneration of the Managing Directors for 2020 and with the indicative target values for the variable remuneration of the Board of Managing Directors for 2021. Target achievement for 2020 and the target values for 2021 were then finalized at the regular meeting of the Supervisory Board on February 26, 2021. Furthermore, the Supervisory Board dealt with preparations for the resolution on the remuneration of members of the Supervisory Board to be passed at the annual general meeting on April 23, 2021. As part of the periodic review of the remuneration system for the Managing Directors of Schaeffler AG, the Supervisory Board discussed selective amendments to the remuneration system. The Supervisory Board further decided to continue, for any Managing Directors' service contracts currently in effect, the reimbursement insurance investment concept established following the change in retirement benefits to defined contribution commitments.

At its first regular meeting of the reporting period on February 26, 2021, the Supervisory Board first dealt with the budget for 2021 and the long-range plan for the years 2021 to 2025 and decided to adjust the preliminary budget for 2021 and the long-range plan for 2021 to 2025 presented at the meeting of the Supervisory Board on December 11, 2020, based on the most recent macroeconomic estimates of market trends for 2021.

The meeting also discussed the separate and consolidated financial statements of the Schaeffler Group for 2020. This also involved KPMG reporting to the Supervisory Board on the audit of the separate financial statements, the consolidated financial statements, and the dependency report, as well as on the limited assurance engagement performed on the combined separate group non-financial group report 2020 included in the sustainability report. Also at this meeting, the Supervisory Board adopted the separate financial statements and approved the consolidated financial statements, the closing statement of the Board of Managing Directors on the dependency report, and the proposal for the appropriation of earnings.

As part of the periodic review of the remuneration system for the Managing Directors, the Supervisory Board discussed selective amendments to the remuneration system approved by the annual general meeting on May 8, 2020. The members of the Supervisory Board discussed adding the possibility to grant a payment or other benefit to new Managing Directors upon their joining the Board of Managing Directors to offset financial disadvantages a new Managing Director incurs, for instance, as a result of terminating their previous employment early to join Schaeffler AG or as a result of a relocation. This possibility is intended to ensure that Schaeffler AG will continue to be able to attract appropriate and qualified candidates for a position on its Board of Managing Directors in the future. The Supervisory Board has approved the amended remuneration system retroactively effective January 1, 2021, for any Managing Directors already appointed and for any Managing Directors whose service contracts are newly signed or renewed, and has, based on a recommendation of the executive committee, proposed approval of the amended remuneration system to the annual general meeting.

The Supervisory Board dealt with the review of the remuneration of Supervisory Board members that was performed in response to the revised requirements of the Law on the Implementation of the Second Shareholders' Rights Directive (ARUG II) with the involvement of an independent external compensation consultant. As a result of its review, the Supervisory Board passed a resolution to propose to the annual general meeting a redesign of the remuneration system for the members of the Supervisory Board and corresponding adjustment of the remuneration, including adding remuneration for the members of the technology committee to appropriately reflect the added time commitment of technology committee members.

In addition, it approved the report of the Supervisory Board to the annual general meeting 2021 and the Supervisory Board's other proposed resolutions on the items on the agenda of the annual general meeting 2021.

At its extraordinary meeting on April 21, 2021, the Supervisory Board appointed Jens Schüler as a member of the Board of Managing Directors for a 3-year term of office effective January 1, 2022.

At the second regular meeting of the Supervisory Board on May 21, 2021, the Board of Managing Directors reported on the current position of the business and the financial position following the end of the first quarter. Issues presented by the Board of Managing Directors and discussed by the Supervisory Board focused on the objectives and priorities of the E-Mobility business division, the realignment of the wheel bearing business, and the strategic direction of the Automotive Aftermarket division. The Supervisory Board also decided to establish an ad hoc committee for a potential acquisition project in order to advise the Board of Managing Directors over the further course of the project.

At two extraordinary meetings of the Supervisory Board on July 17 and 21, 2021, the Supervisory Board dealt with an acquisition project. The ad hoc committee established by the Supervisory Board discussed the status of the project as presented by the Board of Managing Directors in four meetings held via conference call.

At an extraordinary meeting on July 30, 2021, the Supervisory Board dealt with Dr. Klaus Patzak's departure and agreed to a departure by mutual agreement.

At an extraordinary meeting on August 27, 2021, the Supervisory Board appointed Claus Bauer as a member of the Board of Managing Directors for a 2-year term of office effective September 1, 2021. The Supervisory Board further approved external activities of Claus Bauer within the group.

On October 7, 2021, the Supervisory Board held its annual strategy meeting in which the strategic direction for the Schaeffler Group was presented, and was discussed extensively by the Supervisory Board. In its presentation, the Board of Managing Directors reported, in particular, in detail on the organization of the Automotive Technologies division and the strategic priorities of the E-Mobility and Chassis Systems business divisions. The presentation of the strategic direction of the Automotive Aftermarket division focused on digital distribution channels and data-driven business models, and the focus for the Industrial division was on further expanding the service and distribution business. Additional discussions addressed the macroeconomic environment, geopolitical risks, and the resulting implications for the Schaeffler Group. With respect to the strategic direction of the regions, the Supervisory Board heard a report on the Asia/Pacific region. The Supervisory Board also dealt with the Schaeffler Group's sustainability program, focusing on measuring and increasing the sustainability of production locations, Schaeffler's path to climate neutrality by 2040, and sustainability reporting and ratings. Additionally, the Schaeffler Group's digitalization roadmap and digitalization initiatives were presented. The maturity with respect to digitalization was explained using selected examples. Finally, under the agenda item "employees and corporate culture", the Board of Managing Directors reported on the strategic initiatives Talent Management, Qualification, Leadership & Corporate Culture, and Digital HR Processes.

At its third regular meeting on October 8, 2021, the Supervisory Board heard a report on the Schaeffler Group's most recent results of operations and the results of the first half of 2021 as well as a report on the Law to Strengthen Financial Market Integrity ("Gesetz zur Stärkung der Finanzmarktintegrität" – FISG) and its implications for the Schaeffler Group's corporate governance. The ARUG II requirements regarding the remuneration report were discussed as well.

At its fourth and final regular meeting during the reporting period on December 17, 2021, the Supervisory Board was briefed on the Schaeffler Group's most recent results of operations and the results of the third quarter of 2021. The budget for 2022 and the long-range plan for the years 2022 to 2026 were presented and discussed. The Supervisory Board dealt with the annual review of the remuneration of the Managing Directors and, based on preparation and recommendations by the executive committee, specified the performance criteria for the variable remuneration of the Managing Directors and their weights as well as the total target remuneration for each Managing Director for 2022. Indicative target achievement for 2021 was discussed as well.

Further on the agenda for this meeting were corporate governance issues. The Supervisory Board dealt with the declaration of conformity with the German Corporate Governance Code (section 161 AktG) and the independence of the shareholder representatives on the Supervisory Board. In addition, the Supervisory Board passed a resolution to amend the rules of procedure and its profile of expertise to reflect the FISG requirements. Finally, the Supervisory Board decided to perform a self-assessment on 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. The results will be presented to and discussed by the Supervisory Board at its first regular meeting in 2022.

Topics of Supervisory Board committee meetings

The executive committee of the Supervisory Board held a total of four regular meetings and one extraordinary meeting during the reporting period. Executive committee meetings were used to prepare the plenary meetings of the Supervisory Board, especially the personnel decisions to be made by the Supervisory Board. Further, the committee approved external activities of Managing Directors and came to a decision regarding deduction of the remuneration for positions on non-group supervisory boards from the remuneration for the position on the Board of Managing Directors. At its extraordinary meeting on August 2, 2021, the executive committee approved the sale of the global chain drive business.

The audit committee held four regular meetings and one extraordinary meeting during the year. With the auditors as well as the CEO and the CFO present, the audit committee addressed the separate and consolidated financial statements including the non-financial report and the dependency report. The audit committee discussed the semi-annual interim report as well as the quarterly interim statements with the CEO and the auditors. The audit committee monitored the selection, independence, qualifications, rotation, and efficiency of the auditors and dealt with reviewing the quality of the auditors. Specific non-audit services provided by the auditor were discussed and approved.

As current law requires a periodic external rotation of auditors as at the end of 2024, the audit committee dealt with issues concerning the preparation of a tendering procedure.

Moreover, the audit committee dealt with compliance and addressed the quarterly reports and the annual report of the chief compliance officer. Additionally, the audit committee discussed financial reporting and the financial reporting process, the effectiveness of the internal control system and the risk management system of the Schaeffler Group taking into account the FISG requirements, and dealt with the effectiveness, resources, and findings of Internal Audit.

Furthermore, audit committee meetings heard reports on the maturity of the information & cyber security program, the change in the accounting policy for development services, the introduction of a new factoring program, the enhancement of the non-financial report, and the status of implementation of the tax compliance management system as well as presentations on the control and risk management functions of the Schaeffler IT organization. Finally, the audit committee dealt with the status of implementation of the requirements of the Act on Corporate Due Diligence Obligations in Supply Chains (“Lieferkettensorgfaltspflichtengesetz”). At its extraordinary meeting on May 11, 2021, the audit committee addressed the adjusted report on expected developments and approved the interim statement as at March 31, 2021.

The Supervisory Board recommended to the annual general meeting 2021 that it appoint KPMG AG Wirtschaftsprüfungsgesellschaft auditors of the separate and consolidated financial statements and auditors for purposes of reviews of interim financial statements and financial information. The audit committee engaged KPMG AG Wirtschaftsprüfungsgesellschaft as auditors and determined areas of focus for the audit. The audit committee also proposed to the Supervisory Board that it engage KPMG AG Wirtschaftsprüfungsgesellschaft to perform a limited assurance engagement on the non-financial report.

The technology committee held two regular meetings during the reporting period. At the first meeting, the long-term product innovation strategies and the technological trends arising from the cross-divisional innovation clusters defined as part of the “Roadmap 2025” were presented and discussed in detail. The second technology committee meeting focused on sustainability and, in particular, the carbon footprint of the Schaeffler Group’s products and manufacturing operations. Methods for measuring CO_2 emissions as part of a product lifecycle analysis were discussed, as were specific measures to reduce CO_2 emissions. The meeting was followed by a guided tour of the plant in Herzogenaurach that included a demonstration of measures designed to reduce CO_2 emissions in production.

During the reporting period, the nomination committee dealt with replacing Sabrina Soussan and prepared the Supervisory Board’s nomination for the election of a shareholder representative on the Supervisory Board for the annual general meeting 2021. In selecting possible candidates and preparing a recommended resolution for the Supervisory Board, the nomination committee considered, in particular, the Supervisory Board’s profile of expertise and diversity scheme. The nomination committee passed a resolution in writing proposing a candidate for election to the Supervisory Board by the annual general meeting.

No meetings of the mediation committee were required during the reporting period.

Disclosure of attendance at meetings by individual

Members’ attendance rate at meetings of the Supervisory Board or its committees was 95%. Due to circumstances related to the persisting coronavirus pandemic, some meetings were held in a virtual format or as in-person meetings with an option to attend remotely. The attendance of members of the Supervisory Board at meetings of the Supervisory Board or its committees is disclosed by individual as follows:

Meeting attendance

	Full Supervisory Board		Executive committee		Audit committee		Technology committee		Nomination committee		Mediation committee	
Number of meetings/attendance in %	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Georg F. W. Schaeffler Chairman	11/11	100	5/5	100	5/5	100	2/2	100				
Maria-Elisabeth Schaeffler-Thumann Deputy Chairperson	10/11	90	5/5	100								
Jürgen Wechsler Deputy Chairperson	11/11	100	5/5	100	5/5	100	2/2	100				
Sabine Bendiek	9/11	81										
Prof. Dr. Hans-Jörg Bullinger	11/11	100					2/2	100				
Dr. Holger Engelmann	9/11	81			3/5	60						
Prof. Dr. Bernd Gottschalk	11/11	100										
Andrea Grimm	11/11	100			5/5	100						
Ulrike Hasbargen (since April 23, 2021)	8/8	100										
Thomas Höhn	11/11	100			4/5	80						
Susanne Lau	11/11	100										
Barbara Resch	11/11	100	5/5	100								
Jutta Rost	11/11	100										
Jürgen Schenk	11/11	100					2/2	100				
Helga Schönhoff	11/11	100										
Sabrina Soussan (until April 23, 2021)	1/3	33										
Robin Stalker	10/11	90			5/5	100						
Salvatore Vicari	9/11	81	4/5	80			2/2	100				
Prof. TU Graz e.h. KR Ing. Siegfried Wolf	10/11	90	5/5	100			2/2	100				
Prof. Dr.-Ing. Tong Zhang	11/11	100					2/2	100				
Markus Zirkel	11/11	100					2/2	100				
		95		**96**		**90**		**100**				

Training and continuing education

The members of the Supervisory Board are responsible for obtaining any training or continuing education necessary to fulfill their duties, such as training on changes in the legal environment and on new technologies. The company assists them in this. Internal training is offered as needed. In this vein, members of the Supervisory Board were briefed on the FISG and its implications for the Schaeffler Group's corporate governance and on the ARUG II requirements regarding the remuneration report at meetings of the Supervisory Board during the reporting period. New members of the Supervisory Board had the opportunity to meet members of the Board of Managing Directors and managers responsible for technical areas to share information on fundamental as well as current matters, thus learning about issues relevant to the Schaeffler Group as part of an onboarding process.

Separate and consolidated financial statements 2021

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the separate financial statements, the consolidated financial statements, and the combined management report as at December 31, 2021, prepared by the Board of Managing Directors in accordance with German commercial law, including the accounting records and the accounting-related internal control system as well as the early warning risk identification system. The consolidated financial statements of Schaeffler AG as at and for the year ended December 31, 2021, were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional requirements of German commercial law pursuant to section 315e (1) German Commercial Code.

KPMG AG Wirtschaftsprüfungsgesellschaft has also audited the report on relations with affiliated companies ("dependency report") prepared by the Board of Managing Directors in accordance with section 312 German Stock Corporations Act. The report covers the period from January 1, 2021, to December 31, 2021.

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

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

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

The Schaeffler AG has prepared a combined separate group non-financial report for 2021 that is included in the sustainability report. KPMG AG Wirtschaftsprüfungsgesellschaft performed a limited assurance engagement on the non-financial report. KPMG AG Wirtschaftsprüfungsgesellschaft found that, based on the limited review procedures performed, nothing has come to its attention that causes it to believe that the combined separate group non-financial report has not been prepared, in all material respects, in accordance with legal requirements.

The audit committee discussed the financial statement documents, the combined separate group non-financial report, the dependency report, the long-form audit reports, and the report on the limited assurance engagement with the Board of Managing Directors and the auditors on February 23, 2022. The audit committee scrutinized the development of earnings for 2021, the financial position and net assets as at the reporting date, and, particularly, provisions for risks. The financial statement documents, the combined separate group non-financial report included in the sustainability report, the dependency report, and the long-form audit reports were also dealt with in the Supervisory Board meeting convened to approve the financial statements on February 25, 2022. The required documents had been distributed to all members of the audit committee and the Supervisory Board in due time before these meetings to give members sufficient opportunity to examine them. The auditor was present during the discussion. He reported on significant findings of the financial statement audit and the limited assurance engagement and was available to provide additional information to the audit committee and the Supervisory Board. Based on its own examinations of the separate financial statements, the dependency report (including the closing statement of the Board of Managing Directors), the combined separate group non-financial report, and the consolidated financial statements together with the combined management report, and based on recommendations made by the audit committee, the Supervisory Board concurs with the result of the auditors' audits. There was no cause for objection, including objection to the closing statement on the dependency report prepared by the Board of Managing Directors. The Supervisory Board has approved the separate financial statements and the consolidated financial statements. The separate financial statements have thus been adopted.

The Supervisory Board has reviewed the appropriation of retained earnings proposed by the Board of Managing Directors and will, together with the Board of Managing Directors, propose to the annual general meeting the payment of a dividend of EUR 0.49 per common share and EUR 0.50 per common non-voting share in respect of 2021.

On behalf of the Supervisory Board, I would like to express my sincere gratitude to the members of the Board of Managing Directors, to management, and to all other employees of Schaeffler AG and the group companies for their commitment and dedication and their constructive teamwork in 2021.

For the Supervisory Board

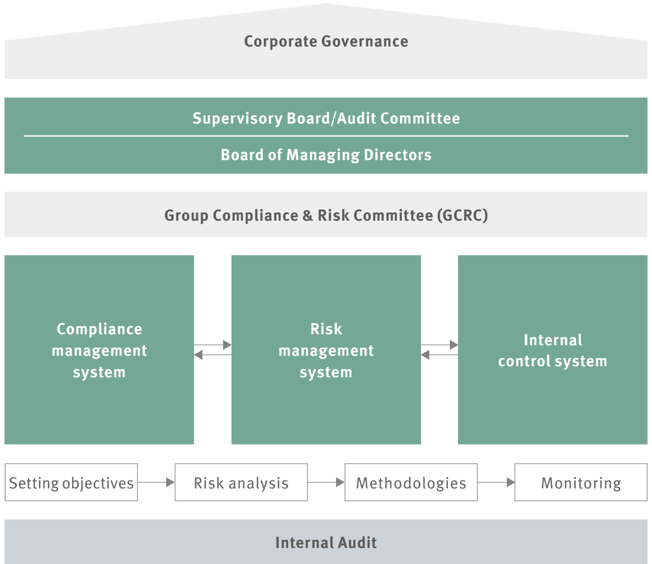
Georg F. W. Schaeffler
Chairman

Herzogenaurach, February 25, 2022

3. 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

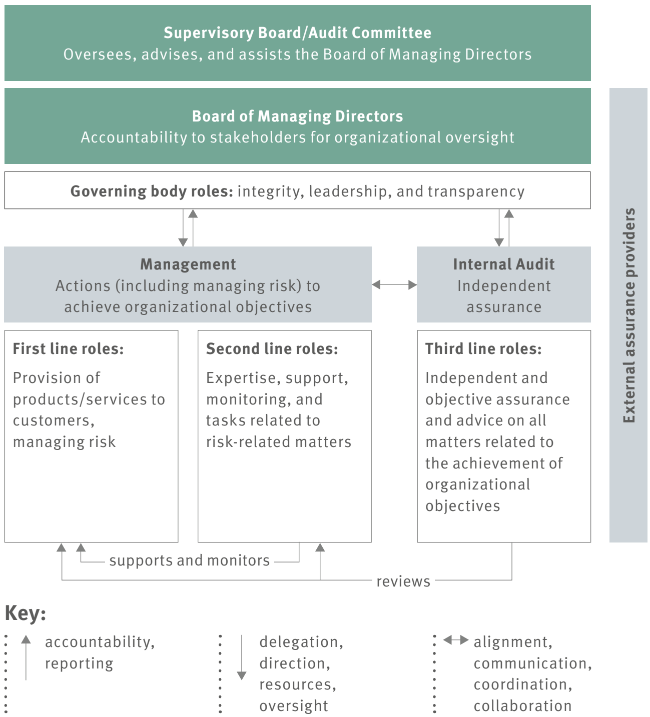


In 2021, the Schaeffler Group has continued to improve the processes within its governance structure with a view to meeting the requirements of customers, legislators, and other stakeholders while at the same time protecting the company. The governance structure is aimed at promoting the coordinated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

3.1 Compliance management system

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

The 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.

3.2 Risk management system

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

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

3.3 Internal control system

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

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

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

3.4 Internal Audit

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

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

- direct organizational link to the Chief Executive Officer to ensure there are no gaps in audit coverage
- neither the head of Internal Audit nor audit staff have any operational 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.

4. Governing bodies of the company

4.1 Supervisory Board

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

Georg F. W. Schaeffler

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

Appointed: December 1, 2014
Committee memberships: Chairman of the mediation, executive, and nomination committees and member of the audit and technology committees
Seats on supervisory and similar boards: 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.

4.2 Supervisory Board committees

Mediation committee

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

Executive committee

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

Audit committee

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

Nomination committee

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

Technology committee

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

4.3 Board of Managing Directors

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

Klaus Rosenfeld
Chief Executive Officer

Responsible for: Quality; 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, 2025
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)

Consolidated financial statements

1. Consolidated income statement

in € millions	Note	2021	2020	Change in %
Revenue	3.1	13,852	12,589	10.0
Cost of sales		-10,412	-9,730	7.0
Gross profit		**3,439**	**2,859**	**20.3**
Research and development expenses		-748	-684	9.4
Selling expenses		-977	-881	10.9
Administrative expenses		-540	-491	10.1
Other income	3.3	222	103	> 100
Other expenses	3.4	-131	-1,055	-87.6
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)		**1,264**	**-149**	**-**
Financial income	3.6	50	19	> 100
Financial expenses	3.6	-148	-204	-27.7
Financial result	3.6	**-98**	**-185**	**-47.1**
Income (loss) from equity-accounted investees		-44	-34	30.5
Earnings before income taxes		**1,122**	**-368**	**-**
Income taxes	3.7	-348	-51	> 100
Net income (loss)		**775**	**-419**	**-**
Attributable to shareholders of the parent company		756	-428	-
Attributable to non-controlling interests		19	9	> 100
Earnings per common share (basic/diluted, in €)	3.8	1.13	-0.65	-
Earnings per common non-voting share (basic/diluted, in €)	3.8	1.14	-0.64	-

2. Consolidated statement of comprehensive income

in € millions	Note	2021	2020
Net income (loss)		**775**	**-419**
Items that will not be reclassified to profit or loss			
Remeasurement of net defined benefit liability	4.13	413	-141
Tax effect	4.5	-120	40
Total other comprehensive income (loss) that will not be reclassified to profit or loss		**293**	**-101**
Items that have been or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		315	-308
Effective portion of changes in fair value of cash flow hedges	4.16	-100	60
Tax effect	4.5	29	-17
Total other comprehensive income (loss) that has been or may be subsequently reclassified to profit or loss		**243**	**-265**
Total other comprehensive income (loss)		**536**	**-366**
Total comprehensive income (loss)		**1,311**	**-784**
Total comprehensive income (loss) attributable to shareholders of the parent company		1,286	-783
Total comprehensive income (loss) attributable to non-controlling interests		25	-1

3. Consolidated statement of financial position

in € millions	Note	12/31/2021	12/31/2020	Change in %
ASSETS				
Intangible assets	4.1	497	470	5.6
Right-of-use assets under leases	4.2	208	183	13.9
Property, plant and equipment	4.3	4,748	4,865	-2.4
Investments in joint ventures and associated companies	4.4	70	110	-36.2
Costs to fulfill a contract	3.1	367	372	-1.4
Other financial assets	4.8	209	77	> 100
Other assets	4.8	244	121	> 100
Income tax receivables	4.5	9	1	> 100
Deferred tax assets	4.5	842	911	-7.5
Total non-current assets		**7,194**	**7,109**	**1.2**
Inventories	4.6	2,495	1,881	32.6
Contract assets	3.1	52	57	-9.5
Trade receivables	4.7	2,274	2,160	5.2
Other financial assets	4.8	80	182	-56.3
Other assets	4.8	324	290	11.8
Income tax receivables	4.5	46	61	-24.7
Cash and cash equivalents	4.9	1,822	1,758	3.6
Assets held for sale	4.10	77	8	> 100
Total current assets		**7,170**	**6,399**	**12.0**
Total assets		**14,364**	**13,509**	**6.3**

in € millions	Note	12/31/2021	12/31/2020	Change in %
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		666	666	0.0
Capital reserves		2,348	2,348	0.0
Other reserves		988	393	> 100
Accumulated other comprehensive income (loss)		-949	-1,479	-35.8
Equity attributable to shareholders of the parent company		**3,053**	**1,928**	**58.3**
Non-controlling interests		112	93	20.0
Total shareholders' equity	4.11	**3,165**	**2,022**	**56.5**
Provisions for pensions and similar obligations	4.13	2,454	2,800	-12.4
Provisions	4.14	304	510	-40.3
Financial debt	4.12	3,231	4,028	-19.8
Contract liabilities	3.1	118	105	11.8
Income tax payables	4.5	36	10	> 100
Other financial liabilities	4.15	35	18	92.2
Lease liabilities	4.2	159	135	18.2
Other liabilities	4.15	11	18	-38.6
Deferred tax liabilities	4.5	169	177	-4.4
Total non-current liabilities		**6,516**	**7,801**	**-16.5**
Provisions	4.14	492	616	-20.1
Financial debt	4.12	545	43	> 100
Contract liabilities	3.1	94	80	17.0
Trade payables	4.16	2,068	1,704	21.4
Income tax payables	4.5	118	124	-4.5
Other financial liabilities	4.15	724	593	22.0
Lease liabilities	4.2	52	50	3.7
Refund liabilities	4.16	274	224	22.6
Other liabilities	4.15	286	252	13.6
Liabilities associated with assets held for sale	4.9	30	0	-
Total current liabilities		**4,683**	**3,686**	**27.1**
Total shareholders' equity and liabilities		**14,364**	**13,509**	**6.3**

