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Press and IR Release

Schaeffler accelerates transformation and strengthens competitiveness

HERZOGENAURACH, *2020-09-09*.

- Board of Managing Directors adopts additional structural measures to further transform the Schaeffler Group and strengthen competitiveness
- Package of measures with two broad aims: (1) downsize capacity and consolidate locations and (2) strengthen competitiveness and expand local capabilities
- Plans include net workforce reduction by 4,400 in Germany and Europe by the end of 2022, focusing mainly on twelve locations in Germany and two elsewhere in Europe
- Sites in Herzogenaurach, Bühl, Schweinfurt, Langen and Höchstadt to be strengthened by clustering technology and production capabilities and investing in future growth areas
- Potential annual savings of 250–300 million euros to be 90 percent realized by 2023, transformation costs of about 700 million euros
- Socially responsible implementation on the basis of 2018 Future Accord

Global automotive and industrial supplier Schaeffler today announced measures that continue to build on changes initiated in 2018. Back then, in recognition of looming technological and regulatory developments and changing customer requirements, the company began adjusting its European production footprint in order to streamline its structures and align them more closely with divisional requirements. As part of that process, the company downsized its footprint in the United Kingdom by exiting three of its sites in November 2018. In early 2019, Schaeffler established an efficiency program (RACE) in its Automotive OEM division, followed that same year by the GRIP and FIT efficiency programs in its Automotive Aftermarket and Industrial divisions, respectively. The RACE program has since led to the sale of three of the company's automotive sites: Hamm, Una, and Kaltennordheim. In September 2019 – before the COVID-19 crisis had even emerged – the company launched an additional voluntary exit program, which is currently being implemented.

The Schaeffler Group's employee numbers have decreased from 92,478 at the end of 2018 to 84,223 at the end of June 2020, a reduction of just over 8,250, or about 9 percent of its workforce. However, at this stage the company's employee numbers only partially reflect the measures undertaken.

Additional package of measures with two main aims

When the COVID-19 pandemic emerged in February and March 2020, resulting in a sharp drop in demand across all three divisions, the Schaeffler Group quickly responded with short-term countermeasures that have so far enabled it to weather the crisis relatively unscathed. For example, the company increased the scope of its European voluntary severance scheme from 1,300 to 1,900 positions, 1,700 of which are in Germany. It also used temporary measures such as plant closure days, using up accumulated overtime and vacation leave, and short time under Germany's Kurzarbeit job subsidy scheme.

Although in recent months demand has picked up across all of Schaeffler's three divisions and four regions, uncertainty surrounding the pandemic outlook and the resulting economic downturn remains high. Moreover, market and revenue projections for the five years to 2025 point to a slow recovery, resulting in structural overcapacity at the company's production plants. The automotive industry, which was already undergoing structural transformation amid the move to electrification, has been hit hard by the COVID-19 crisis. In a sharp decline, global vehicle production for 2020 is forecast to be down 20 percent year on year, and a return to pre-crisis levels is not expected until 2024 at the earliest. Global indus-trial production has also been significantly impacted, with estimates for 2020 pointing to a downturn of between 8 and 12 percent.

In light of this economic environment, it is now vital for Schaeffler to take further structural measures in addition to the current temporary measures, which the company will continue to make full use of.

Accordingly, the Board of Managing Directors of Schaeffler AG has now adopted an additional package of measures at group and divisional program level that is designed to accelerate the Schaeffler Group's transformation and strengthen its ability to compete and realize future opportunities. The package of measures has two broad aims. The first is to downsize structural overcapacity and consolidate Schaeffler's locations in Europe, focusing in particular on Germany. The second is to strengthen the company's competitiveness and build up local capabilities at selected locations in Germany. The structural changes, which the company aims to have largely implemented by the end of 2022, relate mainly to twelve locations in Germany and two further locations elsewhere in Europe.

Capacity downsizing and consolidation of locations

While the capacity downsizing and consolidation measures will affect Schaeffler's larger locations in Herzogenaurach, Bühl, Schweinfurt, Höchstadt and Homburg, most of the impact will be felt at locations with technologically obsolescent product portfolios or highly fragmented plant structures. The latter include the Wuppertal,

Luckenwalde and Eltmann plants, the company's engineering location in Clausthal-Zellerfeld, and its Automotive Aftermarket operations in Hamburg and Cologne.

