

Corporate
governance report
and corporate
governance
declaration

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1. Corporate governance report and corporate governance declaration

Corporate governance stands for responsible management focused on adding long-term value. Efficient cooperation between the Board of Managing Directors and the Supervisory Board as well as openness and transparency are key aspects of the Schaeffler Group's corporate governance that strengthen the confidence of shareholders, business partners, and employees in the company's management and supervision.

1.1 Corporate governance principles

It is very important to the Schaeffler Group to combine economic success with acting responsibly toward the environment, people, and society. Sustainable management and good corporate citizenship have been essential elements of the Schaeffler Group's long-standing corporate culture and represent the foundation of long-term profitable growth. At the core of this growth strategy are highest quality, outstanding technology, and strong innovative ability, in doing business with customers as well as in the group's internal processes. Being an innovation and technology leader with extensive expertise, the Schaeffler Group's products and solutions help make the mobility of tomorrow eco-friendly and energy-efficient. Managing the company with integrity, complying with legal regulations, and good corporate citizenship are integral components of Schaeffler's long-standing corporate culture. The Schaeffler Group's manner of conducting business is based on compliance with the law, fairness, mutual respect, and integrity. Under its comprehensive Code of Conduct applicable worldwide, the Schaeffler Group is committed to a culture of sustainability and views that as a prerequisite for the company's long-term success. The Code of Conduct defines principles of acting with integrity and in compliance with the law. These principles apply equally to everyone – the Board of Managing Directors, management, and every single employee – and also represent a promise to the shareholders and other stakeholders of the company. The Schaeffler Group's Code of Conduct was fundamentally revised in 2015.

With two exceptions, the Board of Managing Directors and the Supervisory Board comply with the German Corporate Governance Code in conducting their affairs: The Code recommends for the presentation of the remuneration of the Board of Managing Directors the use of template charts, which also provide for the presentation of comparative figures for the preceding year. As Schaeffler AG only has been converted into a stock corporation in October 2014 and the group management has only been transferred to the company at this point in time the remuneration report 2015 deviates from this recommendation. In addition, the Supervisory Board has not set an age limit for the members of the Supervisory Board, 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.

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

Schaeffler AG's governance structure follows the two-tier model set out in the German Stock Corporations Act. 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 work 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. Based on the organizational structure, the Board of Managing Directors consists of the Group CEO and the CEOs of the divisions and functions. The Board of Managing Directors is directly responsible for managing the company, setting objectives and strategic direction, and managing the implementation of the company's strategy, taking into account the interests of shareholders, employees, and other stakeholders of the company in order to add long-term value. The Schaeffler Group's business 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.

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 members of the Board of Managing Directors ensure that the company has appropriate risk management and risk controlling systems in place and complies with the recommendations and suggestions of the German Corporate Governance Code in their actions.

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.

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. The Supervisory Board appoints the members of the Board of Managing Directors and sets their remuneration (details of remuneration: see remuneration report). Under a resolution passed by the Supervisory Board on September 30, 2015 the Board of Managing Directors has to have at least one female member. Additionally, the Supervisory Board keeps diversity in mind when making appointments to the Board of Managing Directors, particularly with respect to giving appropriate consideration to women. Together, the Supervisory Board and the Board of Managing Directors ensure that long-term succession planning is performed for the Board of Managing Directors. Members may serve on the Board of Managing Directors until their 68th birthday. 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. In addition, the internal rules of procedure set out which legal transactions and measures taken by the Board of Managing Directors require approval by the Supervisory Board. The Supervisory Board has decided to perform an efficiency audit of the Supervisory Board's activities in 2016; the manner in which this efficiency audit is to be performed has not yet been determined.

The Supervisory Board consists of twenty 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. Members should have the knowledge, skills, and technical experience required to properly perform their duties and be able devote sufficient time to these duties. 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. Taking into account the company's specific situation, the Supervisory Board has set the following concrete targets for its composition:

- The Supervisory Board aims to maintain the current proportion of members with an international background.
- Under the assumption that all employee representatives on the Supervisory Board can be considered independent, the Supervisory Board aims to have a minimum of 15 independent members (as defined in the German Corporate Governance Code).
- Members of the Supervisory Board should not normally serve on the Board for more than three terms of office.

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.

The Supervisory Board also aims to ensure diversity among its members and avoid conflicts of interest.

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.

Under its internal rules of procedure, the Supervisory Board establishes a total of four 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 committee members are Maria-Elisabeth Schaeffler-Thumann as well as Georg F. W. Schaeffler, Norbert Lenhard, 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 Maria-Elisabeth Schaeffler-Thumann, Dr. Holger Engelmann, and Prof. Dr. Bernd Gottschalk, with Georg F. W. Schaeffler chairing the committee.

The executive committee consists of Maria-Elisabeth Schaeffler-Thumann as well as Georg F. W. Schaeffler, Norbert Lenhard, Jürgen Wechsler, Prof. KR Ing. Siegfried Wolf, and Barbara Resch; 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) German Stock Corporations Act.

