

# 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.

 Further information in the corporate governance report

## Members of the Supervisory Board and its committees

The shareholder representatives on the Supervisory Board were elected at the annual general meeting on April 24, 2019. Sabine Bendiek, Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Georg F. W. Schaeffler, Maria-Elisabeth Schaeffler-Thumann, Sabrina Soussan, Robin Stalker, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang were elected members of the Supervisory Board.

Following the election of the shareholder representatives on the Supervisory Board, Georg F. W. Schaeffler was elected Chairman of the Supervisory Board, and – in addition to Jürgen Wechsler as Deputy Chairman pursuant to section 27 (1) of the German Co-Determination Act ("Mitbestimmungsgesetz" – MitbestG) – Maria-Elisabeth Schaeffler-Thumann was elected additional Deputy Chairperson at the initial meeting of the new Supervisory Board on April 24, 2019.

The new shareholder representatives on the committees were elected as well, with Maria-Elisabeth Schaeffler-Thumann being elected shareholder representative on the mediation committee.

Georg F. W. Schaeffler's position as Chairman of the Supervisory Board makes him a member of the mediation committee by law.

Maria-Elisabeth Schaeffler-Thumann and Prof. TU Graz e.h. KR Ing. Siegfried Wolf were elected additional shareholder representatives on the executive committee. Georg F. W. Schaeffler is a member of the executive committee by virtue of his position as Chairman of the Supervisory Board.

Robin Stalker and Dr. Holger Engelmann were elected additional shareholder representatives on the audit committee, of which Georg F. W. Schaeffler is a member by virtue of his position as Chairman of the Supervisory Board. Robin Stalker was appointed chairman of the audit committee. Robin Stalker is a long-standing member of the audit committee and had already chaired the audit committee from July 1, 2018 until his reappointment. In addition, Robin Stalker served as chief financial officer of a DAX company for many years. As a result, he is sufficiently experienced to chair the audit committee.

Maria-Elisabeth Schaeffler-Thumann, Prof. Dr. Bernd Gottschalk, and Dr. Holger Engelmann were elected additional shareholder representatives on the nomination committee, of which Georg F. W. Schaeffler is a member by virtue of his position as Chairman of the Supervisory Board.

Further, Prof. Dr. Hans-Jörg Bullinger, Georg F. W. Schaeffler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang were elected additional shareholder representatives on the technology committee. Prof. Dr. Hans-Jörg Bullinger was appointed chairman of the technology committee.

The standing committees established by the Supervisory Board are made up as follows:

- 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. TU Graz e.h. KR Ing. Siegfried Wolf
- Audit committee:
- Robin Stalker (Chairman),
- Dr. Holger Engelmann, Dr. Reinold Mittag, Georg F. W. Schaeffler, Salvatore Vicari, and Jürgen Worrich
- Technology committee:
- Prof. Dr. Hans-Jörg Bullinger (Chairman),

- Norbert Lenhard, Georg F. W. Schaeffler, Salvatore Vicari, Jürgen Wechsler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf, Jürgen Worrich, and Prof. Dr.-Ing. Tong Zhang

- 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 2019..

## Appointments to the Board of Managing Directors

The company's Board of Managing Directors consists of Klaus Rosenfeld (Chief Executive Officer), Dietmar Heinrich, Andreas Schick, Corinna Schittenhelm, Michael Söding, Dr. Stefan Spindler, Uwe Wagner, and Matthias Zink.

Prof. Dr.-Ing. Gutzmer left Schaeffler AG's Board of Managing Directors effective October 1, 2019. On October 1, 2019, the Supervisory Board passed a resolution appointing Uwe Wagner to succeed him effective immediately for a term of office of three years. On March 1, 2019, Matthias Zink was reappointed for a further five-year term of office beginning on January 1, 2020.

In accordance with the internal rules of procedure of the Board of Managing Directors, Klaus Rosenfeld is responsible for the CEO Functions, Dietmar Heinrich for Finance, Andreas Schick for Operations, Supply Chain Management, and Purchasing, Corinna Schittenhelm for Human Resources, Michael Söding for the Automotive Aftermarket division, Dr. Stefan Spindler for the Industrial division, Uwe Wagner for Research and Development, and Matthias Zink is responsible for the Automotive OEM division.

## Topics of Supervisory Board plenary meetings

In 2019, the Supervisory Board held four regular meetings, one strategy meeting, on extraordinary meeting, and one initial meeting following the annual general meeting. In addition, one resolution was passed 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 5, 2019, to discuss the preliminary

extent to which targets related to the variable remuneration of the Managing Directors had been met as well as the targets for 2019. The final extent to which these targets and objectives were met was then determined, as well as the targets for 2019 set, at the meeting on March 1, 2019.

At its first regular meeting of the year on March 1, 2019, the Supervisory Board passed resolutions regarding the appointment and reappointment of members of the Board of Managing Directors. In light of the emerging decline in global automobile production, the Supervisory Board decided to adjust the budget for 2019 and the long-range plan for the years 2019 to 2023. The meeting also discussed the separate and consolidated financial statements of the Schaeffler Group for 2018. 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 limited assurance engagement performed on the combined separate group non-financial report 2018. 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 2019 and the Supervisory Board's proposed resolutions on the items on the agenda of the annual general meeting 2019.

The new Supervisory Board held its initial meeting following the election of the shareholder representatives on the Supervisory Board by the annual general meeting on April 24, 2019. At this meeting, the Chairman of the Supervisory Board and the additional Deputy Chairperson were re-elected. The new shareholder representatives on the committees were elected as well.

