

# Report of the Supervisory Board

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Georg F. W. Schaeffler  
Chairman of the Supervisory Board

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*Ladies and Gentlemen,*

The Supervisory Board has dutifully performed the duties mandated by law, the company's articles of association, and its internal rules of procedure during the year. The Supervisory Board has provided advice to the Board of Managing Directors and supervised its activities. In doing so, it 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 transactions. In addition, the Board of Managing Directors and the Supervisory Board discussed and refined the Schaeffler Group's strategy in detail.

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 ensured that he was kept informed about all current matters and developments on an ongoing basis.

 More on corporate governance on pp. 85 et seq. of the annual report 2017

## Members of the Supervisory Board and its committees

There was one change in the membership of the Supervisory Board during the reporting period. Yvonne Münch left the Supervisory Board on March 07, 2017 because she was employed by a group company that was sold to a third party. The appointment of Andrea Grimm to the Supervisory Board by a court became effective on April 08, 2017.

The committees of the Supervisory Board remained unchanged in 2017. 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

In 2017, the Supervisory Board once again dealt with matters concerning its membership. This involved developing a profile of expertise and a diversity scheme for the entire Supervisory Board. The Supervisory Board also developed a diversity scheme for the Board of Managing Directors.

The Supervisory Board continues to consider the number of its independent members (as defined in the German Corporate Governance Code) sufficient. The Supervisory Board views all shareholder representatives on the Supervisory Board as independent as defined in item 5.4.2 of the GCGC, except for Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler.

There were no conflicts of interest related to members of the Board of Managing Directors or the Supervisory Board in 2017.

## 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), Dietmar Heinrich (since August 01, 2017), Oliver Jung, Prof. Dr. Peter Pleus, Corinna Schittenhelm, Dr. Stefan Spindler, and Matthias Zink. After Dr. Ulrich Hauck had left (until July 31, 2017), Dietmar Heinrich was appointed to the Board of Managing Directors for a term of three years effective August 01, 2017, after Dr. Ulrich Hauck (until July 31, 2017) had left. In addition, the Supervisory Board decided on July 17, 2017, to extend Dr. Spindler's term of office by five years effective May 01, 2018.

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, Dietmar Heinrich 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. The company established a new "Automotive Aftermarket" division as of January 01, 2018. On October 06, 2017, the Supervisory Board appointed Michael Söding as the member of the Board of Managing Directors responsible for the newly-established division for a term of three years beginning on January 01, 2018.

## Topics of Supervisory Board plenary meetings

The Supervisory Board held four regular meetings, one strategy meeting, and two extraordinary meetings in 2017. In addition, one resolution was passed in writing, and several conference calls were held in which the Board of Managing Directors briefed the Supervisory Board on certain transactions.

The Supervisory Board met for an extraordinary meeting via conference call on February 03, 2017, to discuss the preliminary achievement of targets and objectives related to the variable remuneration of the Managing Directors.

At its first regular meeting of the year on March 03, 2017, the Supervisory Board was briefed on the company's most recent results of operations and discussed the separate and consolidated financial statements of the Schaeffler Group for 2016, adopted the separate financial statements, and approved the consolidated financial statements, the closing statement on the dependency report, and the proposal for the appropriation of earnings. In addition, it approved the report of the Supervisory Board to the annual general meeting 2017 and the Supervisory Board's proposed resolutions on the items on the agenda of the annual general meeting. The Supervisory Board also passed a resolution regarding the achievement of targets and objectives related to the variable remuneration of the Managing Directors. Finally, the meeting discussed the results of the review of the appropriateness of the Managing Directors' remuneration performed by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft concluded that the total direct remuneration of the members of Schaeffler AG's Board of Managing Directors is customary and appropriate in comparison to that of other companies of comparable size within the same industry and country in terms of the amount, structure, and features of remuneration instruments.

At its regular meeting on May 10, 2017, apart from dealing with certain personnel matters, the Supervisory Board set the target for the proportion of female members of the Board of Managing Directors in accordance with section 111 (5) AktG. In addition, the Supervisory Board was briefed on the company's results of operations and the results for the 1<sup>st</sup> quarter of 2017. The meeting also heard a report on the Schaeffler Group's Technology Dialog.

At the extraordinary meeting held via conference call on July 17, 2017, the Supervisory Board appointed Dietmar Heinrich to the Board of Managing Directors and extended the employment contract of Dr. Stefan Spindler for his position on the Board of Managing Directors.

On October 05, 2017, the Supervisory Board held its strategy meeting, in which the Board of Managing Directors presented its strategy considerations for the Schaeffler Group. The proposals were discussed in detail.

