

Report of the Supervisory Board

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**Georg F. W. Schaeffler**  
Chairman of the Supervisory Board

# Report of the Supervisory Board

*Ladies and Gentlemen,*


Schaeffler AG's year 2020 was a year very much marked by crisis management, transformation, and honing the strategy. Our employees have impressively overcome the challenges posed by the coronavirus pandemic. Our explicit thanks go to them. Meanwhile, the company continues to drive its transformation and lay key technological and structural groundwork. The strategic enhancement of the automotive and industrial supplier set out in the "Roadmap 2025" describes in detail how to create value sustainably. Despite its great challenges, the year 2020 ended with better results at the operating level than had been anticipated at times during the year, bolstered especially by the strong final quarter.

The Supervisory Board has fully performed its duties as mandated by law, the company's articles of association, and its internal rules of procedure during the year. We have advised and overseen the Board of Managing Directors in managing the company. In doing so, the Supervisory Board 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, the company's articles of association, 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 conferred with him on an ongoing basis on issues related to the company's current results of operations, strategy, risk situation, risk management, and compliance in particular.

 Further information in the corporate governance report

## Members of the Supervisory Board and its committees

On March 17, 2020, the employee representatives on the Supervisory Board were elected. Representatives elected were Andrea Grimm, Thomas Höhn, Susanne Lau, Barbara Resch, Jutta Rost, Jürgen Schenk, Helga Schönhoff, Salvatore Vicari, Jürgen Wechsler, and Markus Zirkel. The newly elected employee representatives on the Supervisory Board took office following the end of the annual general meeting on May 8, 2020.

In connection with the election of the employee representatives on the Supervisory Board, Jürgen Wechsler was re-elected Deputy Chairman of the Supervisory Board pursuant to section 27 (3) of the German Co-Determination Act ("Mitbestimmungsgesetz" – MitbestG) – at the meeting of the Supervisory Board on May 8, 2020. The new employee representatives on the committees were elected as well. Salvatore Vicari was elected to the mediation committee. Jürgen Wechsler's position as Deputy Chairman of the Supervisory Board makes him a member of the mediation committee by law. Barbara Resch and Salvatore Vicari were elected to the executive committee, of which Jürgen Wechsler is a member by virtue of his position as Deputy Chairman of the Supervisory Board. Andrea Grimm, Thomas Höhn, and Jürgen Wechsler were elected to the audit committee. Furthermore, Jürgen Schenk, Salvatore Vicari, Jürgen Wechsler, and Markus Zirkel were elected to the technology committee.

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

- Mediation committee established in accordance with section 27 (3) German Co-Determination Act:  
Georg F. W. Schaeffler (Chairman),  
Maria-Elisabeth Schaeffler-Thumann, Salvatore Vicari,  
and Jürgen Wechsler
- Executive committee:  
Georg F. W. Schaeffler (Chairman),  
Barbara Resch, Maria-Elisabeth Schaeffler-Thumann,  
Salvatore Vicari, Jürgen Wechsler, and  
Prof. TU Graz e.h. KR Ing. Siegfried Wolf
- Audit committee:  
Robin Stalker (Chairman),  
Dr. Holger Engelmann, Andrea Grimm, Thomas Höhn,  
Georg F. W. Schaeffler, and Jürgen Wechsler
- Technology committee:  
Prof. Dr. Hans-Jörg Bullinger (Chairman),  
Georg F. W. Schaeffler, Jürgen Schenk, Salvatore Vicari,  
Jürgen Wechsler, Prof. TU Graz e.h. KR Ing. Siegfried Wolf,  
Prof. Dr.-Ing. Tong Zhang, and Markus Zirkel
- 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 2020.

**Appointments to the Board of Managing Directors**

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

Dietmar Heinrich left the Board of Managing Directors of Schaeffler AG effective July 31, 2020. The Supervisory Board has appointed Dr. Klaus Patzak an ordinary member of the Board of Managing Directors for a three-year term of office beginning on August 1, 2020. On March 6, 2020, Michael Söding was reappointed to the Board of Managing Directors for a further three-year term of office beginning on January 1, 2021. On March 8, 2020, Andreas Schick was reappointed to the Board of Managing Directors for a further five-year term of office beginning on April 1, 2021.