At its regular meeting on May 3, 2019, the Supervisory Board heard a report on the results of operations and the results of the first quarter of 2019 as well as a presentation on the Schaeffler Group's robotics activities.

On October 1, 2019, 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. In addition, the Supervisory Board consented to Prof. Dr.-Ing. Gutzmer's resignation effective October 1, 2019, and appointed Uwe Wagner to the Board of Managing Directors effective October 1, 2019.

At its third regular meeting on October 2, 2019, the Supervisory Board heard a report on the Schaeffler Group's most recent results of operations and the results of the first half of 2019. The Supervisory Board discussed the status of the review of the remuneration of the members of the Board of Managing Directors and the company's retirement benefits for Managing Directors. There was also a presentation on introducing a commercial paper program and on obtaining new lines of credit, and both were approved.

At its fourth and final regular meeting on December 13, 2019, the Supervisory Board was briefed on the Schaeffler Group's most recent results of operations and the results of the third quarter of 2019. It also approved the budget for 2020 and the long-range plan for the years 2020 to 2024. At the meeting, the Supervisory Board was also informed of a plan to place a promissory note loan [Schuldscheindarlehn]. The Supervisory Board resolved to establish an ad hoc committee consisting of three shareholder representatives and three employee representatives for the purpose of approving the terms and conditions of the promissory note loan. The Supervisory Board discussed changes in the remuneration of the members of the Board of Managing Directors and the company's future retirement benefit scheme for Managing Directors. The Supervisory Board also approved the updated declaration of conformity with the German Corporate Governance Code (section 161 AktG).

## Topics of Supervisory Board committee meetings

The executive committee of the Supervisory Board held a total of four regular meetings and three extraordinary meetings held via conference call 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 the acquisition of Xtronic GmbH at its meeting on May 2, 2019, the collaboration with ABT e-Line GmbH to electrify light commercial vehicles at its extraordinary meeting held via conference call on November 12, 2019, and the disposal of the Unna and Kaltennordheim plants at its extraordinary meeting held via conference call on December 4, 2019. The executive committee also approved external activities of members of the Board of Managing Directors at its meetings on February 28, 2019, and September 30, 2019, and at its extraordinary meeting held via conference call on November 21, 2019.

The audit committee held four regular meetings in 2019. 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. In addition, the audit committee was briefed on the establishment of an information security management system, the process for avoiding warranty risks, and on the project to more efficiently implement financial reporting standard IFRS 15.

The Supervisory Board recommended to the annual general meeting 2019 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 a limited assurance engagement on the non-financial report.

The technology committee held two regular meetings during the reporting period. At its first meeting, the technology committee was briefed on the results of the Schaeffler Technology Dialog, the divisions' technological trends, and developments in the fields of IT and digitalization. The second meeting heard a report on concepts for industrializing new products and on sustainability in production. Various production technologies were demonstrated to technology committee members during a guided tour of the plant.

During the reporting period, the nomination committee held one meeting via conference call on March 6, 2019. The meeting discussed the selection of shareholder representative candidates for the Supervisory Board and recommended candidates to the Supervisory Board for nomination at the annual general meeting. Based on these recommendations, the Supervisory Board approved the nominees for the Supervisory Board elections to be held at the annual general meeting on April 24, 2019, in a resolution passed in writing dated March 11, 2019.

In a resolution passed in writing dated August 28, 2018, the Supervisory Board had approved the refinancing arrangement and the creation of a debt issuance program and established an ad hoc committee consisting of three shareholder representatives and three employee representatives for the purpose of approving the terms and conditions of the various bonds being issued under the debt issuance program.

At the two meetings held by the ad hoc committee via conference call during the reporting period, the committee was briefed on the terms and conditions of the planned transaction and the issuance of bonds denominated in EUR under the debt issuance program.

The mediation committee did not hold any meetings during the reporting period.

All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board and the committees they were on in 2019.

## Separate and consolidated financial statements 2019

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the separate financial statements, the consolidated financial statements, and the combined management report as at December 31, 2019, 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, 2019, 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, 2019, to December 31, 2019.

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 group non-financial report for 2019. KPMG AG Wirtschaftsprüfungsgesellschaft performed a limited assurance 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 group non-financial report has not been prepared, in all material respects, in accordance with legal requirements.

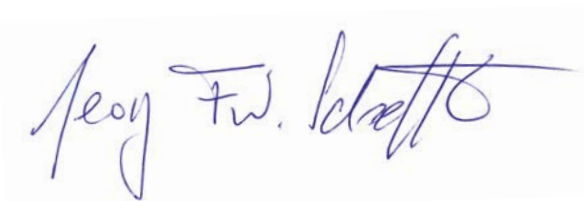
The audit committee discussed the financial statement documents, the combined separate group non-financial report, the dependency report, the long-form audit reports, and the report on the limited assurance engagement with the Board of Managing Directors and the auditors on March 6, 2020. The audit committee scrutinized the development of earnings for 2019, the financial position and net assets as at the reporting date, and, particularly, provisions for risks. The financial statement documents, the combined separate group 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 6, 2020. 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 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 group 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 0.44 per common share and EUR 0.45 per common non-voting share in respect of 2019.

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 2019.

For the Supervisory Board

A handwritten signature in blue ink, reading "Georg F. W. Schaeffler". The signature is written in a cursive style with a prominent flourish at the end.

Georg F. W. Schaeffler

Chairman

Herzogenaurach, March 6, 2020