



Schaeffler AG

Capital Markets Presentation

November 2016
London

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- 1** Schaeffler at a glance
- 2** Financial Results 9M 2016
- 3** Strategy "Mobility for tomorrow"
- 4** Investment Highlights
- 5** Summary

Schaeffler at a glance

- ▶ Leading integrated automotive and industrial supplier of high-precision components and systems
- ▶ Global footprint with around 85,000 employees at about 170 locations in more than 50 countries
- ▶ Balanced business portfolio across sectors, geographies and diversified customer base with leading market positions
- ▶ Sizeable aftermarket exposure contributes to stable financial performance
- ▶ Highly attractive profitability and cash returns

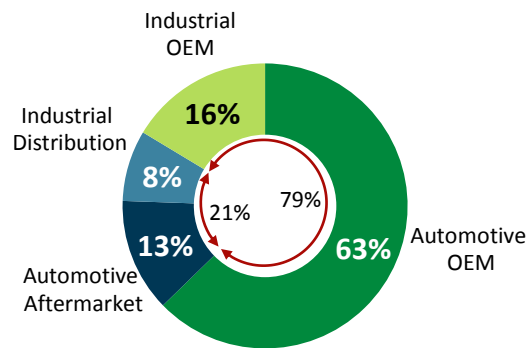
Key financials

in EUR mn unless otherwise indicated

	2014	2015
Sales	12,124	13,179
% growth	8.2%	9.1%
% growth at constant currency	9.0%	3.5%
EBITDA ²⁾	2,210	2,370
% margin	18.2%	17.9%
EBIT ²⁾	1,561	1,676
% margin	12.9%	12.7%
EBIT ²⁾ margin Automotive	14.0%	13.6%
EBIT ²⁾ margin Industrial	9.6%	9.7%

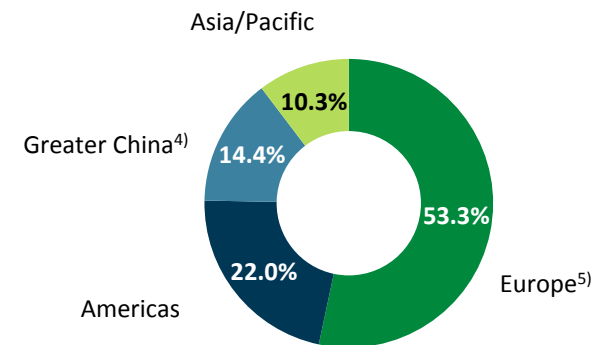
2) Before one-off effects

Sales by division (2015¹⁾)



1) Pro-forma 2015 numbers with new Industrial structure

Sales by region (2015)³⁾



3) Market view (= location of customer)

4) China, Hong Kong and Taiwan

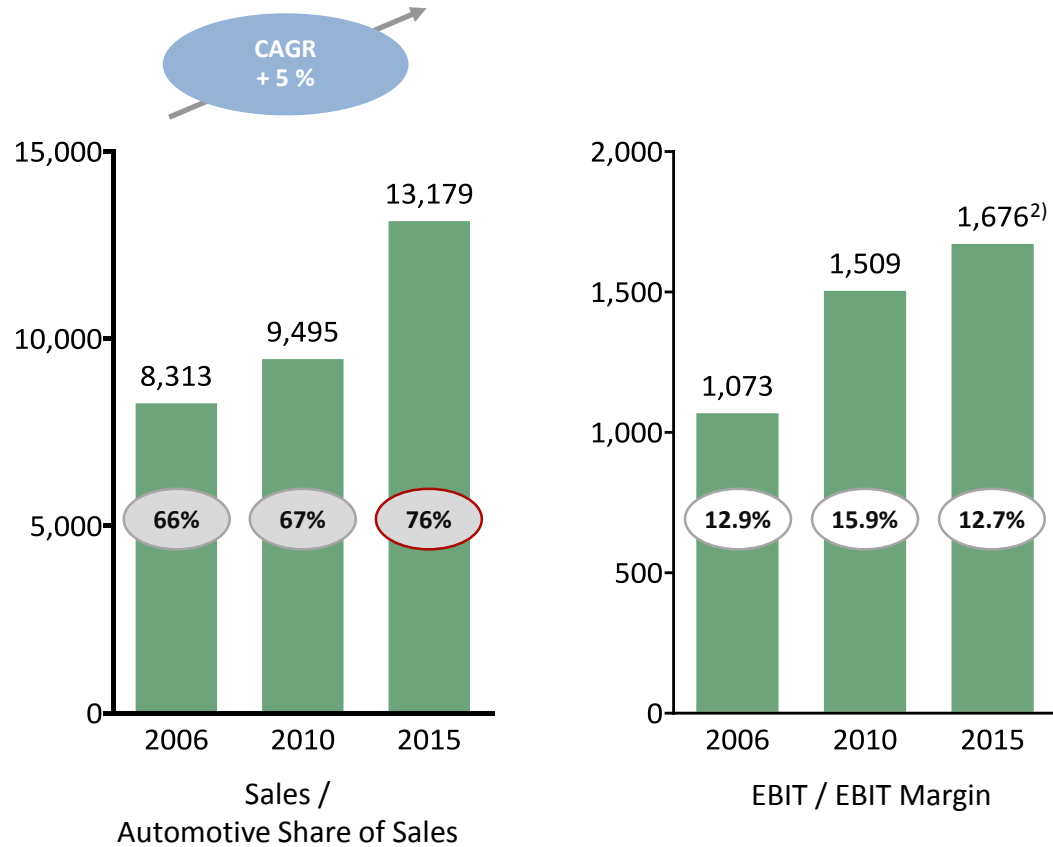
5) EMEA, Russia and India

Business operations on sound footing – Financial flexibility has been regained

Schaeffler Sales and EBIT ¹⁾

in EUR mn

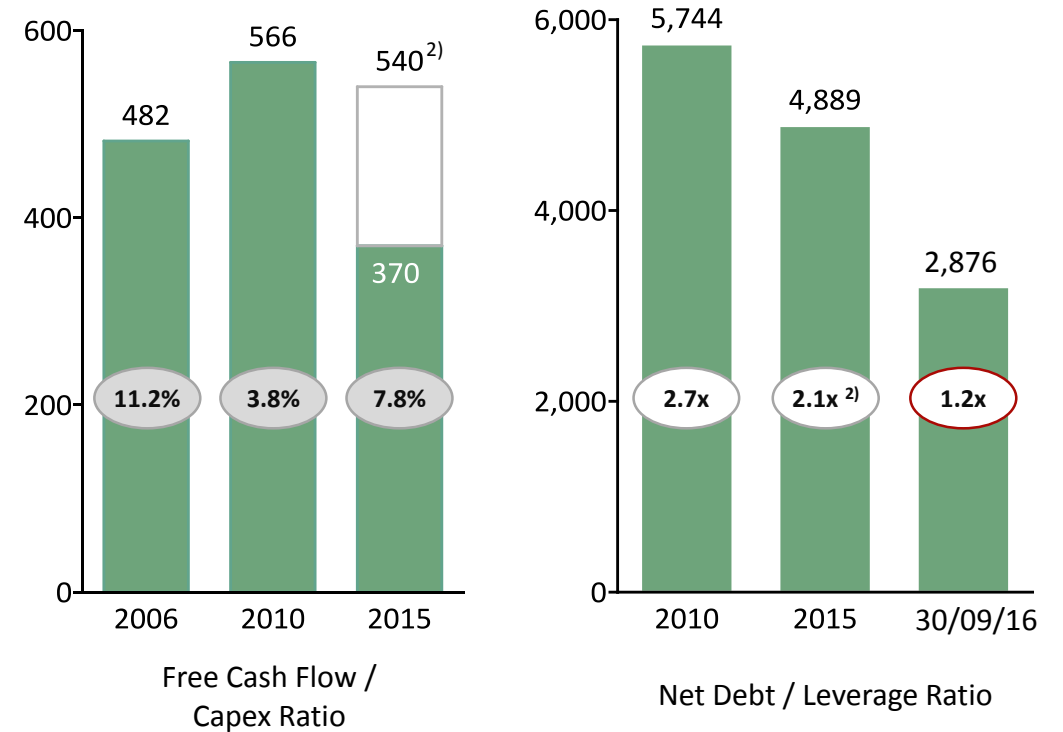
X% Automotive share of sales
Y.Y% EBIT margin



Schaeffler Free Cash Flow and Net debt ¹⁾

in EUR mn

X.X% Capex in % of sales
Y.Yx Leverage ratio



¹⁾ 2006-2010 relates to financials of a different entity (Schaeffler VZ GmbH)

²⁾ Before one-off effects

Key figures 9M 2016

in EUR mn	9M '15	9M '16	9M '16 vs. 9M '15	Q3 '15	Q3 '16	Q3 '16 vs. Q3 '15
Sales	9,958	9,977	+0.2% +2.7%¹⁾	3,237	3,265	+0.9% +2.3%¹⁾
EBIT	1,258 ²⁾ 1,251	1,276	+1.4% +2.0%	433	417	-3.7%
EBIT margin	12.6% ²⁾ 12.6%	12.8%	+0.2%-pts. +0.2%-pts.	13.4%	12.8%	-0.6%-pts.
Net income	521	672	+151 mn	212	178	-34 mn
Capex	743	829	+86 mn	242	268	+26 mn
Free cash flow	192	479	+287 mn	264	263	-1 mn
Net financial debt³⁾	4,889	2,876	-2,013 mn	4,889	2,876	-2,013 mn
Leverage ratio ^{2) 3) 4)}	2.1	1.2	-0.9	2.1	1.2	-0.9
ROCE²⁾	21.9%	21.9%	0.0%-pts.	21.9%	21.9%	0.0%-pts.
EPS⁵⁾	1.31	1.02	-0.29	0.53	0.27	-0.26
Pro Forma EPS⁶⁾	0.88	1.02	+0.14	0.36	0.27	-0.09

