COMMENTED SLIDES / CAPITAL MARKETS DAY 2019

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Capital Markets Day 2019
Schaeffler AG

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Agenda

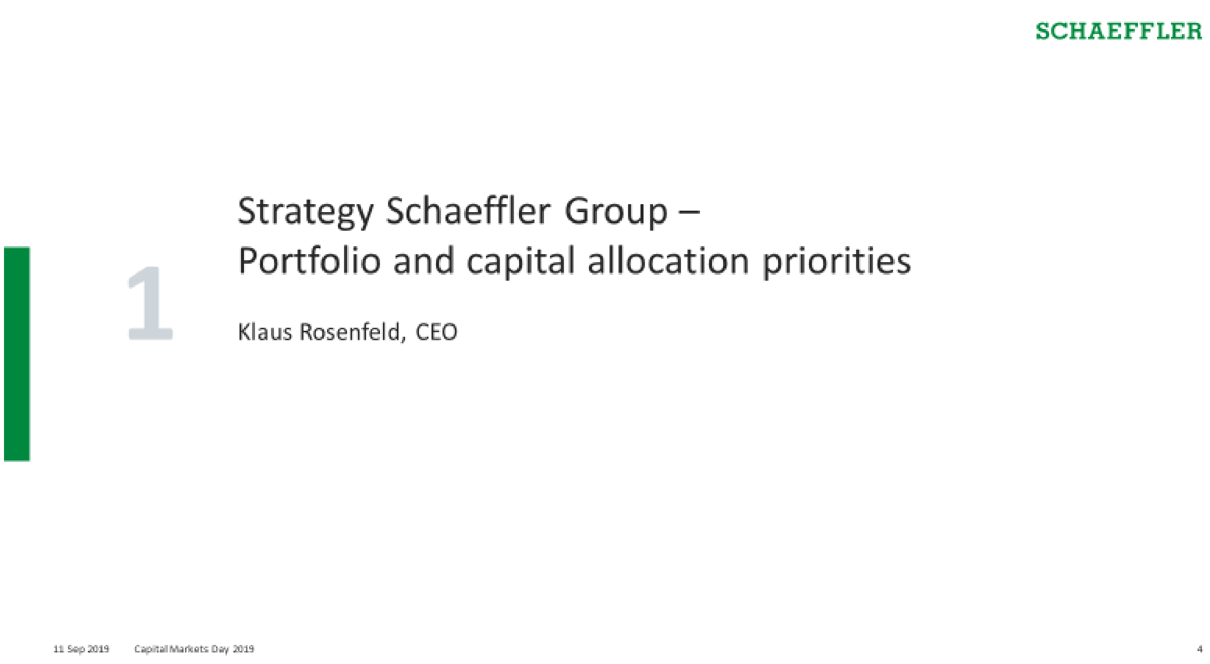
1	Klaus Rosenfeld	Strategy Schaeffler Group – Portfolio and capital allocation priorities	15:10
2	Matthias Zink	Automotive OEM – Shaping the future in a more complex market	15:25
2.1	Jochen Schröder	E-Mobility – Delivering on our BEV and HEV targets	15:40
2.2	Patrick Lindemann	HEV Technology – Maximum benefit, minimum space	15:55
3	Uwe Wagner	R&D – The way forward in Innovation and Efficiency	16:10
4	Michael Söding	Automotive Aftermarket – Coping with structural changes to fund growth	16:25
5	Stefan Spindler	Industrial – Successful execution in a more challenging environment	16:45
6	Dietmar Heinrich	Schaeffler Group results – Focus on self-help measures	17:05
7	Klaus Rosenfeld	Conclusion, followed by Q&A with all presenters	17:15

Tim Rokossa (Deutsche Bank): Good afternoon everyone. I would say, we kick it off, saving the best for last. In the run-up to this conference, we discussed with Renata what would actually be the best set-up to combine and have you guys here because, originally, you wanted to do your Capital Markets Day a week later in London. I said, look, we have everyone here whom you want to see anyway. All your managers are here for this trade show. So let's just combine those two events. That is what we did.

So, the next two and half hours, we are going to have a dedicated slot just for Schaeffler. You guys brought basically your entire management team almost, so this is fantastic. We are really going to deep-dive into the Schaeffler business model, it's a fascinating company. We were just discussing about some of your products, Klaus, and one of the key highlights of this year's show. But I don't want to reveal too much about that.

I think we are going to start with the presentation by you, Klaus, and then we just slowly bring up all the other guys. We are going to do a big Q&A at the end. So, please save your questions for then.

Thank you very much. The stage is yours.



Strategy Schaeffler Group – Portfolio and capital allocation priorities

Klaus Rosenfeld: Thank you, Tim. Ladies and gentlemen, welcome to our Capital Markets Day here at Deutsche Bank. It is an honor that we are able to do it here. We thank you for your hospitality.

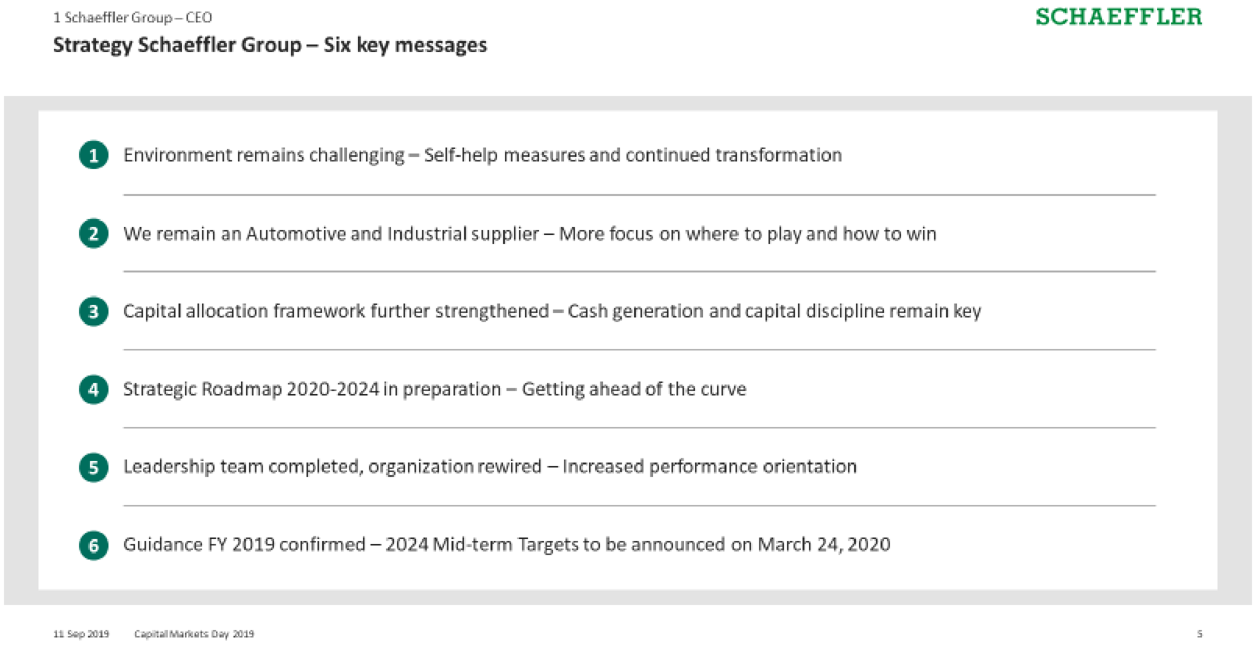
The purpose of this Capital Markets Day is to give you an update since our last meeting in September last year in Berlin. For us, it is an important milestone on our way to end of March 2020 where we promised to give you Mid-term targets for the Schaeffler Group. It is also an efficient way to do it because we can combine it with the Show. Efficiency these days clearly counts.