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

The audit committee has the responsibility and authority to engage the auditors on behalf of the Supervisory Board, determine areas of focus for the audit, and agree the audit fees with the auditors. In addition, the audit committee monitors the independence, qualifications, and efficiency of the auditors as well as the rotation of audit team members. On behalf of the Supervisory Board, the audit committee monitors the financial reporting process and the effectiveness of Internal Audit, the internal control system, and the risk management system, and addresses compliance within the company. It also regularly obtains information on the areas of focus for the audit as well as audit results from Internal Audit.

The audit committee consists of six members. His position automatically makes the Chairman of the Supervisory Board a committee member. The chairman of the audit committee has to be independent and can neither be a former member of the Board of Managing Directors nor the Chairman of the Supervisory Board; he should be particularly knowledgeable about and experienced in the application of accounting principles as well as internal control procedures. As the former chief financial officer of the Bertelsmann Group, the chairman of the audit committee, Dr. Siegfried Luther, meets these requirements. The remaining members of the audit committee are Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, Jürgen Worrlich, and Dr. Reinold Mittag.

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. 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.

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

Avoiding conflicts of interest

The members of the Board of Managing Directors and of the Supervisory Board are required to immediately disclose any conflict of interest to the Supervisory Board. Significant transactions between the company and members of the Board of Managing Directors or parties related to them require the Supervisory Board's approval. Consulting and other service contracts as well as contracts for specific deliverables between the company and members of the Supervisory Board also require approval by the Supervisory Board. The Supervisory Board reports to the annual general meeting on any conflicts of interest and their resolution. Neither the members of the Board of Managing Directors nor those of the Supervisory Board have experienced any conflicts of interest in 2015.

Gender quota

As the Supervisory Board currently has four female members, it has not yet reached the proportion of 30 % that is legally required.

The Board of Managing Directors meets the target set by the Supervisory Board, as it has had one female member since January 01, 2016.

The target quota for females at the first level of management has been set at 5 % and at 12 % for the second level of management. The company expects to meet both of these quotas by their deadline (June 30, 2017).

1.3 Other information on corporate governance

Shares held by members of the Board of Managing Directors and the Supervisory Board, directors' dealings

On December 31, 2015, Schaeffler Verwaltung Zwei GmbH held a 75.1 % interest (500 million common shares) in Schaeffler AG, and Schaeffler Verwaltungs GmbH held a 14.1 % interest (approximately 94 million common non-voting shares). These shareholdings are attributable to Supervisory Board members Georg F. W. Schaeffler and Maria-Elisabeth Schaeffler-Thumann. The remaining Supervisory Board members held less than 1 % of the common and common non-voting shares of the company as at the reporting date. Shares held by members of the Board of Managing Directors on December 31, 2015 also represent less than 1 % of the company's common and common non-voting shares.

Under section 15a German Securities Trading Act ("Wertpapierhandelsgesetz" – WpHG), the members of the Board of Managing Directors and the Supervisory Board are legally required to disclose any acquisition or disposal of shares in Schaeffler AG or their derivative financial instruments if the value of transactions executed by the member and parties related to it during a calendar year reaches or exceeds EUR 5,000. The transactions reported to Schaeffler AG in 2015 were made public appropriately and are available for download from the company's website at: www.schaeffler.com/ir.

Transparency

The company aims to provide 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 press releases, ad hoc releases, and voting rights notifications 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. At the annual general meeting 2016, the common non-voting shares do not convey any voting rights in accordance with section 140 (2) (1) AktG, either.

Shareholders have to register for the annual general meeting in due time in order to attend the annual general meeting. An invitation and other published 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

Schaeffler AG prepares 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 are prepared in accordance with the principles set out in International Financial Reporting Standards (IFRS) as adopted by the EU.

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 arising 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 letters dated March 24, 2015 and October 13, 2015, the auditors have issued a binding independence letter for the year ended December 31, 2015.

1.4 Declaration by the Board of Managing Directors and the Supervisory Board of Schaeffler AG pursuant to § 161 AktG on the German Corporate Governance Code

In March 2016, the Board of Managing Directors and the Supervisory Board issued the following updated version of their respective declaration of conformity originally issued in December 2015 pursuant to section 161 AktG. The declarations have both been made available to the public on the internet at www.schaeffler.com/ir.

Since the listing of its common non-voting shares on October 09, 2015, Schaeffler AG complies with the recommendations of the “Governmental Commission German Corporate Governance Code” as amended on May 05, 2015 (“Code”) with the exceptions described below and will also comply with the recommendations in the future with the exceptions described below:

The Code recommends in item 4.2.5 for the presentation of the remuneration of the Board of Managing Directors the use of template charts, which also provide for the presentation of comparative figures for the preceding year. As Schaeffler AG only has been converted into a stock corporation in October 2014 and the group management has only been transferred to the company at this point in time the remuneration report 2015 deviates from this recommendation.

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

Herzogenaurach, March 2016

For the Supervisory Board

For the Board of Managing Directors

sgd.

sgd.

Georg F. W. Schaeffler

Klaus Rosenfeld

Chairman of the Supervisory Board

Chief Executive Officer