In accordance with the internal rules of procedure of the Board of Managing Directors, Klaus Rosenfeld is responsible for the CEO functions, Matthias Zink for the Automotive Technologies division, Michael Söding for the Automotive Aftermarket division, Dr. Stefan Spindler for the Industrial division, Dr. Klaus Patzak for Finance and IT, Andreas Schick for Operations, Supply Chain Management and Purchasing, Corinna Schittenhelm for Human Resources as Labor Relations Director, and Uwe Wagner is responsible for Research and Development.

**Topics of Supervisory Board plenary meetings**

The Supervisory Board held four regular meetings, one strategy meeting, and four extraordinary meetings in 2020.

The subject of the regular plenary discussions were the Schaeffler Group's results of operations and financial indicators. The Supervisory Board also ensured that it was briefed on the

work of the committees on a regular basis in the plenary sessions. The personnel decisions regarding the Board of Managing Directors also represented an important aspect of the work of the Supervisory Board. The Supervisory Board also met regularly without the Board of Managing Directors being present. These meetings dealt with matters relating to either the Board of Managing Directors itself or the Supervisory Board.

In an extraordinary meeting held via conference call on February 4, 2020, the Supervisory Board discussed and passed a resolution approving the amendments to the employment contracts of members of the Board of Managing Directors with a term of office extending beyond July 31, 2020. The amendments to the employment contracts mainly consisted of the change in retirement benefits to a defined contribution commitment, introduction of an obligation to hold shares, adjustments to certain performance criteria for the long-term variable remuneration, and the addition of malus clauses and claw-back provisions. Additionally, the Supervisory Board discussed preliminary target achievement for the variable remuneration of the Managing Directors as well as target values for 2020. A resolution was passed to include a sustainability target in the short-term bonus 2020. Target achievement and the target values for 2020 were then finalized at the regular meeting on March 6, 2020. The Supervisory Board was briefed on larger capital expenditure projects planned for in the budget for 2020 and on the long-range plan for the years 2020 to 2024.

At its first regular meeting of the year on March 6, 2020, the Supervisory Board dealt with the remuneration system for members of the Board of Managing Directors in accordance with section 87a of the German Stock Corporations Act (AktG) in order to implement the requirements of the Law on the Implementation of the Second Shareholders' Rights Directive (ARUG II). The remuneration system for members of the Board of Managing Directors of Schaeffler AG was discussed with the involvement of independent external consultants. The Supervisory Board approved the remuneration system retroactively effective January 1, 2020, and proposed its approval to the annual general meeting in accordance with section 124 (3) AktG. At this

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meeting, the Supervisory Board specified the targeted total remuneration for each member of the Board of Managing Directors and passed resolutions regarding the reappointment of members of the Board of Managing Directors.

The meeting also discussed the separate and consolidated financial statements of the Schaeffler Group for 2019. 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 2019 included in the sustainability report. 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 2020 and the Supervisory Board's proposed resolutions on the items on the agenda of the annual general meeting 2020. Further, the Supervisory Board dealt with and approved the planned increase in the volume of a Schuldschein loan to be placed by EUR 300 m. Plans for the implementation of the S/4HANA ERP software were presented to the Supervisory Board. Finally, the Supervisory Board dealt with the results of the self-assessment of the Supervisory Board and its committees. The results did not indicate a need for any fundamental changes, although certain suggestions were acted on and implemented.

At its extraordinary meeting on April 9, 2020, the Supervisory Board was briefed on the implications of the coronavirus pandemic for the company, the structure of global crisis management, and measures taken to protect employees. At this meeting, the Supervisory Board approved the decision of the Board of Managing Directors to hold the annual general meeting on May 8, 2020, in the form of a virtual annual general meeting.

The second regular meeting of the Supervisory Board, which was the first attended by the newly elected employee representatives, was held following the annual general meeting on

May 8, 2020. As discussed above, the Deputy Chairman of the Supervisory Board and the employee representatives on the committees were elected at this meeting. In addition, resolutions were passed regarding reappointment of members of the Board of Managing Directors. The meeting heard reports on the Schaeffler Group's most recent results of operations and its management of the coronavirus crisis. The Supervisory Board dealt with the revisions made to the German Corporate Governance Code 2020 and the regulatory requirements for transactions with related persons under the Law on the Implementation of the Second Shareholders' Rights Directive (ARUG II). The Supervisory Board adopted a revised version of the internal rules of procedure for the Supervisory Board effective May 8, 2020, and approved its publication on Schaeffler AG's website.

At the extraordinary meeting on July 20, 2020, Dr. Klaus Patzak was appointed as a member of the Board of Managing Directors of Schaeffler AG for a 3-year term of office effective from August 1, 2020. The Supervisory Board further approved external activities of Dr. Klaus Patzak and came to a decision regarding deduction of the compensation for a position on a non-group supervisory board from the remuneration for the position on the Board of Managing Directors.