The schedule is tight. We have six main parts: eight presenters, two new faces that will be introduced later on. The slides will be shared with you online after the presentations. Tim already said: Q&A at the end of the meeting.

My part is the first part. I will focus in my part on one of the topics where you clearly asked important questions and that we may not have been be able to address in a very convincing manner last time. So, we want to spend a little bit of my time on the question: how do we allocate our capital in the future?

We have used the time since Berlin to do some work on the Portfolio Management Framework and also, based on this Portfolio Management Framework, to develop a Capital Allocation Framework. So, that is a key focus on my presentation.

Let me put that, before we go into more detail, in perspective with my key messages upfront.



The environment is and will remain challenging. I think I don't have to say much about this. The answer to this is from our side: self-help measures will continue and also our transformation will continue.

In terms of the second message, we will remain an Automotive and Industrial supplier. That means we have no plans to split ourselves or to change the overall setup. We think that the combination of Automotive and Industrial, although peculiar for you, is the right basis.

But we want to focus more on where to play and how to win. We think we have not been crisp enough on our USPs and that is the key focus of our Portfolio Management Framework.

The next message is exactly to what I said before: Capital Allocation counts. That goes hand in hand with the continuous focus on cash generation and capital discipline.

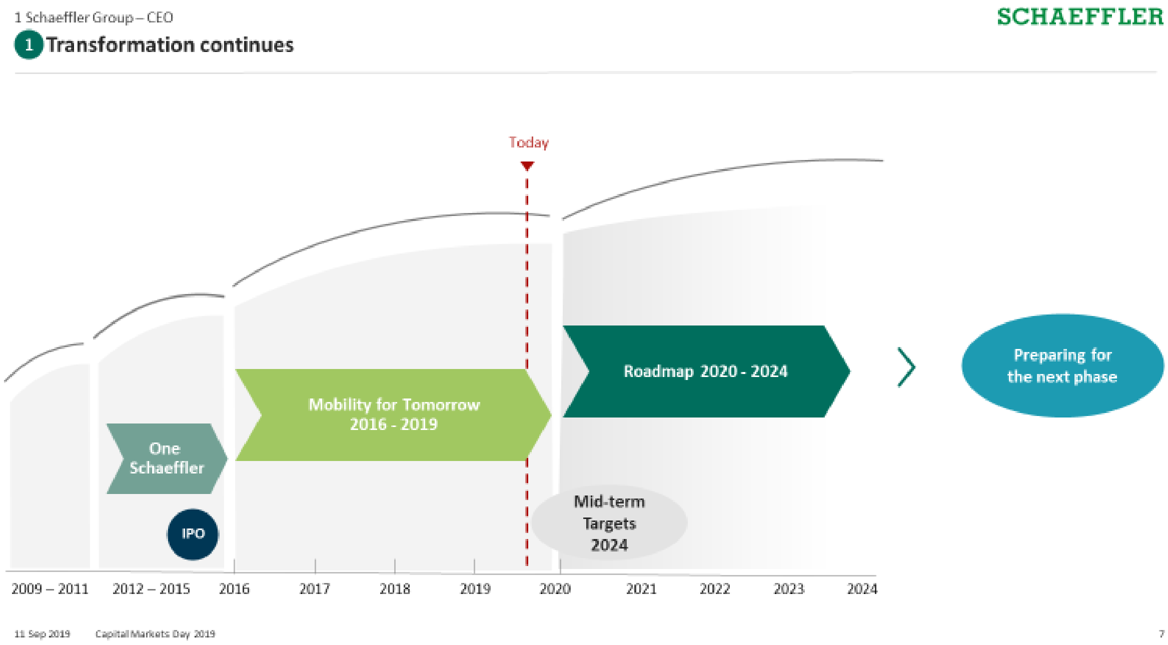
When you think about continuity, you also think about what we have done in the past. We have gone through quite a learning process when you think about our transformation process. We want to continue with this transformation. We are working at the moment on our Strategic Roadmap 2020-2024. It is in preparation. The purpose of this new roadmap is to get ahead of the curve.

That requires a strong leadership team. I am proud to say that our leadership team is now completed. We have also rewired the organization in a sense that it is now set up so that we can really go after accountability and focus on execution. That, hopefully, will bring and even further increase performance orientation into the company.