1) FX-adjusted

2) Before one-off effects

3) Prior year figure as per December 31, 2015

4) Net financial debt to LTM EBITDA

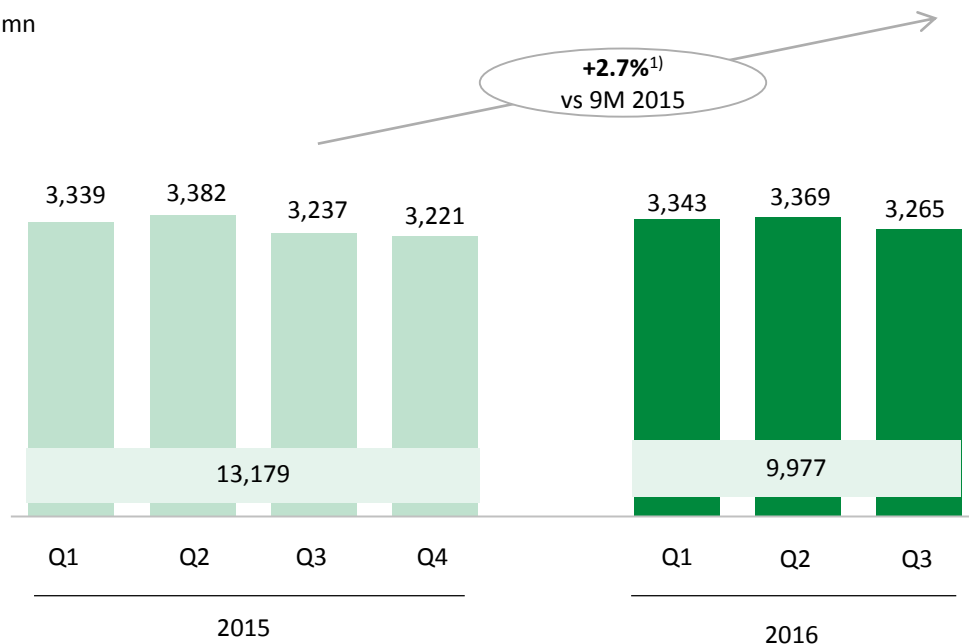
5) As reported according to IAS 33; see backup chart for further information

6) Share of net income for 66 mn non-voting shares issued through capital increase in October 2015 was calculated for each quarter on a pro-rata temporis basis; see backup chart for further information

Sales growth 9M 2016 2.7% (FX-adjusted)

Sales

in EUR mn



FX-adjusted sales growth in %

5.3	4.5	2.9	1.3
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3.5

EBIT margin²⁾ in %

13.2	11.4	13.4	13.0
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12.3

2.4	3.3	2.3
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2.7

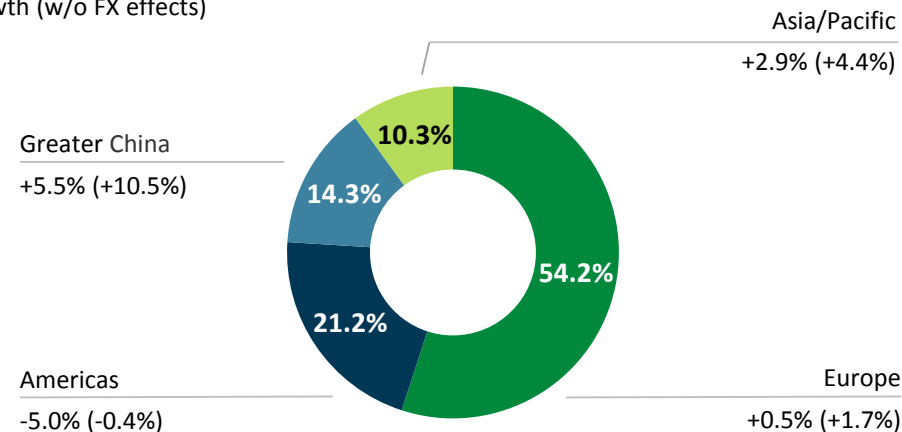
12.6	13.0	12.8
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12.8

1) FX-adjusted
2) Before one-off effects

Sales by region 9M 2016

y-o-y growth (w/o FX effects)



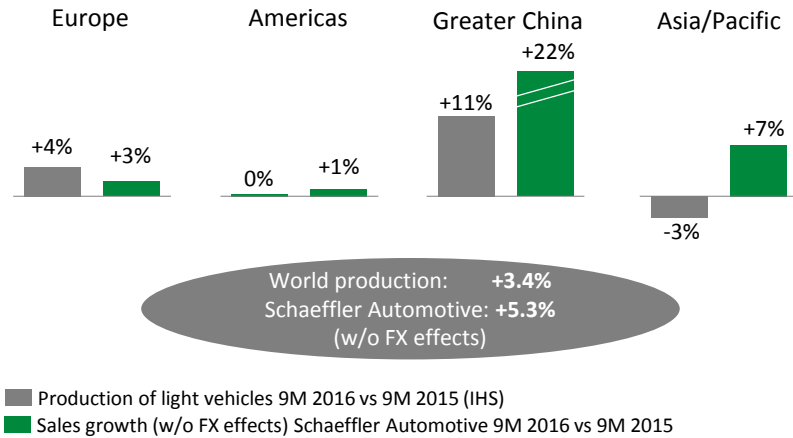
Sales by division

Y-o-y growth (w/o FX effects)

	9M15	9M 16	Δ (w/o FX effects)	Q3 15	Q3 16	Δ (w/o FX effects)
Auto-motive	7,511	7,703	+5.3%	2,442	2,524	+5.1%
Industrial	2,447	2,274	-5.3%	795	741	-6.2%
Total	9,958	9,977	+2.7%	3,237	3,265	+2.3%

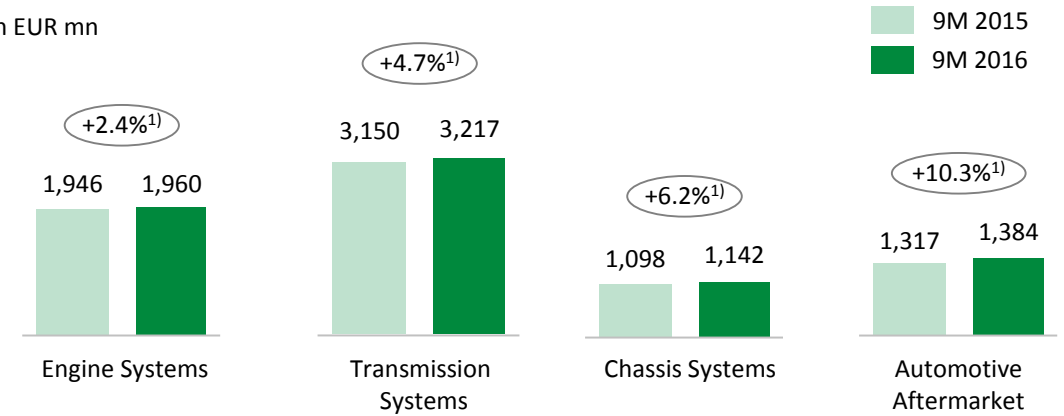
Automotive – Strong growth in Greater China