4. Consolidated statement of cash flows

in € millions	Note	2021	2020	Change in %
Operating activities				
EBIT		1,264	-149	-
Interest paid		-120	-121	-0.8
Interest received		14	12	12.8
Income taxes paid		-348	-316	10.1
Amortization, depreciation, and impairment losses		966	1,260	-23.3
(Gains) losses on disposal of assets		2	6	-70.6
Changes in:				
• Inventories		-552	142	-
• Trade receivables		-46	-165	-72.0
• Trade payables		311	13	> 100
• Provisions for pensions and similar obligations		50	1	> 100
• Other assets, liabilities, and provisions		-263	571	-
Cash flows from operating activities		**1,276**	**1,254**	**1.8**
Investing activities				
Proceeds from disposals of property, plant and equipment		16	17	-4.7
Capital expenditures on intangible assets		-37	-24	56.0
Capital expenditures on property, plant and equipment		-634	-609	4.2
Acquisition of subsidiaries, interests in joint ventures, and other equity investments	5.1	-19	15	-
Disposal of subsidiaries, interests in joint ventures, and other equity investments	5.1	-4	-3	58.8
Other investing activities	5.1	-39	-40	-2.0
Cash used in investing activities		**-716**	**-642**	**11.5**
Financing activities				
Dividends paid to shareholders and non-controlling interests		-165	-298	-44.7
Receipts from bond issuances and loans	5.1	0	2,100	-100.0
Redemptions of bonds and repayments of loans	5.1	-302	-1,216	-75.1
Principal repayments on lease liabilities		-59	-60	-0.5
Cash provided by (used in) financing activities		**-527**	**526**	**-**
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	2.2	-3	1	-
Cash and cash equivalents as at beginning of period		1,758	668	> 100
Cash and cash equivalents as at December 31	4.9	**1,822**	**1,758**	**3.6**

5. Consolidated statement of changes in equity

	Note	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss)					Equity attributable to share-holders 1)	Non-controlling interests	Total
in € millions					Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasure-ment reserve	Total			
Balance as at January 01, 2020 (as reported)		**666**	**2,348**	**931**	**-220**	**-12**	**-2**	**-890**	**-1,124**	**2,822**	**95**	**2,917**
Change in accounting policy IAS 8	1.4			187					0	187	0	187
Balance as at January 01, 2020		**666**	**2,348**	**1,119**	**-220**	**-12**	**-2**	**-890**	**-1,124**	**3,009**	**95**	**3,104**
Net loss				-428					0	-428	9	-419
Other comprehensive income (loss)	4.5				-297	43	0	-101	-355	-355	-10	-366
Total comprehensive income (loss)		**0**	**0**	**-428**	**-297**	**43**	**0**	**-101**	**-355**	**-783**	**-1**	**-784**
Dividends	4.11			-295					0	-295	-3	-298
Total amount of transactions with shareholders				**-295**					**0**	**-295**	**-3**	**-298**
Changes in the scope of consolidation				0					0	0	3	3
Other changes				-3					0	-3	0	-3
Balance as at December 31, 2020		**666**	**2,348**	**393**	**-517**	**31**	**-2**	**-991**	**-1,479**	**1,928**	**93**	**2,022**
Balance as at January 01, 2021 (as reported)		**666**	**2,348**	**210**	**-517**	**31**	**-2**	**-991**	**-1,479**	**1,745**	**93**	**1,838**
Change in accounting policy IAS 8	1.4			184					0	184		184
Balance as at January 01, 2021		**666**	**2,348**	**393**	**-517**	**31**	**-2**	**-991**	**-1,479**	**1,928**	**93**	**2,022**
Net income				756					0	756	19	775
Other comprehensive income (loss)	4.5				308	-71	0	293	530	530	6	536
Total comprehensive income (loss)		**0**	**0**	**756**	**308**	**-71**	**0**	**293**	**530**	**1,286**	**25**	**1,311**
Dividends	4.11			-162					0	-162	-3	-165
Total amount of transactions with shareholders				**-162**					**0**	**-162**	**-3**	**-165**
Changes in the scope of consolidation	2.1								0	0	-3	-3
Balance as at December 31, 2021		**666**	**2,348**	**988**	**-208**	**-40**	**-2**	**-698**	**-949**	**3,053**	**112**	**3,165**

1) Equity attributable to shareholders of the parent company.

See Note 4.11 to the consolidated financial statements for further details.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

	2021	2020	2021	2020	2021	2020	2021	2020
in € millions	Automotive Technologies		Automotive Aftermarket		Industrial		Total	
Revenue	8,436	7,816	1,848	1,642	3,568	3,132	13,852	12,589
EBIT	620	-344	272	228	372	-33	1,264	-149
• in % of revenue	7.4	-4.4	14.7	13.9	10.4	-1.0	9.1	-1.2
EBIT before special items [1]	585	263	254	258	426	276	1,266	798
• in % of revenue	6.9	3.4	13.8	15.7	12.0	8.8	9.1	6.3
Amortization, depreciation, and impairment losses [2]	749	1,043	39	32	178	185	966	1,260
Working capital [3] [4]	1,190	1,149	510	330	1,001	859	2,700	2,338
Additions to intangible assets and property, plant and equipment	430	378	20	26	220	234	670	639

Prior year information presented based on 2021 segment structure.
[1] EBIT before special items for legal cases, restructuring, and other. See Note 5.4 "Segment information" to the consolidated financial statements for further details.
[2] The prior year reporting period 2020 included a goodwill impairment of EUR 249 m in the Automotive Technologies segment. Additionally, EUR 41 m in impairments on property, plant and equipment were recognized in the prior year reporting period 2020, comprising EUR 21 m related to the Automotive Technologies division and EUR 20 m related to the Industrial division.
[3] Working capital defined as inventories plus trade receivables less trade payables.
[4] Amounts as at December 31.

See Note 5.4 to the consolidated financial statements for further details.

Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed stock corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. The company was founded on April 19, 1982, and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated financial statements of Schaeffler AG as at December 31, 2021, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as the "Schaeffler Group").

The Schaeffler Group is a global automotive and industrial supplier. Employing a workforce of approximately 83,000, the company develops and manufactures high-precision components and systems in engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications. These include innovative and sustainable technologies both for vehicles with only an internal combustion engine and for hybrid and electric vehicles, as well as components and systems for rotary and linear movements, and services, maintenance products, and monitoring systems for a large number of industrial applications. Additionally, the global business with spare parts provides repair solutions in original-equipment quality for the automotive spare parts market. The company earns revenue primarily from the sale of goods – in volume production for major customers as well as through its catalog business – and from services. Production of these goods is frequently based on development services, followed in some cases by the manufacture of tools required to produce the goods. Manufacturing tools generates revenue as well.

Schaeffler AG, Herzogenaurach, is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, which are filed with the operator of the Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Federal Gazette.

1.2 Basis of preparation

In accordance with section 315e (1) HGB, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2021, have been compiled in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU) by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards as well as with the additional requirements of German commercial law. The term IFRS includes all International Financial Reporting Standards and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the IFRS Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). Comparative figures for the prior year were also determined based on these standards.

General presentation

These consolidated financial statements are presented in euros (EUR), the functional and presentation currency of the Schaeffler Group's parent company. Unless stated otherwise, all amounts are in millions of euros (EUR m). The consolidated statement of financial position is classified using the current/non-current distinction.

The financial statements of all entities included in these consolidated financial statements have been prepared as of the same date as these consolidated financial statements.

As amounts (in EUR m) and percentages have been rounded, rounding differences may occur.

Estimation uncertainty and management judgment

In compiling financial statements, management exercises judgment in making appropriate estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and the basis on which assumptions are made are reviewed regularly. Changes in estimates are recognized in the period in which the changes are made as well as in all subsequent periods affected by the changes.

The following significant issues are subject to estimation uncertainty with respect to the application of accounting policies and management judgment:

- evaluation of recognition criteria for capitalization of development costs as intangible assets
- identification of cash-generating units and determination of recoverable amounts for purposes of impairment tests of goodwill and non-current assets
- assessment of the lease term of leases with extension or termination options
- assessment of the recoverability of joint ventures
- evaluation of control over structured entities, associated companies, and joint ventures
- judgment regarding the date costs to fulfill a contract are capitalized and determination of impairments of costs to fulfill a contract
- assessment of the recoverability of deferred tax assets
- accounting for post-employment employee benefits, especially selecting actuarial assumptions
- recognition and measurement of provisions
- assessment of risks related to uncertain tax positions
- determination of the fair value of financial instruments and
- identification of alternative uses for customer-specific products

Except for the measurement of defined benefit pension obligations, changes in assumptions made in the past and the resolution of previously existing uncertainties did not have a significant impact in 2021. The discount rate used to measure defined benefit pension obligations was increased to reflect higher interest rate levels, affecting the recognized amounts of the provision and shareholders' equity (see Note 4.13). In addition, restructuring provisions (see Note 4.14) were updated to reflect current information.

1.3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently by all Schaeffler Group entities for all periods presented in these consolidated financial statements.

Consolidation principles

All significant domestic and foreign subsidiaries of the Schaeffler Group that are directly or indirectly controlled by Schaeffler AG have been consolidated in the company's consolidated financial statements. Subsidiaries are consolidated in the consolidated financial statements from the date the Schaeffler Group obtains control until the date control ceases.

Subsidiaries are consolidated using the acquisition method as at the acquisition date. Non-controlling interests are measured at the non-controlling interests' proportionate share of the fair value of assets acquired and liabilities assumed (partial goodwill method). Balances and transactions with consolidated subsidiaries and any related income and expenses are eliminated in full in compiling the consolidated financial statements. Intercompany profits or losses on intra-group transactions are also eliminated in full. Deferred taxes on temporary differences related to the elimination of such balances and transactions are measured at the tax rate of the acquiring entity.

Investments in joint ventures are jointly controlled by their shareholders. Joint control exists only if decisions about the relevant activities require the unanimous consent of the parties. Parties having joint control hold rights to the net assets of the joint venture. Investments in joint ventures are accounted for using the equity method.

Investments in associated companies are also accounted for under the equity method if the Schaeffler Group has significant influence over the investee.

Carrying amounts of investments in equity-accounted investees are adjusted to reflect changes in the Schaeffler Group's interest in the equity of the investee. Goodwill capitalized in connection with the initial application of the equity method to the company's interest in the investee is not amortized. The carrying amount of the investment is tested for impairment when there is an indication of impairment ("triggering event").

Foreign currency translation

The exchange rates between the group's most significant currencies and the euro are as follows:

Selected foreign exchange rates

Currencies		12/31/2021	12/31/2020	2021	2020
1 € in			Closing rates		Average rates
CNY	China	7.19	8.02	7.63	7.87
INR	India	84.23	89.66	87.47	84.58
KRW	South Korea	1,346.38	1,336.00	1,353.90	1,345.10
MXN	Mexico	23.14	24.42	23.99	24.52
USD	U.S.	1.13	1.23	1.18	1.14

Foreign currency transactions

Transactions denominated in a currency other than the entity's functional currency are translated at the exchange rate applicable on the date they are first recognized. Since receivables and payables denominated in foreign currencies are monetary items, they are translated into the functional currency of the applicable group company at the exchange rate as at the end of the reporting period and when they are realized. Non-monetary items are translated at historical rates.

Exchange gains and losses on operating receivables and payables and on derivatives used to hedge the related currency risk are presented within earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives obtained to hedge the related currency risk are reflected in financial result.

Foreign entities

Assets, including goodwill, and liabilities of subsidiaries whose functional currency is not the euro are translated at the spot rate at the end of the reporting period. The components of equity are translated at historical rates, and items in the consolidated income statement are translated at the average rate for each reporting period. The resulting translation differences are recognized in other comprehensive income and reported in accumulated other comprehensive income. The impact of currency translation recognized in shareholders' equity is reversed to profit or loss when consolidation of the subsidiary ceases.

Items in the consolidated statement of cash flows are translated at the average exchange rate for the period except for cash and cash equivalents, which are translated at the spot rate at the end of the reporting period.

Revenue recognition

Revenue is recognized when the related performance obligation is satisfied, i. e., when the customer obtains control of the promised goods or services. This occurs either at a point in time or over time. The transaction price is the amount of consideration to which the Schaeffler Group expects to be entitled in exchange for transferring the promised goods or services to the customer. The Schaeffler Group recognizes revenue in the amount of the agreed price relating to the relevant performance obligation. The Schaeffler Group's customers are granted rebates, bonuses, discounts, credits, price concessions, or other variable price concessions. These types of variable consideration are recognized as a reduction of revenue during the year based on historical experience, contractually agreed bonus scales, and prior period sales. Since it expects that the period between when control over a promised good or service transfers and when payment is received will be one year or less, the Schaeffler Group applies the practical expedient in IFRS 15.63 and does not adjust the promised amount of consideration for any financing component. Warranties provided in connection with the sale of goods or services are only intended to provide assurance that the product complies with agreed-upon specifications. Therefore, Schaeffler continues to account for warranties under IAS 37.

Customers typically have 30 to 60 days from the date the invoice is issued to pay for performance obligations under contracts with customers. Invoices are normally issued as at the date the performance obligation is satisfied.

Revenue is recognized over time for products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin.

For all customer projects, payments received from customers for development services are accrued as contract liabilities starting when a volume supply contract with the customer becomes highly probable, and then appropriately amortized to revenue over the period of volume production.

Recognition of revenue from the sale of tools depends on whether the customer obtains legal ownership of the tool and the Schaeffler Group has a contractual right to consideration.

The dates on which performance obligations under contracts with customers are satisfied can be summarized as follows:

Performance obligations under contracts with customers

Type of revenue	Date performance obligation satisfied
Revenue from the sale of goods	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Revenue from the sale of customer-specific products	Revenue is recognized over time for customer-specific products for which the Schaeffler Group has an enforceable right to payment for performance completed to date amounting to any costs incurred plus a reasonable profit margin. This will result in revenue being recognized before the date of actual delivery. Revenue for customer-specific finished goods is recognized at the amount of the full price of the finished good in the period in which the customer is obligated to take delivery. For customer-specific goods in progress, the amount of revenue for the period in which the customer is obligated to take delivery is derived from the acquisition cost of the goods in progress rather than being determined as the amount of the full price of the goods when they are finished. The method described above best represents the transfer of customer-specific products to the customer.
Revenue from the sale of tools	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Revenue from services	Revenue is mostly recognized at a point in time upon completion of the service.

Functional costs

Income and expenses are allocated to the various functional areas. Depreciation, amortization, and impairment losses on intangible assets and property, plant and equipment are allocated to the functional areas in which the asset is utilized.

Research and development expenses

Expenses incurred for research activities and advance development are expensed immediately.

Development costs are only recognized as intangible assets once the capitalization criteria of IAS 38 are met. Capitalized development costs are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over a period of six years beginning when the intangible asset is ready for use. Amortization expense is reported in cost of sales.

Development costs for all customer projects not considered to involve new technology as set out in the IAS 38 recognition criteria are capitalized as costs to fulfill a contract starting when a volume supply contract with the customer becomes highly probable, and then appropriately amortized to cost of sales over the period of volume production.

Financial result

Interest income and expense are recognized in the period to which they relate.

Earnings per share

Earnings per share are calculated by dividing net income attributable to Schaeffler AG's shareholders by the weighted average number of common and common non-voting shares outstanding during the reporting period.

Goodwill

Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually as at December 31 and when there is an indication ("triggering event").

The goodwill impairment test is performed by comparing the carrying amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated with its recoverable amount. A cash-generating unit is the smallest unit with largely independent cash flows. Recoverable amount is the higher of fair value less costs of disposal and value in use of the cash-generating unit or group of cash-generating units. Recoverable amount is initially determined using fair value less costs of disposal, since restructurings and capacity expansions are not shown separately in current plans and budgets. Both fair value less costs of disposal and value in use are determined using the discounted cash flow method. If circumstances giving rise to an impairment loss subsequently cease to exist, impairment losses on goodwill are not reversed.

Expected cash flows are based on a detailed five-year-forecast – unless a longer period is required to reach a steady state – and on a perpetuity for the period beyond that timeframe. This detailed forecast is based on specific assumptions regarding macroeconomic trends (currency, interest, and commodity price trends), external sales forecasts and internal assessments of demand and projects, sales prices, and the volume of additions to intangible assets and property, plant and equipment. Past trends and historic experience are also used in developing the forecast. The discount rate reflects current market expectations and specific risks. The key assumptions underlying value in use of a cash-generating unit are EBIT, the discount rate, and the long-term growth rate.

Other intangible assets and property, plant and equipment

Other intangible assets and property, plant and equipment are recognized at acquisition or production cost plus incidental acquisition costs and, where applicable, subsequent acquisition cost and are amortized or depreciated over their expected useful life on a straight-line basis, provided they have a determinable useful life. The expected useful lives of software and capitalized development costs are 3 and 6 years, respectively, and range from 15 to 25 years for buildings, from 2 to 10 years for technical equipment and machinery, and from 3 to 8 years for other equipment.

The Schaeffler Group tests other intangible assets and property, plant and equipment for impairment when there is an indication that these assets may be impaired (“triggering event”). If it is not possible to attribute to an individual asset cash inflows that are largely independent of those from other assets or groups of assets, the asset is tested for impairment based on the smallest cash-generating unit to which it belongs. The impairment test is performed by comparing the carrying amount of the cash-generating unit with its recoverable amount. The methodology and implications of this test are identical to those of the goodwill impairment test (see discussion of goodwill above). The cash-generating unit is impaired if its carrying amount exceeds its recoverable amount. Impairment losses are recognized for impairments. If circumstances giving rise to an impairment loss subsequently cease to exist, impairment losses recognized on assets are reversed. The revised carrying amount is limited to the amount that would have resulted had amortization or depreciation been charged.

Leases

Leases for assets with a value of more than EUR 5,000 or with a total lease term of more than 12 months are capitalized as discounted lease liabilities with corresponding right-of-use assets. Right-of-use assets are depreciated on a straight-line basis over the total lease term. Payments for leases of low-value assets, short-term lease payments, and variable lease payments are expensed.

Financial instruments

Regular-way sales and purchases of financial assets are accounted for using settlement date accounting.

Primary financial instruments

Primary financial instruments are initially measured at fair value or, in the case of trade receivables without any significant financing component, at the transaction price. Transaction costs directly attributable to the acquisition or issue of a financial instrument are only included in the carrying amount if the financial instrument is not measured at fair value through profit or loss. Subsequent measurement depends on how the financial instrument is categorized.

The Schaeffler Group fundamentally has three categories for the classification of financial instruments: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI), and measured at fair value through profit or loss (FVTPL). Financial assets are classified based on the Schaeffler Group’s business model for managing the financial assets and on their contractual cash flow characteristics.

Financial assets at fair value through profit or loss

This category mainly includes a portion of the trade receivables that is regularly available for sale under receivable sale programs (see Note 4.16). Due to the short maturity of these receivables, their transaction price represents their fair value. The fair value of marketable securities, on the other hand, is derived from market prices.

Financial assets at fair value through other comprehensive income

Financial investments in strategic long-term minority investments are measured at fair value, and changes in fair value are recognized in other comprehensive income. Accumulated other comprehensive income is not reclassified to the consolidated income statement upon disposal. This category also includes notes receivable and trade receivables that are available for sale under sale programs. Due to the short maturity of these receivables, their transaction price represents their fair value.

Financial assets at amortized cost

This category comprises trade receivables (except those that are available for sale under various receivable sale programs), cash and cash equivalents, and other financial assets. These assets are measured at amortized cost less impairment losses recognized for expected credit losses. The Schaeffler Group uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables. Under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using customer-specific probabilities of default and taking into account information about future conditions. The general approach is used for the remaining financial assets, mainly cash and cash equivalents. Consequently, credit loss allowances should be measured and recognized at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly, the credit loss allowance recognized has to be based on lifetime expected credit losses. Impairments are initially recognized in an allowance account unless it is clear at the time the impairment loss occurs that the receivable will be either partially or entirely uncollectible. See the "Credit risk" section in Note 4.16 "Financial instruments" for further details.

Trade receivables sold under receivable sale programs as well as the related liabilities are recognized to the extent of the credit risk retained (continuing involvement) (see Note 5.2).

Cash equivalents are liquid funds held for the purpose of meeting short-term cash commitments. Cash equivalents include term deposits and money market funds with an original maturity of generally three months or less, that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. While the majority of cash equivalents, such as term deposits, are measured at amortized cost, money market funds are measured at fair value with changes in value recognized in profit or loss (FVTPL).

Financial liabilities

Except for derivative financial instruments, the Schaeffler Group measures its financial liabilities at amortized cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are generally classified and measured at fair value through profit or loss unless they are subject to hedge accounting.

Derivatives embedded in financial liabilities are separated from the host instrument when the economic characteristics and risks of the embedded derivative are considered not closely related to the economic characteristics and risks of the host instrument.

Hedge accounting

In accordance with the option provided for hedge accounting in the transition requirements of IFRS 9, the Schaeffler Group will continue to apply the hedge accounting requirements of IAS 39 and intends to initially apply IFRS 9 at a later date.

Hedging relationships are accounted for using the cash flow and net investment hedge models. The effective portion of changes in the fair value of the hedging instrument is included in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in profit or loss.

Costs to fulfill a contract

Costs to fulfill a contract arise from the relationship between development services and future volume production. To reflect this relationship, development costs for all customer projects not considered to involve new technology as set out in the IAS 38 recognition criteria are capitalized as costs to fulfill a contract starting when a volume supply contract with the customer becomes highly probable, and then amortized appropriately over the period of volume production. Capitalized costs to fulfill a contract are tested for impairment as soon as there is an indication that they may be impaired ("triggering event").

See Note 1.4 "Change in accounting policy" to the consolidated financial statements for further details.

Inventories

Inventories are measured at the lower of cost and net realizable value. The acquisition cost of raw materials, supplies, and purchased merchandise is determined using the moving average cost method. Work in progress and manufactured finished goods are valued at production cost and written down to net realizable value if lower.

Contract assets

Contract assets mainly result from revenue for customer-specific products recognized over time. This affects products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin. Contract assets are reclassified to trade receivables when they represent an unconditional right to receive the consideration. This is the case when the invoice is issued to the customer. The Schaeffler Group uses the simplified impairment approach for contract assets; under this approach, a credit loss allowance is recognized based on lifetime expected credit losses.

Income taxes

Deferred income taxes are accounted for using the asset and liability method.

Except where the recognition of deferred taxes is not permitted, deferred taxes are recognized on temporary differences between carrying amounts in the consolidated IFRS statement of financial position and the company's tax balance sheets, on loss and interest carry-forwards, and on tax credits. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which temporary differences and unused tax loss and interest carry-forwards can be utilized. Group entities are assessed individually with respect to whether it is probable that profits will be generated in the future.

Deferred taxes are measured using the future tax rate. Future tax rate changes are reflected in this tax rate when they have been substantively enacted.

Management regularly reviews tax returns, mainly with respect to issues subject to interpretation, and reflects these in income tax payables as appropriate, based on amounts expected to be payable to taxation authorities. Any interest related to income taxes falling in the scope of IAS 37 is recognized at the amount required to settle the current obligation as at the reporting date. Appropriate provisions for potential risks related to uncertain tax positions have been recognized in accordance with IFRIC 23. Depending on which amount best reflects expectations, measurement is based on either the most likely amount or the expected value.

Assets and liabilities held for sale

Non-current assets or groups of non-current assets (incl. the associated liabilities) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale requires a commitment to a plan to sell the asset or group of assets and the sale must be highly probable within twelve months. Such assets and liabilities are presented separately in the statement of financial position. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Provisions for pensions and similar obligations

The Schaeffler Group provides post-employment benefits to its employees in the form of defined benefit plans and defined contribution plans.

