



Report of the Supervisory Board



Georg F.W. Schaeffler
Chairman of the Supervisory Board

Report of the Supervisory Board

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 developments concerning the business. Transactions that either the law or the internal rules of procedure require to be approved by the Supervisory Board were provided, along with any necessary information and documents, to the Supervisory Board in due time for such approval. 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. 88 et seq. of the annual report 2018

Members of the Supervisory Board and its committees

The membership of the Supervisory Board changed as follows during the reporting period: Stefanie Schmidt resigned from the Supervisory Board as at June 30, 2018. Susanne Lau was appointed to the Supervisory Board by the court effective August 8, 2018.

In addition, the chairman of the audit committee changed. Dr. Siegfried Luther, who had chaired the committee for many years, resigned as chairman of the audit committee effective June 30, 2018. He remains a member of the Supervisory Board and the audit committee. On May 4, 2018, the Supervisory Board appointed Robin Stalker the new chairman of the audit committee effective July 1, 2018. Robin Stalker is a long-standing member of the audit committee and served as chief financial officer of a DAX company for many years. As a result, he is sufficiently experienced to chair the audit committee.

At its meeting on October 5, 2018, the Supervisory Board decided to establish an eight-member technology committee to facilitate the regular exchange of information regarding techno-

logical developments between the Supervisory Board and the Board of Managing Directors.

The following persons were appointed to the technology committee:

- Prof. Dr. Hans-Jörg Bullinger (Chairman)
- Norbert Lenhard
- Georg F. W. Schaeffler
- Salvatore Vicari
- Jürgen Wechsler
- Prof. KR Ing. Siegfried Wolf
- Jürgen Worrich
- Prof. Dr.-Ing. Tong Zhang

In addition to the technology committee, the Supervisory Board has established the following standing committees:

- 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:
Robin Stalker (Chairman),
Dr. Siegfried Luther, Dr. Reinold Mittag, Georg F. W. Schaeffler,
Salvatore Vicari, and Jürgen Worrich
- Nomination committee:
Georg F. W. Schaeffler (Chairman),
Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, and
Maria-Elisabeth Schaeffler-Thumann

There were no conflicts of interest related to members of the Supervisory Board in 2018.

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, Andreas Schick, Corinna Schittenhelm, Michael Söding, Dr. Stefan Spindler, and Matthias Zink.

Oliver Jung left Schaeffler AG's Board of Managing Directors effective March 31, 2018. On March 2, 2018, the Supervisory Board passed a resolution appointing Andreas Schick to succeed

him for a term of office of three years beginning April 1, 2018. Also on March 2, 2018, Corinna Schittenhelm was reappointed for a further five-year term of office beginning on January 1, 2019. Finally, in a resolution passed on October 5, 2018, Klaus Rosenfeld was reappointed for a further five-year term of office beginning on July 1, 2019. Prof. Dr. Peter Pleus retired from the Board of Managing Directors of Schaeffler AG when his term of office ended on December 31, 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, Matthias Zink for the Automotive OEM division, Michael Söding for the Automotive Aftermarket division, Dr. Stefan Spindler for the Industrial division, Andreas Schick for Operations, Supply Chain Management, and Purchasing, and Corinna Schittenhelm is responsible for Human Resources.

Topics of Supervisory Board plenary meetings

The Supervisory Board held four regular meetings, one strategy meeting, and three extraordinary meetings in 2018 and passed two resolutions in writing.

In its meetings, the Supervisory Board regularly dealt with the Schaeffler Group's results of operations and financial indicators. It also ensured that it was briefed on the work of the committees on a regular basis. The personnel decisions regarding the Board of Managing Directors also represented an important aspect of the work of the Supervisory Board.

The Supervisory Board met for an extraordinary meeting via conference call on February 6, 2018, to discuss the preliminary achievement of targets and objectives related to the variable remuneration of the Managing Directors. The final extent to which these targets and objectives were met was then determined at the meeting on March 2, 2018.

At its first regular meeting of the year on March 2, 2018, the Supervisory Board passed resolutions regarding the appointment and reappointment of members of the Board of Managing Directors. Following the establishment of the new Automotive Aftermarket division on January 1, 2018, the Supervisory Board decided to adjust the budget for 2018 and the long range plan for the years 2018 to 2022 to reflect the new structure. The meeting also discussed the separate and consolidated financial statements of the Schaeffler Group for 2017. This also involved KPMG reporting to the Supervisory Board on the audit of the separate financial statements, the consolidated financial statements, and the dependency report, as well as on the audit engagement performed on the combined separate non-financial report 2017.

Also at this meeting, the Supervisory Board adopted the separate financial statements and approved the consolidated financial statements, the closing statement of the Board of Managing Directors 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 2018 and the Supervisory Board's proposed resolutions on the items on the agenda of the annual general meeting.

