Agenda

1. Overview
2. Our Strategy
3. Our Action Plan
4. Our Financial Ambitions
5. Summary
Overview

The Schaeffler Executive Team – Long-term industry experience

**Executive Team**

- **Klaus Rosenfeld**
  - Chief Executive Officer
  - Joined Schaeffler in 2009

- **Prof. Dr.-Ing. Peter Gutzmer**
  - Chief Technology Officer / Deputy CEO
  - Joined Schaeffler in 2001

- **Dr. Stefan Spindler**
  - CEO Industrial
  - Joined Schaeffler in 2015

- **Dr. Ulrich Hauck**
  - Chief Financial Officer
  - Joined Schaeffler in 2015

- **Oliver Jung**
  - Chief Operating Officer
  - Joined Schaeffler in 2008

- **Corinna Schittenhelm**
  - Chief Human Resources Officer
  - Joined Schaeffler in 2016

**Key aspects**

- Integrated business model with two divisions, five functions and four regions
- Executive Board with 8 Board members plus 4 Regional CEOs
- Matthias Zink replaces Norbert Indlekofer as of January 1st, 2017 (joined Schaeffler in 1994)

**CEO Functions**

- **Automotive**
  - Prof. Dr. Peter Pleus / Norbert Indlekofer
  - CEOs Automotive
  - Joined Schaeffler in 2001/1989

- **Technology**
  - Prof. Dr.-Ing. Peter Gutzmer
  - Chief Technology Officer / Deputy CEO
  - Joined Schaeffler in 2001

- **Industrial**
  - Dr. Stefan Spindler
  - CEO Industrial
  - Joined Schaeffler in 2015

- **Finance**
  - Dr. Ulrich Hauck
  - Chief Financial Officer
  - Joined Schaeffler in 2015

- **Operations**
  - Oliver Jung
  - Chief Operating Officer
  - Joined Schaeffler in 2008

- **Human Resources**
  - Corinna Schittenhelm
  - Chief Human Resources Officer
  - Joined Schaeffler in 2016

**+ 4 Regional CEOs**

Year-long industry experience and service at Schaeffler
1 Overview
Chronology 2009-2016 – "Where we are coming from"

Our way forward

- Capital Markets Debut
- Restructuring and transformation phase finalized
- Program "One Schaeffler" 2013-2015 finished
- New "Corporate & Capital structure" implemented
- Leadership team completed
- Vision, Mission, Corporate Values & Brand Promises established

Key achievements

- "Restructuring"
- "Transformation"
- "Profitable Growth"

Solid starting position with further value creation potential
1 Overview

10-year look-back – Sales and EBIT

Development of Sales
2006 - 2016

in EUR mn

Sales growth (y-o-y)
4.7% 8.4% -1.2% -17.6% 29.4% 12.6% 4.0% 0.7% 8.2% 9.1% 0.0%

CAGR 2006-2015 +5 %

Development of EBIT
2006 - 2016

in EUR mn

Adjusted EBIT margin
12.9% 12.6% 11.7% 6.1% 15.9% 16.2% 13.2% 12.8% 12.9% 12.7% 12.6%

1) 2006-2010 relates to financials of a different entity (Schaeffler VZ GmbH)
2) LTM = Last twelve month based on Q1 2016
3) Before one-off effects
1 Overview

10-year look-back – Capex and Operating Cash flow

### Development of Capex

#### 2006 - 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Capex in EUR mn</th>
<th>in % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>933</td>
<td>11.2%</td>
</tr>
<tr>
<td>2007</td>
<td>920</td>
<td>10.2%</td>
</tr>
<tr>
<td>2008</td>
<td>978</td>
<td>11.0%</td>
</tr>
<tr>
<td>2009</td>
<td>321</td>
<td>4.4%</td>
</tr>
<tr>
<td>2010</td>
<td>361</td>
<td>3.8%</td>
</tr>
<tr>
<td>2011</td>
<td>773</td>
<td>7.2%</td>
</tr>
<tr>
<td>2012</td>
<td>860</td>
<td>7.7%</td>
</tr>
<tr>
<td>2013</td>
<td>572</td>
<td>5.1%</td>
</tr>
<tr>
<td>2014</td>
<td>857</td>
<td>7.1%</td>
</tr>
<tr>
<td>2015</td>
<td>1,025</td>
<td>7.8%</td>
</tr>
<tr>
<td>2016</td>
<td>1,099</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