The Schaeffler Group's obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions based on market expectations, including those related to anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows. The discount rate is determined by reference to the market yield of senior fixed-rate corporate bonds, with mortgage-backed corporate bonds, whose risk-return profile is closer to that of government bonds, not considered in determining the discount rate in the euro region. The provisions for pensions and similar obligations recognized in the consolidated statement of financial position represent the present value of the defined benefit obligation at the end of the reporting period, net of the related plan assets measured at fair value where applicable. In addition to the pension funds maintained to fund the obligation, plan assets include all assets and rights under reimbursement insurance policies if the proceeds of the policy can be used only to make payments to employees entitled to pension benefits and are not available to satisfy claims of the company's other creditors. If plan assets exceed the related pension obligation, the net pension asset is presented under other assets to the extent the Schaeffler Group is entitled to a refund or reduction of future contributions to the fund.

Actuarial gains and losses arising from defined benefit plans are recognized in other comprehensive income, and interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and presented in financial result on a net basis.

Past service cost arising from plan amendments or curtailments as well as settlement gains or losses are presented under other income or other expenses. Pension plan amendments, curtailments, and settlements during the year result in recalculation of service cost and net interest for the remainder of the period.

For defined contribution plans, the Schaeffler Group pays fixed contributions to an independent third party. As the Schaeffler Group does not in any way guarantee a return on the assets, neither up to the date pension payments commence nor beyond, the group's obligation is limited to the contributions it makes during the year. The contributions are recognized in personnel expense.

Provisions

Provisions are recognized when the Schaeffler Group has a present legal or constructive obligation as a result of a past event, it is probable that the outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at best estimate. Non-current provisions are recognized at present value calculated by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense and the impact of any changes in discount rates are presented within financial result.

Contract liabilities

Contract liabilities partly result from payments received from customers for development services with a subsequent volume supply contract. For all customer projects, payments received from customers are accrued as contract liabilities starting when a volume supply contract with the customer becomes highly probable, and then appropriately amortized to revenue over the period of volume production.

Share-based payment

The Schaeffler Group's Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan. The company recognizes a provision in the amount of the fair value of the payment obligation attributable to the period up to the reporting date. The liability is remeasured at the end of each reporting period from the grant date until settlement. The fair value per Performance Share Unit (PSU) is determined in part using a binomial option pricing model and in part based on a Monte Carlo simulation. The fair value is recognized as personnel expense over the period between grant date and settlement date.

Government grants

Government grants are recognized if there is reasonable assurance that the conditions attaching to the grants have been met and that the grants will be received. Grants related to assets are deducted from the cost of the relevant assets. Grants that are not directly attributable to non-current assets are offset against the corresponding expenses.

1.4 Change in accounting policy

The company has changed its accounting policy for development services effective January 1, 2021. The new accounting treatment, which is being applied retrospectively, reflects the relationship between development services and future volume production in a different manner. Under the new model, development costs for all customer projects are capitalized as costs to fulfill a contract starting when a volume supply contract with the customer becomes highly probable, and then amortized appropriately over the period of volume production. Revenue is similarly accrued as a contract liability and realized over the period of volume production as well. The change more accurately presents the link between development services and volume production in the financial information. Previously, revenue was recognized for development services that represented a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group was entitled to consideration under the contract. This revenue was recognized when the development services had been rendered in full. The related expenses were expensed as cost of sales when revenue was recognized.

The change in accounting policy was implemented by a retrospective adjustment of EUR 187 m to other reserves within shareholders' equity in the opening statement of financial position as at January 1, 2020. This represents an adjustment to the comparative figures for the period presented.

In addition, other changes were made to the presentation of expenses for production technology and for the use of real estate as at January 1, 2021. The changes are designed to more precisely reflect the company's business processes in its financial information. The prior year period was retrospectively adjusted for these other changes in presentation.

The following summaries set out the impact of the changes on the consolidated statement of financial position, the consolidated income statement, and the consolidated statement of cash flows.

Consolidated statement of financial position

January 1, 2020

in € millions	January 1, 2020, before adjustments	Accounting policy change - development services	January 1, 2020, adjusted
ASSETS			
Costs to fulfill a contract	0	376	376
Deferred tax assets	713	-47	666
Total non-current assets	**7,387**	**328**	**7,715**
Inventories	2,132	-25	2,108
Total current assets	**5,483**	**-25**	**5,459**
Total assets	**12,870**	**304**	**13,174**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Other reserves	931	187	1,119
Total shareholders' equity	**2,917**	**187**	**3,104**
Contract liabilities	7	87	93
Deferred tax liabilities	137	23	160
Total non-current liabilities	**6,273**	**110**	**6,383**
Contract liabilities	60	7	67
Total current liabilities	**3,680**	**7**	**3,687**
Total shareholders' equity and liabilities	**12,870**	**304**	**13,174**

Consolidated statement of financial position

December 31, 2020

in € millions	December 31, 2020, before adjustments	Accounting policy change - development services	December 31, 2020, adjusted
ASSETS			
Costs to fulfill a contract	0	372	372
Deferred tax assets	958	-47	911
Total non-current assets	**6,785**	**325**	**7,109**
Inventories	1,904	-23	1,881
Total current assets	**6,422**	**-23**	**6,399**
Total assets	**13,207**	**302**	**13,509**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Other reserves	210	184	393
Total shareholders' equity	**1,838**	**184**	**2,022**
Contract liabilities	14	91	105
Deferred tax liabilities	155	22	177
Total non-current liabilities	**7,688**	**113**	**7,801**
Contract liabilities	75	6	80
Total current liabilities	**3,680**	**6**	**3,686**
Total shareholders' equity and liabilities	**13,207**	**302**	**13,509**

Consolidated income statement

2020

in € millions	2020 before adjustments	Accounting policy change – development services	Other changes in presentation	2020 adjusted
Revenue	12,600	-10	0	12,589
Cost of sales	-9,691	-51	12	-9,730
Gross profit	**2,909**	**-61**	**12**	**2,859**
Research and development expenses	-758	56	18	-684
Selling expenses	-864	0	-17	-881
Administrative expenses	-478	0	-13	-491
Other income	102	0	0	103
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)	**-143**	**-5**	**0**	**-149**
Earnings before income taxes	**-362**	**-5**	**0**	**-368**
Income taxes	-53	2	0	-51
Net loss	**-415**	**-4**	**0**	**-419**
Attributable to shareholders of the parent company	-424	-4	0	-428
Attributable to non-controlling interests	9			9
Earnings per common share (basic/diluted, in €)	-0.64	-0.01	0.00	-0.65
Earnings per common non-voting share (basic/diluted, in €)	-0.63	-0.01	0.00	-0.64

Consolidated statement of cash flows

2020

in € millions	2020 before adjustments	Accounting policy change – development services	2020 adjusted
Operating activities			
EBIT	-143	-5	-149
Changes in:			
• Inventories	144	-2	142
• Other assets, liabilities, and provisions	564	7	571
Cash flows from operating activities	**1,254**	**0**	**1,254**

1.5 New accounting pronouncements

New accounting pronouncements effective in 2021

Amendments to IFRS 4 related to the deferral of IFRS 9, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 (Interest Rate Benchmark Reform – Phase 2), as well as Amendments to IFRS 16 regarding Covid-19-related rent concessions are required to be applied for the first time in 2021. Application of the new standards has not had any significant impact on these financial statements. Please refer to Note 4.16 “Financial instruments – Interest rate risk” for information on Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 (Interest Rate Benchmark Reform – Phase 2).

New accounting pronouncements endorsed by the EU effective in 2022

The Schaeffler Group is not yet required to apply the following amendments to standards issued by the International Accounting Standards Board (IASB) in its financial statements for the financial year 2021, and none were adopted early.

New accounting pronouncements endorsed by the EU but not yet effective

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to IFRS 3		01/01/2022	Update to a reference to the Conceptual Framework	None
Amendments to IAS 16		01/01/2022	Clarification that certain proceeds should be recognized in profit or loss rather than deducted from acquisition cost. This applies to proceeds an entity has earned from selling items produced while preparing the asset for its intended use.	None
Amendments to IAS 37		01/01/2022	Definition of the costs to be included in assessing whether a contract is onerous	None
Annual improvements 2018–2020		01/01/2022	Minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture, and the illustrative examples accompanying IFRS 16 Leases	None
IFRS 17	Insurance Contracts	01/01/2023	Principles for recognition, measurement, and presentation of as well as disclosures about insurance contracts	Under examination [1]

[1] Detailed statements regarding the extent of the impact are not yet possible.

New accounting pronouncements not endorsed by the EU

In addition, the IASB has issued the following new standards and amendments to existing standards which had not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue. The company has not applied any of them early, and is currently not planning to apply any of them early.

New accounting pronouncements – not yet endorsed by the EU

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Amendment to IAS 1		01/01/2023	Classification of liabilities as current or non-current	Under examination [1]
Amendment to IAS 1		01/01/2023	Disclosure of accounting policies	Under examination [1]
Amendment to IAS 8		01/01/2023	Definition of accounting estimates	Under examination [1]
Amendment to IAS 12		01/01/2023	Deferred tax related to assets and liabilities arising from a single transaction	Under examination [1]
Amendments to IFRS 17		01/01/2023	Initial application of IFRS 17 and IFRS 9 – comparative information	None
Amendments to IFRS 10, IAS 28		Undefined	Clarification of accounting for gains and losses on the sale or contribution of assets between an investor and its associate or joint venture	Under examination [1]

[1] Detailed statements regarding the extent of the impact are not yet possible.

2. Principles of consolidation

2.1 Scope of consolidation

In 2021, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 148 (prior year: 150) subsidiaries; 46 (prior year: 52) entities are domiciled in Germany and 102 (prior year: 98) in other countries.

The changes are mainly attributable to entities liquidated or merged and to the disposal of structured entities.

The operations of FZT Kaltennordheim GmbH, FZT Kaltennordheim Grundstücksgesellschaft mbH, FZT Unna GmbH, and FZT Unna Grundstücksgesellschaft mbH – companies controlled via contractual rights to participate in decision-making – have ceased and the key assets have been sold. As a result, Schaeffler's control has ceased again in 2021 and the remaining assets and liabilities have been eliminated against non-controlling interests.

In the consolidated financial statements as at December 31, 2021, five (prior year: four) joint ventures and three associated companies (prior year: four) are accounted for at equity.

More on the Schaeffler Group's companies in Note 5.9

2.2 Acquisitions and disposals of companies

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. The consideration to be transferred for the acquisition is EUR 14 m. The allocation of the purchase price based on the final Bega International B.V. closing balance sheet has resulted in EUR 7 m in intangible assets and EUR 7 m in goodwill. This goodwill, which cannot be recognized for tax purposes and is therefore not tax-deductible, represents the planned advancement of the Industrial division's service business. The impact of the acquisition of Bega International B.V. on the consolidated income statement is insignificant.

The Clausthal-Zellerfeld site was sold to ift-whitecell engineering gmbh, a subsidiary of Whitecell Power AG, in a transaction that closed on November 2, 2021. An impairment loss of EUR 4 m was recognized in connection with assets and liabilities temporarily held for sale during the reporting period. The disposal resulted in a loss on disposal of EUR 4 m that has been recognized in other expenses. As the disposal eliminated the need for the measures planned, the related restructuring provision of EUR 5 m was reversed.

3. Notes to the consolidated income statement

3.1 Revenue

Revenue from contracts with customers can be analyzed by category and segment as follows:

IFRS 15 – analysis of revenue by category

	01/01–12/31		01/01–12/31		01/01–12/31		01/01–12/31	
	2021	2020	2021	2020	2021	2020	2021	2020
in € millions	Automotive Technologies		Automotive Aftermarket		Industrial		Total	
Revenue by type								
• Revenue from the sale of goods	8,302	7,674	1,848	1,642	3,523	3,102	13,673	12,418
• Revenue from the sale of tools	74	93	0	0	5	5	79	98
• Revenue from services	60	49	0	0	39	24	99	72
• Other revenue	0	0	0	0	1	1	1	1
Total	**8,436**	**7,816**	**1,848**	**1,642**	**3,568**	**3,132**	**13,852**	**12,589**
Revenue by region 1)								
• Europe	3,074	2,883	1,275	1,184	1,473	1,312	5,823	5,379
• Americas	1,870	1,772	363	301	588	528	2,821	2,601
• Greater China	2,211	2,023	101	77	982	840	3,294	2,941
• Asia/Pacific	1,281	1,138	109	80	525	451	1,915	1,668
Total	**8,436**	**7,816**	**1,848**	**1,642**	**3,568**	**3,132**	**13,852**	**12,589**

Prior year information presented based on 2021 segment structure.
1) Based on market (customer location).

The following overview shows receivables, contract assets, and contract liabilities from contracts with customers.

Contract balances

in € millions	12/31/2021	12/31/2020
Trade receivables	2,274	2,160
Contract assets	52	57
Contract liabilities	212	186
Revenue recognized in the reporting period [1]		
• that was included in the contract liability balance at the beginning of the year	56	33
• from performance obligations satisfied in previous years	4	4

[1] Amounts for the reporting period from January 1 to December 31.

Contract assets on hand as at December 31, 2021, resulted from revenue that has been recognized over time for customer-specific products.

Contract liabilities on hand as at December 31, 2021 partly result from payments received from customers for development services. These payments are accrued as contract liabilities starting when a volume supply contract with the customer becomes highly probable, and then appropriately amortized to revenue over the period of volume production.

There were no significant changes in the balances of contract assets and contract liabilities during the reporting period.

As at December 31, 2021, the remaining performance obligations largely related to contracts with an original expected duration of less than one year. Therefore, the Schaeffler Group is omitting the disclosure of remaining performance obligations, applying the practical expedient provided by IFRS 15.121 (a).

Costs to fulfill a contract of EUR 367 m as at December 31, 2021, (prior year: EUR 372 m) arise from the relationship between development services and future volume production. To reflect this relationship, development costs are capitalized as costs to fulfill a contract starting when a volume supply contract with the customer becomes highly probable, and then amortized appropriately over the period of volume production. Amortization of costs to fulfill a contract for 2021 amounted to EUR 84 m (prior year: EUR 77 m). In addition, the company recognized impairments of EUR 16 m (prior year: EUR 6 m).

3.2 Government grants

The consolidated income statement includes EUR 47 m (prior year: EUR 68 m) in government grants. In the reporting period, these grants included EUR 4 m (prior year: EUR 34 m) in refunds of social security contributions for short-time compensation in connection with the coronavirus pandemic.

3.3 Other income

Other income

in € millions	2021	2020
Gains on reversal of provisions	81	11
Exchange gains	2	0
Miscellaneous other income	139	91
Total	**222**	**103**

Gains on reversal of provisions consisted mainly of EUR 77 m (prior year: EUR 7 m) in reversals of provisions recognized in prior years related to personnel measures.

Exchange gains largely related to operations and forward exchange contracts. In 2021, netting foreign exchange gains and losses resulted in a gain of EUR 2 m (prior year: loss of EUR 41 m).

Miscellaneous other income includes EUR 40 m in refunds of excess social tax paid in the past in Brazil. In a ruling issued on May 13, 2021, in a case regarding the tax base for the calculation of social tax, the Brazilian federal superior court decided in favor of the tax payer. As a result of this ruling, excess tax paid in the past as well as the related interest can be offset against other tax payment obligations in future. The company has also recognized tax credits receivable in connection with follow-up litigation dealing with the same issue for which a ruling is still outstanding, because the claim is sufficiently certain.

Additionally, miscellaneous other income included EUR 33 m (prior year: EUR 28 m) in government grants as well as EUR 3 m (prior year: EUR 25 m) in gains on the curtailment of plans underlying defined benefit pension obligations.

3.4 Other expenses

Other expenses

in € millions	2021	2020
Exchange losses	0	41
Miscellaneous other expenses	131	1,014
Total	**131**	**1,055**

In 2021, netting foreign **exchange gains and losses** resulted in a net exchange gain of EUR 2 m (prior year: loss of EUR 41 m).

Miscellaneous other expenses included mainly EUR 35 m (prior year: EUR 676 m) in expenses related to personnel measures (termination benefits). Expenses of EUR 10 m (prior year: EUR 25 m) related to legal and litigation risks and EUR 25 m (prior year: EUR 0 m) in expenses of remediating past environmental impacts and rehabilitating commercial land were included in this line item as well. In the prior year, the company had recognized an impairment loss of EUR 249 m on goodwill allocated to the Automotive Technologies segment.

3.5 Personnel expense and headcount

Average number of employees by region

	2021	2020
Europe	53,752	55,130
Americas	11,864	11,527
Greater China	12,120	11,889
Asia/Pacific	5,964	5,899
Total	**83,700**	**84,445**

The number of employees as at December 31, 2021, was 82,981, 0.4% below the prior year level of 83,297.

The Schaeffler Group's personnel expense can be analyzed as follows:

Personnel expense

in € millions	2021	2020
Wages and salaries	3,659	3,416
Social security contributions	694	654
Other personnel expense	115	845
Total	**4,468**	**4,914**

The decrease in personnel expense is mainly attributable to EUR 673 m in expenses recognized in other personnel expense in the prior year in connection with personnel measures. The increase in wages and salaries and the increase in social security contributions had an offsetting impact. This increase is attributable to the low basis for comparison – personnel expense for 2020 was reduced since the company had utilized the short-time work scheme due to the decline in business activity caused by the coronavirus pandemic.

The workforce was downsized primarily in the Europe region and across all functional areas.

Other personnel expense included EUR 156 m (prior year: EUR 170 m) in retirement benefit expenses and EUR 41 m in gains (prior year: EUR 673 m in expenses) largely resulting from the reversal of provisions for personnel measures.

3.6 Financial result

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. In a ruling issued on May 13, 2021, in a case regarding the tax base for the calculation of social tax, the Brazilian federal superior court decided in favor of the tax payer. As a result of this ruling, excess tax paid in the past as well as the related interest can be offset against other tax payment obligations in future. The company has also recognized tax credits receivable in connection with follow-up litigation dealing with the same issue for which a ruling is still outstanding. In the prior year, Other included an impairment of EUR 22 m on an outstanding loan receivable from a joint venture.

3.7 Income taxes

Income taxes

in € millions	2021	2020
Current income taxes	378	270
Deferred income taxes	-31	-219
Total	**348**	**51**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2021.

The average domestic tax rate was 28.7% in 2021 (prior year: 28.7%). This tax rate consisted of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.8% (prior year: 12.8%).

Current tax expense related to prior years amounted to EUR 25 m (prior year: no tax expense/benefit related to prior years) in 2021. The deferred tax benefit related to prior years amounted to EUR 39 m (prior year: expense of EUR 13 m) in 2021.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to income tax expense as reported in the consolidated income statement. The calculation for 2021 is based on the Schaeffler Group's 28.7% (prior year: 28.7%) effective combined trade and corporation tax rate inclunding solidarity surcharge.

Tax rate reconciliation

in € millions	2021	2020
Earnings before income taxes	1,122	-368
Expected tax expense	**322**	**-105**
Addition/reduction due to deviating local tax bases	13	5
Foreign/domestic tax rate differences	-15	-16
Change in tax rate and law	2	1
Non-recognition of deferred tax assets	8	2
Tax credits and other tax benefits	-13	-8
Non-deductible expenses and non-taxable income	48	82
Impairment loss on goodwill not tax-deductible	0	72
Taxes for previous years	-14	13
Other	-3	5
Reported tax expense	**348**	**51**

Foreign/domestic tax rate differences primarily represent the impact of differences in country-specific tax rates applicable to German and foreign entities.

Non-deductible expenses and non-taxable income includes non-deductible operating expenses and non-creditable withholding taxes as well as deferred tax liabilities on dividends expected to be paid by subsidiaries.

Taxes for previous years mainly contain the impact of reassessments of tax issues from prior years.

3.8 Earnings per share

Earnings per share

in € millions	2021	2020
Net income (loss)	775	-419
Net income (loss) attributable to shareholders of the parent company	756	-428
Earnings attributable to common shares	566	-323
Earnings attributable to common non-voting shares	190	-105
Average number of common shares issued in millions	500	500
Average number of common non-voting shares issued in millions	166	166
Earnings per common share (basic/diluted, in €)	**1.13**	**-0.65**
Earnings per common non-voting share (basic/diluted, in €)	**1.14**	**-0.64**

There were no dilutive items as at December 31, 2021, or in the prior year. Diluted earnings per share equal basic earnings per share.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

The carrying amounts of goodwill allocated to the groups of cash-generating units to which goodwill has been allocated were EUR 70 m for the Automotive Technologies segment (December 31, 2020: EUR 70 m), EUR 76 m for the Automotive Aftermarket segment (December 31, 2020: EUR 76 m), and EUR 219 m (December 31, 2020: EUR 211 m) for the Industrial segment as at December 31, 2021.

The impairment test of the segments' goodwill as at December 31, 2021, was performed by comparing the carrying amount of the group of cash-generating units with its recoverable amount. The recoverable amount was at least equal to fair value less costs of disposal and was determined based on unobservable inputs (level 3). In performing the impairment test, the company identified eight cash-generating units based on existing production, sales, and management relationships, as was the case in the prior year. The cash flows used to determine fair value less costs of disposal reflect a detailed forecast for the period up to 2026 for the Industrial and Automotive Aftermarket segments and for the period up to 2035 for the Automotive Technologies segment. This extended detailed forecasting period reflects the transformation the Automotive Technologies segment will be subject to in the coming years as a result of the transition from the internal combustion engine to the electric motor ("Schaeffler Vision Powertrain 2035"). Cash flows beyond these forecasting horizons were determined based on an annual long-term growth rate of 1.0% for all segments (prior year: 0.0% to 1.5%). In light of the coronavirus pandemic, the company reflected the risks inherent in the market environment, term, purchasing power, and currency – expressed in terms of cash flows and discount rate – in deriving the cash flows for the detailed forecast, the long-term growth rate, and the discount rate. Depending on the underlying business and its country of operation, the Schaeffler Group used an assumed pre-tax interest rate of 10.1% (prior year: 10.7%) as the weighted average discount rate for the Automotive Technologies segment and 10.6% (prior year: 10.9%) for the Automotive Aftermarket segment as well as 10.0% (prior year: 9.9%) for the Industrial segment. This corresponds to a post-tax interest rate of 7.5% (prior year: 7.4%) for the Automotive Technologies segment and 8.2% (prior year: 8.4%) for the Automotive Aftermarket segment as well as 7.6% (prior year: 7.5%) for the Industrial segment.

Based on the assumptions made, the recoverable amount determined for the Automotive Technologies segment of EUR 6,831 m (prior year: EUR 7,230 m) exceeded the carrying amount by EUR 2,576 m (prior year: EUR 2,985 m). This decrease compared to the prior year is the result of a EUR 399 m reduction in the fair value less costs of disposal and reflects – in line with external market expectations for the segment – the conservative detailed Automotive Technologies forecast for the period up to 2035.

This forecast reflects, in particular, the technological transformation and resulting shifts between powertrain types in the automotive industry, capital market participants' market expectations with respect to expected future costs for further restructuring and consolidation measures, as well as, in the short term, the uncertainty in the market due to extensive disruption in global production chains, especially due to shortages in the supply of raw materials, as well as faltering logistics chains. In the Automotive Aftermarket segment, the recoverable amount of EUR 1,172 m (prior year: EUR 896 m) exceeded the carrying amount by EUR 536 m (prior year: EUR 472 m). In the Industrial segment, the recoverable amount of EUR 5,362 m (prior year: EUR 4,449 m) exceeded the carrying amount by EUR 3,369 m (prior year: EUR 2,795 m).

If the post-tax WACC was increased to 11.9% in the Automotive Technologies segment, 13.7% in the Automotive Aftermarket segment, and 16.9% in the Industrial segment, the recoverable amount would continue to equal the carrying amount of the group of cash-generating units or the relevant cash-generating unit. A reduction in the long-term growth rate to 0.0% for the Automotive Technologies, Automotive Aftermarket, and Industrial segments would not result in an impairment of the carrying amount of the group of cash-generating units or the relevant cash-generating unit. If the amount of sustainable EBIT used in the calculation was decreased by 92.4% for the Automotive Technologies segment, 53.5% for the Automotive Aftermarket segment, and 71.6% for the Industrial segment, the recoverable amount would equal the carrying amount of the group of cash-generating units or the relevant cash-generating unit.

As at December 31, 2021, internally generated intangible assets consisted largely of development costs with a net carrying amount of EUR 24 m (prior year: EUR 28 m) and included EUR 7 m in assets not yet available for use (prior year: EUR 0 m).

