

Annual General Meeting of Schaeffler AG on April 20, 2018

Report by the Board of Managing Directors on agenda item 6 of the annual general meeting and on agenda item 1 of the special meeting of the holders of common non-voting shares

The Board of Managing Directors submits the following written report to the company's annual general meeting convened for April 20, 2018 and to the special meeting of the holders of common non-voting shares convened for the same date regarding the proposed resolutions on the conversion of common shares into common non-voting shares as set forth under agenda item 6 of the annual general meeting and agenda item 1 of the special meeting of the holders of common non-voting shares:

1. Subject of the proposed resolutions

The company's share capital is currently divided into 500,000,000 common voting bearer shares and 166,000,000 common non-voting bearer shares. The common non-voting shares have preferred dividend distribution rights of EUR 0.01 and are admitted to trading on the regulated market of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with other post-admission obligations (*Prime Standard*) and admission to trading on the regulated market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*).

The Board of Managing Directors and Supervisory Board propose converting 166,000,000 common voting bearer shares of the company into common non-voting bearer shares while granting preferred dividend distribution rights ("**New Common Non-Voting Shares**"). In this regard, an amendment to the articles of association is to be resolved upon as is required for the conversion of the common shares into common non-voting shares (agenda item 6 c) of the annual general meeting and agenda item 1 c) of the special meeting of the holders of common non-voting shares).

IHO Verwaltungs GmbH has, as sole holder of all 500,000,000 common shares, irrevocably declared its consent vis-à-vis the company to the conversion of 166,000,000 common shares into common non-voting shares as set forth under item 6 of the agenda for the annual general meeting of Schaeffler AG and agenda item 1 of the agenda of the special meeting of the holders of common non-voting shares, each as of April 20, 2018, as proposed by the Board of Managing Directors and the Supervisory Board.

The proposed resolution of the annual general meeting under agenda item 6 also requires a special resolution of the holders of common non-voting shares, to be adopted in a special meeting (agenda item 1 of the special meeting of the holders of common non-voting shares).

2. Current capital structure

The company's share capital currently amounts to EUR 666,000,000.00 and is divided into 666,000,000 no-par-value shares, comprising 500,000,000

common bearer shares with voting rights and 166,000,000 common non-voting bearer shares. The notional interest in the share capital is EUR 1.00 for each no-par-value share. The common non-voting shares have preferred dividend distribution rights pursuant to section 22.2(b) of the articles of association. Accordingly, the net profit, unless otherwise resolved upon by the annual general meeting, will first be used to pay the preferred dividend in the amount of EUR 0.01 per share to the holders of common non-voting shares. Any other dividends will be paid to all shareholders based on their participation in the company's share capital.

The company's articles of association stipulate that holders of common non-voting shares generally have no voting right. However, if the annual preferred dividend of EUR 0.01 per common non-voting share as set forth in section 22.2(b) of the company's articles of association is not paid or not fully paid for a year, and the outstanding amount is not paid in the subsequent year together with the full preferred dividend for such year, the holders of common non-voting shares will be entitled to voting rights until the outstanding amount has been paid in full.

3. New capital structure

After the conversion of 166,000,000 common shares into common non-voting shares, the share capital will continue to amount to EUR 666,000,000.00 and be divided into 666,000,000 no-par-value shares. The Board of Managing Directors anticipates that the proposed amendment to the articles of association will be registered with the commercial register in the near term following the annual general meeting and the special meeting of the holders of common non-voting shares. Only after the relevant amendment to the articles of association is registered with the commercial register will the conversion of 166,000,000 common shares into common non-voting shares of the company take effect. If the conversion is implemented as expected, the preferred dividend rights for the New Common Non-Voting Shares will first be taken into account when the net profit is distributed for the business year 2018. In exchange for the cancellation of voting rights, each former common share will after conversion be entitled to the preferred dividend rights as described under 2. Following the conversion, the New Common Non-Voting Shares will no longer be subject to the legal provisions that apply to voting shares in listed companies, particularly not the notification obligations under sections 33 et seq. German Securities and Trading Act ("Wertpapierhandelsgesetz" – WpHG).

4. Process of the conversion

The conversion of common voting bearer shares into common non-voting bearer shares will be implemented by granting the preferred dividend rights for common non-voting shares pursuant to section 22.2(b) of the articles of association of the company by way of amendment of the articles of association, which will take effect following registration with the commercial register. As a result of the amendment to the articles of association, the rights of the New Common Non-Voting Shares will be adapted following conversion to those of the existing common non-voting shares. The conversion of 166,000,000 common shares (share numbers 334,000,001 to 500,000,000) into new common non-voting shares will therefore take place in a ratio of 1 : 1; the respective pro rata participation of each shareholder in the company's share capital will not change.

The conversion requires a resolution by the annual general meeting. IHO Verwaltungs GmbH has, as the sole holder of all common shares, irrevocably declared its consent to such conversion. The conversion also requires a special resolution by the holders of common non-voting shares of the company that in turn requires a majority of three quarters of the votes cast pursuant to section 141 para. 3 sentence 2 German Stock Companies Act ("Aktiengesetz" – AktG). The holders of common non-voting shares will decide upon such special resolution in a special meeting (section 141 para. 3 sentence 1 AktG), which is convened separately also for April 20, 2018 (to be held following the annual general meeting of the same day).

The conversion of the common shares into common non-voting shares will be consummated as a matter of corporate law upon registration of the resolution of the annual general meeting regarding the conversion and the corresponding amendment to the articles of association with the commercial register. The company will publish the exact date of the contemplated registration of the conversion in the Federal Gazette (*Gesellschaftsblätter*) and by way of public announcement.

IHO Verwaltungs GmbH has confirmed vis-à-vis the company that, at the time the annual general meeting and special meeting of the holders of common non-voting shares are being convened, it is the sole holder of all 500,000,000 common shares. IHO Verwaltungs GmbH has, vis-à-vis the company, assumed the obligation to cover all costs relating to the conversion.

5. Effects on the existing listing on the stock exchange

As a result of the conversion, the existing listing of the common non-voting shares will continue unmodified. These shares continue to be tradable under ISIN DE000SHA0159 (WKN SHA015).

It is contemplated to admit the 166,000,000 New Common Non-Voting Shares to trading on the regulated market of the Frankfurt Stock Exchange with simultaneous admission to trading on the sub-segment of the regulated market with other post-admission obligations (*Prime Standard*) and admission to trading on the regulated market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*).

IHO Verwaltungs GmbH has undertaken vis-à-vis the company that it will not dispose of the New Common Non-Voting Shares before April 30, 2019.

Herzogenaurach, March 2018

Schaeffler AG
– The Board of Managing Directors –