Automotive sales and market development 9M

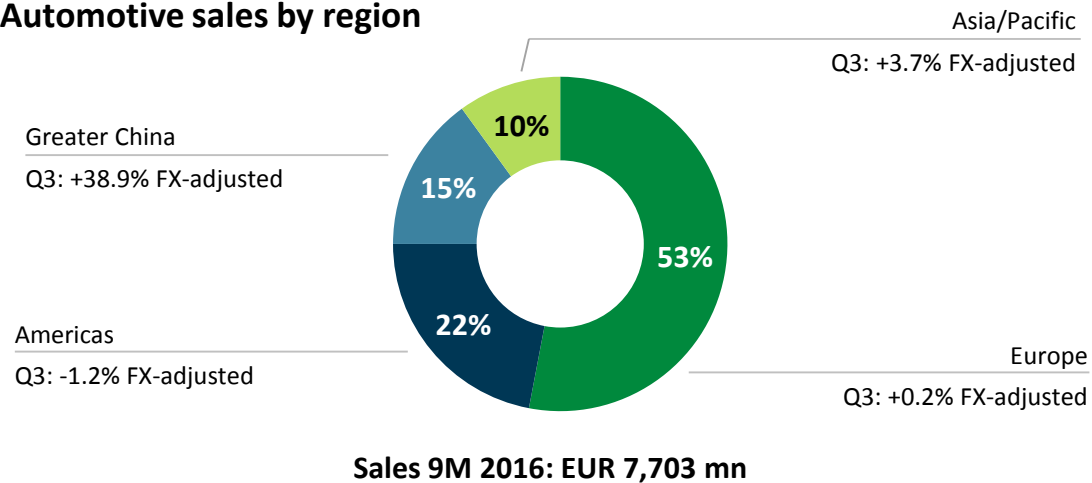


Automotive sales by division 9M

in EUR mn

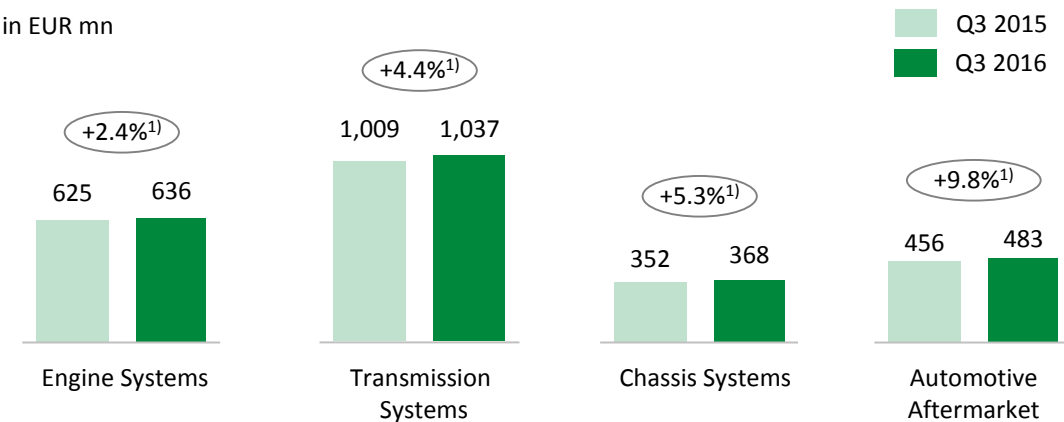


Automotive sales by region



Automotive sales by division Q3

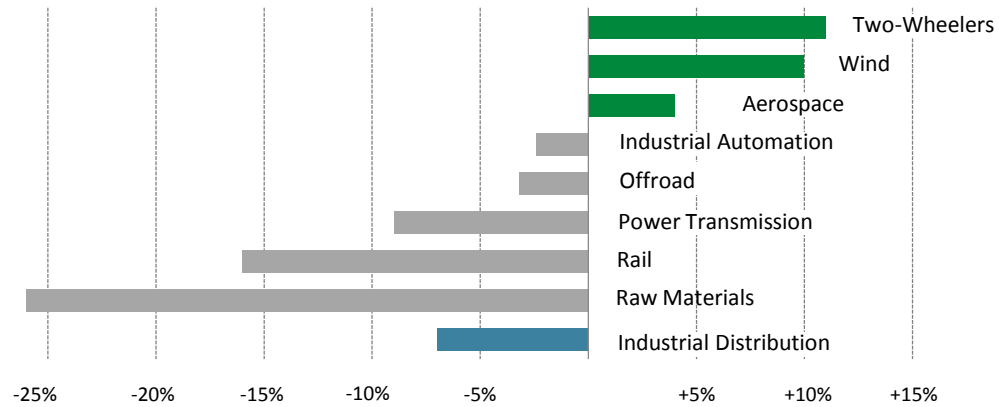
in EUR mn



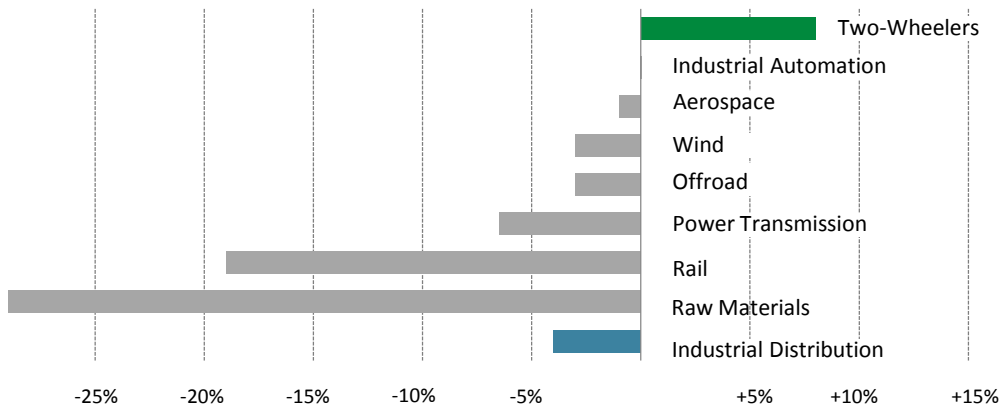
1) Growth rates FX-adjusted

Industrial – Mixed development across sectors

Industrial sales by sector cluster 9M¹⁾



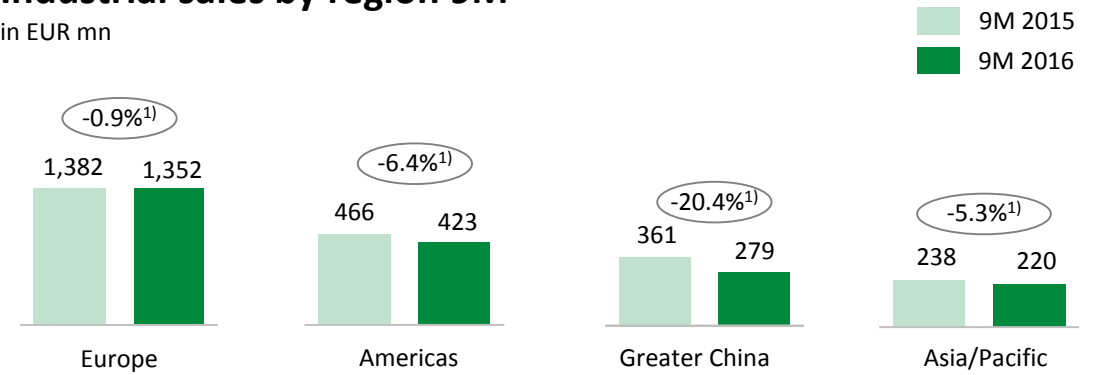
Industrial sales by sector cluster Q3¹⁾



1) FX-adjusted

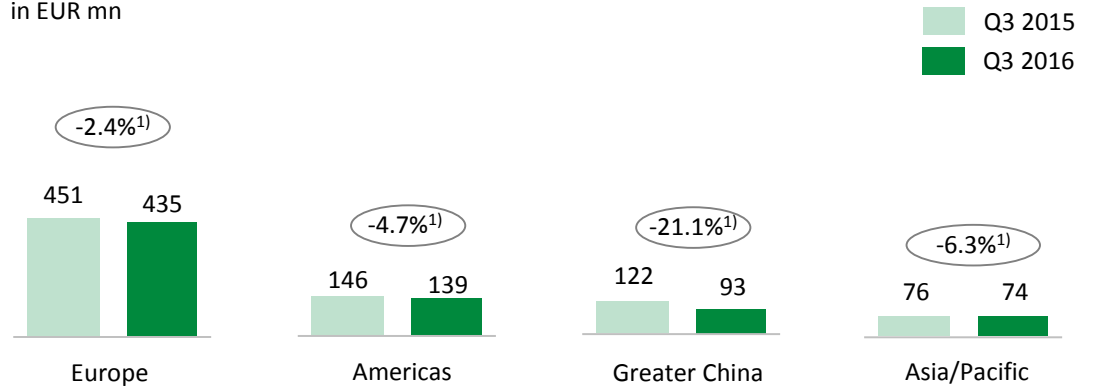
Industrial sales by region 9M

in EUR mn



Industrial sales by region Q3

in EUR mn



1) Growth rates FX-adjusted

Strong Free Cash Flow generation

Free Cash Flow

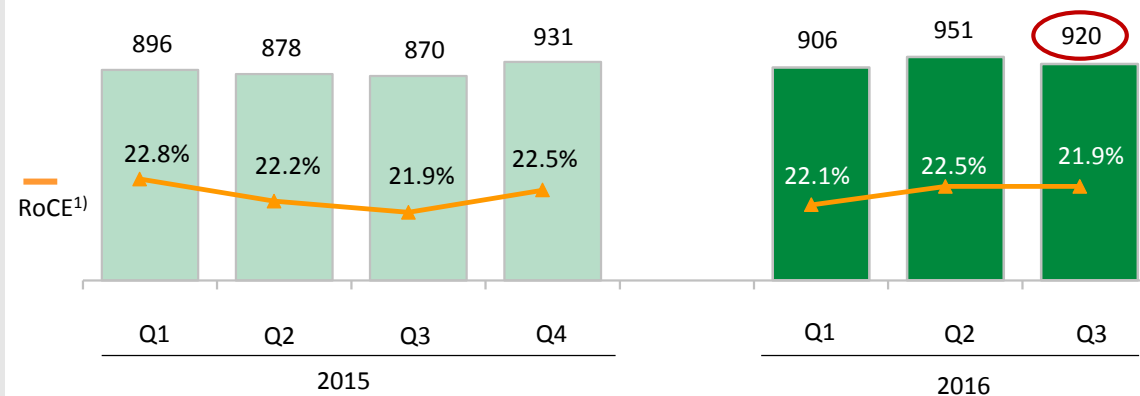
	9M 2015	9M 2016	Q3 2015	Q3 2016
EBITDA	1,765	1,817	604	600
Net interest paid	-389	-87	-50	-53
Income taxes paid	-247	-234	-89	-73
Working capital change	-273	-303	-40	-16
Others	56	112	65	70
CF from Operations	912	1,305	490	528
Capex	-743	-829	-242	-268
<i>in % of Sales</i>	7.5	8.3	7.5	8.2
Others	23	3	16	3
CF from Investments	-720	-826	-226	-265
Free Cash Flow	192	479	264	263
Cash & cash equivalents	724	2,565	724	2,565