As at December 31, 2021, purchased intangible assets included EUR 47 m (prior year: EUR 34 m) in assets representing software applications not yet available for use that were not yet subject to amortization.

Amortization and impairments of intangible assets totaled EUR 26 m (prior year: EUR 33 m) and were recognized in the following line items in the consolidated income statement: Cost of sales EUR 17 m (prior year: EUR 20 m), research and development expenses EUR 4 m (prior year: EUR 5 m), selling expenses EUR 1 m (prior year: EUR 1 m), and administrative expenses EUR 4 m (prior year: EUR 7 m).

Intangible assets

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2020	**606**	**1,089**	**329**	**2,024**
Additions	0	20	0	20
Disposals	0	-14	0	-14
Transfers	0	5	0	5
Foreign currency translation	0	-4	-2	-6
Balance as at December 31, 2020	**606**	**1,095**	**327**	**2,028**
Balance as at January 01, 2021	**606**	**1,095**	**327**	**2,028**
Additions from initial consolidation of subsidiaries	8	9	0	17
Additions	0	29	7	35
Disposals	0	-6	-3	-9
Transfers	0	1	0	1
Foreign currency translation	0	3	2	5
Balance as at December 31, 2021	**614**	**1,131**	**333**	**2,078**
Accumulated amortization and impairment losses				
Balance as at January 01, 2020	**0**	**1,008**	**288**	**1,296**
Amortization	0	17	12	29
Impairment losses	249	3	0	252
Disposals	0	-14	0	-14
Foreign currency translation	0	-3	-2	-5
Balance as at December 31, 2020	**249**	**1,011**	**298**	**1,558**
Balance as at January 01, 2021	**249**	**1,011**	**298**	**1,558**
Amortization	0	15	12	27
Disposals	0	-6	-3	-9
Foreign currency translation	0	3	2	5
Balance as at December 31, 2021	**249**	**1,023**	**309**	**1,581**
Net carrying amounts				
As at January 01, 2020	**606**	**81**	**41**	**728**
As at December 31, 2020	**357**	**84**	**29**	**470**
As at January 01, 2021	**357**	**84**	**29**	**470**
As at December 31, 2021	**365**	**108**	**24**	**497**

4.2 Right-of-use assets under leases

Right-of-use assets under leases

in € millions	Land, land rights, and buildings	Vehicles	Other equipment	Total
Historical cost				
Balance as at January 01, 2020	**172**	**61**	**14**	**247**
Additions	48	19	3	70
Disposals	-27	-11	-1	-39
Foreign currency translation	-6	0	-1	-7
Balance as at December 31, 2020	**187**	**69**	**15**	**271**
Balance as at January 01, 2021	**187**	**69**	**15**	**271**
Additions	59	21	3	83
Disposals	-11	-16	-2	-29
Foreign currency translation	5	1	0	6
Balance as at December 31, 2021	**240**	**75**	**16**	**331**
Accumulated depreciation and impairment losses				
Balance as at January 01, 2020	**31**	**19**	**4**	**54**
Depreciation	34	20	5	59
Disposals	-11	-10	-1	-22
Foreign currency translation	-2	0	-1	-3
Balance as at December 31, 2020	**52**	**29**	**7**	**88**
Balance as at January 01, 2021	**52**	**29**	**7**	**88**
Depreciation	35	20	4	59
Disposals	-10	-14	-2	-27
Foreign currency translation	2	1	0	3
Balance as at December 31, 2021	**79**	**36**	**9**	**123**
Net carrying amounts				
As at January 01, 2020	**141**	**42**	**10**	**193**
As at December 31, 2020	**135**	**40**	**8**	**183**
As at January 01, 2021	**135**	**40**	**8**	**183**
As at December 31, 2021	**161**	**39**	**7**	**208**

As at December 31, 2021, other equipment consisted of EUR 4 m (prior year: EUR 4 m) in production equipment, EUR 3 m (prior year: EUR 3 m) in technical equipment and machinery, and EUR 0 m (prior year: EUR 1 m) in office equipment.

Liabilities related to lease agreements capitalized are due as follows:

Lease liabilities

	12/31/2021		12/31/2020	
in € millions	Discounted	Undis-counted	Discounted	Undis-counted
Less than one year	52	54	50	52
Between one and five years	95	103	83	89
More than five years	65	69	53	57
Total	**211**	**225**	**186**	**198**

The impact on the consolidated income statement and the consolidated statement of cash flows is as follows:

Impact on consolidated income statement

in € millions	2021	2020
Depreciation	60	59
Interest expense	3	3
Expense relating to short-term leases (lease term of up to 12 months)	5	5
Expense relating to leases of low-value assets	2	3
Variable lease payments	1	0

Impact on consolidated statement of cash flows

in € millions	2021	2020
Variable lease payments, short-term leases (term of up to 12 months), leases of low-value assets recognized in EBIT	7	8
Principal repayments on lease liabilities	59	60
Interest paid	3	3

Future cash outflows for lease payments not capitalized are as follows:

Future lease payments not capitalized

in € millions	12/31/2021	12/31/2020
Expense for variable lease payments subsequent to the reporting date	0	1
Total	**0**	**1**

The Schaeffler Group recognizes the exercise of extension options included in real estate leases only if such exercise is reasonably certain. Exercise is reassessed upon the occurrence of significant events or changes in circumstances that might lead to a change in assessment.

4.3 Property, plant and equipment

Property, plant and equipment

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2020	**2,834**	**9,974**	**1,223**	**957**	**14,988**
Additions from initial consolidation of subsidiaries	2	0	0	0	2
Additions	41	177	48	353	618
Disposals	-3	-192	-47	-18	-260
Transfers	134	425	94	-658	-5
Reclassification to IFRS 5	-11	0	0	0	-11
Foreign currency translation	-71	-307	-26	-30	-434
Balance as at December 31, 2020	**2,926**	**10,077**	**1,292**	**605**	**14,900**
Balance as at January 01, 2021	**2,926**	**10,077**	**1,292**	**605**	**14,900**
Additions from initial consolidation of subsidiaries	0	0	0	0	1
Disposals of subsidiaries	-2	0	0	0	-2
Additions	14	196	51	387	648
Disposals	-11	-129	-47	-5	-191
Transfers	24	302	23	-350	-1
Reclassification to IFRS 5	-25	-66	-1	-3	-94
Foreign currency translation	70	314	18	21	423
Balance as at December 31, 2021	**2,997**	**10,695**	**1,337**	**654**	**15,683**

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Accumulated depreciation and impairment losses					
Balance as at January 01, 2020	**1,527**	**7,192**	**911**	**3**	**9,634**
Depreciation	79	700	99	0	878
Impairment losses	0	28	1	12	41
Disposals	-2	-182	-45	-11	-240
Transfers	0	-1	1	0	0
Reclassification to IFRS 5	-3	0	0	0	-3
Foreign currency translation	-32	-222	-19	-1	-274
Balance as at December 31, 2020	**1,569**	**7,515**	**948**	**4**	**10,035**
Balance as at January 01, 2021	**1,569**	**7,515**	**948**	**4**	**10,035**
Additions from initial consolidation of subsidiaries	0	0	0	0	1
Depreciation	82	685	99	0	865
Impairment losses	3	4	0	8	15
Disposals	-9	-124	-46	0	-178
Transfers	1	-1	0	0	0
Reclassification to IFRS 5	-17	-45	-1	0	-63
Foreign currency translation	28	218	14	1	260
Balance as at December 31, 2021	**1,656**	**8,253**	**1,014**	**13**	**10,935**
Net carrying amounts					
As at January 01, 2020	**1,307**	**2,782**	**312**	**954**	**5,355**
As at December 31, 2020	**1,358**	**2,562**	**344**	**601**	**4,865**
As at January 01, 2021	**1,358**	**2,562**	**344**	**601**	**4,865**
As at December 31, 2021	**1,342**	**2,441**	**323**	**642**	**4,748**

EUR 8 m (prior year: EUR 40 m) of the impairment losses recognized in the reporting period are included in cost of sales and EUR 7 m (prior year: EUR 1 m) in other expenses. EUR 13 m of these impairments affected the Automotive Technologies division (prior year: EUR 21 m), EUR 1 m the Automotive Aftermarket division (prior year: EUR 0 m), and EUR 1 m (prior year: EUR 20 m) the Industrial division.

The assets impaired represent primarily production-specific equipment that has become obsolete because of canceled orders. They were written down to fair value less costs of disposal, which was mainly determined based on their scrap value (level 2 of the fair value hierarchy in IFRS 13).

As at December 31, 2021, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 147 m (prior year: EUR 141 m).

4.4 Investments in joint ventures and associated companies

Investments in joint ventures and associated companies consisted of EUR 68 m (prior year: EUR 107 m) in investments in joint ventures and EUR 3 m (prior year: EUR 3 m) in investments in associated companies.

The most significant joint venture is Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach, which was established in 2018.

Schaeffler Paravan Technologie GmbH & Co. KG is jointly controlled by its two limited partners, Schaeffler Technologies AG & Co. KG and Arnold Verwaltungs GmbH. The objective of the company is the further development of the drive-by-wire technology and the development and sale of mobility systems. 90% of its shares are held by Schaeffler Technologies AG & Co. KG and Arnold Verwaltungs GmbH holds a 10% interest. The joint venture's two shareholders have joint control because decisions about the relevant activities require the unanimous consent of both shareholders. The general partner of Schaeffler Paravan Technologie GmbH & Co. KG is Schaeffler Paravan Management GmbH (no shareholdings). The following summarized financial information can be derived from the financial statements of Schaeffler Paravan Technologie GmbH & Co. KG for 2021 prepared in accordance with IFRS. The summarized financial information is shown at 100%.

Schaeffler Paravan Technologie GmbH & Co. KG

in € millions	2021	2020
Current assets	7	5
• Liquid funds	2	1
Non-current assets	163	170
Total assets	**170**	**175**
Current liabilities	7	46
• Current financial liabilities	0	42
Non-current liabilities	83	1
• Non-current financial liabilities	81	0
Total liabilities	**90**	**47**
Revenue	8	7
Depreciation and amortization	-11	-10
Earnings before income taxes	-48	-37
Other comprehensive income	0	0
Income taxes	0	0
Total comprehensive income (loss) after taxes	**-48**	**-37**
Net assets	**80**	**128**
Proportionate share of net assets	72	115
Elimination of proportionate share of gain on contribution in kind	-8	-8
Carrying amount of investment	**64**	**107**

The joint venture with Beijing Advanced Material Technology Co. Ltd., China, Schaeffler-Cars Railway Technology Co. Ltd., commenced operations in 2021. Its activities consist of developing new business areas in the field of industrial applications in the Chinese market.

The impact of other equity-accounted joint ventures and of associated companies taken as a whole on the Schaeffler Group's net assets, financial position, and earnings as at the end of the reporting period was insignificant.

In 2019, the company entered into a contractual agreement with a joint venture regarding a convertible loan. In connection with the loan, there are put options outstanding on shares in the joint venture as well as contractually agreed rights to participate in decision-making. Dividend payments are contractually excluded until December 31, 2023.

4.5 Deferred tax assets and liabilities and income tax receivables and payables

Deferred tax assets and liabilities

The following items gave rise to recognized deferred tax assets and liabilities:

Deferred tax assets and liabilities

in € millions	12/31/2020 Net	Recognized in profit or loss	Other	Recognized in other comprehen-sive income	12/31/2021 Net	Deferred tax assets	Deferred tax liabilities
Intangible assets	-10	13	-1	0	2	64	-62
Property, plant and equipment	-107	24	0	0	-83	109	-192
Financial assets	2	-20	0	-2	-20	42	-62
Inventories	111	30	0	0	141	163	-22
Trade receivables and other assets	-230	76	0	10	-144	107	-251
Provisions for pensions and similar obligations	531	13	0	-120	424	453	-29
Other provisions and other liabilities	262	-57	0	21	226	289	-63
Interest- and loss carry-forwards	205	-50	0	0	155	155	0
Outside basis differences	-30	2	0	0	-28	0	-28
Deferred taxes (gross)	**734**	**31**	**-1**	**-91**	**673**	**1,382**	**-709**
Netting						-540	540
Deferred taxes (net)	**734**	**31**	**-1**	**-91**	**673**	**842**	**-169**

As at the reporting date, no deferred tax assets were recognized on EUR 3 m (prior year: EUR 95 m) in interest carry-forwards and tax credits.

As at December 31, 2021, the Schaeffler Group had gross loss carry-forwards of EUR 565 m (prior year: EUR 706 m) for corporation tax and EUR 338 m (prior year: EUR 512 m) for trade tax, including EUR 156 m (prior year: EUR 140 m) in corporation tax losses and EUR 44 m (prior year: EUR 35 m) in trade tax losses for which no deferred taxes have been recognized.

EUR 87 m (prior year: EUR 65 m) of the corporation tax loss carry-forwards on which no deferred tax assets were recognized can be carried forward for a limited period. The interest carry-forwards can be utilized indefinitely.

No deferred tax assets were recognized on EUR 77 m (prior year: EUR 63 m) in temporary differences, as it is not considered probable that they will be utilized in the future.

No deferred taxes have been recognized on EUR 2,842 m (prior year: EUR 3,271 m) in undistributed profits of certain subsidiaries, as the company intends to continually reinvest these profits rather than distributing them.

As at the end of the reporting period, certain group companies that have suffered losses in 2020 or 2021 have recognized EUR 143 m (prior year: EUR 190 m) in net deferred tax assets on interest and loss carry-forwards. Deferred tax assets were largely assessed as probable of being realized since the losses largely arose from one-time items as a result of exceptional restructuring measures in 2020 and since sufficient taxable profits are expected in the future, particularly due to the positive impact of the restructurings.

As at December 31, 2021, the net amount of deferred tax recognized in accumulated other comprehensive income was EUR 336 m (prior year: EUR 427 m). The tax included in other comprehensive income is as follows:

Income tax recognized in other comprehensive income

	2021			2020		
in € millions	Before tax	Tax	After tax	Before tax	Tax	After tax
Items that will not be reclassified to profit or loss						
Remeasurement of net defined benefit liability	413	-120	293	-141	40	-101
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**413**	**-120**	**293**	**-141**	**40**	**-101**
Items that have been or may be reclassified subsequently to profit or loss						
Foreign currency translation differences for foreign operations	315	0	315	-308	0	-308
Effective portion of changes in fair value of cash flow hedges	-100	29	-71	60	-17	43
Total other comprehensive income (loss) that has been or may be subsequently reclassified to profit or loss	**215**	**29**	**243**	**-247**	**-17**	**-265**
Total other comprehensive income (loss)	**627**	**-91**	**536**	**-389**	**23**	**-366**

Income tax receivables and payables

As at December 31, 2021, income tax receivables amounted to EUR 55 m (prior year: EUR 62 m), including non-current balances of EUR 9 m (prior year: EUR 1 m).

As at December 31, 2021, income tax payables amounted to EUR 153 m (prior year: EUR 134 m), including non-current balances of EUR 36 m (prior year: EUR 10 m). In current or future tax audits, the fiscal authorities and the Schaeffler Group may arrive at different conclusions regarding tax laws or tax-related facts.

The fiscal authorities may change original tax assessments, potentially increasing the Schaeffler Group's tax charges. Identifiable tax audit-related risks have been recognized as income tax payables in the Schaeffler Group's consolidated financial statements.

4.6 Inventories

Inventories

in € millions	12/31/2021	12/31/2020
Raw materials and supplies	553	407
Work in progress	628	506
Finished goods and merchandise	1,310	965
Advance payments	4	3
Total	**2,495**	**1,881**

EUR 10,202 m (prior year: EUR 9,480 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2021.

The impairment allowance on inventories amounted to EUR 307 m (prior year: EUR 304 m) as at December 31, 2021.

4.7 Trade receivables

Trade receivables

in € millions	12/31/2021	12/31/2020
Trade receivables (gross)	**2,297**	**2,199**
Impairment allowances	-23	-39
Trade receivables (net)	**2,274**	**2,160**

Movements in impairment allowances on these trade receivables can be reconciled as follows:

Impairment allowances on trade receivables

in € millions	2021	2020
Impairment allowances as at January 01	**-39**	**-27**
Additions	-7	-18
Allowances used to cover write-offs	12	0
Reversals	11	6
Impairment allowances as at December 31	**-23**	**-39**

Aging of trade receivables

in € millions		12/31/2021	12/31/2020
Trade receivables (gross)		**2,297**	**2,199**
Not past due		**2,152**	**2,061**
Past due	up to 60 days	**100**	**86**
	61–120 days	**14**	**9**
	121–180 days	**6**	**4**
	181–360 days	**7**	**11**
	› 360 days	**17**	**28**

As at December 31, 2021, trade receivables outstanding with a carrying amount of EUR 92 m (prior year: EUR 127 m) had been sold under receivable sale programs.

More on the Schaeffler Group's exposure to credit, currency, and liquidity risk in Note 4.16

4.8 Other financial assets and other assets

Other financial assets (non-current/current)

			12/31/2021			12/31/2020
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other investments	43	0	43	36	0	36
Derivative financial assets	1	23	24	5	72	77
Miscellaneous other financial assets	165	56	221	37	110	147
Total	**209**	**80**	**289**	**77**	**182**	**259**

Non-current other investments included unconsolidated equity investments (shares in incorporated companies and cooperatives).

As at December 31, 2021, **current derivative financial assets** mainly comprised fair values of derivatives the Schaeffler Group uses to hedge currency risk.

Non-current miscellaneous other financial assets included loans receivable from joint ventures, marketable securities, and assets held by trustees.

In the prior year, **current miscellaneous other financial assets** comprised loans receivable from joint ventures.

More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.16

Other assets (non-current/current)

			12/31/2021			12/31/2020
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension assets	118	0	118	64	0	64
Tax receivables	26	236	262	1	199	200
Miscellaneous other assets	101	88	189	55	91	146
Total	**244**	**324**	**568**	**121**	**290**	**411**

Tax receivables consisted predominantly of value-added tax refunds receivable.

The majority of **miscellaneous other assets** represented the current and non-current portions of prepaid assets and deferred charges. EUR 40 m in refundable excess social tax paid in the past in Brazil were included in miscellaneous other assets as well. In a ruling issued on May 13, 2021, in a case regarding the tax base for the calculation of social tax, the Brazilian federal superior court decided in favor of the tax payer. As a result of this ruling, excess tax paid in the past as well as the related interest can be offset against other tax payment obligations in future. The company has also recognized tax credits receivable in connection with follow-up litigation dealing with the same issue for which a ruling is still outstanding. The resulting receivables were recognized in the non-current and current portions of miscellaneous other assets.

4.9 Cash and cash equivalents

As at December 31, 2021, cash and cash equivalents consisted primarily of bank balances and short-term deposits.

At the end of the reporting period, cash and cash equivalents include EUR 221 m (prior year: EUR 253 m) held by subsidiaries in Argentina, Brazil, Chile, Colombia, India, Indonesia, Peru, the Philippines, Serbia, South Africa, South Korea, Thailand, Ukraine, Vietnam, and other countries. These subsidiaries are subject to exchange restrictions or other legal or contractual restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

4.10 Assets held for sale and liabilities associated with assets held for sale

On August 3, 2021, the Schaeffler Group signed an agreement to sell the global chain drive business of the Automotive Technologies division to private equity fund Lenbach Equity Opportunities II. The related assets and liabilities held for sale at the locations in the Europe, Americas, Greater China, and Asia/Pacific regions will be transferred to a new group of legal entities and will then be sold. The carrying amount of the disposal group currently amounts to EUR 42 m. 560 employees and the previous Schaeffler management team of the business will transfer in order to continue the existing business. The planned disposal has resulted in an impairment of EUR 3 m as at December 31, 2021, that has been recognized in other expenses. The composition of the disposal group is subject to future change resulting from ongoing operations until the transaction closes, which is expected to occur in the first half of 2022. The purchase price will be paid in fixed and variable payments by the acquirer and will be partly financed by Schaeffler with related liens and protective rights contractually agreed. Schaeffler expects the closing of the transaction to result in elimination of the assets and liabilities from consolidation since the financing of the acquirer is considered secure and the continued existence of the business ensured as at the reporting date.

Disposal group chain drive business

in € millions	12/31/2021
Property, plant and equipment	27
Inventories	17
Trade receivables	27
Assets held for sale	**72**
Pensions	5
Trade payables	23
Other financial liabilities	1
Other liabilities	1
Liabilities associated with assets held for sale	**30**

As at December 31, 2021, the company had recognized additional assets held for sale totaling EUR 5 m (prior year: EUR 8 m) in connection with the planned disposal of real estate and machinery.

4.11 Shareholders' equity

Shareholders' equity

in € millions	12/31/2021	12/31/2020
Share capital	666	666
Capital reserves	2,348	2,348
Other reserves	988	393
Accumulated other comprehensive income (loss)	-949	-1,479
Equity attributable to shareholders of the parent company	**3,053**	**1,928**
Non-controlling interests	112	93
Total shareholders' equity	**3,165**	**2,022**

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 remained unchanged at EUR 2,348 m as at December 31, 2021.

The change in **other reserves** in 2021 was largely attributable to consolidated net income and dividends.

Distributions to shareholders are limited to Schaeffler AG's retained earnings as determined in accordance with German commercial law. For 2021, a dividend of EUR 328 m will be proposed to the Schaeffler AG annual general meeting. EUR 83 m of these dividends relate to the common non-voting shares. This represents a dividend of EUR 0.50 (prior year: EUR 0.25) per common non-voting share and EUR 0.49 (prior year: EUR 0.24) per common share. As the proposed dividend is subject to shareholder approval at the annual general meeting, it has not been recognized as a liability in these consolidated financial statements.

Accumulated other comprehensive income consisted of the impact of currency translation, changes in the fair value of financial instruments designated as hedging instruments, and remeasurements of pensions and similar obligations. EUR 10 m (prior year: EUR 4 m) in losses were reclassified from the translation reserve to profit and loss during the reporting period.

As at December 31, 2021, non-controlling interests primarily represented interests in the shareholders' equity of Schaeffler India Ltd.

4.12 Current and non-current financial debt

Financial debt (current/non-current)

	12/31/2021			12/31/2020		
in € millions	Due in up to 1 year	Due in more than 1 year	Total	Due in up to 1 year	Due in more than 1 year	Total
Bonds	544	2,936	3,480	0	3,476	3,476
Schuldschein loans	0	297	297	0	554	554
Revolving Credit Facility	0	-1	-1	0	-3	-3
Commercial paper	0	0	0	30	0	30
Other financial debt	0	0	0	13	0	13
Total	**545**	**3,231**	**3,776**	**43**	**4,028**	**4,071**

The decrease in financial debt compared to December 31, 2020, was mainly due to the prepayment of EUR 259 m in variable-interest Schuldschein tranches originally due in May 2023.

As at December 31, 2021, the group's debt consisted of five bond series with a principal of EUR 3.5 bn and Schuldschein loans with a principal of EUR 298 m. Additionally, the Schaeffler Group had a committed Revolving Credit Facility of EUR 1.8 bn with a due date of September 30, 2024. The interest rate is Euribor +0.80%.

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).

The Schaeffler Group had the following bonds outstanding as at year-end:

Schaeffler Group bonds

		12/31/2021	12/31/2020	12/31/2021	12/31/2020		
ISIN	Currency	Principal in € millions		Carrying amount in € millions		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.

The differences between principal and carrying amount are the result of accounting for these instruments at amortized cost calculated using the effective interest method. The carrying amount of the revolving credit facility consisted of unamortized transaction costs.

An additional EUR 41 m (prior year: EUR 41 m) in interest accrued on the bonds up to December 31, 2021, were reported in other financial liabilities (see Note 4.15).

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the leverage covenant is not met, which would result in the debt becoming due immediately. As in the prior year, the company has complied with the leverage covenant throughout 2021 as stipulated in the debt agreements.

4.13 Provisions for pensions and similar obligations

The post-employment benefits the Schaeffler Group provides to its employees include both defined benefit plans and defined contribution plans. While defined contribution plans generally entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are recognized in the consolidated statement of financial position. The provisions also include a minor amount of obligations similar to pensions.

Defined benefit plans

The Schaeffler Group's defined benefit plans include pension plans, termination payments mandatorily payable upon retirement regardless of the reason employment is terminated, and other post-employment benefits. The company's pension obligations primarily relate to Germany, the U.S., and the United Kingdom, with the majority of the obligations attributable to Germany.

Germany

In Germany, the company grants pension benefits largely in the form of pension commitments based on pension units as well as under deferred compensation arrangements.