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### Development of Operating Cash flow

#### 2006 - 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Cash flow in EUR mn</th>
<th>Adjusted in % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,137</td>
<td>13.7%</td>
</tr>
<tr>
<td>2007</td>
<td>1,021</td>
<td>11.3%</td>
</tr>
<tr>
<td>2008</td>
<td>1,019</td>
<td>12.3%</td>
</tr>
<tr>
<td>2009</td>
<td>597</td>
<td>8.1%</td>
</tr>
<tr>
<td>2010</td>
<td>386</td>
<td>9.4%</td>
</tr>
<tr>
<td>2011</td>
<td>473</td>
<td>10.0%</td>
</tr>
<tr>
<td>2012</td>
<td>301</td>
<td>10.2%</td>
</tr>
<tr>
<td>2013</td>
<td>473</td>
<td>9.2%</td>
</tr>
<tr>
<td>2014</td>
<td>371</td>
<td>10.5%</td>
</tr>
<tr>
<td>2015</td>
<td>318</td>
<td>10.4%</td>
</tr>
<tr>
<td>2016</td>
<td>318</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

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1) 2006-2010 relates to financials of a different entity (Schaeffler VZ GmbH)
2) LTM = Last twelve month based on Q1 2016
3) Before one-off effects

\[LTM = \text{Last twelve month based on Q1 2016}\]
1 Overview

**Good starting position – Further value creation potential**

<table>
<thead>
<tr>
<th>&quot;Where we lead&quot;</th>
<th>&quot;Where we lag&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Best-in-class Automotive business with above average growth and profitability</td>
<td>▶ Industrial business with below average growth and profitability</td>
</tr>
<tr>
<td>▶ Proven innovation strength and technological competence</td>
<td>▶ Financial flexibility still limited</td>
</tr>
<tr>
<td>▶ Superior manufacturing &amp; systems expertise and product development competence</td>
<td>▶ Delivery performance</td>
</tr>
<tr>
<td>▶ One globally aligned organizational structure</td>
<td>▶ Complex process structure with improvement potential in particular in indirect areas</td>
</tr>
<tr>
<td>▶ Long-term focus supported by family business culture</td>
<td>▶ Strong competition for talents</td>
</tr>
<tr>
<td>▶ Above average results and operating performance compared to peers</td>
<td>▶ Share price development</td>
</tr>
</tbody>
</table>

Further value creation potential
1 Overview

Guidance 2016 confirmed – Midterm targets

Guidance 2016

- Sales growth: plus 3-5% FX-adjusted
- EBIT margin: 12-13% of Sales before one-off effects
- Free Cash flow: ~ 600 EUR mn

Market assumptions
- Automotive: Global light vehicle production growth of around 2%
- Industrial: Low single-digit growth in global industrial production

Midterm targets

- Profitable Growth
- Dividend Payout ratio 25-35% 1)
- Sustainable Value creation

1) of Net income
# The Schaeffler Equity Story – 3 main pillars

<table>
<thead>
<tr>
<th>Key objectives</th>
<th>3 main pillars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong></td>
<td>Outperformance in Automotive</td>
</tr>
<tr>
<td>- Best-in-class business with superior growth and margin profile</td>
<td></td>
</tr>
<tr>
<td>- Quality, Technology and Innovation drive outperformance</td>
<td></td>
</tr>
<tr>
<td>- Global light vehicle production continuously outperformed</td>
<td></td>
</tr>
<tr>
<td><strong>Margin</strong></td>
<td>Margin upside in Industrial</td>
</tr>
<tr>
<td>- CORE program launched to revitalize Industrial division</td>
<td></td>
</tr>
<tr>
<td>- Margin upside potential + 3%-points</td>
<td></td>
</tr>
<tr>
<td>- Industrial division contributes 23% of total sales</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow</strong></td>
<td>Strong Free Cash flow generation</td>
</tr>
<tr>
<td>- Strong operating Cash flow generation</td>
<td></td>
</tr>
<tr>
<td>- Underlying Free Cash flow improved due to reduced interest paid</td>
<td></td>
</tr>
<tr>
<td>- Continuous deleveraging from Operating Cash flow</td>
<td></td>
</tr>
</tbody>
</table>