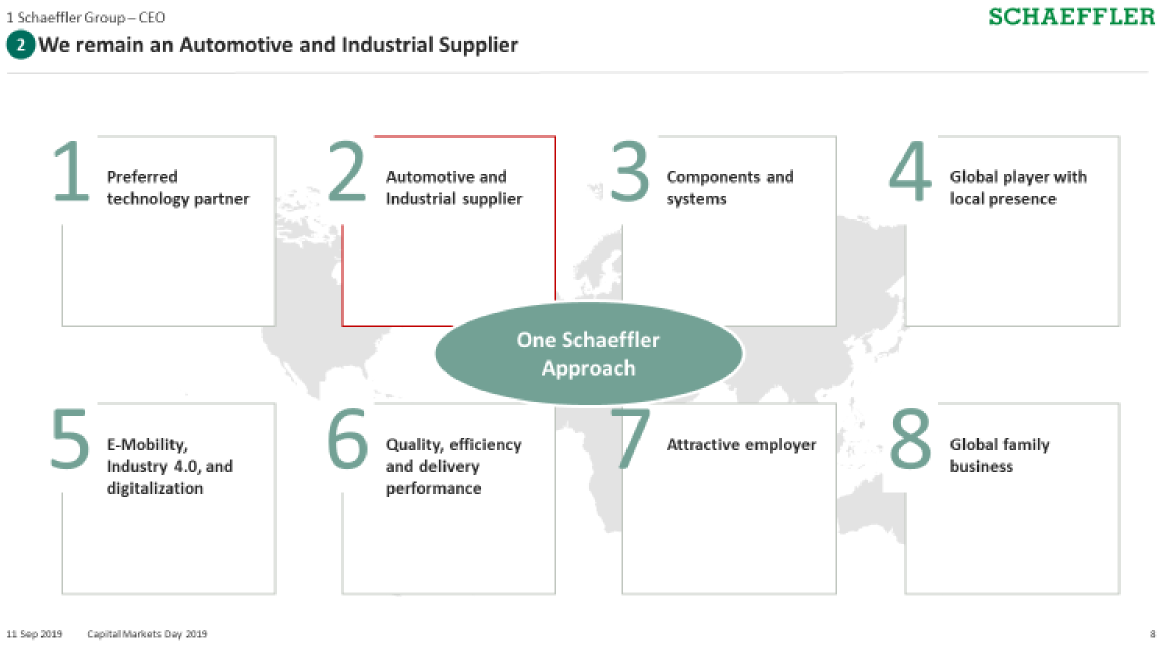
Last, but not least – I said it – I already confirm at this stage our guidance for 2019. On the Mid-term targets, I ask for your patience. On March 24, 2020 we will give you the relevant numbers.

What I can say upfront here is: in the past, we have made the experience that there are many, many different moving parts and we want to be more structured in the way we help you through the year. So, you will get an annual guidance for the Group. You will get an annual guidance for the Divisions. We will update you every quarter and you get 2024 Mid-term targets for the Group. We want to be a little bit more systematic there and also avoid that expectations are not managed systematically.

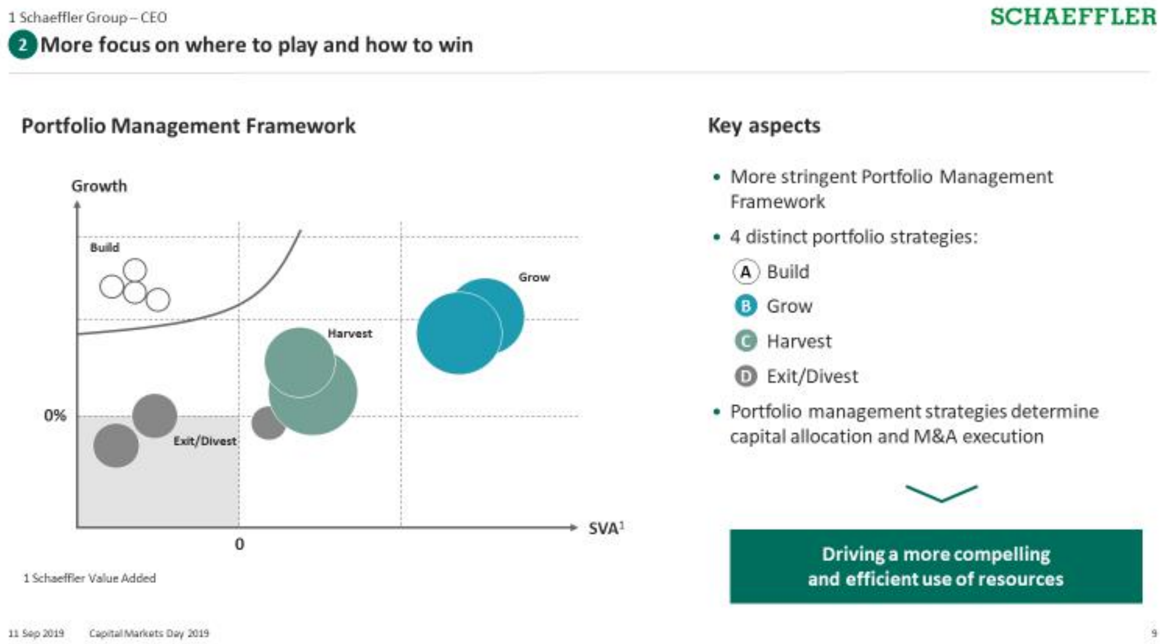
I think the next slides, in the interest of time, I will do very quickly. I think you can read all the things here. I am not going to go into detail. The environment is challenging and it requires a lot of agility to adapt to these changes. We think it is innovation and efficiency and not something sequential. You need to be able to manage both.



I already talked about the continuation of our transformation program. We are through the phase that we called Mobility for Tomorrow 2016-2019. Originally, we thought it should go until 2020. But the market environment has changed quite a bit. So we are now preparing for the new agenda one year earlier than planned. In any case, it is preparing for the next phase.



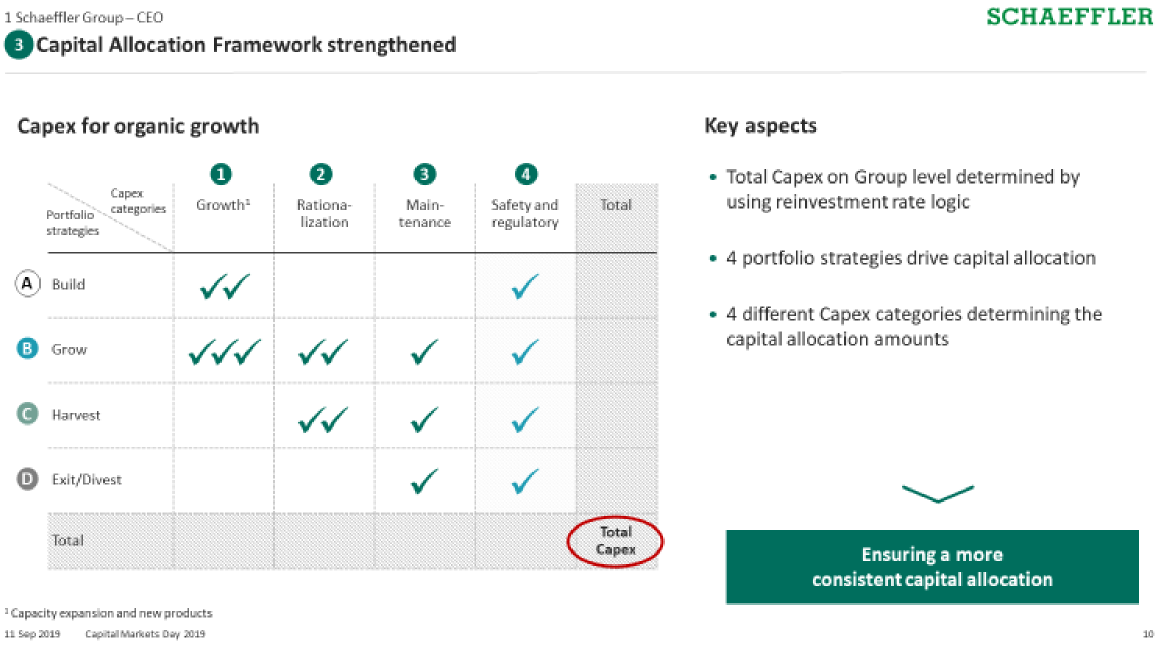
We talked about this. I think I can cut this short. The eight strategic pillars remain in place, but for a strategy they are not explicit enough in terms of where to play and how to win.