For the significant pension plans, pension benefits in the form of pension units largely result from the Schaeffler Company Pension Scheme ("Schaeffler Versorgungsordnung") and similar schemes that base the amount of the pension unit on eligible income and also contain a minimum guarantee. When the Schaeffler Company Pension Scheme was introduced in 2006, the other pension schemes in Germany were closed to new entrants. Benefits are always paid on an annuity basis. The pension obligations arising from these pension commitments are financed by provisions. Pension benefits are paid out of cash flows from operating activities.

In addition, employees have various deferred compensation arrangements to choose from. Some Schaeffler Group subsidiaries offer their staff a company pension model under which the employees contribute a portion of their pre-tax salary in return for a pension commitment. The compensation deferred is invested in equity, fixed-income, and money market funds under a lifecycle model, i.e., plan assets are moved to lower-risk asset classes as the beneficiary's age increases. In addition, the Schaeffler Group guarantees a minimum annual return. As benefits are paid in up to five annual installments starting when the beneficiary reaches retirement age, longevity risk is minimized. Benefit obligations resulting from the deferral of pre-tax compensation are covered by assets held separately under a contractual trust agreement (CTA).

U.S. and United Kingdom

Additional significant defined benefit pension plans cover employees in the U.S. and in the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2021, approx. 99% (prior year: 95%) of pension obligations in the U.S. and approx. 137% (prior year: 123%) of pension obligations in the United Kingdom were covered by plan assets. These pension plans were closed to new entrants in 2006 (U.S.) and 2009 (United Kingdom) and replaced with defined contribution plans. As a result, employees can no longer earn additional defined benefits.

Net defined benefit obligation

The company's obligations under defined benefit plans and the related plan assets are presented as follows in the consolidated statement of financial position as at December 31, 2021:

Amounts recognized in the statement of financial position for pensions and similar obligations

	12/31/2021					12/31/2020				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-2,383	-13	-1	-57	-2,454	-2,704	-14	-1	-81	-2,800
Pension asset (plan assets net of related liabilities)	20	11	86	0	117	1	2	54	7	64
Net defined benefit liability	**-2,363**	**-2**	**85**	**-57**	**-2,337**	**-2,703**	**-12**	**53**	**-74**	**-2,736**

At the end of the reporting period, the defined benefit obligations and related plan assets amounted to the following:

Analysis of net defined benefit liability

					12/31/2021					12/31/2020
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Present value of defined benefit obligations (active members)	-1,464	-53	0	-183	-1,700	-1,732	-59	0	-205	-1,996
Present value of defined benefit obligations (deferred members)	-318	-29	-135	-6	-488	-296	-29	-151	-5	-481
Present value of defined benefit obligations (pensioners)	-842	-137	-95	-33	-1,107	-904	-129	-80	-29	-1,142
Present value of defined benefit obligations (total)	**-2,624**	**-219**	**-230**	**-222**	**-3,295**	**-2,932**	**-217**	**-231**	**-239**	**-3,619**
Fair value of plan assets	261	217	315	165	958	229	205	284	165	883
Net pension obligation recognized in the statement of financial position	-2,363	-2	85	-57	-2,337	-2,703	-12	53	-74	-2,736
Net defined benefit liability	**-2,363**	**-2**	**85**	**-57**	**-2,337**	**-2,703**	**-12**	**53**	**-74**	**-2,736**

Movements in the net defined pension benefit liability in 2021 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31

					2021					2020
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/ asset (+) as at January 01	**-2,703**	**-12**	**53**	**-74**	**-2,736**	**-2,538**	**-4**	**45**	**-77**	**-2,574**
Benefits paid	63	0	0	8	71	62	1	0	6	69
Service cost	-91	0	0	0	-91	-78	0	0	-8	-86
Net interest on net defined benefit liability	-19	0	1	0	-18	-23	0	1	-1	-23
Employer contributions	5	0	0	12	17	8	0	0	9	17
Employee contributions	-1	0	0	0	-1	0	0	0	0	0
Transfers in/out	0	0	0	0	0	7	0	0	0	7
Remeasurement of net defined benefit liability	380	11	27	0	418	-141	-9	9	-4	-145
Impact of asset ceiling	0	0	0	-5	-5	0	0	0	0	0
Business combinations/disposals of subsidiaries	1	0	0	0	1	0	0	0	0	0
Reclassification to presentation under IFRS 5	2	0	0	3	5	0	0	0	0	0
Foreign currency translation	0	-1	4	-1	2	0	0	-2	1	-1
Net defined benefit liability (-)/ asset (+) as at December 31	**-2,363**	**-2**	**85**	**-57**	**-2,337**	**-2,703**	**-12**	**53**	**-74**	**-2,736**

Movements in defined benefit obligation

The opening and closing balances of the present value of the defined benefit obligation as at the end of the reporting period can be reconciled as follows:

Reconciliation of present value of defined benefit obligations January 01/December 31

					2021					2020
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-2,932**	**-217**	**-231**	**-239**	**-3,619**	**-2,756**	**-219**	**-222**	**-243**	**-3,440**
Benefits paid	69	11	8	18	106	67	12	9	13	101
Current service cost	-92	0	0	-3	-95	-100	0	0	-13	-113
Past service cost	1	0	0	3	4	20	0	0	5	25
Interest cost	-21	-5	-3	-4	-33	-25	-7	-4	-5	-41
Employee contributions	-11	0	0	0	-11	-11	0	0	0	-11
Transfers in/out	0	0	0	0	0	7	0	0	0	7
Settlements paid	0	0	0	0	0	0	0	0	0	0
Gains (+)/losses (-) on settlements	0	0	0	0	0	0	0	0	0	0
Gains (+)/losses (-) – changes in financial assumptions	361	13	12	13	399	-159	-21	-28	-6	-214
Gains (+)/losses (-) – changes in demographic assumptions	0	-1	-4	1	-4	0	2	2	3	7
Gains (+)/losses (-) – experience adjustments	-2	-2	4	-9	-9	25	-2	0	0	23
Business combinations/disposals of subsidiaries	1	0	0	0	1	0	0	0	0	0
Reclassification to presentation under IFRS 5	2	0	0	3	5	0	0	0	0	0
Foreign currency translation	0	-18	-16	-5	-39	0	18	12	7	37
Present value of defined benefit obligations as at December 31	**-2,624**	**-219**	**-230**	**-222**	**-3,295**	**-2,932**	**-217**	**-231**	**-239**	**-3,619**

Movements in and types of plan assets

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

Reconciliation of fair value of plan assets January 01/December 31

					2021					2020
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**229**	**205**	**284**	**165**	**883**	**218**	**215**	**267**	**166**	**866**
Benefits paid	-6	-11	-8	-10	-35	-5	-11	-9	-7	-32
Interest income on plan assets	2	5	4	4	15	2	7	5	4	18
Employee contributions	10	0	0	0	10	11	0	0	0	11
Employer contributions	5	0	0	12	17	10	0	0	9	19
Impact of asset ceiling	0	0	0	-5	-5	0	0	0	0	0
Transfers in/out	0	0	0	0	0	0	0	0	0	0
Return on plan assets excluding interest income	21	1	15	-5	32	-7	12	35	-1	39
Foreign currency translation	0	17	20	4	41	0	-18	-14	-6	-38
Fair value of plan assets as at December 31	**261**	**217**	**315**	**165**	**958**	**229**	**205**	**284**	**165**	**883**

The Schaeffler Group plans to contribute EUR 12 m (prior year: EUR 21 m) to plan assets in 2022.

Plan assets consisted of the following:

Classes of plan assets

	12/31/2021					12/31/2020				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Equity instruments	130	22	81	5	238	105	21	75	4	205
Debt instruments	49	195	57	84	385	46	184	55	81	366
Real estate	0	0	33	4	37	0	0	26	4	30
Cash	53	0	1	1	55	51	0	1	1	53
(Reimbursement) insurance policies	29	0	0	9	38	27	0	0	7	34
Mixed funds	0	0	143	50	193	0	0	127	57	184
Other	0	0	0	12	12	0	0	0	11	11
Total	**261**	**217**	**315**	**165**	**958**	**229**	**205**	**284**	**165**	**883**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments. Except for amounts related to real estate and reimbursement insurance policies, all amounts shown above represent market prices quoted in an active market.

Information on changes in the various classes of plan assets in Germany is provided by the fund manager in the form of performance reports and is regularly reviewed by investment committees. The investment strategy follows a lifecycle model: Plan assets are moved to lower-risk asset classes as the beneficiary's age increases.

Asset-liability studies are prepared for the funded defined benefit plans in the United Kingdom and in the U.S. at regular intervals, and the investment policy of each fund is based on the applicable study and any local legal requirements.

Comprehensive income

The following summarizes the various amounts recognized in comprehensive income for defined benefit plans:

Comprehensive income on defined benefit pension plans

					2021					2020
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Current service cost	92	0	0	3	95	100	0	0	13	113
Past service cost	-1	0	0	-3	-4	-20	0	0	-5	-25
• plan amendments	-1	0	0	0	-1	0	0	0	0	0
• curtailments	0	0	0	-3	-3	-20	0	0	-5	-25
Service cost	**91**	**0**	**0**	**0**	**91**	**80**	**0**	**0**	**8**	**88**
Interest cost	21	5	3	4	33	25	7	4	5	41
Interest income	-2	-5	-4	-4	-15	-2	-7	-5	-4	-18
Net interest on net defined benefit liability/asset	**19**	**0**	**-1**	**0**	**18**	**23**	**0**	**-1**	**1**	**23**
Gains (-)/losses (+) – changes in financial assumptions	-361	-13	-12	-13	-399	159	21	28	6	214
Gains (-)/losses (+) – changes in demographic assumptions	0	1	4	-1	4	0	-2	-2	-3	-7
Gains (-)/losses (+) – experience adjustments	2	2	-4	9	9	-25	1	0	0	-24
Return on plan assets excluding interest income	-21	-1	-15	5	-32	7	-12	-35	1	-39
Impact of asset ceiling	0	0	0	5	5	0	0	0	0	0
Other adjustments	0	0	0	0	0	0	0	-3	0	-3
Remeasurements of net defined benefit liability/asset	**-380**	**-11**	**-27**	**5**	**-413**	**141**	**8**	**-12**	**4**	**141**
Total comprehensive (income) loss on defined benefit obligations	**-270**	**-11**	**-28**	**5**	**-304**	**244**	**8**	**-13**	**13**	**252**

The curtailment gains represent the impact of measures taken under restructuring programs to downsize the workforce. Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

Net pension expense in the consolidated income statement

					2021					2020
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Cost of sales	51	0	0	7	58	59	0	0	9	68
Research and development expenses	18	0	0	1	19	20	0	0	1	21
Selling expenses	7	0	0	1	8	8	0	0	2	10
Administrative expenses	14	0	0	1	15	13	0	0	1	14
Included in EBIT	**90**	**0**	**0**	**10**	**100**	**100**	**0**	**0**	**13**	**113**
Interest expense	21	5	3	4	33	25	7	4	5	41
Interest income on plan assets	-3	-5	-4	-3	-15	-2	-7	-5	-4	-18
Included in financial result	**18**	**0**	**-1**	**1**	**18**	**23**	**0**	**-1**	**1**	**23**
Total	**108**	**0**	**-1**	**11**	**118**	**123**	**0**	**-1**	**14**	**136**

Maturity profile of defined benefit obligations

The weighted average duration of defined benefit obligations is 19.7 years (prior year: 21.1 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 21.2 years (prior year: 22.5 years), 11.1 years (prior year: 11.9 years), and 19.4 years (prior year: 21.4 years), respectively.

Over the next ten years, the company expects to make the following payments for the defined benefit obligations it has as at year-end:

Payments expected to be made in coming years

in € millions	Payments expected to be made
2022	110
2023	117
2024	123
2025	131
2026	135
2027–2031	679

Actuarial assumptions

At each reporting date, defined benefit obligations are measured based on certain actuarial assumptions.

The assumptions used, in particular discount rates, future salary increases, and future pension increases, are determined separately for each country.

The weighted averages of the principal actuarial assumptions for the Schaeffler Group are as follows:

Actuarial assumptions

					2021					2020
	Germany	U.S.	United Kingdom	Other countries	Total [1]	Germany	U.S.	United Kingdom	Other countries	Total [1]
Discount rate as at December 31	1.3%	2.8%	1.9%	2.6%	1.5%	0.7%	2.3%	1.4%	1.9%	0.9%
Future salary increases	2.8%	n.a. [2]	n.a. [2]	2.9%	2.8%	2.8%	n.a. [2]	n.a. [2]	2.8%	3.2%
Future pension increases	1.8%	0.0%	3.3%	0.0%	1.9%	1.8%	0.0%	3.0%	0.0%	1.7%

[1] Average discount rate for the Schaeffler Group.
[2] The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Mortality assumptions are based on published statistics and country-specific mortality tables. Starting in 2018, the “RICHTTAFELN 2018 G” mortality tables developed by Prof. Dr. Klaus Heubeck and published by HEUBECK-RICHTTAFELN-GmbH are used for the German plans. These tables are generation tables, which specifically include appropriate assumptions to take into account future increases in life expectancy.

Sensitivity analysis

Selecting the assumptions discussed above is key to the calculation of the present value of the defined benefit obligation. The following table shows the sensitivity of the present value of the defined benefit obligation to changes in one of the key assumptions.

Another key parameter in the measurement of the Schaeffler Group’s pension obligations is life expectancy. An increase in life expectancy in the most significant countries by one year would lead to an increase in the present value of the corresponding obligation by EUR 138 m (prior year: EUR 156 m) in Germany, EUR 7 m (prior year: EUR 8 m) in the U.S., and EUR 11 m (prior year: EUR 11 m) in the United Kingdom.

As in the prior year, the above sensitivities were calculated using the same method as for the present value of the pension obligations as at the balance sheet date. The sensitivities presented above do not take into account interaction between assumptions; rather, the analysis assumes that each assumption changes separately. In practice, this would be unusual, as assumptions are frequently correlated.

Risk and risk management

The existing defined benefit plans expose the Schaeffler Group to the usual actuarial risks.

The existing plan assets are managed independently on a decentralized basis in the various countries.

Defined contribution pension plans

In 2021, the Schaeffler Group incurred EUR 35 m (prior year: EUR 34 m) in expenses related to defined contribution plans. At EUR 14 m (prior year: EUR 14 m), the majority of this amount relates to plans in the U.S.

Sensitivity analysis of present value of defined benefit obligation

						2021					2020
in € millions		Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
	Plus 1.0%	-460	-22	-39	-21	-542	-557	-23	-42	-24	-646
Discount rate	Minus 1.0%	648	27	50	25	750	788	28	57	29	902
	Plus 1.0%	51	n.a. [1]	n.a. [1]	14	65	66	n.a. [1]	n.a. [1]	17	83
Future salary increases	Minus 1.0%	-44	n.a. [1]	n.a. [1]	-12	-56	-57	n.a. [1]	n.a. [1]	-14	-71
	Plus 1.0%	237	0	24	3	264	284	0	25	3	312
Future pension increases	Minus 1.0%	-172	0	-21	-2	-195	-205	0	-22	-3	-230

[1] The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

4.14 Provisions

Provisions

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
Balance as at January 01, 2021	**178**	**639**	**142**	**9**	**158**	**1,126**
Additions	68	28	38	5	63	202
Utilization	-31	-283	-74	-2	-31	-421
Reversals	-3	-75	-26	0	-15	-119
Interest expense	-2	0	0	0	0	-2
Foreign currency translation	2	0	3	0	5	10
Balance as at December 31, 2021	**211**	**309**	**83**	**13**	**181**	**796**

Provisions consisted of the following current and non-current portions. Non-current provisions are due in one to five years.

Provisions (non-current/current)

			12/31/2021			12/31/2020
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	144	68	211	109	68	178
Restructuring	95	214	309	365	273	639
Warranties	0	83	83	0	142	142
Other taxes	0	13	13	0	9	9
Other	65	115	181	35	123	158
Total	**304**	**492**	**796**	**510**	**616**	**1,126**

Provisions for employee benefits included EUR 112 m (prior year: EUR 76 m) in provisions for long-time service awards and partial retirement programs primarily classified as non-current. Provisions for employee benefits increased compared to the prior year, mainly due to partial retirement programs concluded in connection with the efficiency programs “RACE” in the Automotive OEM division, “GRIP” in the Automotive Aftermarket division, and “FIT” in the Industrial division. Additionally, the company had provisions of EUR 33 m (prior year: EUR 39 m) for a voluntary severance scheme in South Korea.

Restructuring provisions included EUR 11 m for the reorganization of the indirect functions at various locations under the “Shared Services” initiative for the Europe region. Implementation of these measures is expected to be completed in 2023. In addition, the company has EUR 10 m in restructuring provisions for the program “RACE”. Additionally, the Board of Managing Directors of Schaeffler AG adopted a further package of measures on September 9, 2020, to accelerate the transformation of the Schaeffler Group and strengthen its ability to compete and realize future opportunities for the long term.

As at December 31, 2021, the company has related restructuring provisions of EUR 288 m under the programs “RACE”, “GRIP”, and “FIT”.

Warranty provisions consisted, in particular, of provisions for specific cases for which an outflow of resources within one year is considered probable. The decrease compared to the prior year is due to specific cases within the Automotive Technologies and Industrial divisions.

Other provisions include, inter alia, EUR 6 m (prior year: EUR 16 m) in provisions for interest and penalties related to income taxes, EUR 5 m (prior year: EUR 15 m) for potential third party claims in connection with antitrust proceedings, and EUR 47 m (prior year: EUR 37 m) for legal and litigation risks. EUR 32 m (prior year: EUR 8 m) in provisions for remediating past environmental impacts and rehabilitating commercial land were included as well.

Non-current provisions decreased by EUR 206 m to EUR 304 m (prior year: EUR 510 m), primarily due to reclassifications from restructuring provisions to current restructuring provisions. Particularly the increase in provisions for remediating past environmental impacts and rehabilitating commercial land had an offsetting impact.

Current provisions declined by EUR 124 m to EUR 492 m (prior year: EUR 616 m). The decrease is mainly attributable to EUR 266 m in restructuring provisions utilized in connection with the structural measures adopted by Schaeffler AG’s Board of Managing Directors under the “Roadmap 2025” divisional sub-programs in the third quarter of 2020. In addition, provisions in Germany were adjusted to reflect information current as at the second quarter, resulting in a reversal of EUR 54 m. On the other hand, related additional measures at a European location resulted in an addition of EUR 28 m. In addition, the provision for the set-up of a shared service center started in 2017 was reduced by EUR 13 m. The above reclassifications of restructuring provisions from non-current provisions had an offsetting impact. EUR 74 m in utilization and EUR 26 m in reversals of warranty provisions further decreased current provisions.

4.15 Other financial liabilities and other liabilities

Other financial liabilities (non-current/current)

		12/31/2021			12/31/2020	
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	11	499	510	1	440	442
Derivative financial liabilities	1	95	96	0	34	35
Miscellaneous other financial liabilities	22	130	152	16	118	135
Total	**35**	**724**	**758**	**18**	**593**	**611**

Amounts payable to staff primarily included profit sharing accruals and liabilities for personnel-related measures.

Derivative financial liabilities included forward exchange contracts used to hedge the Schaeffler Group's currency risk. The change was primarily attributable to decreased market values.

Miscellaneous other financial liabilities mainly consisted of payments received from customers for receivables sold under receivable sale programs and accrued interest.

More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.16

Other liabilities (non-current/current)

		12/31/2021			12/31/2020	
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	0	88	88	0	73	73
Social security contributions payable	0	49	49	5	48	53
Advance payments received	0	1	1	0	3	3
Other tax payables	0	120	120	0	101	101
Miscellaneous other liabilities	11	28	39	13	27	40
Total	**11**	**286**	**297**	**18**	**252**	**270**

Amounts payable to staff primarily contained accrued vacation and overtime accounts.

Social security contributions payable consisted mainly of unpaid contributions to social security schemes.

Other tax payables included, in particular, value-added taxes payable and payroll withholding taxes payable.

4.16 Financial instruments

The carrying amounts and fair values of financial instruments by class of the consolidated statement of financial position and by category per IFRS 7.8 are summarized below. Derivatives designated as hedging instruments are shown as well.

Financial instruments by class and category in accordance with IFRS 7.8

in € millions	Category per IFRS 7.8	12/31/2021 Carrying amount	12/31/2021 Fair value	12/31/2020 Carrying amount	12/31/2020 Fair value
Financial assets, by class					
Trade receivables	Amortized cost	2,037	2,037	1,926	1,926
Trade receivables – ABCP program	FVTPL	0	0	87	87
Trade receivables – factoring program	FVTPL	96	96	-	-
Trade receivables – customer receivables and notes receivable available for sale	FVOCI	140	140	147	147
Other financial assets					
• Other investments	FVOCI	36	36	36	36
• Other investments	FVTPL	7	7	0	0
• Marketable securities	FVTPL	28	28	24	24
• Derivatives designated as hedging instruments	n.a.	7	7	54	54
• Derivatives not designated as hedging instruments	FVTPL	17	17	23	23
• Miscellaneous other financial assets	Amortized cost, FVTPL	194	194	123	123
Cash and cash equivalents [1]	Amortized cost, FVTPL	1,822	1,822	1,758	1,758
Financial liabilities, by class					
Financial debt	FLAC	3,776	4,008	4,071	4,301
Trade payables	FLAC	2,068	2,068	1,704	1,704
Refund liabilities	n.a.	274	274	224	224
Lease liabilities [2]	n.a.	210	0	185	0
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	63	63	10	10
• Derivatives not designated as hedging instruments	FVTPL	33	33	25	25
• Miscellaneous other financial liabilities	FLAC	662	662	577	577
Summary by category					
Financial assets at amortized cost (amortized cost)		4,053	4,053	3,407	3,407
Financial assets at fair value through profit or loss (FVTPL)		148	148	534	534
Financial assets at fair value through other comprehensive income (FVOCI)		176	176	183	183
Financial liabilities at amortized cost (FLAC)		6,506	6,738	6,351	6,582
Financial liabilities at fair value through profit or loss (FVTPL)		33	33	25	25

[1] The prior year figure includes EUR 400 m in money market funds categorized as FVTPL.
[2] Disclosure of fair value omitted in accordance with IFRS 7.29 (d).

The carrying amounts of trade receivables, including the receivables available for sale under the factoring program (in the prior year under the ABCP program), as well as other customer receivables and notes receivable available for sale, miscellaneous other financial assets, cash and cash equivalents, trade payables, refund liabilities, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments.

Other investments included the following unconsolidated equity investments representing interests held by the group of less than 20% (shares in incorporated companies and cooperatives):

Unconsolidated equity investments

in € millions	Fair value as at 12/31/2021	Fair value as at 12/31/2020
Investment in SupplyOn AG	4.8	4.8
Investment in Gemeinschaftskraftwerk GmbH	1.7	1.7
Investment in IAV GmbH Ingenieur-gesellschaft Auto und Verkehr	28.5	28.5
Miscellaneous other equity investments	0.6	0.6
Total equity investments designated as at FVOCI	**35.6**	**35.6**
Leadrive Technology (Shanghai) Co. Ltd.	6.9	0.0
Clean H2 Infra Fund S.L.P.	0.3	0.0
Total equity investments designated as at FVTPL	**7.2**	**0.0**
Total	**42.8**	**35.6**

Unconsolidated equity investments are generally of a strategic long-term nature. For measurement purposes, these investments were designated, at initial recognition, as either at fair value through other comprehensive income or at fair value through profit or loss. Fair value is partly measured by applying an EBIT multiple methodology using sector- and size-specific EBIT multiples. All inputs are observable in the market. There were no partial disposals of such equity investments in 2021, and no accumulated gains or losses were reclassified within equity.

Marketable securities consist primarily of debt instruments in the form of money market fund units.

Hedge accounting is only applied to derivatives designated as hedges of currency risk in cash flow hedges. The Schaeffler Group uses cross-currency swaps and forward exchange contracts as hedging instruments here.

Please refer to the notes on the various balance sheet line items for the amount of financial assets pledged as collateral.

The fair values of financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes to the consolidated financial statements were determined using the following valuation methods and inputs:

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities, money market funds reported as cash equivalents, as well as bonds payable included in financial debt.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period, as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Derivatives embedded in bond agreements are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates. The fair value of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The derivatives embedded in a convertible loan and the loan issued with a conversion right are measured based on option pricing models. Inputs to the models include data from the company's plans and budgets, market information, and management expectations.