**Profitable growth and sustainable Value creation**
2 Our Strategy

Strategy "Mobility for tomorrow" – 4 focus areas

Megatrends

- **Environmental trends**
  - Climate change

- **Society trends**
  - Urbanization

- **Economic trends**
  - Globalization

- **Technology trends**
  - Digitalization

Focus areas

- Optimized combustion engine
- Electric mobility
- Industrial drives

- Micro-mobility
- City vehicles
- Urban rail traffic

- Railway
- Aerospace industry
- Off-highway applications

- Wind energy
- Solar energy
- Conventional power generation

"Mobility for tomorrow" Eco-friendly drives

Urban mobility

Interurban mobility

Energy chain
### Our Strategy

**Product offering – "From components to systems"**

#### Key aspects

- Components and mechanical system business remain core and key to success
- Move into mechatronic systems driven by E-Mobility and Industry 4.0 initiative
- Build-up of service business in particular relevant for Industrial division (also with respect to digitalization)

#### Product spectrum

<table>
<thead>
<tr>
<th>Value Added (~65%)</th>
<th>Components</th>
<th>Mechanical systems</th>
<th>Mechatronic systems</th>
<th>Services</th>
<th>Physical</th>
<th>Digital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>e.g. Finger follower</td>
<td>e.g. Double clutches</td>
<td>e.g. E-mobility</td>
<td>e.g. Needle bearings</td>
<td>e.g. Linear systems</td>
<td>e.g. Industry 4.0</td>
</tr>
<tr>
<td></td>
<td>Automotive</td>
<td>Industrial</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

#### Value Added

- Physical (~15%)
- Digital (~15%)
- Physical (~65%)

#### Product spectrum

- **Bearings**
  - Non-Bearings
  - Bearings

#### One integrated approach

Automotive / Industrial
Our Strategy

Localization strategy – "In the region for the region"

Key aspects

- High degree of localization in Europe
- Significant opportunities for further localization outside Europe
- Greater China, India and Asia/Pacific as key growth areas

Localization ratio 2015 by region

Europe
- 2010: 96% (Produced outside the region), 4% (Produced in the region)
- 2015: 96% (Produced outside the region), 4% (Produced in the region)

Greater China
- 2010: 62% (Produced outside the region), 38% (Produced in the region)
- 2015: 32% (Produced outside the region), 68% (Produced in the region)

Americas
- 2010: 30% (Produced outside the region), 70% (Produced in the region)
- 2015: 29% (Produced outside the region), 71% (Produced in the region)

Asia/Pacific
- 2010: 58% (Produced outside the region), 42% (Produced in the region)
- 2015: 59% (Produced outside the region), 41% (Produced in the region)

1) Market view
Our key challenge – "From good to great"

Competitive position vs. Business model

- **"Turn around"**
  - Rapidly improve financial performance while retaining current business model

- **"From good to great"**
  - Be ahead of the curve and make changes earlier than necessary

- **"Go big or go home"**
  - Find a new business model and improve financial performance as soon as possible

- **"Re-invent"**
  - Change elements of the model to be competitive with some urgency; financial strength allows sequencing

Key aspects

- Schaeffler follows a proven business model with a high degree of stability
- Schaeffler enjoys in most of its business a strong competitive position (Top 1-3 position)
- No disruptive change or significant change to the business model expected

1) Modified chart from Bain & Company
3 Our Action Plan
"Agenda 4 plus One" – 20 Flagship initiatives

**Agenda 4 plus One**

1. **Customer focus**
   - 1. Customer Excellence
   - 2. E-Mobility
   - 3. Industry 4.0
   - 4. Automotive Aftermarket

2. **Operational excellence**
   - 5. Quality for Tomorrow
   - 6. Global Footprint
   - 7. Factory for Tomorrow
   - 8. Global Reporting
   - 9. Shared Services
   - 10. Process Excellence

3. **Financial flexibility**
   - 11. Deleveraging
   - 12. Complexity Reduction
   - 13. Leadership & Corporate Values
   - 14. Talent Management
   - 15. Qualification for Tomorrow
   - 16. New Work

4. **Leadership & Talent management**
   - 17. Program CORE
   - 18. Digital Agenda
   - 19. IT Strategy 2020
   - 20. Global Branding