This is our Portfolio Management Framework. We have agreed within the company to make this more stringent. The four portfolio strategies that you see here – Build, Grow, Harvest and Divest – apply to all the businesses. We have started with this with Matthias. He has done a very systematic process in the last months to identify those areas of our business where we want to Build. That is what we call new growth, so activities that are at the beginning of their life-cycle. We have determined those areas where we want to Grow and where we still have the potential to grow: existing businesses. We have also looked at those that we call Harvest. That is more where the focus is on profitability, less growth potential, but more management for cost and for efficiency.

Then there are certainly several areas where we could think about a Divestment strategy as well where others may be the better owners.

These four portfolio strategies also apply to the Industrial division. They are always linked to a product, a sector, a client base, a region and they are distinct areas in our overall portfolio.



If you take that as an overlay, how to get to the Capital Allocation Framework. Let me explain this in a little bit more detail. When you look at Capital Allocation, you have two directions to look at: the internal perspective and the external perspective. This is the internal perspective.

How do we allocate the Capex? How do we allocate the funds that we generate internally to the various businesses? That is linked to the four portfolio strategies that you see on the left: Build, Grow, Harvest, Divest. And it is linked to the four different Capex categories we distinguish for the future.

The first is Growth. Growth is always linked to either capacity expansion or to new products. Rationalization is not about growth in itself, it is about making activities more efficient. That typically requires investment. Maintenance is about maintaining the capital stock. Then you have a fourth category that goes across all the four portfolio strategies, that is about Safety and regulatory issues. It could be something like IT security where our customers force us to invest more. It could be an upgrade of an IT infrastructure. This is how we in future distinguish these four different Capex categories.

We then start in a top-down and bottom-up process to determine the overall Capex number that we want to invest. That is an annual figure but can also be a cumulative figure.

How do you determine this number? In the past, people did it when they grew by a ratio of sales. After we have grown quite some time above our depreciation, we think we should introduce something that we call the reinvestment rate. This reinvestment rate is not a number that is graved in stone. It can be one for the Group, then you basically invest and give a capital budget at the number of your depreciation. It can distinguish between the various categories. But from my point of view, from our point of view, it is the right number to determine the overall Capex number for the Group.

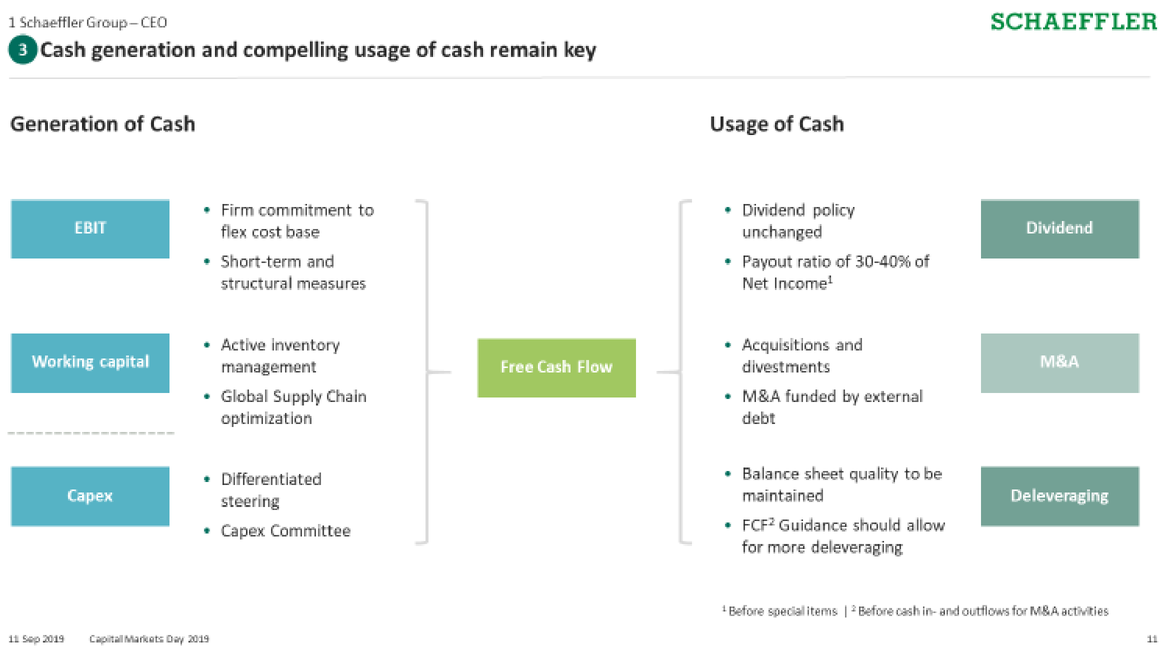
From there, we would allocate this number into the various categories and to the various strategies. Let’s take an example: in Build, you would invest only for Growth. There is no need for Maintenance at that time, there is no need for Rationalization at that time because these are new businesses. Fuel Cell could be an example where you say, we are going to put some money behind this and it is more a platform than something that is already linked to existing businesses.

In Grow, the focus must be in terms of building new capacity. The new capacity could be a building, it could be a machine, it could be investment into marketing and these kinds of things. But also, in an existing business we would not neglect the Rationalization part. And the Maintenance is clearly a function of how good is your capital stock, how old is your capital stock, what needs to be done.

In Harvest, you would not invest for growth. That is one of the corners where in the past everyone wanted to grow, even if it was a business that was in the category of “let’s manage it for cost”. So, that little corner there is white, on purpose, because we want to avoid that we invest further into businesses that have no growth potential in the future. But there you need to invest into Rationalization. Otherwise you don’t get to the efficiency.

Maintenance, then, goes across. If you divest, you would even think about not doing much in Rationalization.

That is the format how we do this. You all want to know now the numbers, what sits in which box. You will understand that we are not publishing these numbers. But that is the framework how we do it. It is a new framework. We are testing it at the moment as we speak. But I think it is something that is more logical and more consistent than what we have done in the past because it is linked to the Portfolio Management Framework.