The following table summarizes the fair values and levels of financial assets and liabilities. Financial assets and liabilities whose carrying amount is assumed to represent their fair value have been omitted.

Financial assets and liabilities by fair value hierarchy level

in € millions	Level 1	Level 2	Level 3	Total
December 31, 2021				
Marketable securities	28	-	-	28
Derivatives designated as hedging instruments	-	7	0	7
Derivatives not designated as hedging instruments	-	17	0	17
Trade receivables – factoring program	-	96	0	96
Trade receivables – customer receivables and notes receivable available for sale	-	140	0	140
Other investments – FVOCI	-	36	0	36
Other investments – FVTPL	-	7	0	7
Miscellaneous other financial assets	-	0	0	0
Total financial assets	**28**	**303**	**0**	**331**
Financial debt	3,709	299	0	4,008
Derivatives designated as hedging instruments	0	63	0	63
Derivatives not designated as hedging instruments	0	33	0	33
Total financial liabilities	**3,709**	**395**	**0**	**4,104**
December 31, 2020				
Marketable securities	24	-	-	24
Derivatives designated as hedging instruments	-	54	0	54
Derivatives not designated as hedging instruments	-	23	0	23
Trade receivables – ABCP program	-	87	0	87
Trade receivables – customer receivables and notes receivable available for sale	-	147	0	147
Other investments	-	36	0	36
Miscellaneous other financial assets	-	0	1	1
Cash and cash equivalents	400	0	0	400
Total financial assets	**424**	**347**	**1**	**772**
Financial debt	3,700	601	0	4,301
Derivatives designated as hedging instruments	0	10	0	10
Derivatives not designated as hedging instruments	0	25	0	25
Total financial liabilities	**3,700**	**636**	**0**	**4,336**

The company reviews its financial instruments at the end of each reporting period for any required transfers between levels. No transfers between levels were made during the period.

Change in assets and liabilities measured at fair value in level 3

in € millions	2021 Miscellaneous other financial assets
Balance as at January 01	**1**
Impairment	-1
• Financial income (unrealized)	0
• Financial expenses (unrealized)	1
Balance as at December 31	**0**

Financial assets and liabilities for which fair value is determined based on inputs unobservable in the market (level 3) are continually monitored and reviewed for changes in value. The key factor driving fair value changes is the enterprise value of the debtor of the loan. This enterprise value is determined using data from the company's plans and budgets, management expectations, and market information.

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

Net gains and losses by category of financial instruments in accordance with IFRS 7.20

					2021	2020
	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation		
Financial assets at fair value through other comprehensive income	0	0	0	0	0	0
Financial assets and liabilities at fair value through profit or loss	0	-31	0	0	-31	-56
Financial assets at amortized cost	18	0	6	-3	21	-37
Financial liabilities at amortized cost	-118	-	-	35	-83	-113
Total	**-100**	**-31**	**6**	**32**	**-93**	**-206**

Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and in interest expense on financial debt, respectively (see Note 3.6).

The net loss on financial assets and liabilities at fair value through profit and loss of EUR 31 m (prior year: EUR 56 m) relates primarily to derivatives. EUR 2 m in net gains (prior year: EUR 34 m in net losses) included in this net loss are included in financial result.

Financial risk management

Its financial instruments expose the Schaeffler Group to various risks.

The Schaeffler Group's Board of Managing Directors has the overall responsibility for establishing and overseeing the group's risk management system. The finance organization is responsible for developing and monitoring this risk management system and regularly reports to the Schaeffler Group's Chief Financial Officer on its activities in this area.

Groupwide risk management policies are in place to identify and analyze the Schaeffler Group's risks, set appropriate risk limits and controls, monitor risks, and adhere to the limits. Risk management procedures and systems are reviewed on a regular basis to reflect changes in market conditions and the Schaeffler Group's activities.

The Schaeffler Group has guidelines for the use of hedging instruments, and compliance with these guidelines is reviewed on a regular basis. Internal execution risk is minimized by strict segregation of duties.

Please refer to the “Report on opportunities and risks” in the combined management report for further details on the group's financial risk management.

The Schaeffler Group distinguishes between liquidity risk, credit risk, and market risk (interest rate, currency, and other price risk).

Liquidity risk

The risk that the Schaeffler Group will not be able to meet its payment obligations as they come due is referred to as liquidity risk. The Schaeffler Group's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they come due without incurring unacceptable losses or risking damage to the Schaeffler Group's reputation.

Short- and medium-term liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period of up to twelve months. Both liquidity status and liquidity forecast are reported regularly to the Chief Financial Officer.

The Schaeffler Group uses equity, cash pooling arrangements, intercompany loans, receivable sale programs, and existing lines of credit based on the relevant legal and tax regulations to ensure it can meet the financing requirements of its operations and financial obligations. To this end, the Schaeffler Group has access to a Revolving Credit Facility of EUR 1.8 bn (prior year: EUR 1.8 bn) currently bearing interest at Euribor plus 0.8% (prior year: 0.65%) as well as other bilateral lines of credit of EUR 138 m (prior year: EUR 285 m).

The Schaeffler Group's contractual payments of interest and principal on financial debt, trade payables, refund liabilities, miscellaneous other financial liabilities, and derivative liabilities are summarized as follows:

Cash flows related to non-derivative and derivative financial liabilities

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2021					
Non-derivative financial liabilities	**6,780**	**7,233**	**3,607**	**2,080**	**1,546**
• Financial debt	3,776	4,225	636	2,044	1,545
• Trade payables	2,068	2,068	2,064	4	0
• Refund liabilities	274	274	274	0	0
• Miscellaneous other financial liabilities	662	666	633	32	1
Derivative financial liabilities	**96**	**96**	**95**	**1**	**0**
Total	**6,876**	**7,329**	**3,702**	**2,081**	**1,546**
December 31, 2020					
Non-derivative financial liabilities	**6,574**	**7,037**	**2,623**	**2,818**	**1,596**
• Financial debt	4,071	4,531	136	2,803	1,592
• Trade payables	1,704	1,704	1,703	1	0
• Refund liabilities	224	225	225	0	0
• Miscellaneous other financial liabilities	577	577	559	14	4
Derivative financial liabilities	**35**	**35**	**35**	**0**	**0**
Total	**6,609**	**7,072**	**2,658**	**2,818**	**1,596**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans and bonds. Contractual cash flows for derivative financial liabilities consist of the undiscounted expected cash flows translated at closing rates.

Credit risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is referred to as credit risk. Regardless of credit insurance, the maximum credit risk to the Schaeffler Group is represented by the carrying amount of the underlying financial asset.

Credit risk arising on trade receivables is managed by constantly monitoring customers' financial status, creditworthiness, and payment history. Additional measures to manage credit risk include efficient collection procedures and the use of commercial credit insurance. All relevant rules are outlined in a Schaeffler Group guideline. The company considers a receivable impaired when there are substantial objective indications. Objective evidence consists of certain events indicating that a default has occurred, such as involvement of a collection agency, collection procedures, foreclosure, and insolvency proceedings. The company determines an individual impairment percentage based on the nature of the event that has occurred and applies that rate to the relevant receivable. Receivables are not derecognized until either the insolvency proceedings are completed or Schaeffler no longer expects to collect the receivable. As at December 31, 2021, the contractual amount outstanding of receivables subject to enforcement measures amounted to EUR 1 m (prior year: EUR 2 m). For expected credit losses, the Schaeffler Group uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables; under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using rating-specific probabilities of default obtained from an external scoring provider that take into account information about future conditions. Expected credit losses are calculated by applying these term-weighted probabilities of default to receivables with medium credit risk that are not impaired. For countries without credit insurance, the company establishes homogeneous portfolios per country and uses the average country-specific probability of default to calculate expected credit losses.

The company uses the following credit risk rating classes to calculate expected credit losses:

Expected credit losses on trade receivables by risk class

			12/31/2021
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
Risk class 1: high credit quality	1,138	3	0%
Risk class 2–3: medium credit quality	1,144	8	1%
Risk class 4: secured	3	0	0%
Risk class 5: negative credit quality and/or insolvent	12	12	100%
	2,297	23	1%

			12/31/2020
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
Risk class 1: high credit quality	1,106	4	0%
Risk class 2–3: medium credit quality	1,055	10	1%
Risk class 4: secured	10	0	0%
Risk class 5: negative credit quality and/or insolvent	28	25	89%
	2,199	39	2%

Customers with sound credit quality are assigned to **risk class 1.** The Schaeffler Group serves these customers without any restrictions and they are not covered by credit insurance. **Risk classes 2 to 3** contain customers with medium credit quality, partly covered by credit insurance. For customers in **risk class 1 to 3,** expected credit losses are only calculated for receivables that are not insured.

Risk class 4 consists of export customers to whom the company makes deliveries against letters of credit or based on cash against documents. No credit losses are expected for this class.

Risk class 5 comprises customers that are insolvent or have negative credit quality. Deliveries to customers in this group can only be made upon provision of security or against prepayment with the approval of credit management; as a result, no expected credit losses are recognized for this group of customers. Specific impairment allowances are recognized for receivables in risk class 5 based on objective evidence. As at the reporting date, EUR 12 m (prior year: EUR 25 m) of the receivables in risk class 5 are considered impaired while receivables in the other risk classes are not impaired.

As at December 31, 2021, 30% (prior year: 30%) of trade receivables were covered by commercial credit insurance. For EUR 683 m (prior year: EUR 656 m) in receivables covered by credit insurance, neither specific impairment allowances nor expected credit losses are recognized. However, specific impairment allowances have been recognized on EUR 1 m (prior year: EUR 0 m) in receivables covered by credit insurance.

Trade receivables in the Automotive Technologies division are subject to a concentration of risk on several automobile manufacturers (see Note 5.4) totaling 44.0% (prior year: 45.7%) of trade receivables.

The general approach is used for the remaining financial assets, mainly cash and cash equivalents. Consequently, credit loss allowances should be measured and recognized at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly because the external rating has deteriorated, the credit loss allowance recognized has to be based on lifetime expected credit losses. The carrying amounts of bank deposits and other financial assets can be summarized by rating class as follows:

Credit rating of cash and cash equivalents

			12/31/2021
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
BBB- to AAA	1,769	0	0%
B- to BB+	52	0	0%
C to CCC+	1	0	0%
D	0	0	-
External rating not available	0	0	-
	1,822	0	0%

			12/31/2020
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
BBB- to AAA	1,664	0	0%
B- to BB+	92	0	0%
C to CCC+	2	0	0%
D	0	0	-
External rating not available	0	0	-
	1,758	0	0%

Due to investment grade ratings and the credit risk monitoring system in place, Schaeffler Group's cash and cash equivalents carry low credit risk, which makes tracking their credit risk unnecessary. For all other financial assets, the company does not consider credit risk to be significantly increased unless financial assets are more than 30 days past due or the probability of default changes (relatively) by more than 20%. No bank deposits or other financial assets (of EUR 194 m, prior year: EUR 123 m) are impaired as at December 31, 2021. The probabilities of default used to determine expected credit losses for cash and cash equivalents are based on credit default swap spreads quoted in the market; these credit spreads take into account forward-looking macroeconomic factors. Expected credit losses for these items were insignificant as at the reporting date.

Credit risk inherent in derivative financial instruments is the risk that counterparties will fail to meet their payment obligations in full. To mitigate this risk, such contracts are only entered into with selected banks.

The Schaeffler Group's Board of Managing Directors does not have any indications that the debtors will not meet their payment obligations with respect to trade receivables that are neither past due nor impaired. Except for amounts recognized in impairment allowances, there are no indications that the counterparties to other financial assets, i.e., marketable securities, derivative financial assets, and miscellaneous other financial assets, will be unable to meet their future contractual obligation.

Interest rate risk

Variable interest features give rise to the risk of rising interest rates on financial liabilities and falling interest rates on financial assets. This risk is measured, assessed and, where necessary, hedged using derivative interest rate hedging instruments. The hedged item is the Schaeffler Group's interest-bearing net financial debt.

The Schaeffler Group's financial debt can be summarized by type of interest as follows:

Variable and fixed interest financial debt

	12/31/2021	12/31/2020
in € millions	Carrying amount	
Variable interest instruments	**248**	**520**
• Financial debt	248	520
Fixed interest instruments	**3,528**	**3,551**
• Financial debt	3,528	3,551

The sensitivity calculation assumes that all other variables, particularly exchange rates, remain constant and that contractual arrangements prevent interest rates from falling below 0%. With regard to variable interest instruments, a shift in the yield curve of 100 basis points (Bp) as at December 31, 2021, would affect (increase/decrease) net income (loss) and shareholders' equity as follows:

Sensitivity analysis: Shift in yield curve

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2021				
Variable interest instruments	-1	0	0	0
Total	**-1**	**0**	**0**	**0**
As at December 31, 2020				
Variable interest instruments	-2	0	0	0
Total	**-2**	**0**	**0**	**0**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 regarding the impact of IBOR reform (phase 2) issued in August 2020 were applied effective in 2021. Initial application has not impacted any derivatives or hedging relationships recognized by the Schaeffler Group. With respect to other financial instruments, the changes are generally relevant for any variable interest instruments, such as current accounts and revolving credit lines, that are linked to a benchmark interest rate that is affected by IBOR reform. As at December 31, 2021, this affected primarily current accounts denominated in USD. However, the impact of changing the benchmark interest rate from LIBOR to an alternative interest rate is currently insignificant.

Currency risk

The Schaeffler Group is exposed to currency risk on sales, purchases, other financial assets, as well as financial debt that are denominated in a currency other than the functional currency of the relevant Schaeffler Group entity.

Currency risk from operations

The international nature of the Schaeffler Group's operations involves the flow of goods and cash in a wide range of currencies. This gives rise to currency risk, as the value of assets denominated in a currency with a falling exchange rate declines while liabilities denominated in a currency whose exchange rate is rising will increase.

The Schaeffler Group's significant currency risk exposures from operations by currency based on face values as at the end of each reporting period are as follows:

Currency risk from operations

in € millions	USD	CNY	RON	PLN	HUF
December 31, 2021					
Estimated currency risk from operations	709	883	-240	206	-147
Forward exchange contracts	-653	-665	205	-146	113
Remaining currency risk from operations	**56**	**218**	**-35**	**60**	**-34**
December 31, 2020					
Estimated currency risk from operations	852	635	-203	180	-146
Forward exchange contracts	-513	-376	162	-128	99
Remaining currency risk from operations	**339**	**259**	**-41**	**52**	**-47**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with the Schaeffler Group's finance organization. Thus, this exposure represents the difference between hedged items, both recognized and in the form of expected future foreign currency cash flows that have not yet been recognized, on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (see Note 4.9) is monitored by the Schaeffler Group's finance organization. The most significant currency risk exposures in these countries arise on the Chinese renminbi and the U.S. dollar and amount to an estimated EUR 82 m and EUR 114 m, respectively (prior year: EUR 51 m and EUR 41 m, respectively).

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risk from operations in respect of forecasted sales and purchases over the next twelve months using mainly forward exchange contracts.

IFRS 7 requires entities to disclose the impact of hypothetical changes in exchange rates on net income (loss) and shareholders' equity using sensitivity analyses. Exchange rate changes are applied to all of the Schaeffler Group's financial instruments as at the end of the reporting date. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk.

The sensitivity analysis for currency risk from operations is based on a hypothetical 10% weakening of the euro against each of the significant foreign currencies as at December 31, 2021, assuming all other variables, particularly interest rates, remain constant.

The following table shows the effect on net income (loss) and shareholders' equity of translating balances at the closing rate and of measuring instruments at fair value:

Sensitivity analysis: changes in foreign exchange rates – operations

	12/31/2021		12/31/2020	
in € millions	Net income (loss)	Share-holders' equity	Net income (loss)	Share-holders' equity
USD	19	-56	14	-55
CNY	17	-49	22	-39
RON	-3	22	-6	20
HUF	0	11	0	10
PLN	2	-15	1	-12

Conversely, a 10% rise in the euro against the significant foreign currencies as at December 31, 2021, would have had the same but opposite effect on net income (loss) and shareholders' equity, again holding all other variables constant.

Currency risk from financing

Loans and deposits between Schaeffler Group companies denominated in a currency other than the functional currency of the entities are fully hedged on a net basis using forward exchange contracts.

The company does not currently have any significant debt denominated in foreign currency.

Derivative financial instruments and hedging relationships

Using derivative financial instruments to manage risk is one component of the Schaeffler Group's risk management system. Notional amounts and fair values of derivative financial instruments as at the reporting date were as follows:

Summary of derivative financial instruments

	12/31/2021		12/31/2020	
in € millions	Notional amount	Fair value	Notional amount	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	1,121	23	2,008	73
• thereof: hedge accounting	432	6	1,294	50
Cross-currency swaps	30	1	35	4
• thereof: hedge accounting	30	1	35	4
Financial liabilities				
Currency hedging				
Forward exchange contracts	2,889	96	1,268	35
• thereof: hedge accounting	1,469	63	422	10

As at December 31, 2021, the Schaeffler Group held the following instruments to hedge its currency risk:

Hedging instruments

	Maturity			
	2021		2020	
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year
Currency risk				
Forward exchange contracts				
Notional amount of hedging instruments (in € millions)	3,989	21	3,253	22
Average rates of forward exchange contracts				
EUR:USD	1.1640	-	1.1635	1.1681
EUR:CNY	7.6342	-	8.1103	-
EUR:HUF	363.1576	-	358.2482	-
EUR:RON	5.0369	-	4.9680	-
Cross-currency swap				
Notional amount of hedging instruments (in € millions)	13	17	9	26
Average rate of currency swap				
EUR:USD	1.0630	1.0630	1.1544	1.1544

The Schaeffler Group measures the effectiveness of the hedging relationship between the hedged item and the hedging instrument using interest rates, terms to maturity, interest repricing dates, maturity dates, and notional and principal amounts. The hedging ratio between the hedged item and the hedging instrument is 100%. The company uses the hypothetical derivative method to test whether the designated derivative effectively hedges the cash flows of the hedged item. Possible sources of ineffectiveness include counterparty credit risk and changes in the timing of hedged transactions. No ineffectiveness occurred during the period.

Cash flow hedges

A portion of the Schaeffler Group’s forward exchange contracts and cross-currency swaps in certain currencies are accounted for as cash flow hedges with perfect effectiveness. Both the majority of the forecasted transactions and the resulting impact on net income (loss) occur within one year of the end of the reporting period.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk from operations changed as follows:

Reconciliation of hedging reserve related to currency risk – operations

in € millions	2021	2020
Balance as at January 01	**44**	**-16**
Additions	-56	44
Reclassified to income statement		
• to other income	44	0
• to other expense	0	-16
Balance as at December 31	**-56**	**44**

As in the prior year, the hedging reserve did not include any amounts related to hedges of currency risk from financing activities as at December 31, 2021.

Other price risk

Other price risk normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IFRS 9, which is not the case for the Schaeffler Group.

Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

Offsetting financial assets and financial liabilities

Certain Schaeffler Group companies enter into derivatives based on the German Master Agreement for Financial Forward Transactions ("Deutscher Rahmenvertrag fuer Finanztermingeschaefte" – DRV) or on the master agreement of the International Swaps and Derivatives Association (ISDA). These agreements permit each counterparty to combine all amounts relating to outstanding transactions due on the same date and in the same currency, arriving at one net amount to be paid by one of the parties to the other. In certain cases, for instance when a credit event such as default occurs, all transactions outstanding under this agreement are terminated, their fair value upon termination is determined, and only a single net amount is payable in settlement of all of these transactions.

The German Master Agreements and ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position, as the Schaeffler Group does not currently have a legal right to settle the recognized amounts on a net basis. The right to settle net is only legally enforceable upon the occurrence of future events such as the insolvency of one of the parties to the contract. Hedging transactions entered into directly by Schaeffler Group subsidiaries do not permit net settlement, either.

The carrying amounts of the financial assets and liabilities subject to these agreements, except for the embedded options, are as follows:

Offsetting financial assets and financial liabilities

in € millions	12/31/2021	12/31/2020
Financial assets		
Gross amount of financial assets	24	77
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	24	77
Amounts subject to master netting arrangements		
• Derivatives	-22	-28
Net amount of financial assets	2	49
Financial liabilities		
Gross amount of financial liabilities	96	35
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	96	35
Amounts subject to master netting arrangements		
• Derivatives	-22	-28
Net amount of financial liabilities	74	7

4.17 Share-based payment

In connection with the Schaeffler AG listing in October 2015, the company implemented its first share-based payment instrument in the form of a Performance Share Unit Plan (PSUP) for members of Schaeffler AG's Board of Managing Directors. The virtual shares granted (known as Performance Share Units, PSUs) entitle the holder to a cash payment equal to the average share price of Schaeffler AG's common non-voting shares on the vesting date. The PSUs are granted in annual tranches. Each tranche has a performance period of four years beginning on January 1 of the year in which the tranche is granted. In October 2016, the Board of Managing Directors decided to extend the PSUP to selected members of the Schaeffler Group's senior management. The performance period of each tranche begins on January 1 of the relevant year. The grant date for the 2021–2024 tranche is February 26 for Managing Directors and March 22 for senior managers except for Managing Directors and senior managers becoming eligible for the PSUP during the year. The grant date for the 2020–2023 tranche is generally February 4. The grant date for the previous tranches is generally January 1. The remuneration system was enhanced effective January 1, 2020, for tranches granted starting in 2020.

Vesting of PSUs granted up to 2019 is linked to the following three conditions:

- 50% of PSUs are granted subject to a service condition (base number). The base number is only paid out if the beneficiary remains employed with the Schaeffler Group and is not under notice of termination at the end of the performance period. [7]
- 25% of the PSUs are granted subject to a long-term performance target based on free cash flow (FCF), which involves a comparison of accumulated FCF for the performance period to the target FCF.
- 25% of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). To determine to what extent these PSUs have vested, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

Vesting of PSUs granted starting in 2020 is linked to the following three conditions. Percentages of PSUs shown are based on an assumed target achievement rate of 100%.

- 50% of PSUs are granted subject to a service condition (base number). The base number is only paid out if the beneficiary remains employed with the Schaeffler Group and is not under notice of termination at the end of the performance period. [7]
- 25% of the PSUs are granted subject to a long-term EPS-related performance target based on average annual growth in earnings per share during the four-year performance period.
- 25% of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). Vesting is based on the extent to which the TSR for Schaeffler AG's common non-voting shares exceeds or falls short of the TSR of companies in the benchmark group over the performance period. The group used for comparison consists of a sector basket. This sector basket replicates the performance of the STOXX Europe 600 Automobiles and Parts Gross Return (SXAGR) and STOXX Europe 600 Industrial Goods and Services Gross Return (SXNGR), weighted 75% and 25%, respectively.

The number of PSUs actually payable at the end of the performance period depends on the extent to which the performance targets have been achieved and whether the service condition has been met. For PSUs linked to performance targets, the extent to which targets have been met can vary between 0% and 100% for tranches granted up to 2019 and between 0% and 200% for tranches granted starting in 2020. The amount payable per PSU is capped at double the underlying price of Schaeffler AG common non-voting shares at the grant date.

Obligations under the PSUP included in non-current provisions as at December 31, 2021, amounted to EUR 15.5 m (prior year: EUR 8.8 m). Current provisions amounted to EUR 4.4 m as at December 31, 2021 (prior year: EUR 3.7 m). Net expenses from the pro-rata addition to provisions for the PSUP for 2021 totaled EUR 6.7 m (prior year: EUR 2.7 m). 3,122,384 PSUs were granted (2,081,589 of these PSUs correspond to a target achievement rate of 100%) and 1,133,102 PSUs paid in 2021; 235,052 PSUs were forfeited. There were 7,884,883 PSUs (prior year: 6,193,057 PSUs) in total as at December 31, 2021. These PSUs granted were still outstanding as at December 31, 2021. The share price relevant to payment of the PSUs granted in 2018 and vested at the end of 2021 is EUR 7.23.

The average fair value of a PSU granted was EUR 4.72 (prior year: EUR 4.72) as at December 31, 2021. PSUs included in the base number as well as those subject to the FCF-based or EPS-based performance targets are measured based on the price of Schaeffler AG common non-voting shares taking into account the present value of dividends, which beneficiaries are not entitled to during the vesting period, as well as the cap.