At its extraordinary meeting on August 19, 2020, the Supervisory Board approved the decision of the Board of Managing Directors to hold an extraordinary general meeting in the form of a virtual general meeting. As an agenda item, the Supervisory Board proposed to the general meeting the creation of authorized capital and the corresponding change to the company's articles of association. At the extraordinary general meeting on September 15, 2020, the Board of Managing Directors was authorized, subject to approval by the Supervisory Board, to increase Schaeffler AG's share capital in one or more installments by August 31, 2025, by a total of up to EUR 200 m (corresponding to up to 200,000,000 common non-voting shares) by issuing new common non-voting bearer shares; shareholders must be given subscription rights.

On October 1, 2020, the Supervisory Board held its annual strategy meeting, in which the Board of Managing Directors presented the strategic direction for the Schaeffler Group under the "Roadmap 2025". Strategy considerations for the Automotive Technologies, Automotive Aftermarket, and Industrial divisions were explained. The proposals were discussed in detail and at length. Further discussions addressed the macro-economic environment and geopolitical risks and their implications for the Schaeffler Group. The Supervisory Board also dealt with the Schaeffler Group's sustainability program, strategic issues related to hydrogen technology, and plans for the implementation of the S/4HANA ERP software.

At its third regular meeting on October 2, 2020, the Supervisory Board heard a report on the Schaeffler Group's most recent results of operations and the results of the first half of 2020. Also at this meeting, the Supervisory Board approved the plan to issue bonds under the debt issuance program with an issuance volume of up to EUR 1.5 bn and the terms and conditions of a placement.

At its fourth and final regular meeting during the reporting period on December 11, 2020, the Supervisory Board was briefed on the Schaeffler Group's most recent results of operations and the results of the third quarter of 2020. The preliminary budget for 2021 and the long-range plan for the years 2021 to 2025 was presented as well. The Supervisory Board discussed the new and revised recommendations of the German Corporate Governance Code and issued an updated declaration of conformity with the German Corporate Governance Code (section 161 AktG). Additionally, the Supervisory Board was briefed on preparations for the compilation of a company history for the 75th anniversary of the Schaeffler Group in 2021. The Supervisory Board further dealt with the indicative target achievement for 2020 and specified the performance criteria and their weights for the variable remuneration of the Board of Managing Directors for 2021. The Supervisory Board also set the total target remuneration for each member of the Board of Managing Directors for 2021.

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The executive committee of the Supervisory Board held a total of four regular meetings during the reporting period. In addition, one resolution was passed in writing. 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 also approved external activities of members of the Board of Managing Directors at its meetings on March 5, 2020, May 7, 2020, December 10, 2020, and in a resolution dated May 26, 2020, that was passed in writing. At its meeting on September 30, 2020, the committee came to a decision regarding deduction of the compensation for positions on non-group supervisory boards from the remuneration for the position on the Board of Managing Directors.

The audit committee held four regular meetings and two extraordinary meetings in 2020. In addition, one resolution was passed in writing. 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, the internal control system, information and cyber security, as well as accounting were reported on at audit committee meetings on a regular basis. The process for approving non-audit services performed by the auditor was discussed and approved. Specific non-audit services provided by the auditor were discussed and approved. Additionally, the audit committee was regularly briefed on crisis management related to the coronavirus pandemic and implications for the Schaeffler Group's liquidity situation. The review of the appropriateness of the tax compliance management system was reported on, and the process for M&A transactions was evaluated using an acquisition as an example. The interim financial report as at March 31, 2020, was approved in a resolution passed in writing dated April 29, 2020.

The Supervisory Board recommended to the annual general meeting 2020 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 strategic direction of the Schaeffler Group's product development. Additionally, the cross-divisional innovation clusters defined as part of the "Roadmap 2025" were presented and discussed in detail. The second meeting of the technology committee was held in Kappelrodeck, one of the Schaeffler Group's tool manufacturing locations. At this meeting, the significance to the Schaeffler Group of tool development and tool manufacturing in the fields of robotics, electric mobility, and hydrogen was presented from a product and production technology perspective and then demonstrated during a tour of the premises.

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

At its meeting on December 13, 2019, the Supervisory Board had established an ad hoc committee consisting of three shareholder representatives and three employee representatives for the purpose of approving the terms and conditions of Schuldschein loans. The ad hoc committee held one meeting via conference call during the reporting period, at which members were briefed on and approved the terms and conditions of the placement of Schuldschein loans. Additionally, the terms and conditions of the placement of the Schuldschein loans were agreed to in two resolutions passed in writing.