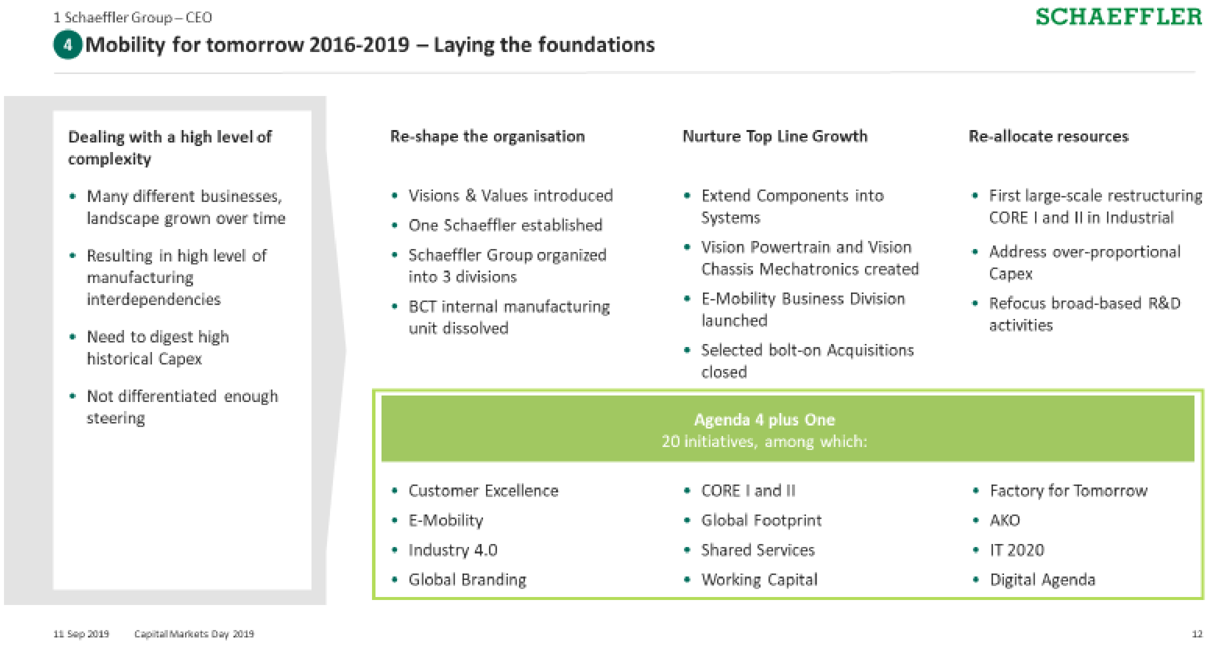


This is now the external perspective, I think you know this. We distinguished here in a different format: generation of cash and usage of cash. What is critical is EBIT. EBIT, at the moment, is under pressure. Already here – Dietmar is going to extend on this – I can only reiterate our firm commitment to flex the cost base, short-term and structural measures to stabilize that number, working capital delta comes on top.

Then the question is: how much of this total of EBIT and working capital goes into Capex? That determines then the free cash flow. From there we would pay the dividend – that is our first priority. The payout ratio of 30 to 40 percent remains unchanged. That doesn't mean that the absolute dividend per share remains the same as last year. What counts here is the payout ratio. That is a number that I can already confirm.

M&A is, as you know, financed by debt, so it doesn't really count for the free cash flow. If there is something left after operating cash flow, Capex and dividend, we would use it to deleverage the company.

That is the logic in terms of Capital Allocation, internally and externally. It is hopefully a scheme that you can support and appreciate.

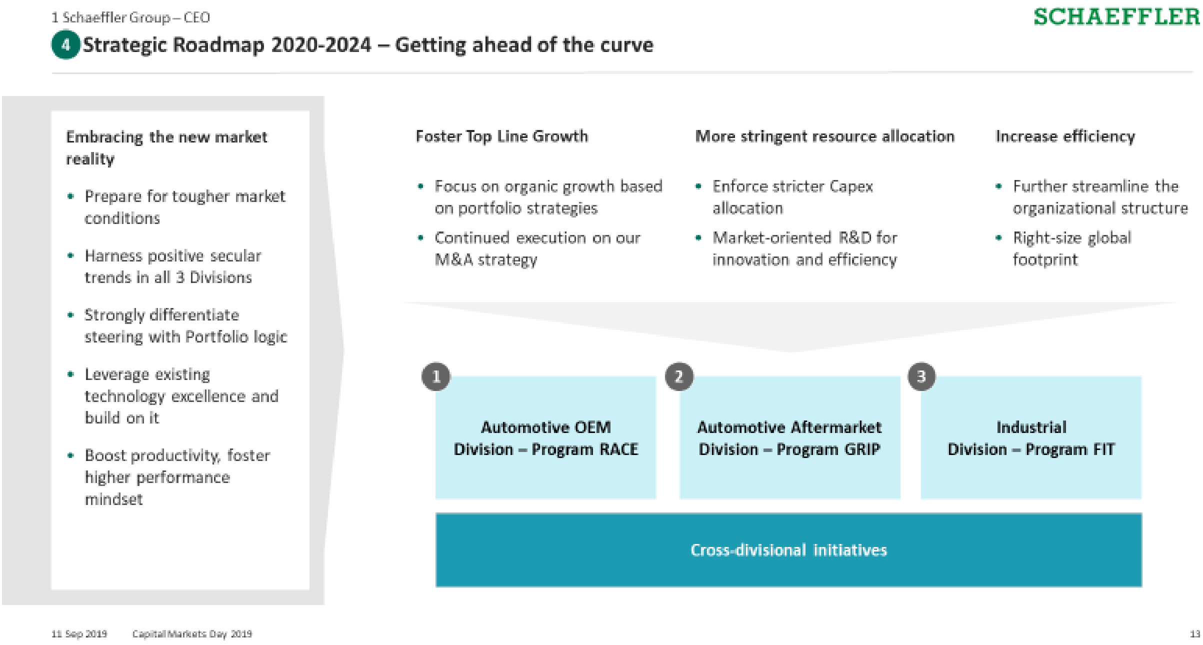


Let me go to the next point that I want to make: transformation. All of you know about our Agenda 4 plus One, all of you heard about this transformation program. When we talk about transformation programs, what I do mean is a program that is an intensive organization-wide program to enhance performance and boost organizational health and even competitiveness. This is our understanding of transformation.

We started early with this. We started at a time where we had to deal with a lot of legacy in terms of complexity. We had many different businesses, landscape grown over time. It was resulting in significant interdependencies, need to digest high historical Capex and also we know that we were at the time not really differentiated enough with our steering.