The fair value of PSUs granted up to 2019 with a TSR-based performance target is determined using a binomial model. The fair value of PSUs granted starting in 2020 with a TSR-based performance target is determined based on a Monte Carlo simulation, while the remaining PSUs continue to be valued using a binomial model. The valuation models used take into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target range for the TSR-based performance target, dividends expected to be paid on Schaeffler AG common non-voting shares, as well as the volatility of Schaeffler AG common non-voting shares and either the benchmark index MDAX or the benchmark indexes SXAGR and SXNGR).

The valuation using the binomial model reflects the following input parameters:

Binomial model – input parameters

	12/31/2021	12/31/2020
Average risk-free interest rate for the remaining performance period	-0.66%	-0.74%
Expected dividend yield of Schaeffler AG common non-voting shares	6.58%	5.27%
Expected volatility of Schaeffler AG common non-voting shares	39.39%	48.52%
Expected volatility of the MDAX benchmark index	17.59%	22.92%
Expected correlation between the MDAX benchmark index and Schaeffler AG common non-voting shares	0.48	0.59

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

The input parameters reflected in the valuation based on a Monte Carlo simulation are as follows:

Monte Carlo simulation – input parameters

	12/31/2021	12/31/2020
Average risk-free interest rate for the remaining performance period	-0.64%	-0.74%
Share price (in EUR) of Schaeffler AG common non-voting shares as at the valuation date	7.29	6.84
Expected dividend yield of Schaeffler AG common non-voting shares	6.58%	5.27%
Expected volatility of Schaeffler AG common non-voting shares	42.60%	43.94%
Expected volatility of the SXAGR benchmark index	31.33%	31.09%
Expected correlation between the SXAGR benchmark index and Schaeffler AG common non-voting shares	0.69	0.70
Expected volatility of the SXNGR benchmark index	23.27%	23.34%
Expected correlation between the SXNGR benchmark index and Schaeffler AG common non-voting shares	0.57	0.59
Expected correlation between the SXAGR and SXNGR benchmark indexes	0.84	0.85

Expected future volatilities and the correlation between Schaeffler AG common non-voting shares and the benchmark group (either MDAX or SXAGR and SXNGR) were estimated based on the daily closing prices of Schaeffler AG common non-voting shares and the benchmark group (either MDAX or SXAGR and SXNGR) in the XETRA trading system of the German Stock Exchange.

The valuation as at the relevant grant date of the 2021 tranche reflects the following input parameters:

Valuation input parameters as at the grant date (2021 tranche)

	Grant date February 26, 2021	Grant date March 22, 2021	Grant date September 1, 2021
Risk-free interest rate for the remaining performance period	-0.67%	-0.77%	-0.77%
Expected dividend yield of Schaeffler AG common non-voting shares	3.53%	3.33%	6.65%
Expected volatility of Schaeffler AG common non-voting shares	40.93%	41.21%	40.94%
Expected volatility of the SXAGR benchmark index	27.84%	28.09%	28.82%
Expected volatility of the SXNGR benchmark index	21.02%	21.17%	21.45%
Expected correlation coefficient between the SXAGR benchmark index and Schaeffler AG common non-voting shares	0.67	0.67	0.68
Expected correlation coefficient between the SXNGR benchmark index and Schaeffler AG common non-voting shares	0.56	0.56	0.56
Expected correlation coefficient between the SXAGR and SXNGR benchmark indexes	0.84	0.84	0.84

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

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

	Grant date January 1, 2020	Grant date February 4, 2020	Grant date August 1, 2020
Risk-free interest rate for the remaining performance period	-0,55%	-0.72%	-0.80%
Expected dividend yield of Schaeffler AG common non-voting shares	4.67%	4.83%	5.90%
Expected volatility of Schaeffler AG common non-voting shares	34.29%	33.87%	38.49%
Expected volatility of the SXAGR benchmark index	-	20.53%	26.84%
Expected volatility of the SXNGR benchmark index	-	15.07%	20.27%
Expected correlation coefficient between the SXAGR benchmark index and Schaeffler AG common non-voting shares	-	0.62	0.69
Expected correlation coefficient between the SXNGR benchmark index and Schaeffler AG common non-voting shares	-	0.50	0.58
Expected correlation coefficient between the SXAGR and SXNGR benchmark indexes	-	0.77	0.84
Expected volatility of the MDAX benchmark index	14.67%	-	-
Expected correlation coefficient between the MDAX benchmark index and Schaeffler AG common non-voting shares	0.51	-	-

4.18 Capital management

The Schaeffler Group has a strategy of pursuing profitable long-term growth. Capital is managed proactively to secure the existence of the company as a going concern for the long term and maintain financial flexibility for profitable growth in order to add long-term value to the company. A further aim is to ensure that a portion of the company's net income is paid out to shareholders in dividends.

Corporate capital management provides the financial resources required by Schaeffler Group entities, ensures the long-term availability of liquidity, and secures the Schaeffler Group's credit standing. Capital management also administers and continually improves the company's existing financial debt consisting of its external group financing arrangements. Further, capital management strives to improve the quality of the Schaeffler Group's balance sheet, measured in terms of the net debt to EBITDA ratio, defined as the ratio of net financial debt to EBITDA before special items. 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) before special items, amounted to 0.9 as at December 31, 2021 (prior year: 1.3).

The Schaeffler Group has an effective cash management system in place and has diversified its external financing in terms of, for instance, instruments and maturities. The Schaeffler Group can currently utilize cash and cash equivalents, cash flow from operations, a commercial paper program, bank loans, Schuldschein loans, and debt and equity funding via the capital markets to meet its short-, medium-, and long-term financing needs. Currency risk is continually monitored and reported at the corporate level. Currency risks are aggregated across the group, measured, and hedged using hedging instruments.

In addition, the Schaeffler Group uses receivable sale programs to a limited extent to manage liquidity and improve its working capital. For this purpose, the company has access to 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 (see Note 5.2). Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

The Schaeffler Group's management will continue to value highly the group's ability to place financial instruments with a broad range of investors and to further improve financing terms. Credit ratings assigned by external rating agencies are key to this ability. In 2019, the Schaeffler Group obtained ratings from rating agencies Standard & Poor's, Moody's, and Fitch. The company intends to regain an investment grade rating from all rating agencies in the medium to long term.

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The inputs to the calculation of the leverage covenant are defined in the debt agreements and cannot be derived directly from amounts in the consolidated financial statements. As in the prior year, the company has complied with the leverage covenant throughout 2021 as stipulated in the debt agreements. Based on its forecast, the Schaeffler Group also expects to comply with the leverage covenant in subsequent years.

In addition to the leverage covenant contained in the debt agreements, the Schaeffler Group regularly calculates further financial indicators such as the net debt to EBITDA ratio. The net debt to EBITDA ratio – the ratio of net financial debt to earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation, amortization, and impairment losses (EBITDA) – is calculated as follows:

Net financial debt to EBITDA ratio

in € millions	12/31/2021	12/31/2020
Current financial debt	545	43
Non-current financial debt	3,231	4,028
Financial debt	**3,776**	**4,071**
Cash and cash equivalents	1,822	1,758
Net financial debt	**1,954**	**2,312**
Earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation, amortization, and impairment losses (EBITDA) [1]	**2,230**	**1,111**
Net financial debt to EBITDA ratio [2]	**0.9**	**2.1**

[1] Includes a total of EUR 6 m in favorable special items (prior year: EUR 677 m in adverse special items).
[2] Net financial debt to EBITDA ratio incl. special items.

5. Other disclosures

5.1 Additional disclosures on the consolidated statement of cash flows

Summary of changes in financial debt

	Financial debt					Total
in € millions	Bonds	Schuldschein loans	Revolving Credit Facility	Commercial paper	Other financial debt	
Balance as at January 01, 2021	**3,476**	**554**	**-3**	**30**	**13**	**4,071**
Cash provided by (used in) financing activities						
Redemptions of bonds and repayments of loans	0	-259	0	-30	-13	-302
Total changes from cash flows	**0**	**-259**	**0**	**-30**	**-13**	**-302**
Other non-cash changes	**4**	**1**	**1**	**0**	**0**	**7**
Balance as at December 31, 2021	**3,480**	**297**	**-1**	**0**	**1**	**3,776**

Changes in balance sheet items shown in the consolidated statement of cash flows cannot be derived directly from the consolidated statement of financial position as they have been adjusted for the impact of foreign currency translation.

During the year, the company paid EUR 4 m to acquire interests in joint ventures and EUR 7 m to acquire equity investments included in other investments.

EUR 39 m in other investing activities represented loans granted to joint ventures.

5.2 Involvement with unconsolidated structured entities

The Schaeffler Group sold a portion of its trade receivables to a structured entity under an ABCP program (asset-backed commercial paper). The ABCP program was terminated in the third quarter of 2021.

Therefore, the Schaeffler Group did not have any balances outstanding as at December 31, 2021, that were related to its involvement with the structured entity:

Balances – involvement with the structured entity

in € millions	12/31/2021	12/31/2020
Carrying amount of receivables transferred	0	127
Carrying amount of risks and collateral retained in relation to the receivables transferred (recognized as other assets in the statement of financial position)	0	20
Payments received from customers on receivables sold and not yet passed on to the structured entity (recognized as other financial liabilities in the statement of financial position)	0	44
Carrying amount of receivables (classified as trade receivables) and the other liability resulting from the continuing involvement (classified in other financial liabilities in the statement of financial position)	0	3

5.3 Contingent liabilities

As at December 31, 2021, the Schaeffler Group had contingent liabilities of EUR 64 m (prior year: EUR 68 m), including EUR 17 m (prior year: EUR 28 m) in contingent liabilities representing tax- and customs-related risks and EUR 32 m (prior year: EUR 28 m) in contingent liabilities related to legal cases. These do not include any items that individually have a material adverse impact on the Schaeffler Group's net assets, financial position, and earnings.

5.4 Segment information

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler AG Board of Managing Directors. The Schaeffler Group engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the Schaeffler Group's Board of Managing Directors and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

The Schaeffler Group's business is managed based on the three divisions – **Automotive Technologies**, **Automotive Aftermarket**, and **Industrial** – which also represent the reportable segments. Until December 31, 2021, the Automotive Technologies division business was organized into the four **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 of the Automotive Technologies division.** Effective January 1, 2022, the division manages its business based on the four **BDs E-Mobility**, **Engine & Transmission Systems**, **Bearings**, as well as **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. Starting January 1, 2022, it is 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, with the bearing business combined and consolidated in a separate business division, the Chassis Systems BD will be able to concentrate on developing mechatronic chassis systems and technologies for automated driving. 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 Automotive Aftermarket and Industrial divisions are managed regionally, based on the **regions Europe**, **Americas**, **Greater China**, and **Asia/Pacific.**

The segments offer different products and services and are managed separately because they require different technology and marketing strategies. Each segment focuses on a specific worldwide group of customers, with the spare parts business with automobile manufacturers located in the Automotive Aftermarket segment. Consequently, the amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and impairment losses are reported based on the current allocation of customers to divisions. The allocation of customers to segments and the allocation of indirect expenses was reviewed and adjusted insignificantly during the year. To ensure that the information on the Automotive Technologies division, Automotive Aftermarket division, and Industrial division segments is comparable, prior-year information was also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

The following summary describes the operations of each of the Schaeffler Group's three reportable segments:

Automotive Technologies

The **Automotive Technologies division** partners with the global automotive industry for passenger cars and commercial vehicles in developing and manufacturing components and systems for all-electric and hybrid drives, 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. Until December 31, 2021, the Automotive Technologies division managed its business based on the four **BDs E-Mobility**, **Engine Systems**, **Transmission Systems**, and **Chassis Systems**, which in turn comprise several business units:

- 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 E-Mobility BD generated EUR 1,245 m in revenue during the year (prior year: EUR 1,047 m).
- The **Engine Systems BD** develops and manufactures components and systems for conventional and hybridized internal combustion engines such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems, and products for chain and belt drives. The Engine Systems BD generated EUR 2,156 m in revenue during the year (prior year: EUR 2,056 m).
- The **Transmission Systems BD** develops and manufactures components and systems for all transmission types. Its portfolio includes products such as torque converters, torsion and vibration dampers, clutches, and transmission bearings. The Transmission Systems BD generated EUR 3,741 m in revenue during the year (prior year: EUR 3,508 m).
- The **Chassis Systems BD** develops and manufactures products including mechanical components and systems for the chassis, such as wheel bearings, bearings for chassis and accessory units, as well as special applications for commercial vehicles. The Chassis Systems BD generated EUR 1,294 m in revenue during the year (prior year: EUR 1,204 m).

Automotive Aftermarket

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.** Within each region, products and services are primarily 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 simple, efficient, and professional vehicle repairs. A global network of distributors, many of whom are organized in trade cooperatives, acts as the Automotive Aftermarket division's IAM sales market. Meanwhile, online sales of spare parts are increasingly evolving into a further distribution channel within this sector.

The Europe region generated EUR 1,275 m in revenue during the year (prior year: EUR 1,184 m), the Americas region generated EUR 363 m in revenue during the year (prior year: EUR 301 m), the Greater China region generated EUR 101 m during the year (prior year: EUR 77 m), and the Asia/Pacific region generated EUR 109 m in revenue during the year (prior year: EUR 80 m).

Industrial

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.** Within the regions, the direct business with customers is grouped into eight sector clusters: (1) wind, (2) raw materials, (3) aerospace, (4) railway, (5) offroad, (6) two wheelers, (7) power transmission, and (8) industrial automation. In addition, the business with distributors is managed by the Industrial Distribution unit. Managing the business on a regional basis allows the division to closely target its response to local customer needs and to strengthen customer loyalty. Cross-regional issues, such as the global technology and product strategy, are driven forward by the close network linking the regions within the division 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.

The 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 the machine tools sector that is part of the industrial automation sector cluster. Additionally, the division develops and manufactures 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. 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 & Training, and lubrication systems through to maintenance tools, reconditioning bearings, and spare parts.

The Europe region generated EUR 1,473 m in revenue during the year (prior year: EUR 1,312 m), the Americas region generated EUR 588 m in revenue during the year (prior year: EUR 528 m), the Greater China region generated EUR 982 m during the year (prior year: EUR 840 m), and the Asia/Pacific region generated EUR 525 m in revenue during the year (prior year: EUR 451 m).

Information on the operating activities of the three reportable segments is included below. Performance is measured based on EBIT as the Board of Managing Directors believes that this information is most relevant in evaluating the results of the segments in relation to other entities that operate within these industries.

Reconciliation to earnings before income taxes

in € millions	2021	2020
EBIT Automotive Technologies [1]	620	-344
EBIT Automotive Aftermarket [1]	272	228
EBIT Industrial [1]	372	-33
EBIT	**1,264**	**-149**
Financial result	-98	-185
Income (loss) from equity-accounted investees	-44	-34
Earnings before income taxes	**1,122**	**-368**

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

In 2021, the Schaeffler Group generated revenue of EUR 1,254 m (prior year: EUR 1,326 m) from one key customer, representing 9.1% (prior year: 10.5%) of total group revenue. In the Automotive Technologies segment, this key customer accounted for 14.2% (prior year: 16.3%) of revenue.

In addition to the divisions and functions, the Schaeffler Group's multi-dimensional organizational structure is also based on the four regions Europe, Americas, Greater China, and Asia/Pacific. The Automotive Technologies division, Automotive Aftermarket division, and Industrial division segments are managed on a global basis and operate production and distribution facilities in all four regions. Revenue and non-current assets of the four regions were as follows in 2021:

Information about geographical areas

	2021	2020	12/31/2021	12/31/2020
in € millions		Revenue [1]		Non-current assets [2]
Europe	5,823	5,379	3,027	3,091
Americas	2,821	2,601	666	692
Greater China	3,294	2,941	1,111	1,085
Asia/Pacific	1,915	1,668	441	468
Total	**13,852**	**12,589**	**5,245**	**5,335**

[1] Revenue by market (customer locations); prior year information presented based on 2021 segment structure.
[2] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

China, Germany, and the U.S. had revenue of EUR 3,243 m (prior year: EUR 2,877 m), EUR 2,106 m (prior year: EUR 1,959 m), and EUR 1,844 m (prior year: EUR 1,710 m) as well as non-current assets of EUR 1,111 m (prior year: EUR 1,085 m), EUR 1,884 m (prior year: EUR 1,901 m), and EUR 362 m (prior year: EUR 381 m), respectively.

Reconciliation of EBIT to EBIT before special items

	01/01–12/31		01/01–12/31		01/01–12/31		01/01–12/31	
	2021	2020 1)	2021	2020 1)	2021	2020 1)	2021	2020
in € millions	Automotive Technologies		Automotive Aftermarket		Industrial		Total	
EBIT	620	-344	272	228	372	-33	1,264	-149
• in % of revenue	7.4	-4.4	14.7	13.9	10.4	-1.0	9.1	-1.2
Special items	-35	608	-18	30	55	309	1	946
• Legal cases	-12	12	-16	3	-4	6	-32	21
• Restructuring	-23	347	-2	26	16	303	-10	676
• Other	0	249	0	0	43	0	43	249
EBIT before special items	585	263	254	258	426	276	1,266	798
• in % of revenue	6.9	3.4	13.8	15.7	12.0	8.8	9.1	6.3

1) Prior year information presented based on 2021 segment structure.

5.5 Related parties

Related persons

All common shares in Schaeffler AG are indirectly held by Maria Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler. Under the definitions of IAS 24, Maria-Elisabeth Schaeffler Thumann and Georg F. W. Schaeffler and the close members of their family are related parties of the Schaeffler Group.

The Schaeffler Group does not have any significant direct business relations with Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler.

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Schaeffler Group, directly or indirectly. For the Schaeffler Group, the members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG represent key management personnel, making them and the close members of their family related parties of Schaeffler AG.

The remuneration of the Board of Managing Directors of Schaeffler AG for 2021 in accordance with IAS 24 totaled EUR 19 m (prior year: EUR 14 m), including EUR 14 m (prior year: EUR 11 m) in short-term benefits. Expenses of EUR 2 m (prior year: EUR 1 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 1 m (prior year: EUR 0 m), and share-based payments totaled EUR 3 m (prior year: EUR 2 m).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (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 company did not pay any other benefits to its key management personnel.

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

Former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors received remuneration of EUR 3 m in 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).

Related entities

Pursuant to IAS 24, the Schaeffler Group's related entities consist – along with its joint ventures and affiliated companies – of the entities controlled or jointly controlled by related persons or by Schaeffler AG's ultimate parent company, INA Holding Schaeffler GmbH & Co. KG, or over which INA Holding Schaeffler GmbH & Co. KG has significant influence.

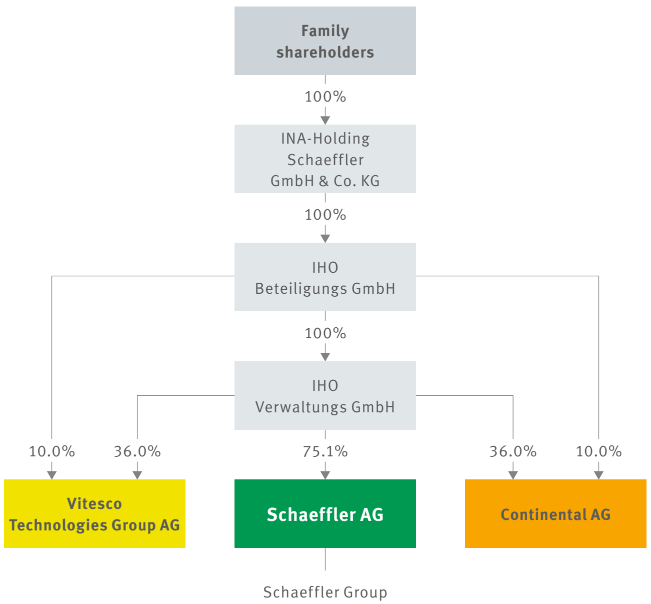
As transactions with significant subsidiaries of Schaeffler AG have been eliminated upon consolidation, they need not be discussed here.

As at December 31, 2021, the company has granted interest-bearing loans totaling EUR 81 m (prior year: EUR 42 m) to a joint venture. The loans resulted in interest income of EUR 4 m in 2021 (prior year: EUR 2 m).

The company has a contractual agreement with a joint venture regarding an interest-bearing convertible loan maturing on December 31, 2023, entered into in November 2019. In connection with the loan, there are put options outstanding on shares in the joint venture that are exercisable under certain conditions or when certain future events occur. The total amount extended under the convertible loan is EUR 23 m (prior year: EUR 23 m). An impairment of EUR 0.6 m (prior year: EUR 22 m) was recognized on the loan in 2021.

Simplified ownership structure

as at December 31, 2021



Further transactions with associated companies and joint ventures were insignificant in 2021.

In 2021 and 2020, Schaeffler Group companies had various business relationships with the group's other related entities.

The following table summarizes all income and expenses from transactions with the Schaeffler Group's other related companies that have been recognized in the Schaeffler Group's consolidated financial statements. The summary also shows receivables and payables related to such transactions included in the consolidated financial statements as at the end of each reporting period. Transactions with other related entities arose largely from business relationships with the Continental Group and the Vitesco Group.

Receivables and payables from transactions with other related entities

	12/31/2021	12/31/2020	12/31/2021	12/31/2020
in € millions		Receivables		Payables
Other related entities	19	26	21	19

Expenses and income from transactions with other related entities

	2021	2020	2021	2020
in € millions		Expenses		Income
Other related entities	97	93	96	92

Business relationships with Continental Group and Vitesco Group companies existed in the form of supply of vehicle components and tools, rendering of development and other services, and leases of commercial real estate. The transactions with both were entered into at arm's-length conditions.

Receivables from transactions with other related entities include EUR 19 m (prior year: EUR 26 m) in trade receivables.

5.6 Auditors' fees

Schaeffler AG incurred the following fees for services rendered by the global network of KPMG and KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG):

Auditors' fees

	2021	2020	2021	2020
in € millions		KPMG		thereof KPMG AG
Financial statement audit services	6.9	7.1	4.6	4.4
Other attestation services	0.3	0.6	0.3	0.6
Tax advisory services	0.0	0.1	0.0	0.0
Other services	0.3	0.4	0.3	0.4
Total	**7.5**	**8.2**	**5.2**	**5.4**

Schaeffler AG's auditor is KPMG AG. The fees paid to KPMG AG related to services rendered to Schaeffler AG and its German subsidiaries.

5.7 Declaration of conformity with the German Corporate Governance Code

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

5.8 Events after the reporting period

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. Melior Motion GmbH manufactures precision gears for applications in robotics and automation. The acquisition expands the Schaeffler Group's technological expertise in the field of mechatronics and systems. A purchase price of EUR 61 m was paid in cash upon closing. In addition, the transaction calls for up to EUR 60 m in contingent purchase price payments that are contingent on the revenue trend in 2023 and 2024. As at the acquisition date, the contingent purchase price payments were expected to amount to EUR 57 m undiscounted. The transaction results in intangible assets of EUR 62–74 m. The provisional goodwill of EUR 51–60 m, which cannot be recognized for tax purposes and is therefore not tax-deductible, represents synergies as well as the value of the planned enhancement of the technology portfolios. The following table summarizes the assets acquired and liabilities assumed at their fair value.

Assets acquired and liabilities assumed

in € millions	Melior Motion GmbH
Intangible assets	62–74
Right-of-use assets under leases	2
Property, plant and equipment	4
Total non-current assets	**68–80**
Inventories	5
Trade receivables	1
Cash and cash equivalents	1
Total current assets	**7**
Financial debt	3
Lease liabilities	2
Deferred tax liabilities	14–17
Total non-current liabilities	**19–22**
Provisions	1
Trade payables	3
Total current liabilities	**4**
Net assets acquired	**52–61**
Purchase price	112
Goodwill	**51–60**

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.

5.9 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler AG, which is based in Herzogenaurach.