Key aspects

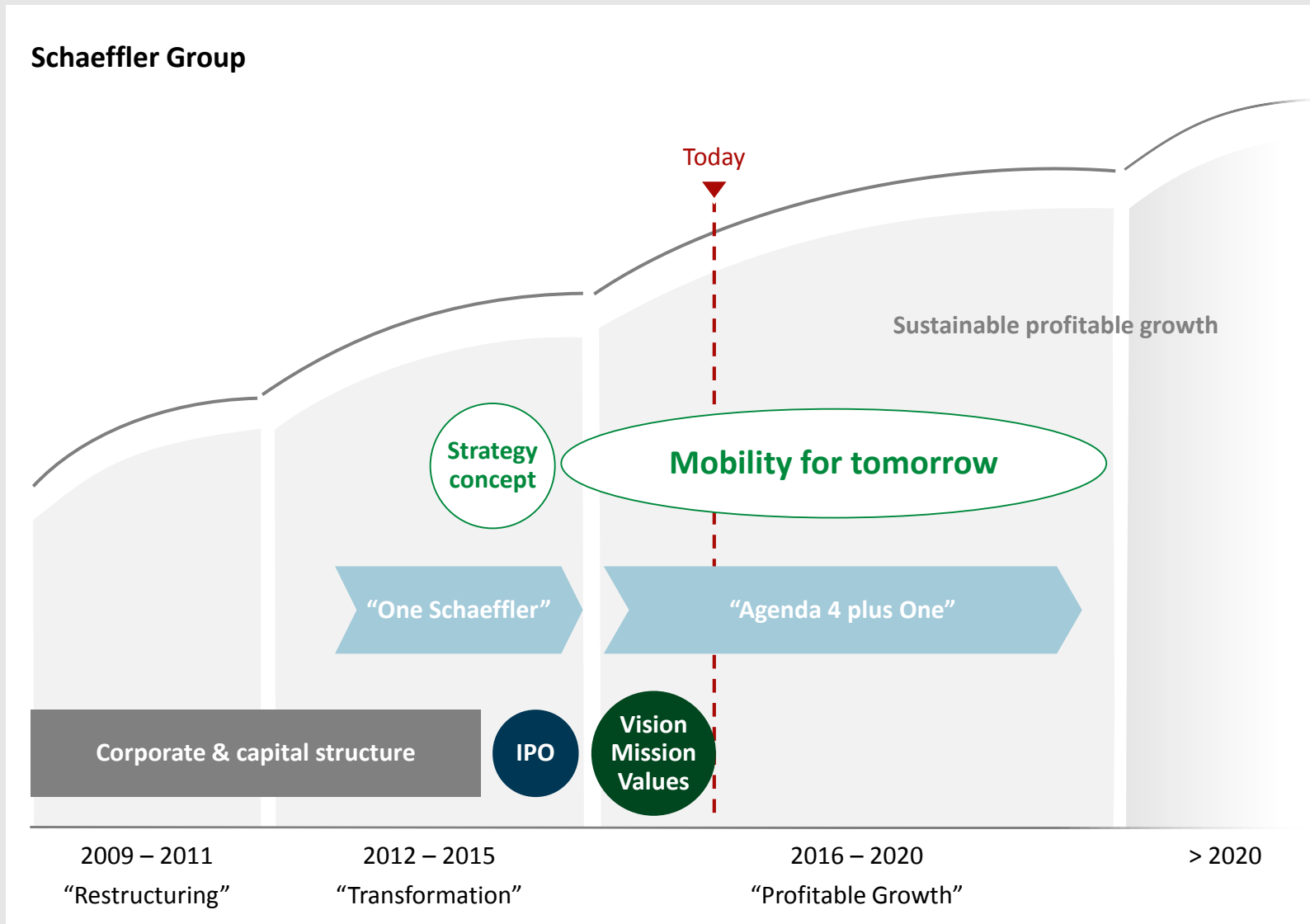
- ▶ Free Cash Flow increased by EUR 287 mn to EUR 479 mn in 9M 2016
- ▶ Net interest paid dropped by EUR 302 mn in 9M 2016
- ▶ EUR 829 mn capex in 9M 2016
- ▶ Schaeffler Value Added EUR 920 mn

Schaeffler Value Added (LTM)¹⁾

in EUR mn



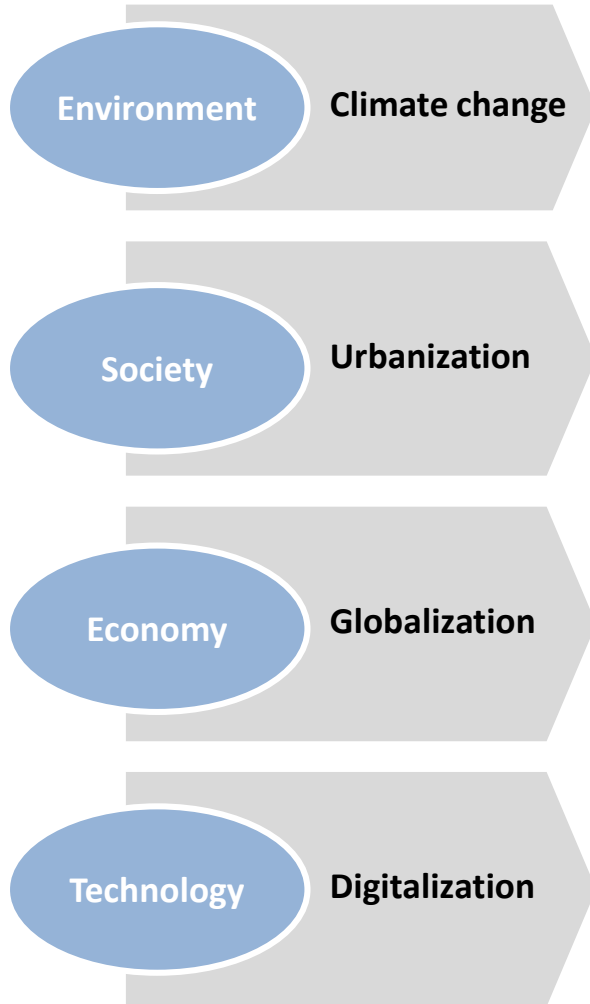
1) Before one-off effects



Key milestones

- ▶ Restructuring and transformation phase finalized
- ▶ “One Schaeffler” implemented in 2013-2015
- ▶ New corporate and capital structure implemented
- ▶ First Capital Markets Day in July 2016
- ▶ Vision, mission and corporate values defined
- ▶ Investment Grade rating received





Eco-friendly drives

- ▶ Optimized combustion engine
- ▶ Electric vehicles
- ▶ Industrial drives



Urban mobility

- ▶ Two-wheelers
- ▶ Metro rail traffic
- ▶ Micro mobiles



Mobility for tomorrow



Interurban mobility

- ▶ Railway vehicles
- ▶ Airplanes
- ▶ Off-highway

Renewable energy

- ▶ Wind energy
- ▶ Solar energy
- ▶ Conventional power generation



8 strategic pillars – Our strategic framework

1 We want to be the preferred technology partner for our customers.

2 We are an Automotive and Industrial supplier.

3 We are a global company with a local presence throughout the world.

4 We produce components and systems.

5 We view E-Mobility, Industry 4.0, and Digitalization as key opportunities for the future.

6 We strive for the highest possible quality, efficiency, and delivery performance.

7 We want to be an attractive employer.

8 We live by the values of a global family business.

16 strategic initiatives – Excellence program “Agenda 4 plus One”

Agenda 4 plus One



Initiatives

- 1 Customer Excellence
- 2 E-Mobility
- 3 Industry 4.0
- 4 Quality for Tomorrow
- 5 Global Footprint
- 6 Factory for Tomorrow
- 7 Shared Services
- 8 Process Excellence
- 9 Working Capital
- 10 Leadership & Corporate Values
- 11 Qualification for Tomorrow
- 12 New Work
- 13 Program CORE
- 14 Digital Agenda
- 15 IT 2020
- 16 Global Branding

Sponsor

- Prof. Pleus / Dr. Spindler
- Prof. Gutzmer
- Dr. Spindler
- Rosenfeld
- Rosenfeld
- Jung
- Dr. Hauck
- Rosenfeld
- Dr. Hauck
- Schittenhelm
- Schittenhelm
- Schittenhelm
- Dr. Spindler
- Prof. Gutzmer
- Prof. Gutzmer
- Rosenfeld

Capital Markets Day July 20, 2016

Old

Sales Growth	Ø 4-6% p.a. w/o external growth, FX-adjusted
EBIT Margin	12-13% p.a. Before one-off effects, w/o external growth
Free Cash flow	~€ 900M in 2020 w/o external growth
Leverage Ratio	<1.0x EBITDA in 2020 w/o external growth
Dividend ²⁾	25-35% of Net income
Rating ³⁾	Investment Grade Rating ✓

Strategy Communication Nov. 9, 2016

New

Sales Growth	Ø 4-6% p.a. w/o external growth, FX-adjusted
EBIT Margin	12-13% p.a. Before one-off effects, w/o external growth
Free Cash flow	~€ 900M in 2020 w/o external growth
Earnings per Share	~€ 2.00 per share in 2020 w/o external growth
Gearing ratio ¹⁾	<75% in 2020
Dividend ²⁾	30-40% of Net income

Market assumptions

- ▶ Automotive: Growth of global passenger car production around 2%
- ▶ Industry: Low single-digit growth of industrial production ✓

1) Net-debt to equity ratio (excluding pensions), see Backup

2) Payout ratio based on Net income

3) Investment Grade Rating shall be maintained

Market assumptions

- ▶ Automotive: Growth of global passenger car production around 2%
- ▶ Industrial: Low single-digit growth of industrial production ✓

3 key elements

1

Outperformance in Automotive

- ▶ Consistent growth above markets
- ▶ Best-in-class margin

Growth

2

Margin upside in Industrial

- ▶ CORE program launched to revitalize Industrial division
- ▶ Margin upside potential + 3%-points

Margin

3

Strong Free Cash flow generation

- ▶ Strong operating Cash flow Generation
- ▶ FCF used for dividend payments, M&A and further deleveraging