At its regular meeting on May 4, 2018, the Supervisory Board heard a report on the results of operations and the results of the first quarter of 2018. A presentation was also given on the Schaeffler Group's quality management.

At the extraordinary meeting held via conference call on July 31, 2018, the Supervisory Board dealt with an acquisition project that involved establishing a joint venture for the purpose of acquiring the "Steer-by-Wire"-Technology from Paravan GmbH. The establishment of the joint venture and the acquisition of this technology were subsequently approved in a resolution passed in writing on August 5, 2018.

The Supervisory Board met for a further extraordinary meeting via conference call on August 23, 2018, to be briefed on the plans for a debt issuance program and the potential refinancing of existing loan agreements. The Supervisory Board then approved the refinancing arrangement and the creation of a debt issuance program in a resolution passed in writing dated August 28, 2018. An ad-hoc committee consisting of three shareholder representatives and three employee representatives was established for the purpose of approving the terms and conditions of the various bonds issued under the debt issuance program.

On October 4, 2018, 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 and at length.

At its third regular meeting on October 5, 2018, the Supervisory Board heard a report on the Schaeffler Group's most recent results of operations and the results of the first half of 2018. In addition, the Supervisory Board discussed personnel matters, engaged KPMG to perform an audit engagement on the non-financial report, and established the new technology committee.

At its fourth and final regular meeting on December 14, 2018, the Supervisory Board was briefed on the Schaeffler Group's most recent results of operations and the results of the third quarter of 2018. It also approved the budget for 2019 and the long-range plan for the years 2019 to 2023. The Supervisory Board discussed several personnel matters and made a decision to review the remuneration of the members of the Board of Managing Directors and the company's retirement benefits for Managing Directors. The Supervisory Board also approved the updated declaration of conformity with the German Corporate Governance

Code (section 161 AktG) and passed a resolution approving an adjustment to its internal rules of procedure.

Topics of Supervisory Board committee meetings

The executive committee of the Supervisory Board held a total of four regular meetings and one extraordinary meeting during the reporting period. Executive committee meetings were used to prepare the plenary meetings of the Supervisory Board, especially the personnel decisions to be made by the Supervisory Board. The executive committee approved a reorganization of the Schaeffler Group's plants at its meeting on May 3, 2018, and the acquisition of Elmotec Statomat Holding GmbH at its extraordinary meeting on November 22, 2018. The executive committee also approved external activities of members of the Board of Managing Directors at its meeting on December 13, 2018.

The audit committee held four regular meetings in 2018. The audit committee addressed the interim reports and the separate and consolidated financial statements including the non-financial report as well as the dependency report. Compliance, internal audit, risk management, and the internal control system were reported on at audit committee meetings on a regular basis. Non-audit services provided by the auditors were discussed and approved. The final report on the FREP examination, which was completed in December 2017 without any findings of an error, was presented to the audit committee at its meeting on March 1, 2018. In addition, the audit committee was briefed on the company's working capital management, a receivable sale program, and the Global Reporting project. At its meeting on May 3, 2018, the committee also heard a report on the Schaeffler Group's Greater China region.

The Supervisory Board recommended to the 2018 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 to the Supervisory Board that it engage KPMG AG Wirtschaftsprüfungsgesellschaft to perform an audit engagement on the non-financial report.

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

With one exception, all members of the Supervisory Board attended more than half of the meetings of the Supervisory Board and the committees they were on in 2018.

Separate and consolidated financial statements 2018

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the separate financial statements, the consolidated financial statements, and the combined management report as at December 31, 2018, 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, 2018, 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 1, 2018, to December 31, 2018.

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 a combined separate non-financial report for 2018. KPMG AG Wirtschaftsprüfungsgesellschaft performed an audit engagement on the non-financial report. KPMG AG Wirtschaftsprüfungsgesellschaft 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.

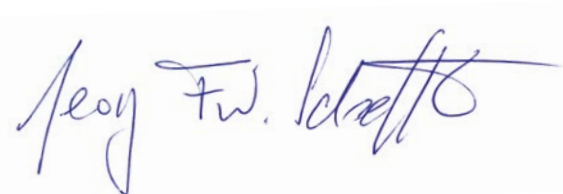
The audit committee discussed the financial statement documents, the combined separate non-financial report, the dependency report, the long-form audit reports, and the report on the audit engagement with the Board of Managing Directors and the

auditors on February 28, 2019. The audit committee scrutinized the development of earnings for 2018, 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, and the long-form audit reports were also dealt with in the Supervisory Board meeting convened to approve the financial statements on March 1, 2019. 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 audit 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 2018.

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 commitment and dedication and their constructive teamwork in 2018.

For the Supervisory Board



Georg F. W. Schaeffler
Chairman

Herzogenaurach, March 1, 2019