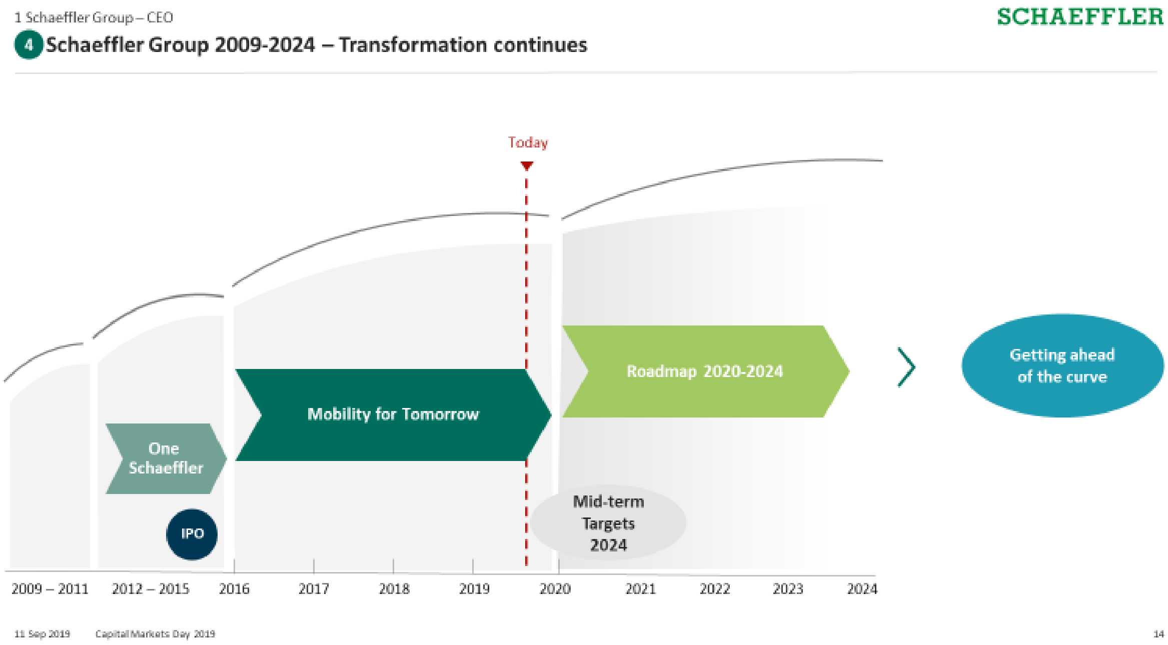
During that phase, 2015/16, we started to work on the organizational structure, reshaped the organization, introduced vision and values, worked on the One Schaeffler program, organized Schaeffler into three Divisions and also started to integrate the BCT internal manufacturing unit. We started to lay the foundation for top line growth. Jochen Schröder is here. The E-Mobility division was launched. We created the Vision Powertrain and Vision Chassis Mechatronics that Matthias is going to talk about. We extended Components into Systems, so lots of different things that created clearly some complexity, down to the reallocation of resources.

The Agenda 4 plus One at the time was basically a frame where we tried to combine all these different activities into 20 initiatives. Some of these initiatives have been successfully concluded, some have been prioritized, some have deprioritized. I think we have made good progress here. The program as such has a completion ratio of 75 percent. We clearly learned a lot from this experience.



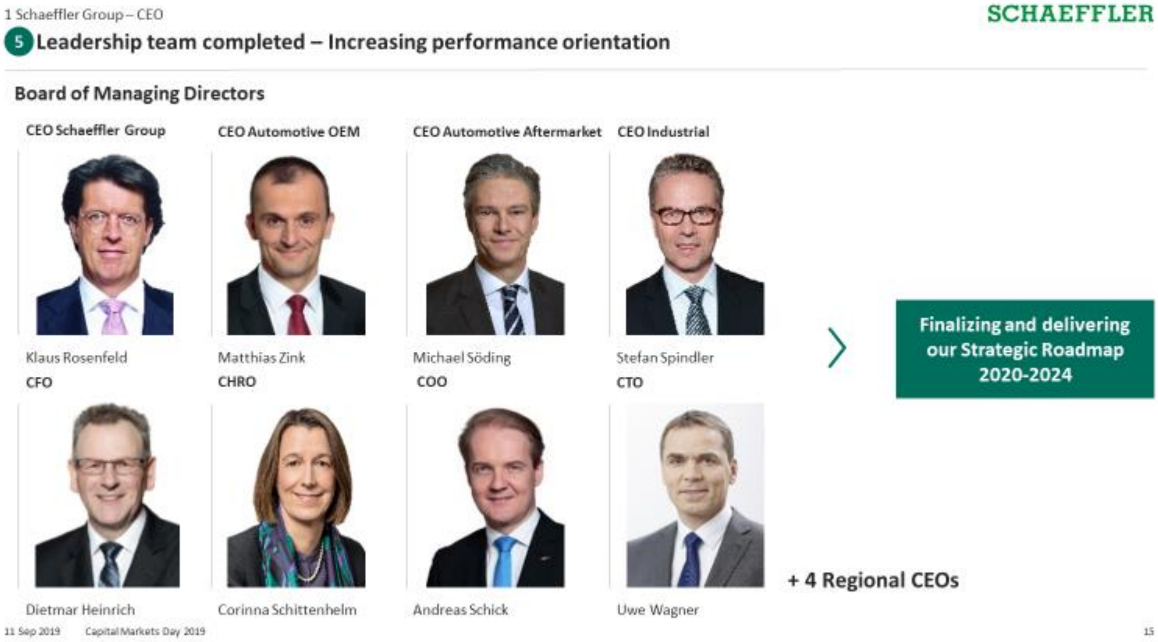
But this is not sufficient to deal with the future. What I would call it: we laid the foundation now to move into the next phase. In this next phase, we want to do this in a little bit of a more structured manner. You all know that on top of Agenda 4 plus One we introduced RACE, we had to introduce GRIP, we introduced FIT. So, it was a dynamic environment that required clearly flexibility on our side. And we all know that we are embracing a new market reality today that has also completely different assumptions and planning assumptions going forward.

At the moment, we are preparing the company for a tougher market environment. We think this environment will continue. On the positive side, there are some positive trends that play in our direction. We have improved our steering logic. We tried to leverage our technology, as you can see on the Fair. Through that we want to foster our top line growth, become more stringent in our resource allocation – I just explained the new Capital Allocation scheme, you all know about the Capex Committee that we have introduced – and also further increase our efficiency. That has to do with streamlining the organizational structure, but also with right-sizing our global footprint.