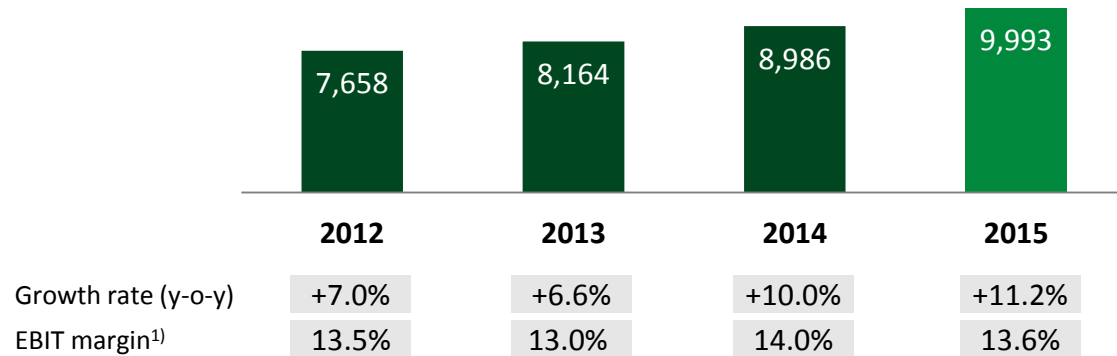
Cash flow

Key objectives

Profitable growth and sustainable value creation

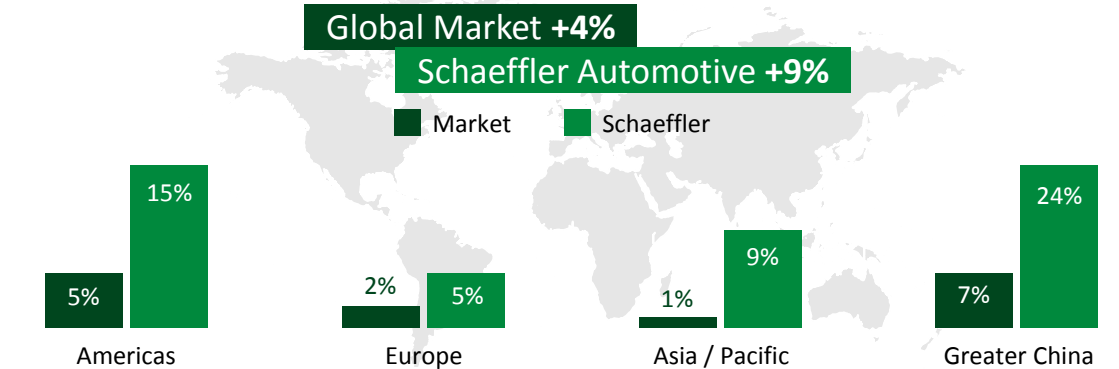
1 Schaeffler Automotive – Growing profitably above market

Sales and EBIT margin



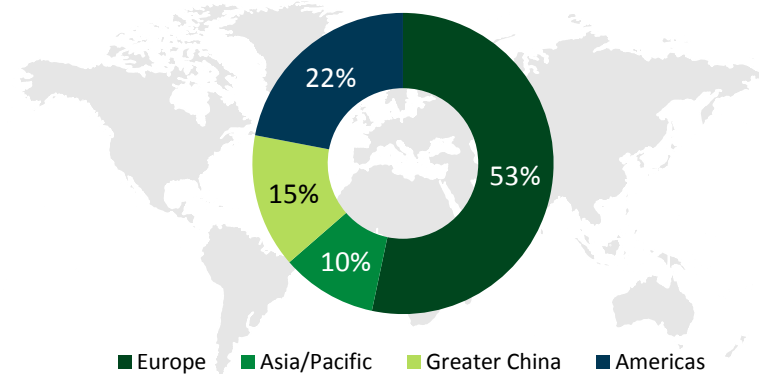
¹⁾ Before one-off effects

Out-performance in all regions¹⁾



¹⁾ Schaeffler Automotive CAGR 2010 – 2015 excluding Aftermarket and FX

Sales by region



Broad customer mix



1 Four growth drivers for Schaeffler Automotive

Most relevant Automotive trends



CO₂ & Emission reduction

Continuous growth in Emerging Markets

Comfort & Safety

Connectivity

Growth drivers

- 1 Growth from **new technologies / products**
- 2 Growth from **higher systems share**
- 3 Growth from **new customers and markets**
- 4 Growth from **Aftermarket business**

Current examples

Finger follower (not switchable)



~ 4 x more content¹⁾



Finger follower (switchable)

Conventional clutch



~ 10 x more content¹⁾



Double clutch with actuation and control unit

+15% pts installation rate²⁾



Ball screw drive for electric brake China

Dual mass flywheel (single parts)



> 4 x faster growth³⁾



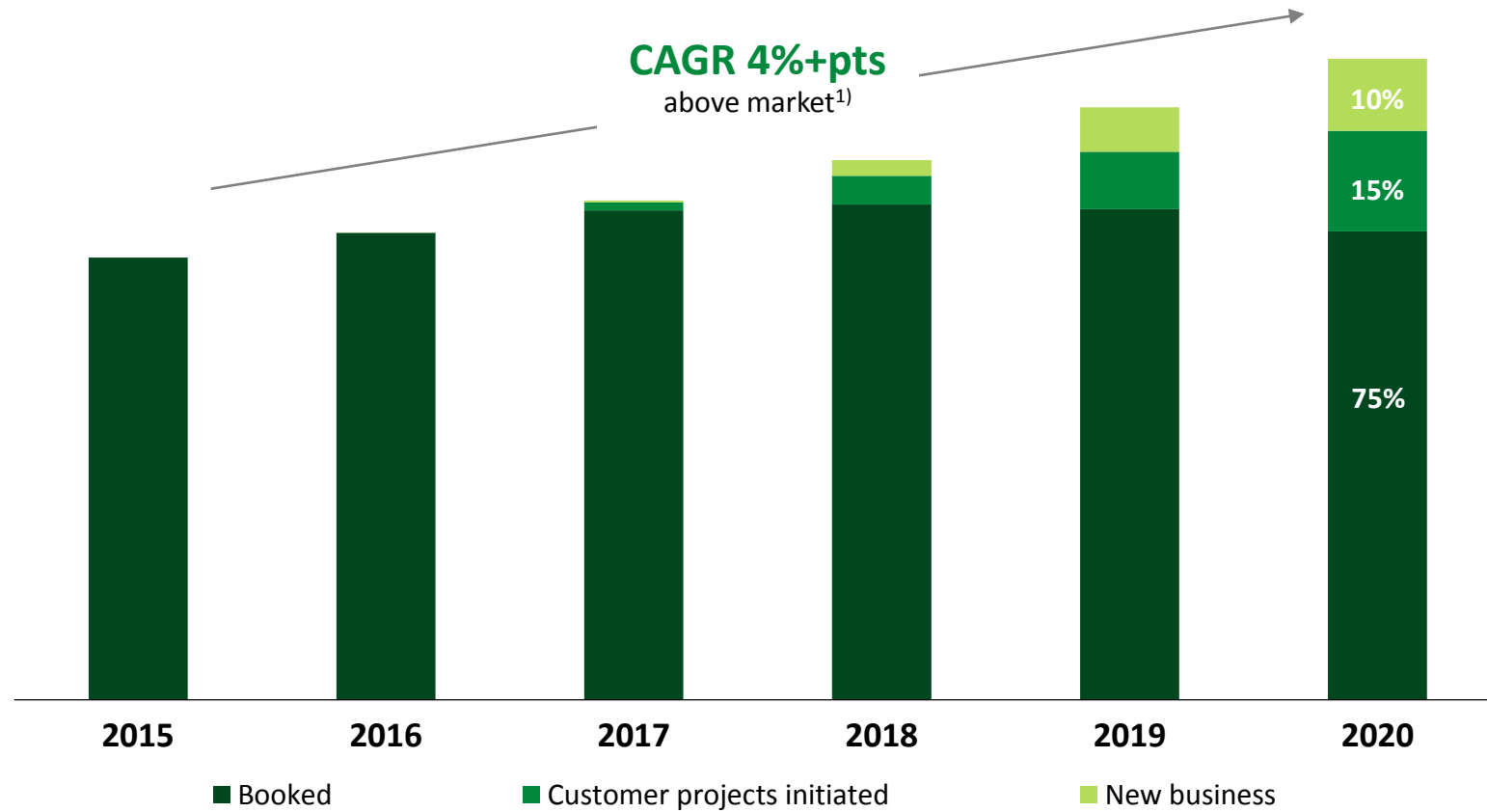
RepSet dual mass flywheel

¹⁾ based on unit price; ²⁾ installation rate 10% in 2015, 25% in 2020; ³⁾ Sales CAGR 2015 – 2020

1 We target at least 4%-pts OE sales growth above market¹⁾ until 2020

Estimated share of booked business and initiated customer projects

in % of net sales (excluding Aftermarket)