**Initiatives**

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customer Excellence</td>
<td>Prof. Pleus / Dr. Spindler</td>
</tr>
<tr>
<td>2. E-Mobility</td>
<td>Prof. Gutzmer</td>
</tr>
<tr>
<td>3. Industry 4.0</td>
<td>Dr. Spindler</td>
</tr>
<tr>
<td>4. Automotive Aftermarket</td>
<td>Indlekofer</td>
</tr>
<tr>
<td>5. Quality for Tomorrow</td>
<td>Rosenfeld</td>
</tr>
<tr>
<td>6. Global Footprint</td>
<td>Rosenfeld</td>
</tr>
<tr>
<td>7. Factory for Tomorrow</td>
<td>Jung</td>
</tr>
<tr>
<td>8. Global Reporting</td>
<td>Dr. Hauck</td>
</tr>
<tr>
<td>9. Shared Services</td>
<td>Dr. Hauck</td>
</tr>
<tr>
<td>10. Process Excellence</td>
<td>Rosenfeld</td>
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<tr>
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<td>Dr. Hauck</td>
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<td>12. Complexity Reduction</td>
<td>Rosenfeld</td>
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<td>13. Leadership &amp; Corporate Values</td>
<td>Schittenhelm</td>
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<td>14. Talent Management</td>
<td>Schittenhelm</td>
</tr>
<tr>
<td>15. Qualification for Tomorrow</td>
<td>Schittenhelm</td>
</tr>
<tr>
<td>16. New Work</td>
<td>Schittenhelm</td>
</tr>
<tr>
<td>17. Program CORE</td>
<td>Dr. Spindler</td>
</tr>
<tr>
<td>18. Digital Agenda</td>
<td>Prof. Gutzmer</td>
</tr>
<tr>
<td>19. IT Strategy 2020</td>
<td>Prof. Gutzmer</td>
</tr>
<tr>
<td>20. Global Branding</td>
<td>Rosenfeld</td>
</tr>
</tbody>
</table>
**Automotive – "What does E-Mobility mean for Schaeffler?"**

**Market Development**

- **Accelerated scenario**
  - 2030 already in 2025
- **Base case scenario**
  - 2010: 74
  - 2015: 89
  - 2020: 102
  - 2025: 111
  - 2030: 120

- **Content per vehicle**
  - Electric: 98%
  - Hybrids: 97%
  - Combustion engines: 85%

- **EBIT margin**
  - Electric: 24%
  - Hybrids: 24%
  - Combustion engines: 37%

- **Value Added**
  - Electric: 53%
  - Hybrids: 53%
  - Combustion engines: 53%

- **Capex needed**
  - High

- **ROCE**
  - Electric: 10%
  - Hybrid: 10%
  - Combustion engines: 10%

- **Phasing of technology development highly uncertain (accelerated vs. base case scenario)**
- **Dual strategy with 2 main directions:**
  - Phased: 1)
    - Pursue further growth from optimizing combustion engines
  - Accelerated: 2)
    - Leveraging superior systems expertise to build and expand E-Mobility business

**Business characteristics**

- **Existing business** 1):
  - Content per vehicle: ~ 100 EUR
  - EBIT margin: 13 – 14 %
  - Value Added: ~ 60%
  - Capex needed: High
  - ROCE: ~ 20 %

- **New (system) business**

**Sustainable growth above market**

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1) including Aftermarket business

Source: IHS and Schaeffler assumptions
### Our Action Plan

#### Industrial – "Is 13% EBIT margin achievable?"

**Key aspects**

- **EBIT margin improvement plan assumes stable market conditions**: with moderate growth

- **3 main profitability drivers (EBIT margin) remain in place (2018)**
  - Growth: +0.25 – 0.5%-pts.
  - Production cost: +0.75 – 1.25%-pts.
  - Overhead cost: +1.0 – 1.25%-pts.

