

Report of the Supervisory Board



Georg F. W. Schaeffler

Report of the Supervisory Board

Ladies and Gentlemen,

The Supervisory Board has performed the duties mandated by law, the company's articles of association, and its internal rules of procedure in 2016. The Supervisory Board has provided advice to the Board of Managing Directors and supervised its activities. It was directly involved on a timely basis in all decisions that were of fundamental importance to the company. The Board of Managing Directors regularly informed the Supervisory Board in written and oral reports about the company's results of operations and about significant transactions as well as the related risks and opportunities. In addition, the Schaeffler Group's strategy was presented to and discussed with the Supervisory Board in detail by the Board of Managing Directors. The Board of Managing Directors continually updated the Supervisory Board in detail about the development of revenue and earnings of the group and the divisions as well as about the financial position. Short- and long-term planning and budgeting matters as well as compliance and risk management matters were also discussed. The Supervisory Board addressed developments in the capital markets and the trend in the price of Schaeffler AG's common non-voting shares, as well.

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

Members of the Supervisory Board and its committees

The Supervisory Board and its committees remained unchanged in 2016. The following committees have been established.

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

The Supervisory Board continues to be of the opinion that it has a sufficient number of independent members (as defined in the German Corporate Governance Code).

There were no conflicts of interest related to members of the Board of Managing Directors or the Supervisory Board in 2016.

Appointments to the Board of Managing Directors

The company's Board of Managing Directors consists of Klaus Rosenfeld (Chief Executive Officer), Prof. Dr.-Ing. Peter Gutzmer (Deputy Chief Executive Officer), Dr. Ulrich Hauck, Oliver Jung, Prof. Dr. Peter Pleus, Corinna Schittenhelm, Dr. Stefan Spindler, and Matthias Zink (since January 01, 2017). On March 11, 2016, Matthias Zink was appointed to the Board of Managing Directors for a term of three years effective January 01, 2017. Also on that date, Prof. Dr. Peter Pleus was reappointed to the Board of Managing Directors for a further term of two years starting January 01, 2017. Norbert Indlekofer left the Board of Managing Directors effective December 31, 2016. The company and the Supervisory Board would like to express their gratitude to Norbert Indlekofer for his successful work over many years and wish him all the best for his retirement.

In accordance with the internal rules of procedure of the Board of Managing Directors, Klaus Rosenfeld is responsible for the CEO Functions, Prof. Dr.-Ing. Peter Gutzmer for Technology, Dr. Ulrich Hauck for Finance, Prof. Dr. Peter Pleus and Matthias Zink for the Automotive division, Dr. Stefan Spindler for the Industrial division, Oliver Jung for Operations, and Corinna Schittenhelm is responsible for Human Resources.

Main activities

The Supervisory Board held four regular meetings, one strategy meeting, and two extraordinary meetings held via conference call in 2016. One resolution was passed in writing. All members of the Supervisory Board attended significantly more than half of the Supervisory Board meetings. The same applies to the attendance of members of the Supervisory Board at committee meetings.

At the extraordinary meeting held via telephone on February 17, 2016, attendees discussed the achievement of targets and objectives related to the remuneration of the Managing Directors and were provided with information on tort litigation against former Managing Directors.

At its first regular meeting on March 11, 2016, the Supervisory Board appointed Matthias Zink to the Board of Managing Directors, reappointed Prof. Dr. Pleus to the Board of Managing Directors, and addressed other personnel matters. The Supervisory Board also dealt with the Schaeffler Group's results of operations as well as with the 2015 separate and consolidated financial statements of the Schaeffler Group. In addition, it approved the report of the Supervisory Board to the annual general meeting, the Supervisory Board's proposed agenda items for the annual general meeting, and an amendment to the declaration of conformity pursuant to section 161 AktG.

At its second regular meeting on May 11, 2016, the Supervisory Board addressed personnel matters, the Schaeffler Group's results of operations, and the results of the first quarter of 2016. There was also a report on intellectual property.

In its extraordinary conference call on July 08, 2016, the Supervisory Board discussed financing measures which were subsequently approved by a resolution passed in writing dated July 15, 2016.

At its third regular meeting on October 06, 2016, the Supervisory Board heard a report on the latest results of operations and the results of the first half of 2016.

The third regular meeting of the Supervisory Board was immediately followed by a meeting at which the Schaeffler Group's future strategy was presented in detail. The Supervisory Board discussed the various aspects of the strategy with the Board of Managing Directors. The Board of Managing Directors included the Supervisory Board's suggestions in its strategy considerations.

At its fourth regular meeting on December 16, 2016, the Supervisory Board passed a resolution amending the employment contracts of the divisional CEOs and set the target amounts underlying the bonuses for the Managing Directors for 2017. The Supervisory Board also approved the declaration on the German Corporate Governance Code (section 161 AktG) and discussed the Schaeffler Group's results of operations and results of the third quarter of 2016. Also at this meeting, the Supervisory Board approved the budget for 2017 and the long-range plan for the years 2017 to 2021 (including the capital expenditure plan).

In October and November 2016, the Supervisory Board performed an internal efficiency audit of its activities. The audit found that the Supervisory Board performs its duties efficiently. Certain issues, such as monitoring the implementation of the Supervisory Board's decisions, need further development in the future.

The executive committee of the Supervisory Board held four regular meetings and four extraordinary meetings via telephone in 2016. One resolution was passed in writing. Preparing personnel decisions to be made by the Supervisory Board and preparing the meetings of the Supervisory Board were on the agenda of the regular meetings. A resolution dated September 01, 2016 to approve a Managing Director's external activity was passed in writing.

The extraordinary meetings held via telephone on January 08 and 12, 2016 and on November 04, 2016, dealt with tort litigation against former Managing Directors. The executive committee's extraordinary meeting held via telephone on December 07, 2016 dealt with two M&A projects and personnel matters.

The audit committee held four regular meetings in 2016. At these meetings, the audit committee addressed the separate and consolidated financial statements of the Schaeffler Group for 2015, and the interim reports as at March 31, 2016, June 30, 2016, and September 30, 2016. Compliance, internal audit, risk management, and the internal control system were reported on a regular basis at these meetings, as well. The audit committee also dealt with working capital management, issues related to international tax

law, and non-audit services provided by the financial statement auditors. The audit committee recommended to the 2016 annual general meeting that it appoint KPMG AG auditors of the separate and consolidated financial statements and auditors for purposes of reviews of interim financial statements and financial information. The audit committee also engaged KPMG AG as auditors and determined areas of focus for the audit.

The nomination and mediation committees did not hold any meetings in 2016.

Separate and consolidated financial statements 2016

KPMG has audited the separate financial statements and the combined management report as at December 31, 2016 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.

KPMG 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 01, 2016 to December 31, 2016.

The consolidated financial statements of Schaeffler AG as at and for the year ended December 31, 2016 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 315a (1) German Commercial Code. The consolidated financial statements were also audited by KPMG.

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

KPMG 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 audit committee discussed the financial statement documents, the dependency report, and the long-form audit

reports with the Board of Managing Directors and the auditors on March 02, 2017. The audit committee scrutinized the development of earnings for 2016, the financial position and net assets as at the reporting date and, particularly, provisions for risks. The financial statement documents, the dependency report, and the long-form audit reports were also dealt with in the Supervisory Board meeting convened to approve the financial statements on March 03, 2017. 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 audit findings 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), 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 2016.

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 employees of Schaeffler AG and the group companies for their dedication and their constructive teamwork during another challenging year.

On behalf of the Supervisory Board



Georg F.W. Schaeffler
Chairman

Herzogenaurach, March 03, 2017