¹⁾ At constant currency

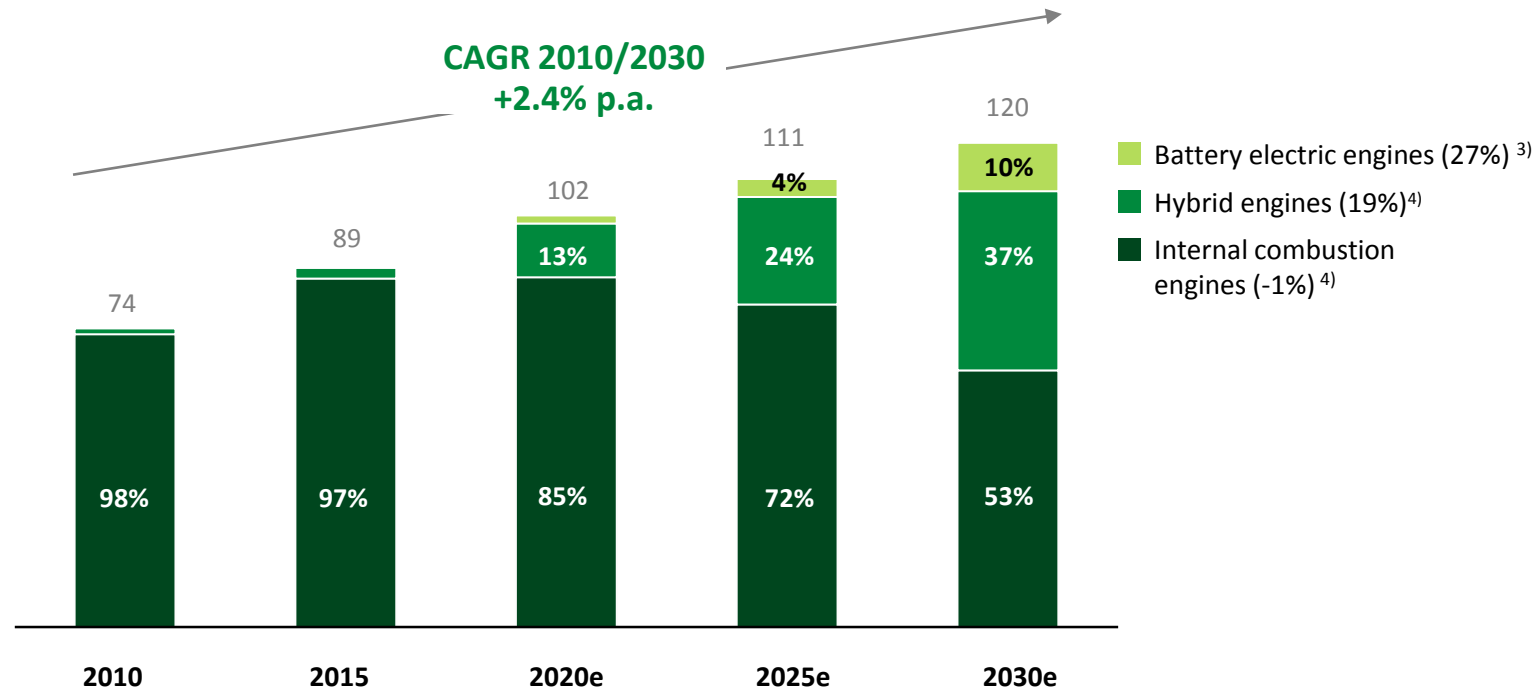
Key aspects

- ▶ Around 90% of our OE business for 2020 is either booked business or customer projects that are already initiated
- ▶ We target an average growth rate of at least 4%-pts above market¹⁾ for our Automotive OE business until 2020
- ▶ Mix impact from mechatronics is expected to remain limited; we aim to maintain our high level of profitability
- ▶ We are confident to be able to secure our value add in mechatronic systems

1 Market growth driven by new technologies

Global production volume ¹⁾

in millions of units



Source: IHS, LMC Automotive, Schaeffler Group projections

¹⁾ Annually expected global production volume, automobiles/small utility vehicles in millions of units

²⁾ Schaeffler estimates

³⁾ CAGR 2015/2030

⁴⁾ CAGR 2010/2030

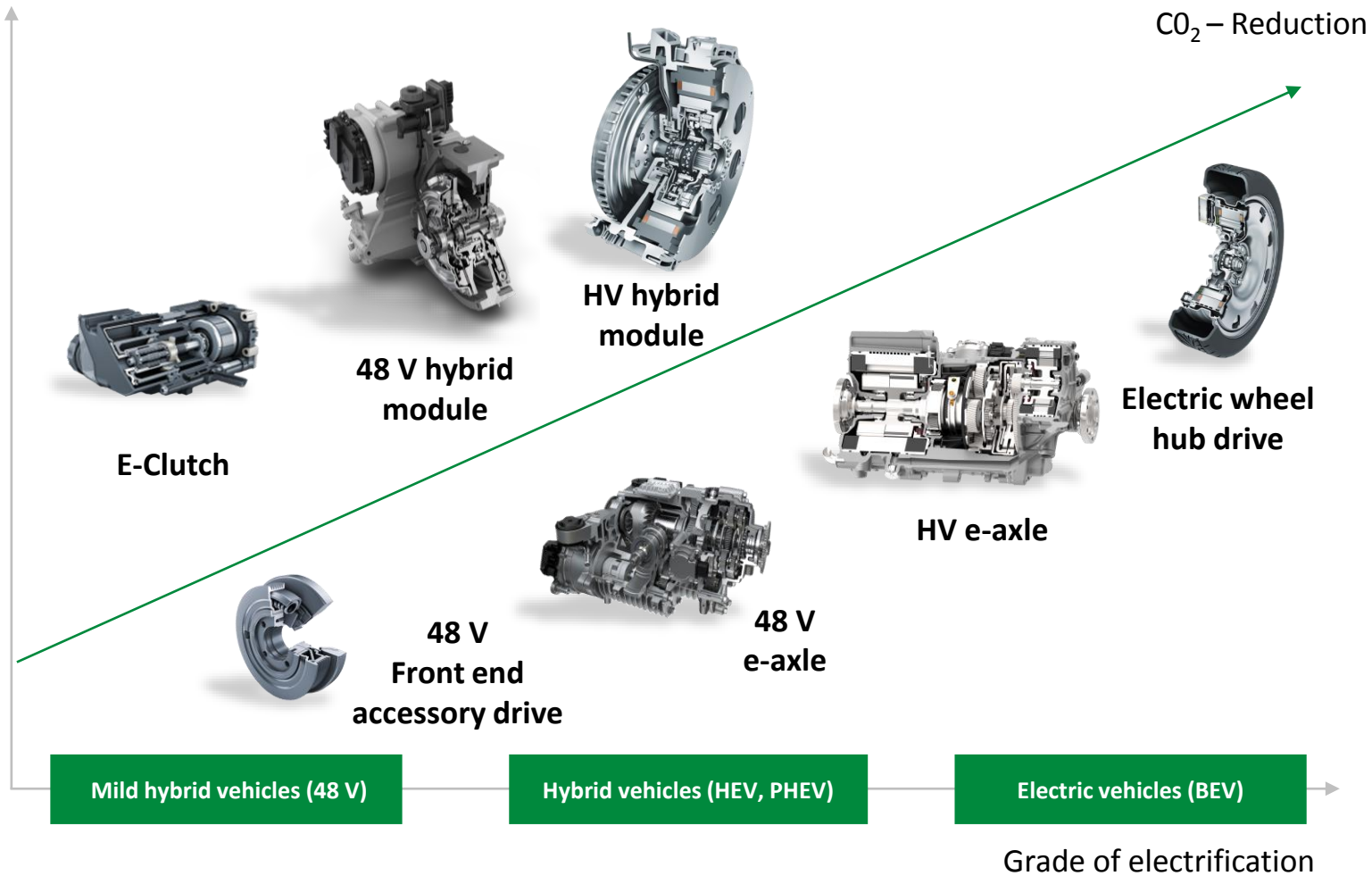
Key aspects

- ▶ Continuous market growth expected for the next years
- ▶ Future growth based on increasing production of hybrid and electro vehicles, in 2025 >25% of the market, accelerated scenario possible
- ▶ Decrease of amount of vehicles with conventional engine expected from 2020
- ▶ Global fleet today >1 bn vehicles – importance of aftermarket grows

New technologies drive market growth

1 E-Mobility as our key challenge and opportunity

Product portfolio



Key aspects

1999

1st Schaeffler E-Mobility symposium

2002

1st E-Mobility concept car

2005

1st serial production of components for hybrid modules

2016

- ▶ 500 Million Euro investment to date¹⁾
- ▶ 1,200 employees globally in R&D and manufacturing of mechatronics, hybrid technologies and E-Mobility
- ▶ 4 customer projects for hybrid modules
- ▶ 4 customer projects for e-axes

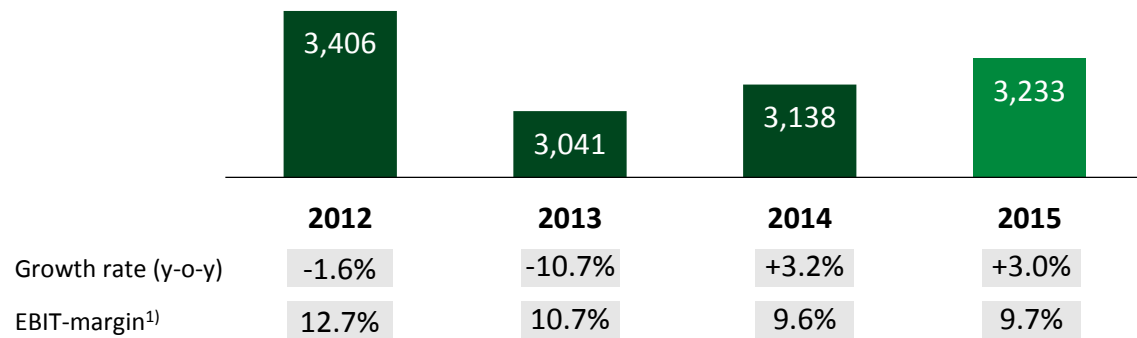
2020

- ▶ Further 500 Million Euro investment¹⁾
- ▶ Doubling of employees in R&D and manufacturing

¹⁾Including R&D

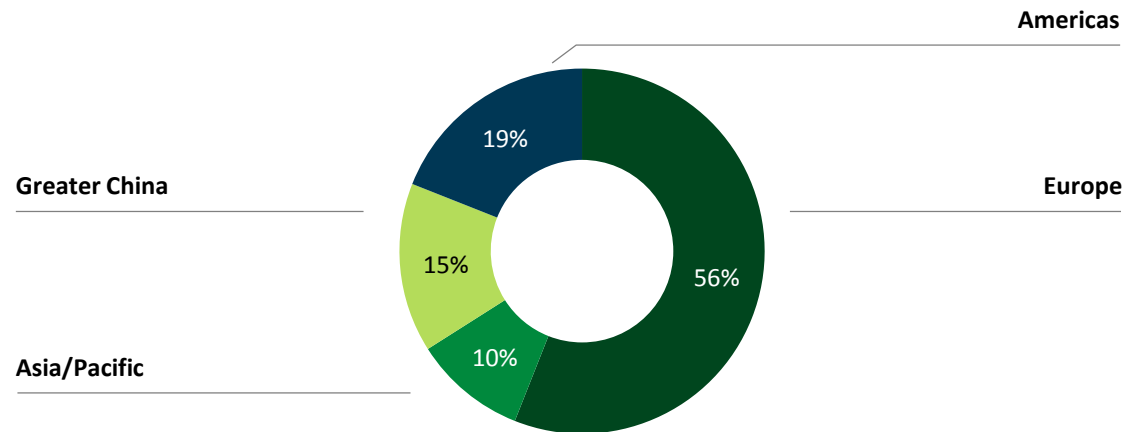
2 Schaeffler Industrial – Bearing solutions for 8 sector clusters and distribution