**Disclosure of attendance at meetings by individual**

Members' attendance rate at meetings of the Supervisory Board or its committees was 98%. Due to circumstances related to the coronavirus pandemic, some meetings were held in a virtual format or as in-person meetings with an option to attend remotely. The attendance of members of the Supervisory Board at meetings of the Supervisory Board or its committees are disclosed by individual as follows:

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## Meeting attendance

	Full Supervisory Board		Executive committee		Audit committee		Technology committee		Nomination committee		Mediation committee	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Number of meetings/attendance in %												
Georg F. W. Schaeffler Chairman	9/9	100	4/4	100	6/6	100	2/2	100				
Maria-Elisabeth Schaeffler-Thumann Deputy Chairperson	9/9	100	4/4	100								
Jürgen Wechsler Deputy Chairperson	9/9	100	4/4	100	3/3	100	2/2	100				
Sabine Bendiek	8/9	89										
Prof. Dr. Hans-Jörg Bullinger	9/9	100					2/2	100				
Dr. Holger Engelmann	7/9	78			6/6	100						
Prof. Dr. Bernd Gottschalk	8/9	89										
Andrea Grimm	8/9	89			3/3	100						
Thomas Höhn (since May 8, 2020)	6/6	100			3/3	100						
Susanne Lau	8/9	89										
Norbert Lenhard (until May 8, 2020)	3/3	100	2/2	100			1/1	100				
Dr. Reinold Mittag (until May 8, 2020)	3/3	100			3/3	100						
Barbara Resch	9/9	100	4/4	100								
Jutta Rost (since May 8, 2020)	6/6	100										
Jürgen Schenk (since May 8, 2020)	6/6	100					1/1	100				
Helga Schönhoff (since May 8, 2020)	6/6	100										
Sabrina Soussan	8/9	89										
Robin Stalker	9/9	100			6/6	100						
Dirk Spindler (until May 8, 2020)	3/3	100										
Jürgen Stolz (until May 8, 2020)	3/3	100										
Salvatore Vicari	9/9	100	2/2	100	3/3	100	2/2	100				
Prof. TU Graz e.h. KR Ing. Siegfried Wolf	9/9	100	4/4	100			1/2	50				
Jürgen Worrich (until May 8, 2020)	3/3	100			3/3	100	1/1	100				
Prof. Dr.-Ing. Tong Zhang	9/9	100					2/2	100				
Markus Zirkel (since May 8, 2020)	6/6	100					1/1	100				
		<b>97</b>		<b>100</b>		<b>100</b>		<b>95</b>				



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## Training and continuing education

The members of the Supervisory Board are responsible for obtaining any training or continuing education necessary to fulfill their duties, such as training on changes in the legal environment and on new technologies. The company assists them in this. Internal training is offered as needed. In this vein, members of the Supervisory Board were briefed on regulatory requirements regarding remuneration of members of the Board of Managing Directors, transactions with related persons, as well as the revised recommendations of the German Corporate Governance Code at meetings of the Supervisory Board during the reporting period. New members of the Supervisory Board had the opportunity to meet members of the Board of Managing Directors and managers responsible for technical areas to share information on fundamental as well as current matters, thus learning about issues relevant to the Schaeffler Group as part of an onboarding process. The strategy meeting of the Supervisory Board included a tour of the plant in Herzogenaurach, with other manufacturing locations connected remotely. This gave the members of the Supervisory Board the opportunity to gain a general understanding of current developments in the fields of production technology for electric mobility, robotics, machining of gears, and digital solutions.

## Separate and consolidated financial statements 2020

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the separate financial statements, the consolidated financial statements, and the combined management report as at December 31, 2020, 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, 2020, 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, 2020, to December 31, 2020.

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) 312 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 2020 that is included in the sustainability report. 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 February 24, 2021. The audit committee scrutinized the development of earnings for 2020, 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 included in the sustainability 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 February 26, 2021. 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 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.



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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 0.24 per common share and EUR 0.25 per common non-voting share in respect of 2020.

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 2020.

For the Supervisory Board

A handwritten signature in blue ink that reads "Georg F. W. Schaeffler". The signature is written in a cursive style with a large, stylized initial 'G'.

Georg F. W. Schaeffler  
Chairman

Herzogenaurach, February 26, 2021