List of shareholdings

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (46)			
CATENSYS Germany GmbH	Herzogenaurach	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
Compact Dynamics GmbH [2]	Starnberg	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst-, GmbH [2]	Herzogenaurach	DE	100.00
LuK Unna GmbH & Co. KG [1] [3]	Unna	DE	100.00
Schaeffler Aerospace Germany Beteiligungs GmbH	Schweinfurt	DE	100.00
Schaeffler Aerospace Germany GmbH & Co. KG [1] [3]	Schweinfurt	DE	100.00
Schaeffler AS Auslandsholding GmbH [2]	Buehl	DE	100.00
Schaeffler Automotive Buehl GmbH & Co. KG [1] [3]	Buehl	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG [1] [3]	Langen	DE	100.00
Schaeffler Beteiligungs-gesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungs-verwaltungs GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Bühl Auslandsholding GmbH [2]	Buehl	DE	100.00
Schaeffler Bühl Beteiligungs GmbH [2]	Buehl	DE	100.00
Schaeffler Bühl Holding GmbH [2]	Buehl	DE	100.00
Schaeffler Bühl Verwaltungs GmbH [2]	Buehl	DE	100.00
Schaeffler Consulting GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Digital Solutions GmbH [2]	Chemnitz	DE	100.00
Schaeffler Elmotec Statomat GmbH	Karben	DE	100.00
Schaeffler Engineering GmbH [2]	Werdohl	DE	100.00
Schaeffler Europa Logistik GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH [2]	Morbach	DE	100.00
Schaeffler IAB Beteiligungs GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler IAB Verwaltungs GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Immobilien AG & Co. KG [1] [3]	Herzogenaurach	DE	100.00
Schaeffler Industrial Drives AG & Co. KG [1] [3]	Suhl	DE	100.00
Schaeffler Industrial Remanufacturing Services AG & Co. KG [1] [3]	Herzogenaurach	DE	100.00
Schaeffler Invest GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler KWK Verwaltungs GmbH	Langen	DE	100.00
Schaeffler Monitoring Services GmbH [2]	Herzogenrath	DE	100.00
Schaeffler Paravan Management GmbH	Herzogenaurach	DE	100.00
Schaeffler Qualifizierung und Beschäftigung GmbH [2]	Schweinfurt	DE	100.00
Schaeffler Raytech Verwaltungs GmbH [2]	Morbach	DE	100.00
Schaeffler Schweinfurt Beteiligungs GmbH [2]	Schweinfurt	DE	100.00
Schaeffler Technologies AG & Co. KG [1] [3]	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Sechs GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH [2]	Herzogenaurach	DE	100.00
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungs-gesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG [1] [3]	Herzogenaurach	DE	100.00
Xtronic GmbH	Boeblingen	DE	100.00
II. Foreign (102)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Belrose	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
Schaeffler Aerospace Canada Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Schaeffler Schweiz GmbH	Romanshorn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
CATENSYS Chain Drive (Nanjing) Co. Limited	Nanjing City	CN	100.00
ETC Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
RepXpert Automotive Aftermarket Services Consulting (Shanghai) LLP	Shanghai	CN	100.00
Schaeffler Automotive Aftermarket Services Consulting (Shanghai) Co.	Shanghai	CN	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler (Xiangtan) Co., Ltd.	Xiangtan	CN	100.00
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Intelligent Driving Technology (Changsha) Co., Ltd.	Changsha	CN	100.00
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogotá	CO	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Production CZ s.r.o.	Lanškroun	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Finland Oy	Espoo	FI	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
Schaeffler Automotive Aftermarket (UK), Limited	Hereford	GB	100.00
Schaeffler (UK) Limited	Sheffield	GB	100.00
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	GR	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Savaria Kft.	Szombathely	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
Schaeffler India Ltd.	Mumbai	IN	74.13
INA Invest S.r.l.	Momo	IT	100.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Water Pump Bearing Italia S.r.l.	Momo	IT	100.00
CATENSYS Japan K.K.	Yokohama	JP	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
CATENSYS Korea LLC	Ansan	KR	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00
Schaeffler Korea Corporation	Changwon-si	KR	100.00
Schaeffler Kazakhstan GmbH	Almatay	KZ	100.00
SIA "Schaeffler Baltic"	Riga	LV	100.00
Rodamientos FAG S.A. de C.V.	Puebla	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Mexico City	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Transmisión, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00

Entity	Location	Country code	Group ownership interest in %
BEGA International B.V.	Vaassen	NL	100.00
Hydron Energy B.V.	Noordwijkerhout	NL	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Norge AS	Sandnes	NO	100.00
Schaeffler Peru S.A.C.	Lima	PE	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	100.00
Schaeffler Polska Sp. z o.o.	Warsaw	PL	100.00
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.00
Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler SR d.o.o.	Belgrade	RS	100.00
Schaeffler Rus OOO	Ulyanowsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
CATENSYS Slovakia, spol. s r.o.	Skalica	SK	100.00
Schaeffler Kysuce, spol. s r.o.	Kysucké Nové Mesto	SK	100.00
Schaeffler Skalica spol. s r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol. s.r.o.	Kysucké Nové Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	100.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
CATENSYS US Inc.	Wilmington	US	100.00
FAG Bearings LLC	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Aerospace USA Corporation	Danbury	US	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
Schaeffler Holding LLC	Danbury	US	100.00
Schaeffler Transmission Systems, LLC	Wooster	US	100.00
Schaeffler Transmission, LLC	Wooster	US	100.00
Schaeffler Vietnam Co., Ltd.	Biên Hòa City	VN	100.00
INA Bearings (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00
B. Joint ventures			
Germany (4)			
Abt E-Line GmbH	Kempten	DE	0.00
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [3]	Hanover	DE	50.00
Schaeffler Paravan Technologie GmbH & Co. KG [3]	Herzogenaurach	DE	90.00
Foreign (1)			
Schaeffler-CARS Railway Technology Co. Ltd.	Tianjing City	CN	50.00
C. Associated companies			
Foreign (3)			
Statec S.r.l.	Turin	IT	35.00
Eurings Zrt.	Debrecen	HU	37.00
Colinx, LLC	Greenville	US	20.00
D. Unconsolidated entities and equity investments			
Germany (1)			
IAV GmbH Ingenieurgesellschaft Auto und Verkehr	Berlin	DE	10.00
Foreign (1)			
Statomat Special Machines (India) Pvt. Ltd.	Mumbai	IN	79.89

[1] Exemption under section 264b HGB.
[2] Exemption under section 264 (3) HGB.
[3] Schaeffler AG or another consolidated entity is the general partner.

5.10 Members of the Supervisory Board and of the Board of Managing Directors

Members of the Supervisory Board

Georg F. W. Schaeffler (Chairman),
Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson),
Jürgen Wechsler* (Deputy Chairperson),
Sabine Bendiek, Prof. Dr. Hans-Jörg Bullinger,
Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk,
Andrea Grimm*, Ulrike Hasbargen (since April 23, 2021),
Thomas Höhn*, Susanne Lau*, Barbara Resch*,
Jutta Rost*, Jürgen Schenk*, Helga Schönhoff*,
Robin Stalker, Salvatore Vicari*,
Prof. TU Graz e.h. KR Ing. Siegfried Wolf,
Prof. Dr.-Ing. Tong Zhang, Markus Zirkel*

The following member left the Supervisory Board in 2021
Sabrina Soussan (until April 23, 2021)

Supervisory Board committees

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

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

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

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

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

Members of the Board of Managing Directors

Klaus Rosenfeld (Chief Executive Officer),
Claus Bauer (Chief Financial Officer, since September 1, 2021),
Andreas Schick (Chief Operating Officer),
Corinna Schittenhelm (Chief Human Resources Officer),
Jens Schüler (CEO Automotive Aftermarket, since January 1, 2022),
Dr. Stefan Spindler (CEO Industrial),
Uwe Wagner (Chief Technology Officer),
Matthias Zink (CEO Automotive Technologies)

The following members left the Board of Managing Directors in 2021
Dr. Klaus Patzak (Chief Financial Officer; until July 31, 2021),
Michael Söding (CEO Automotive Aftermarket; until December 31, 2021)

*Employee representative on the Supervisory Board.

5.11 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 22, 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 consolidated 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 Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Schaeffler AG, Herzogenaurach, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the financial year from January 1 to December 31, 2021, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the report on the situation of the company and of the group ("group management report" below) 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 group management report which are listed in the "Other information" section of our report.

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

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code ("Handelsgesetzbuch" – HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2021, and of its financial performance for the financial year from January 1 to December 31, 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the parts of the group management report which are listed in the "Other information" section. The group 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 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

Measurement of Warranty Provisions

For the accounting policies used, please refer to Note 1.3 to the consolidated financial statements. Note 4.14 to the consolidated financial statements contains information about the amount of the Group's warranty provisions.

The risk for the financial statements The calculation of provisions for warranty and goodwill obligations is associated with unavoidable estimation uncertainties, is complex, and is subject to a high risk of change. Measurement depends, among other things, on the actual amount of damage and other factors within the framework of settlement procedures.

There is a risk to the financial statements that the measurement of provisions for warranty and goodwill obligations may not be appropriate.

Our audit approach We have inspected the underlying written correspondence and detailed documentation on the events and claims for damages relating to individual material cases. Subsequently, we had the Board of Managing Directors, the Quality Department, and the Finance Department explain to us the assumptions underlying the valuation of the warranty provisions. In this context, we obtained an understanding of the extent of the deliveries affected as well as the estimated cost of replacements and exchanges for the individual warranty cases inspected. In addition, we assessed the quality of the company's projections in prior years by considering the quality of estimates made as at earlier reporting dates.

Our observations The assessments made with regard to warranty and goodwill obligations are appropriate.

Recoverability of Goodwill

For the accounting policies and assumptions used, please refer to Note 1.3 to the consolidated financial statements. Note 4.1 to the consolidated financial statements contains information about the amount of the Group's goodwill.

The risk for the financial statements The Schaeffler Group reports EUR 365 m in goodwill in its consolidated statement of financial position as at December 31, 2021. Adding up to approximately 2.5% of total assets, goodwill represents a significant proportion of the Group's net assets.

Goodwill is tested for impairment annually regardless of whether there is an indication of impairment. The impairment test is performed as at December 31, 2021. If indications of impairment arise during the year, an additional impairment test is performed during the year in response to such triggering event.

Impairment testing goodwill is complex and is based on discretionary assumptions. These include the segments' expected business growth and earnings trend for the next five years and – for the Automotive Technologies segment – for the subsequent transition period, the assumed long-term growth rates, and the discount rate used. Due to the technological transition in the automotive industry, the underlying future cash inflows remain subject to an increased level of estimation uncertainty.

There is a risk to the consolidated financial statements that an impairment existing at the reporting date may not have been identified. There is also a risk that the related note disclosures may not be appropriate.

Our audit approach With the support of our valuation specialists, we assessed, among other things, the appropriateness of the significant assumptions used in the underlying company plans and budgets and the company's valuation model. This included a discussion of the expected business and earnings growth as well as of the assumed long-term growth rates with those responsible for the planning process. We had the company substantiate to us the need to include a transition period subsequent to the detailed forecasting phase until a steady state has been reached. We also performed reconciliations to the budgets and long-range plans prepared by management and approved by the Supervisory Board. Further, we evaluated the consistency of assumptions with external market assessments.

In addition, we assessed the quality of the company's past plans by comparing projections for previous years with actual results and analyzing deviations. We compared the assumptions and data underlying the discount rate – particularly the risk-free interest rate, the market risk premium, and the beta factor – with our own assumptions and publicly available data.

To assess whether the valuation methods were appropriately applied, methodically and mathematically, we tested the valuation performed by the company using our own calculations, and analyzed any deviations. To address the level of uncertainty inherent in the projections, we specifically analyzed the consequences of possible changes in the discount rate and the sustainable EBIT margin on the recoverable amount by calculating alternative scenarios and comparing them to the company's figures (sensitivity analysis).

We then obtained an understanding of the reconciliation of Schaeffler AG's market capitalization to the sum of the recoverable amounts of the cash-generating units prepared by management.

Finally, we assessed whether the note disclosures on the recoverability of goodwill are appropriate. This also included an assessment of the note disclosures pursuant to IAS 36.134(f) regarding sensitivities in the event of a reasonably possible change of key assumptions underlying the valuation.

Our observations The calculation methods used to test goodwill for impairment are appropriate and consistent with the applicable valuation principles.

The company's assumptions and inputs underlying the valuation are appropriate.

The related note disclosures are appropriate.

Other Information

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

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

The other information also comprises the remaining parts of the annual report. The other information does not comprise the consolidated financial statements, the information within the group management report whose content has been audited, or our auditors' report.

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

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

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

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, any matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors' report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

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

We have performed an assurance engagement in accordance with section 317 (3a) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the file provided named "Schaeffler_KA21.zip" (SHA256-hash value: 4a3c938a80625764 c2aafd27b3b04ce0dd0b324c0e820cc7f0222802657818d2) and prepared for publication purposes complies in all material respects with the requirements of section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in these reproductions nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group 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 consolidated financial statements and the accompanying group management report for the financial year from January 1 to December 31, 2021, contained in the "Report on the Audit of the Consolidated Financial Statements and of the Group Management Report" above.

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the 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 consolidated financial statements and the group management report in accordance with section 328 (1) sentence 4 no. 1 HGB and for tagging the consolidated financial statements in accordance with section 328 (1) sentence 4 no. 2 HGB.

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

The 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 consolidated financial statements and the audited group management report.
- evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in effect as at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

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

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

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

In addition to the consolidated financial statements, we audited the annual financial statements of Schaeffler AG and conducted various audits of the annual financial statements of subsidiaries and joint ventures. As part of our audit, we audited parts of the system of internal control over financial reporting, including investigating the authorization concept. 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 consolidated financial statements and the audited group management report as well as the audited ESEF documents. The consolidated financial statements and the group 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 consolidated financial statements and the audited group 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 consolidated financial statements provide a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Herzogenaurach, February 22, 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

Multi-year comparison

in € millions	2017	2018	2019	2020	2021
Income statement					
Revenue	14,021	14,241	14,427	12,589	13,852
EBIT	1,528	1,354	790	-149	1,264
• in % of revenue	10.9	9.5	5.5	-1.2	9.1
EBIT before special items [1]	1,584	1,381	1,161	798	1,266
• in % of revenue	11.3	9.7	8.1	6.3	9.1
Net income (loss) [2]	980	881	428	-428	756
Earnings per common non-voting share (basic/diluted, in €)	1.48	1.33	0.65	-0.64	1.14
Statement of financial position					
Total assets	11,537	12,362	12,870	13,509	14,364
Additions to intangible assets and property, plant and equipment	1,287	1,275	933	639	670
Amortization, depreciation, and impairment losses excluding depreciation of right-of-use assets under leases and impairments of goodwill	768	821	922	952	907
Reinvestment rate	1.68	1.55	1.01	0.67	0.74
Shareholders' equity [3]	2,581	3,060	2,917	2,022	3,165
• in % of total assets	22.4	24.8	22.7	15.0	22.0
Net financial debt	2,370	2,547	2,526	2,312	1,954
• Net financial debt to EBITDA ratio before special items [1]	1.0	1.2	1.2	1.3	0.9
• Gearing ratio (Net financial debt to shareholders' equity [3], in %)	91.8	83.2	86.6	114.4	61.7
Statement of cash flows					
EBITDA	2,295	2,175	1,769	1,111	2,230
Cash flows from operating activities	1,778	1,606	1,578	1,254	1,276
Capital expenditures (capex) [4]	1,273	1,232	1,045	632	671
• in % of revenue (capex ratio)	9.1	8.7	7.2	5.0	4.8
Free cash flow (FCF) before cash in- and outflows for M&A activities	515	384	473	539	523
• FCF-conversion (ratio of FCF before cash in- and outflows for M&A activities to EBIT) [5]	0.3	0.3	0.6	-	0.4
Value-based management					
ROCE (in %)	19.2	16.4	9.0	-1.9	16.0
ROCE before special items (in %) [1]	19.9	16.7	13.2	10.0	16.0
Schaeffler Value Added (in € millions)	731	529	-88	-944	473
Schaeffler Value Added before special items (in € millions) [1]	787	557	284	2	475
Employees					
Headcount (at end of reporting period)	90,151	92,478	87,748	83,297	82,981

[1] Please refer to pp. 33 et seq. for the definition of special items.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] Capital expenditures on intangible assets and property, plant and equipment.
[5] Only reported if free cash flow before cash in- and outflows for M&A activities and EBIT positive.

Summary 1st quarter 2020 to 4th quarter 2021

Schaeffler Group

	2020				2021			
in € millions	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Income statement								
Revenue	3,281	2,291	3,391	3,626	3,560	3,454	3,332	3,506
• Europe	1,538	888	1,416	1,537	1,518	1,501	1,374	1,430
• Americas	771	366	732	732	754	669	705	692
• Greater China	518	735	817	870	800	812	778	904
• Asia/Pacific	454	302	426	486	488	472	475	479
Cost of sales	-2,493	-1,969	-2,595	-2,674	-2,603	-2,611	-2,538	-2,659
Gross profit	789	322	796	952	957	843	793	846
• in % of revenue	24.0	14.1	23.5	26.3	26.9	24.4	23.8	24.1
Research and development expenses	-192	-162	-164	-165	-192	-183	-181	-191
Selling and administrative expenses	-377	-303	-332	-360	-383	-371	-374	-390
EBIT	-90	-144	-188	274	388	355	278	243
• in % of revenue	-2.8	-6.3	-5.6	7.6	10.9	10.3	8.3	6.9
Special items	302	-15	511	148	15	-37	-6	29
EBIT before special items [1]	212	-159	322	422	403	319	272	272
• in % of revenue	6.5	-6.9	9.5	11.6	11.3	9.2	8.2	7.8
Net income (loss) [2]	-186	-175	-171	103	235	227	149	145
Earnings per common non-voting share (basic/diluted, in €)	-0.28	-0.25	-0.26	0.15	0.35	0.35	0.22	0.22
Statement of financial position								
Total assets	12,696	12,592	13,175	13,509	13,872	13,959	14,373	14,364
Additions to intangible assets and property, plant and equipment	158	130	171	179	110	131	198	232
Amortization, depreciation, and impairment losses excluding depreciation of right-of-use assets under leases and impairments of goodwill	230	228	259	234	223	228	226	229
• Reinvestment rate	0.69	0.57	0.66	0.76	0.49	0.57	0.87	1.01
Shareholders' equity [3]	2,758	2,061	1,763	2,022	2,549	2,640	2,848	3,165
• in % of total assets	21.7	16.4	13.4	15.0	18.4	18.9	19.8	22.0

	2020				2021			
in € millions	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Net financial debt	2,414	3,002	2,688	2,312	2,176	2,228	2,014	1,954
• Net financial debt to EBITDA ratio before special items [1] [4]	1.2	1.8	1.6	1.3	1.1	0.9	0.8	0.9
• Gearing ratio (Net financial debt to shareholders' equity, in %)	87.5	145.6	152.5	114.4	85.3	84.4	70.7	61.7
Statement of cash flows								
EBITDA	403	99	85	525	625	598	519	488
Cash flows from operating activities	327	-130	533	524	281	266	458	270
Capital expenditures (capex) [5]	164	136	181	151	132	136	215	188
• in % of revenue (capex ratio)	5.0	5.9	5.3	4.2	3.7	3.9	6.4	5.4
Free cash flow (FCF) before cash in- and outflows for M&A activities	137	-285	333	355	130	113	225	55
• FCF-conversion (ratio of FCF before cash in- and outflows for M&A activities to EBIT) [6]	-	-	-	1.3	0.3	0.3	0.8	0.2
Value-based management								
ROCE (in %) [4]	5.4	0.9	-5.2	-1.9	4.2	10.6	16.5	16.0
ROCE before special items (in %) [1] [4]	12.8	7.8	8.0	10.0	12.5	18.7	18.0	16.0
Schaeffler Value Added (in € millions) [4]	-392	-770	-1,247	-944	-460	44	511	473
Schaeffler Value Added before special items (in € millions) [1] [4]	240	-183	-164	2	199	681	631	475
Employees								
Headcount (at end of reporting period)	86,548	84,223	83,711	83,297	83,937	83,945	83,935	82,981

[1] Please refer to pp. 33 et seq. for the definition of special items.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] EBIT/EBITDA based on the last twelve months.
[5] Capital expenditures on intangible assets and property, plant and equipment.
[6] Only reported if FCF before cash in- and outflows for M&A activities and EBIT positive.

Summary 1st quarter 2020 to 4th quarter 2021

	2020				2021			
in € millions	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Automotive Technologies division								
Revenue	2,008	1,256	2,161	2,391	2,281	2,084	1,921	2,150
• E-Mobility BD	243	191	284	328	305	305	272	363
• Engine Systems BD	529	330	566	631	593	524	486	553
• Transmission Systems BD	902	548	989	1,069	1,034	924	861	922
• Chassis Systems BD	333	186	322	362	349	331	302	312
• Europe	838	369	787	888	864	812	661	738
• Americas	541	190	525	516	532	438	452	449
• Greater China	314	497	564	648	541	514	501	655
• Asia/Pacific	315	200	284	339	345	321	307	308
Cost of sales	-1,636	-1,225	-1,707	-1,813	-1,722	-1,652	-1,546	-1,713
Gross profit	372	30	454	578	559	433	375	437
• in % of revenue	18.5	2.4	21.0	24.2	24.5	20.8	19.5	20.3
Research and development expenses	-152	-129	-128	-131	-154	-147	-146	-154
Selling and administrative expenses	-175	-135	-146	-160	-173	-172	-157	-170
EBIT	-223	-235	-75	189	238	154	108	121
• in % of revenue	-11.1	-18.7	-3.5	7.9	10.4	7.4	5.6	5.6
Special items	270	-5	252	91	8	-21	-20	-3
EBIT before special items [1)]	47	-240	176	280	246	133	88	118
• in % of revenue	2.3	-19.1	8.2	11.7	10.8	6.4	4.6	5.5

	2020				2021			
in € millions	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Automotive Aftermarket division								
Revenue	446	301	456	438	444	467	500	437
• Europe	329	212	334	309	312	332	341	291
• Americas	81	56	80	84	83	86	102	92
• Greater China	15	21	21	21	25	26	27	24
• Asia/Pacific	21	13	21	24	24	24	30	31
Cost of sales	-287	-207	-296	-283	-300	-321	-346	-296
Gross profit	160	94	160	155	143	147	154	141
• in % of revenue	35.8	31.2	35.1	35.3	32.3	31.4	30.8	32.2
Research and development expenses	-6	-4	-5	-3	-4	-4	-3	-4
Selling and administrative expenses	-73	-59	-71	-84	-82	-69	-82	-88
EBIT	77	28	62	61	57	88	80	47
• in % of revenue	17.2	9.3	13.7	13.9	12.7	18.9	16.0	10.8
Special items	0	0	23	6	1	-11	-9	1
EBIT before special items [1)]	77	28	86	67	57	77	71	48
• in % of revenue	17.2	9.3	18.8	15.4	12.9	16.5	14.3	11.1
Industrial division								
Revenue	827	734	774	797	836	902	911	919
• Europe	370	307	295	340	342	357	372	402
• Americas	149	120	127	132	140	146	151	151
• Greater China	189	218	231	202	234	272	250	226
• Asia/Pacific	118	89	121	123	119	127	138	140
Cost of sales	-570	-536	-592	-577	-581	-639	-647	-650
Gross profit	257	198	182	220	254	263	264	269
• in % of revenue	31.0	27.0	23.5	27.6	30.5	29.2	29.0	29.3
Research and development expenses	-34	-29	-31	-32	-34	-33	-32	-33
Selling and administrative expenses	-129	-109	-115	-116	-127	-130	-135	-132
EBIT	56	63	-175	24	93	113	90	75
• in % of revenue	6.8	8.6	-22.6	3.0	11.2	12.5	9.9	8.2
Special items	32	-10	236	51	6	-4	23	30
EBIT before special items [1)]	88	53	61	74	99	109	113	105
• in % of revenue	10.7	7.2	7.8	9.3	11.9	12.0	12.4	11.5

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

Financial calendar

March 8, 2022

Publication of annual results 2021

April 21, 2022

Annual general meeting 2022

May 10, 2022

Publication of results for the first three months 2022

August 4, 2022

Publication of results for the first six months 2022

November 8, 2022

Publication of results for the first nine months 2022

All information is subject to correction and may be changed at short notice.

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Investor Relations

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

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Forward-looking statements

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Variances for technical reasons

For technical reasons (e.g., conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette shall be binding.

The reporting period comprises the financial year 2021, which runs from January 1 to December 31, 2021. This report reflects relevant information available by the editorial deadline on February 22, 2022.

Rounding differences may occur.

This English version of the annual report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.

For better readability, this report generally uses only the masculine form when referring to groups of persons. Unless indicated otherwise, these statements should not be construed to refer to a specific gender.

Schaeffler AG

Industriestr. 1–3
91074 Herzogenaurach
Germany

www.schaeffler.com

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