Sales development 2012 – 2015

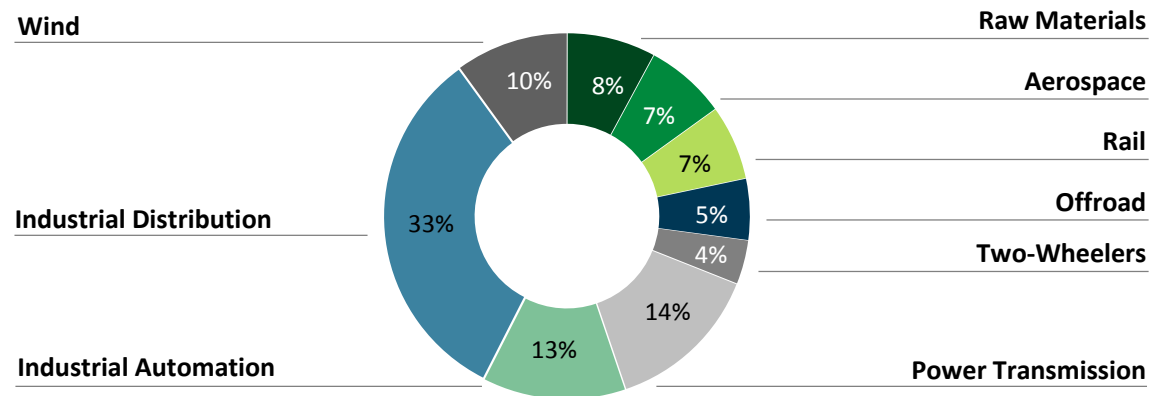


¹⁾ Before one-off effects

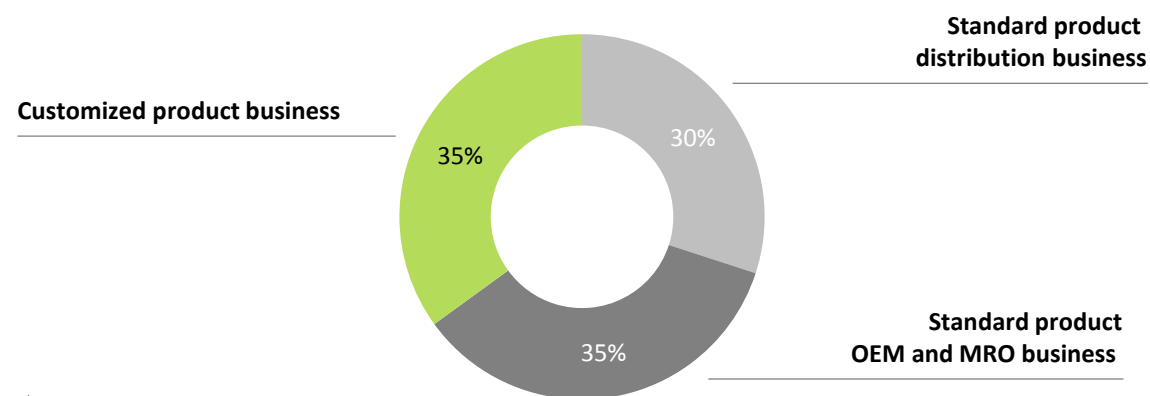
Sales split by region 2015



Sales split by sector cluster & distribution channel 2015

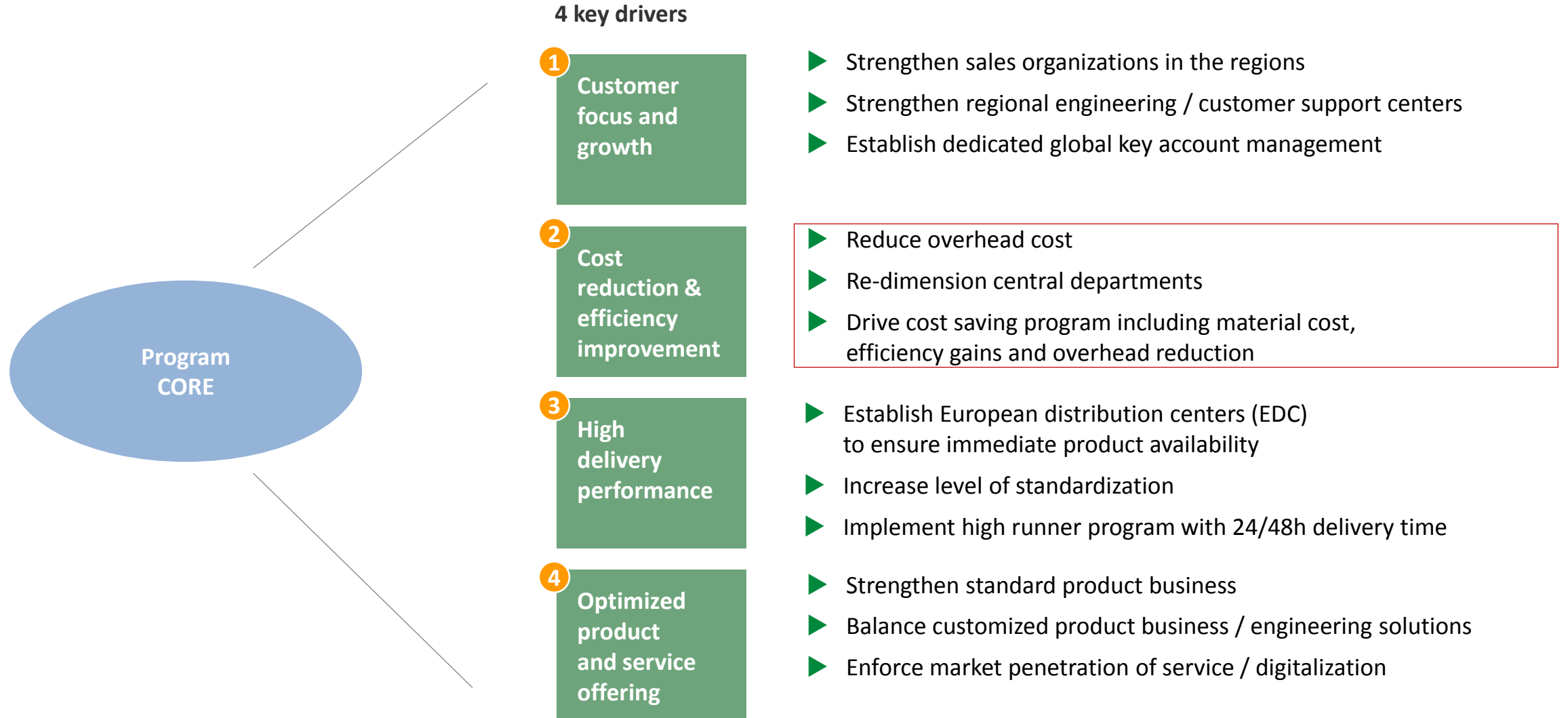


Sales split by business model 2015¹⁾



¹⁾ Including service business

2 Program CORE – Revitalizing the Industrial division



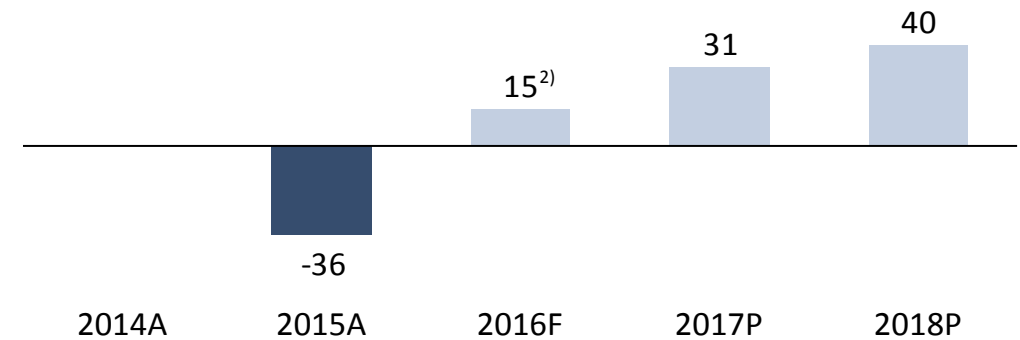
2 Cost reduction and efficiency improvements – First wave mostly completed

Key aspects

- ▶ First wave announced in August 2015
- ▶ Cost savings through HCO reduction in overhead functions of the Industrial Division
- ▶ Reduction of 500 HCO mainly in Germany until 12/2017
- ▶ Approximately 40 EUR mn overhead cost savings (full run rate 2018)
- ▶ 36 EUR mn restructuring provisions (booked in Q IV 2015)