That will lead into this format of a new transformation agenda. We will give you the details in March. But the set-up here will be more divisionalized, more in line with how we run the company. So, you will probably see three different divisional programs, at the moment RACE, GRIP and FIT are the placeholders. You will see a couple of cross-divisional initiatives like sustainability, innovation and these kinds of things. We are working at this at the moment. So, please understand that there is not much more detail at the moment to share. I just want to create some appetite here for this program. That should bring us into the next phase and also move us ahead of the curve.

I do believe, in this environment a systematic approach to transformation is critical to win and move forward.

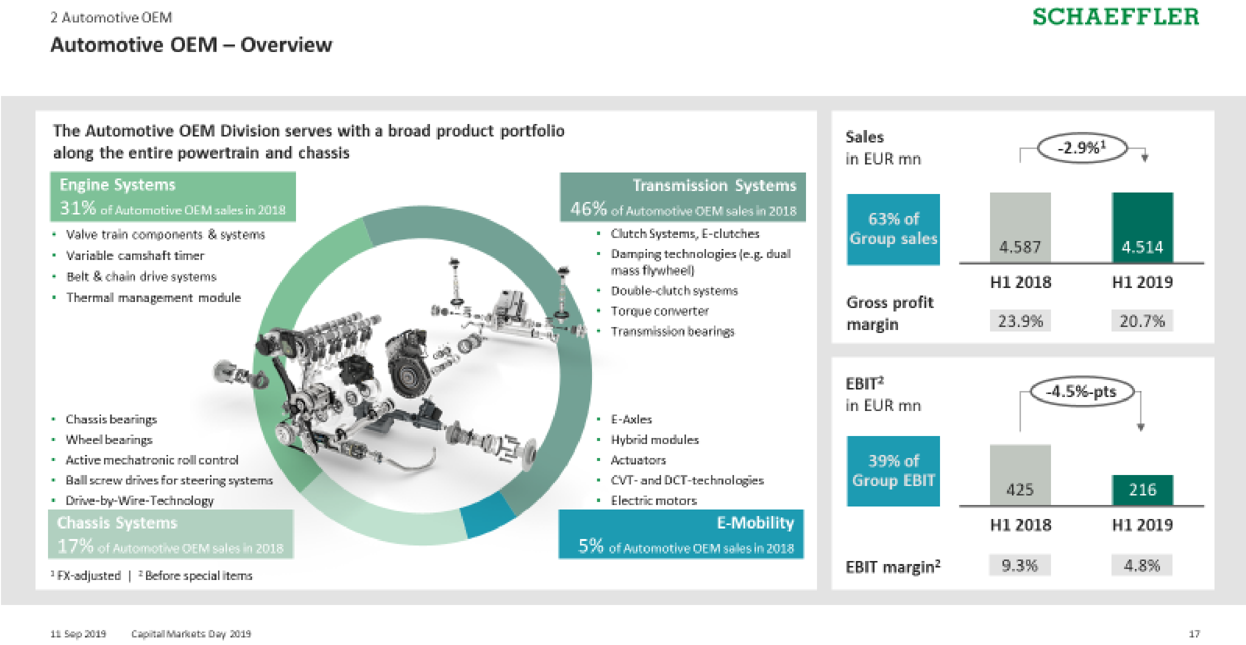


What is even more important is the team. I already mentioned that. Again, our leadership team is complete now. We have the privilege that Uwe is with us, although he is formally not a Board member yet, but it will come very soon. I think this group now is hundred percent dedicated to move the company forward with an increased performance orientation.

That is what I wanted to share with you upfront. I made it nearly in my 15 minutes. I hand over to Matthias for the next presentation. Thank you very much.

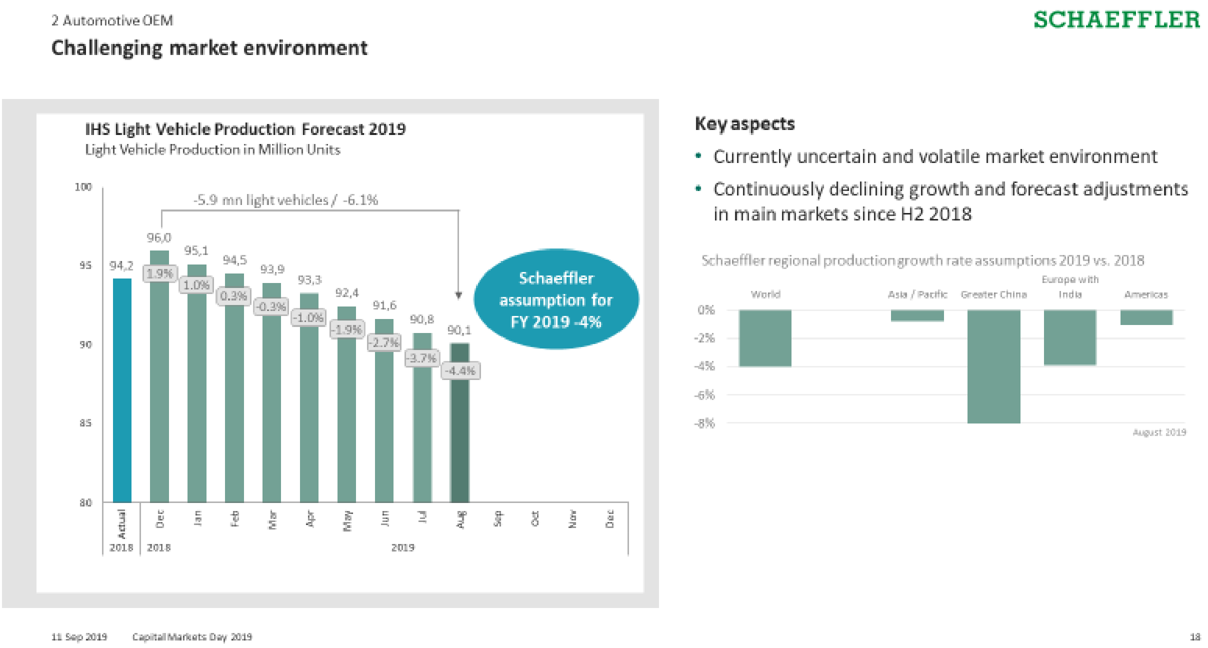
Automotive OEM – Shaping the future in a more complex market

Matthias Zink: Good afternoon, ladies and gentlemen! Tim, thank you for hosting us here at the Deutsche Bank. It is my pleasure to present the Automotive part here in that session.



First of all, I will give you an overview on Automotive at a glance. Automotive is all in all an about 9 billion business. We are structured and organized here in four Business Divisions, that means Engine, Transmission, Chassis and, newly founded beginning 2018, the E-Mobility division where we bundled all the E-Mobility activities.