At its third regular meeting on October 06, 2017, the Supervisory Board heard a report on the Schaeffler Group's most recent results of operations and the results of the first half of 2017. There was also a report on the "European Distribution Center" and "Aftermarket Kitting Operation" projects. In addition, Michael Söding was appointed to the Board of Managing Directors.

In a resolution passed in writing on November 06, 2017, the Supervisory Board approved the "Aftermarket Kitting Operation" project.

At its fourth and final regular meeting on December 15, 2017, the Supervisory Board was briefed on the Schaeffler Group's most

recent results of operations and the results of the third quarter of 2017. It also approved the budget for 2018 and the long-range plan for the years 2018 to 2022. There was a report on the Chassis Systems business division. In addition, the Supervisory Board approved the financing arrangements for the “European Distribution Center” and “Aftermarket Kitting Operation” projects. Apart from dealing with personnel matters, the Supervisory Board approved the profile of expertise for the Supervisory Board as a whole and the diversity schemes for the Board of Managing Directors and the Supervisory Board on December 15, 2017. The Supervisory Board also approved the updated declaration on the German Corporate Governance Code (section 161 AktG) and engaged KPMG AG Wirtschaftsprüfungsgesellschaft to review the non-financial report (section 111 (2)(4) AktG).

### Topics of Supervisory Board committee meetings

The executive committee of the Supervisory Board held a total of four regular meetings in 2017 and passed one resolution in writing. Executive committee meetings were used to prepare the corresponding plenary meeting of the Supervisory Board, especially the personnel decisions to be made by the Supervisory Board. The executive committee also approved external activities of members of the Board of Managing Directors. In addition, the regular executive committee meeting on October 05, 2017, approved the Schaeffler Group’s enhanced organizational structure proposed by the Board of Managing Directors. A resolution approving a settlement agreement between Schaeffler Technologies AG & Co. KG and Allianz Global Corporate & Specialty SE was passed in writing on November 23, 2017.

The audit committee held four regular meetings in 2017. In addition to addressing the separate and consolidated financial statements including the non-financial report and the dependency report the audit committee dealt, in particular, with the interim reports as at March 31, 2017, June 30, 2017, and September 30, 2017. Compliance, internal audit, risk management, and the internal control system were reported on at audit committee meetings on a regular basis. In addition, the audit committee was kept up-to-date on the status of a FREP examination and on the services provided by the auditors. The audit committee also heard reports on the implementation of IFRS 15 and on R&D controlling. Non-audit services provided by the auditors were discussed and approved. The process for reviewing the auditors’ non-audit services was reviewed as well. The audit committee recommended to the 2017 annual general meeting 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 engaging KPMG AG Wirtschaftsprüfungsgesellschaft to review the non-financial report.

The nomination and mediation committees did not hold any meetings during the reporting period.

The chairmen of the executive and audit committees reported on the committees’ activities to the corresponding subsequent plenary meeting of the Supervisory Board.

The members of the Supervisory Board and the members of the committees attended more than half of the meetings of the Supervisory Board and the committees they were on in 2017.

### Separate and consolidated financial statements 2017

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the separate financial statements, the consolidated financial statements, and the combined management report as at December 31, 2017, 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, 2017, 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 01, 2017, to December 31, 2017.

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 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 Group has prepared its first combined separate non-financial report, covering the year 2017. KPMG AG

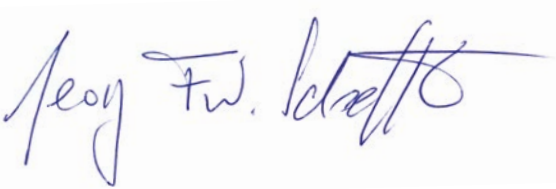
Wirtschaftsprüfungsgesellschaft has performed a limited assurance engagement on the non-financial report and found that, based on the limited review procedures performed, nothing has come to its attention that causes it to believe that the combined separate non-financial report has not been prepared, in all material respects, in accordance with legal requirements.

The audit committee discussed the financial statement documents, the combined separate 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 March 01, 2018. The audit committee scrutinized the development of earnings for 2017, the financial position and net assets as at the reporting date, and, particularly, provisions for risks. The financial statement documents, the combined separate non-financial report, the dependency report, the long-form audit reports, and the recommendations of the audit committee were also dealt with in the Supervisory Board meeting convened to approve the financial statements on March 02, 2018. 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 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 0.54 per common share and EUR 0.55 per common non-voting share in respect of 2017.

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 great commitment and dedication and their constructive teamwork in 2017.

For the Supervisory Board



Georg F. W. Schaeffler  
Chairman

Herzogenaurach, March 02, 2018