Indicative Financial Impact

Δ EBIT in EUR mn



¹⁾ Financial impact in specific year

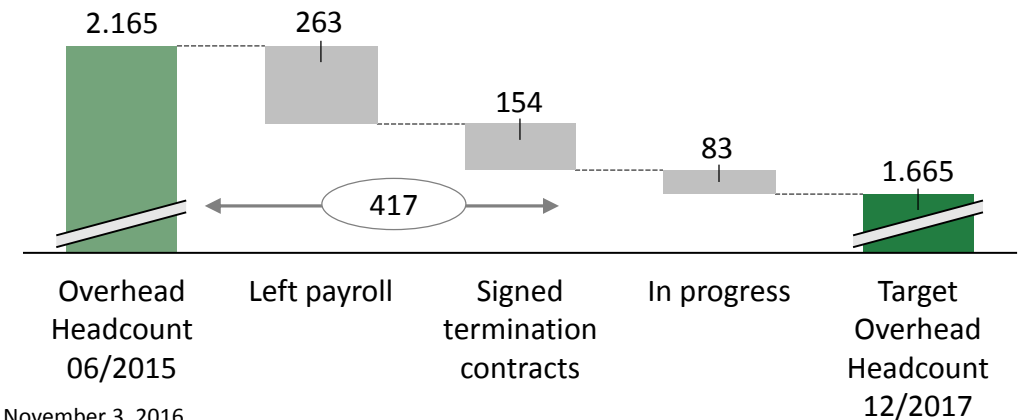
²⁾ thereof 9 mn Euro YTD September 2016

EBIT Improvement

One-off effects

HCO reduction Overhead

Completion Ratio 83 % ³⁾



³⁾ as of November 3, 2016

2 Cost reduction and efficiency improvements – Second wave initiated

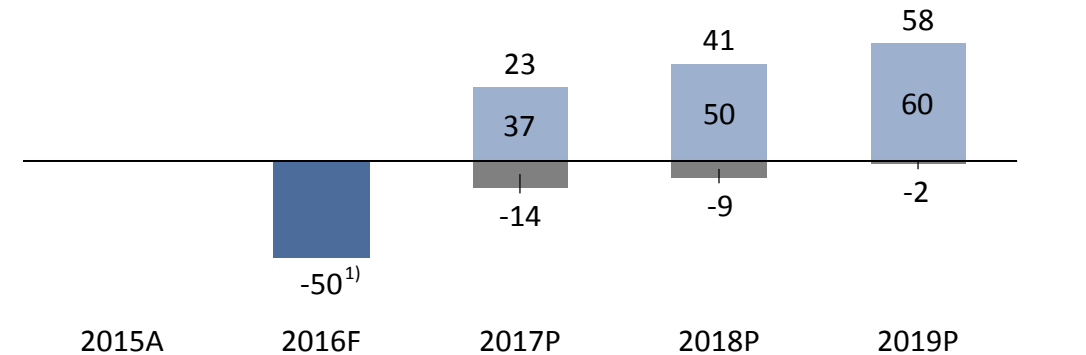
Key aspects

- ▶ Second wave announced in November 2016
- ▶ Cost savings through consolidation of plants in Europe and Americas and HCO reduction in overhead functions also outside the Industrial division
- ▶ Reduction of 500 HCO in Germany¹⁾, Europe and other regions targeted
- ▶ Approximately 60 EUR mn improvement from Gross Profit optimization and Overhead cost reduction until 2019 planned
- ▶ Around 75 EUR mn one-off-cost until 2019 of which approximately 50 EUR mn shall be booked as restructuring provisions as of year end 2016

¹⁾ Subject to negotiation with working council

Indicative Financial Impact

Δ EBIT in EUR mn

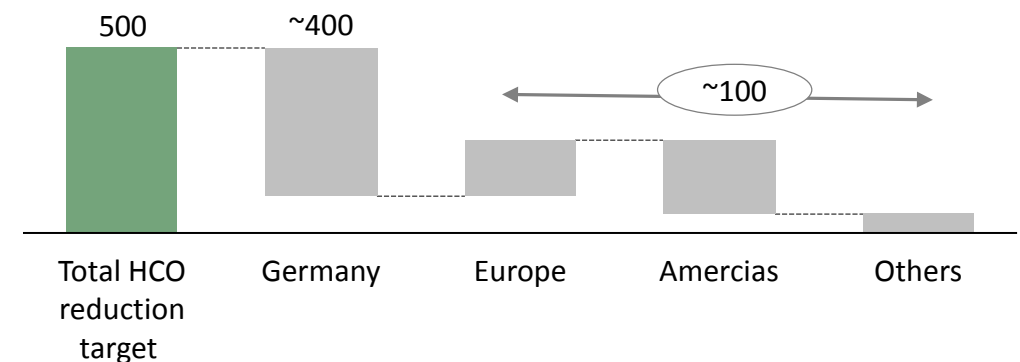


¹⁾ 2016-2019 in total 75 mn Euro, thereof 50 mn Euro booked as restructuring provision

■ EBIT Improvement ■ One-off costs

HCO reduction Plants/Overhead

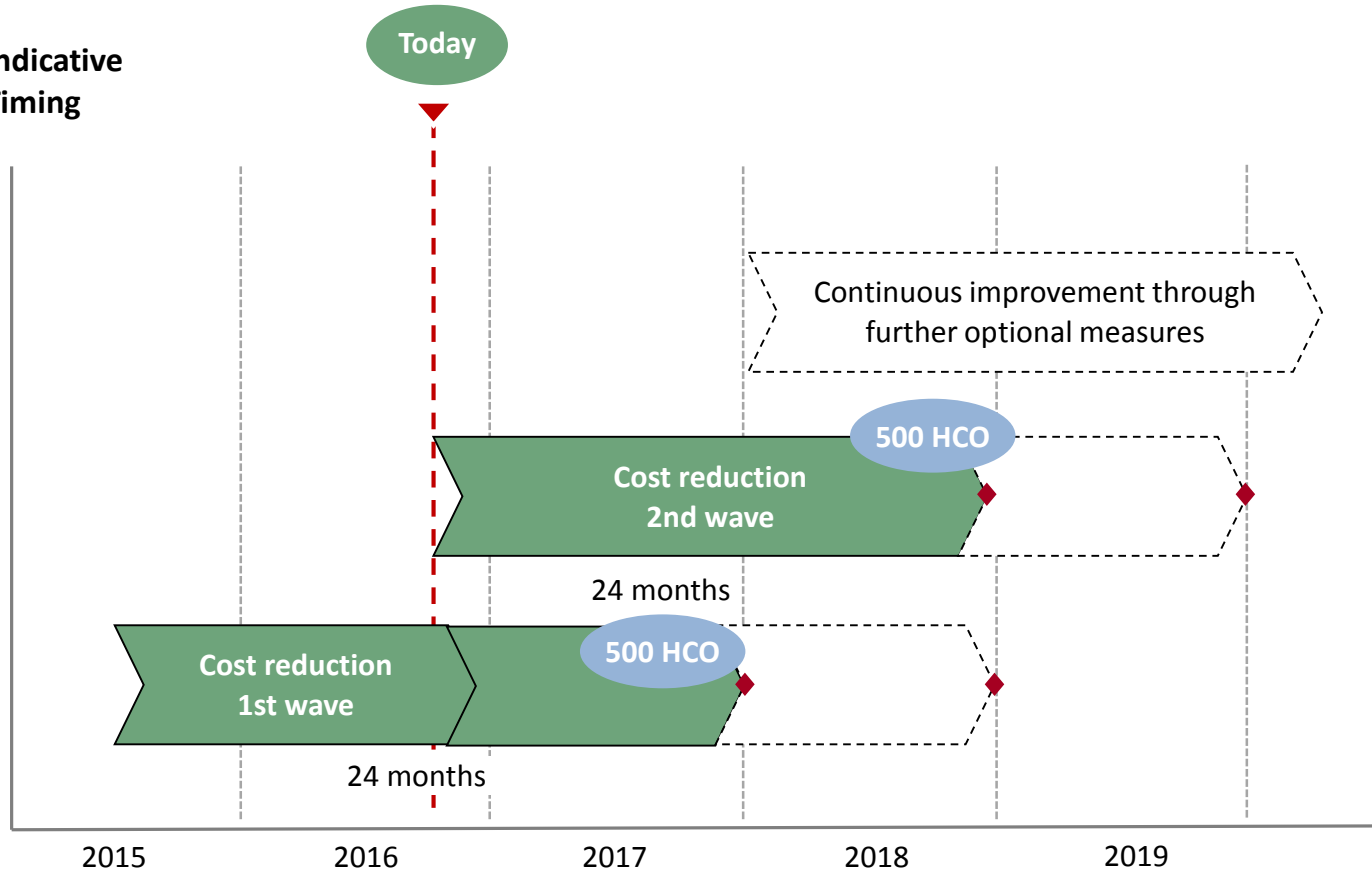
Indicative figures



2 Program CORE – Overall target remains in place

Successful implementation

Indicative
Timing



Financial ambitions

Stable market
environment

EBIT margin
Industrial Division
10-11% in 2018

Successful
implementation
of CORE program

3 Use of cash – M&A strategy based on selected add-on acquisitions

M&A strategy

Approach

- ▶ Focus on technological competence to maintain our strong position as technology and innovation leader
- ▶ Focus on smaller add-on acquisitions that contribute to a sustainable value creation

Acquisition Criteria

- ▶ Strategic and cultural fit, technological excellence and value contribution as the most important acquisition criteria
- ▶ Possible acquisitions will be in the three-digit million range

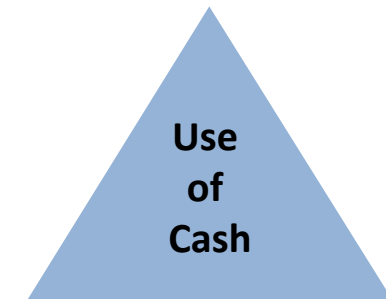
Automotive & Industrial

- ▶ Attractive pipeline of potential acquisition targets for both divisions
- ▶ Focus in Automotive and Industrial is on technology and on strengthening market positions

Use of cash

External growth

Add-on acquisitions



Deleveraging

Further optimization of balance sheet

Dividends

30-40% of net income

1 Restructuring and transformation phase finalized, foundation laid for further profitable growth

2 Long-term growth strategy "Mobility for tomorrow" finalized and presented

3 Financial Ambitions 2020 with focus on sales growth, EBIT margin, FCF generation, EPS, gearing ratio and dividend payout ratio

4 Continued optimization of combustion engine and move into E-Mobility offer significant growth potential in Automotive

5 Program CORE to revitalize the Industrial division extended, second wave of efficiency measures initiated

6 Enhanced financial flexibility and strong cash flow generation allow for selected technological add-on acquisitions

Mobility for tomorrow



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Financial Calendar

FY 2016 results:	March 8, 2017
Q1 2017 results:	May 11, 2017
H1 2017 results:	August 8, 2017
9M 2017 results:	November 8, 2017