- **Execution of Program CORE on track**

**Project CORE to revitalize Industrial division further strengthened and enforced**

**EBIT margin target of 13% not achievable until 2018 due to further market decline in 2016**

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1) Regarding pricing, material prices and FX

---
**Net Debt and Leverage Target**

<table>
<thead>
<tr>
<th>Year</th>
<th>I/C Loan Note 1.8</th>
<th>Pro Forma Net Debt 3.1</th>
<th>Deleveraging from Operating Cash flow</th>
<th>Mid-term target</th>
<th>Long-term target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>4.9 bn</td>
<td>2.1x</td>
<td>&lt; 1.5x</td>
<td>750 mn</td>
<td>500 mn</td>
</tr>
</tbody>
</table>

**Cash flow profile Schaeffler Group**

<table>
<thead>
<tr>
<th>Category</th>
<th>2011-2015</th>
<th>2016-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash flow 3)</td>
<td>8,300</td>
<td>10,000</td>
</tr>
<tr>
<td>- Net Interest paid</td>
<td>-2,800</td>
<td>-500</td>
</tr>
<tr>
<td>- Capex</td>
<td>-4,000</td>
<td>-6,000</td>
</tr>
<tr>
<td>Free Cash flow</td>
<td>1,500</td>
<td>3,500</td>
</tr>
<tr>
<td>- Deleveraging (net) 4)</td>
<td>-600</td>
<td>-1,250</td>
</tr>
<tr>
<td>- Dividends</td>
<td>-850</td>
<td>-1,750</td>
</tr>
<tr>
<td>Δ Net Cash</td>
<td>+50</td>
<td>+500</td>
</tr>
</tbody>
</table>

- Leverage Target 2020 < 1.0x EBITDA
- Loan Note Receivable (4% coupon) repaid over time
- Further upside from working capital optimization

1) w/o external growth
2) Indicative figures for illustration purposes
3) Before net interest paid
4) w/o equity proceeds
3 Our Action Plan

Digital Agenda 2020 – Shaping "Mobility for tomorrow"

Digital World

Key aspects

- Digitalization as an opportunity for Schaeffler
- Digital Agenda 2020 with 5 key building blocks
- Digital technology already in products and production

Real World

Big data analytics as well as digitally enabled products, services and equipment offer additional opportunities
4 Our Financial Ambitions

Key Strategic Targets – One integrated model

Key objectives

Core business

Strategic targets

Strategic initiatives

Key drivers

- Profitable growth strategy based on the key success factors "Quality, Technology and Innovation" and balanced business portfolio

- Continuous growth into system business based on highly profitable component business

- Balanced regional business mix with increasing sales share of Greater China and Asia/Pacific

- Integrated business model using internal synergies and leveraging superior production technology

Strategic Targets 2020

- 20% Industrial
- 80% Automotive
- 30% Systems
- 70% Components

Balance business portfolio

Grow into system business

Extend global footprint
### Financial Target System

#### Financial Targets 1st Tier
- SVA ROCE
- Sales growth
- EBIT margin
- Free Cash flow

#### Financial Targets 2nd Tier
- Tax rate
- Leverage ratio
- R&D ratio
- Dividend Payout ratio

#### Non-Financial Targets
- Quality
- Customer Satisfaction
- NPS
- HCO
- Global Management Share 1)
- Delivery performance
- Employee satisfaction

### Financial Ambitions 2020

1. **Sales Growth** 1)  
   - Ø 4 – 6 % p.a.

2. **EBIT margin** 2)  
   - 12 – 13 % p.a.

3. **Free Cash flow** 3)  
   - ~ 900 EUR mn in 2020

4. **Leverage Ratio** 3)  
   - < 1.0 x EBITDA in 2020

5. **Dividend Payout ratio**  
   - 25 – 35 % of Net income

6. **Rating**  
   - Investment Grade in 2020

---

1) Fx-adjusted  
2) Before one-off effects  
3) w/o external growth
8 Key messages – "Why invest into Schaeffler"

1. Strong starting position, Guidance 2016 confirmed
2. Proven integrated business model with strong track record and balanced business portfolio
3. Continued execution of long-term growth strategy "Mobility for tomorrow"
4. Excellence Program "Agenda 4 plus One" with 20 key initiatives started to position Schaeffler for long-term competitiveness and value creation
5. Continued optimization of combustion engine and move into E-Mobility offer significant upside potential in Automotive
6. Project CORE on track, EBIT margin target of 13% remains intact but is moved to 2020
7. Strong Cash flow generation will allow continued deleveraging from internal sources and to achieve Investment Grade rating
8. Strategic targets aligned, financial ambitions 2020 set