Having explored all options for the Wuppertal plant over a period of several years, Schaeffler can no longer rule out plant closure. The company will, however, endeavor to retain as many jobs as possible in Germany under a partial relocation of production. For the Luckenwalde location, a partial relocation of activities is planned. At the same time, the company is actively looking for alternative uses and sale options. All production at the Eltmann site will be transferred to Schweinfurt, thereby retaining the majority of jobs by moving them to a location nearby. Already, the Eltmann site manufactures primarily for the Schweinfurt site, so the change is effectively a production integration measure. The Clausthal-Zellerfeld location will be closed, unless a buyer can be found in the short term. Wherever feasible, employees at the company's Automotive After-market operations in Hamburg and Cologne will be given the option of working from home.

There are also plans to reduce administrative overheads in Schaeffler's corporate functions and within its divisions. This applies mainly to the Herzogenaurach, Schweinfurt, Bühl and Homburg locations.

The specifics of the plans for each of the various locations will be outlined at local employee meetings. No final outcomes can be released until after the negotiations with employee representatives on the required reconciliation-of-interests agreements (Interessenausgleiche) have been finalized.

In total, the measures will result in a net workforce reduction of about 4,400 jobs in Europe. The bulk of these will be in Germany. All three of the group's divisions and all of its corporate functions will contribute to the measures.

Strengthening competitiveness and expanding local capabilities

The second part of the package of measures involves clustering and consolidating local technology and production capabilities at the Schaeffler Group's loca-tions in Herzogenaurach, Höchstadt, Bühl and Schweinfurt. This will strengthen selected locations in Germany and boost the competitiveness of the company as a whole. In addition, the Automotive Aftermarket division's headquarters in Langen will be expanded by means of employee transfers.

The plans for Herzogenaurach, the Schaeffler Group's global headquarters, in-clude establishing a state-of-the-art central laboratory facility and siting a capability center for hydrogen technology. The Höchstadt location will gain a tool-manufacturing capability center and will absorb the Herzogenaurach location's current tool-manufacturing capacity. To enable this, the Industrial division's ac-tivities in Höchstadt will be relocated to Schweinfurt, transforming Höchstadt into a purely automotive-sector location.

The Bühl location, where the company's Automotive OEM division is headquartered, will be developed into a capability center for e-mobility solutions and electric-motor mass production. As part of this process, Bühl will gain 500 additional jobs which, under the company's original plans, had initially been prioritized for the Szombathely location in Hungary. The completion of the construction of the new plant in Hungary remains unaffected by this decision. In Schweinfurt, the headquarters of the group's Industrial division, Schaeffler plans to consolidate and cluster its production processes for classic mid and large-diameter bearing products, thereby significantly boosting that location's capabilities. The measures will also strengthen the Industrial division's main development activities in key areas of future technology, such as robotics. The company also intends to establish a center of innovation for group-wide Industry 4.0 tech-nologies and expand its specialized aerospace products operations.

Apart from these measures, the company's new aftermarket kitting hub in Halle is almost ready to commence operations. With support from the Schaeffler Group, the external contractor operating the plant will create around 600 new jobs that will be covered by the relevant collective labor agreements.

Potential savings of 250–300 million euros, freed-up capital to be reinvested in future projects in Germany

It is envisaged that the package of measures will yield potential savings of 250–300 million euros annually, of which 90 percent is expected to be realized by 2023. About half of these savings are expected to come from the Automotive OEM and Industrial divisions, with the Automotive Aftermarket division contributing only a minor share. The measures will generate transformation expenditures of about 700 million euros, most of which is expected to be recognized as a provision in the financial statements for 2020. The capital freed up as a result of implementing the package of measures presented today will be reinvested in key growth areas of business and technology in Germany.

Socially responsible implementation on the basis of Future Accord

The package of measures will be implemented in a socially responsible manner on the basis of the Future Accord signed between Schaeffler and the IG Metall trade union in 2018. The company is currently engaged in constructive dialog with employee representatives with the aim of implementing the structural measures using a diverse mix of tools.

"We moved early to take all steps necessary to overcome the current crisis," said Klaus Rosenfeld, CEO of Schaeffler AG. "However, in light of market developments, further measures are now unavoidable in order to improve the Schaeffler Group's long-term competitiveness and ability to realize future opportunities. The package announced today by the Board of Managing Directors will help our company

achieve these aims." Regarding the means of implementation, Rosenfeld said, "We, on the Board of Managing Directors, are committed to ensuring that the transformation of the Schaeffler Group proceeds wherever possible in accordance with the principles of social responsibility and partnership. That's why we signed a future accord in 2018, and that deal still stands. We're a family business, so we know just how vital that is to achieving successful change and transformation at Schaeffler."

Forward-looking statements and projections

Certain statements in this press release are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial consequences of the plans and events described herein. No one undertakes any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should not place any undue reliance on forward-looking statements which speak only as of the date of this press release. Statements contained in this press release regarding past trends or events should not be taken as representation that such trends or events will continue in the future. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Schaeffler, or persons acting on its behalf, may issue.

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