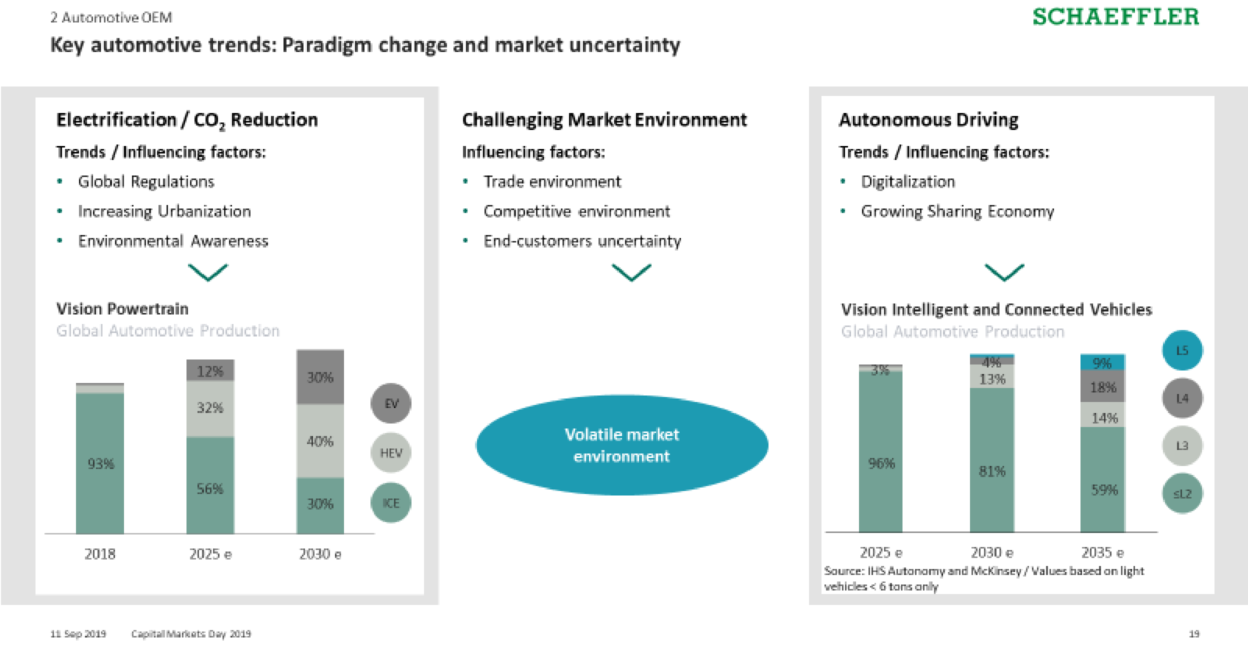
On the right side, you see the actual situation in sales, referring to H1 2019 vs. H1 2018, the numbers we published. We had a market or vehicle production reduction of about 7 percent and our sales declined by about 2.9 percent. You see the result or the decline in EBIT down to these 4.8 percent we published after Q2 this year.



We talk about a challenging market environment, looking forward in 2019. These are published numbers by IHS which is the database for vehicles being built which we use for our forecasts and our estimates. There we see on the left in this bar chart that month by month the forecast was reduced. In the meantime, versus the forecast at the beginning of the year, we had a reduction by 6.1 percent and the 4.4 percent in the month of August refer to the previous year. So, right now, end of August, IHS would forecast minus 4.4 percent vehicles built versus 2018.

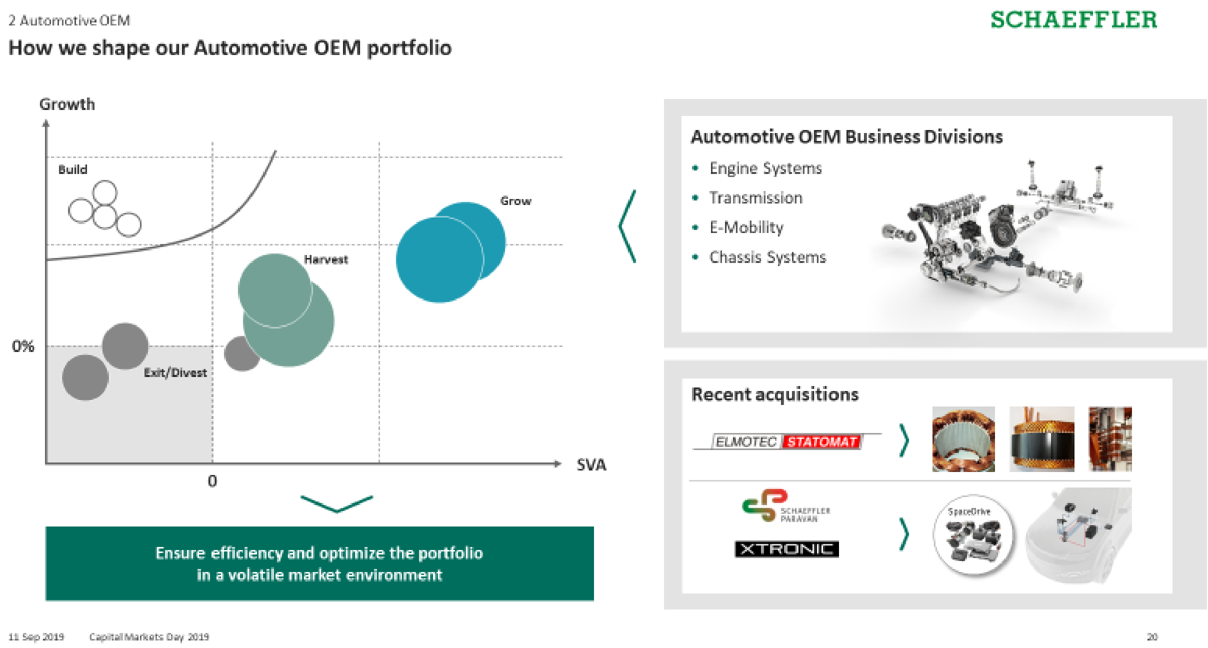
We took for our latest assumptions and for our confirmation of guidance the 4 percent. Why did we do so? We saw that IHS, from our perspective, overdid it a little bit, especially in the Indian market, which is not affecting us too much. So we said, we assume the market will be down by 4 percent within 2019. The clustering per region you see on the right. The main deviation there or the main decline versus previous year would come by then from China. As you may know, in last year's second half, China as well was declining.

Last year, second half or from September on, we had all these WLTP effects. Those are still not out of the market, still the end customers are uncertain. That is exactly why we see this decline in the vehicles built here.



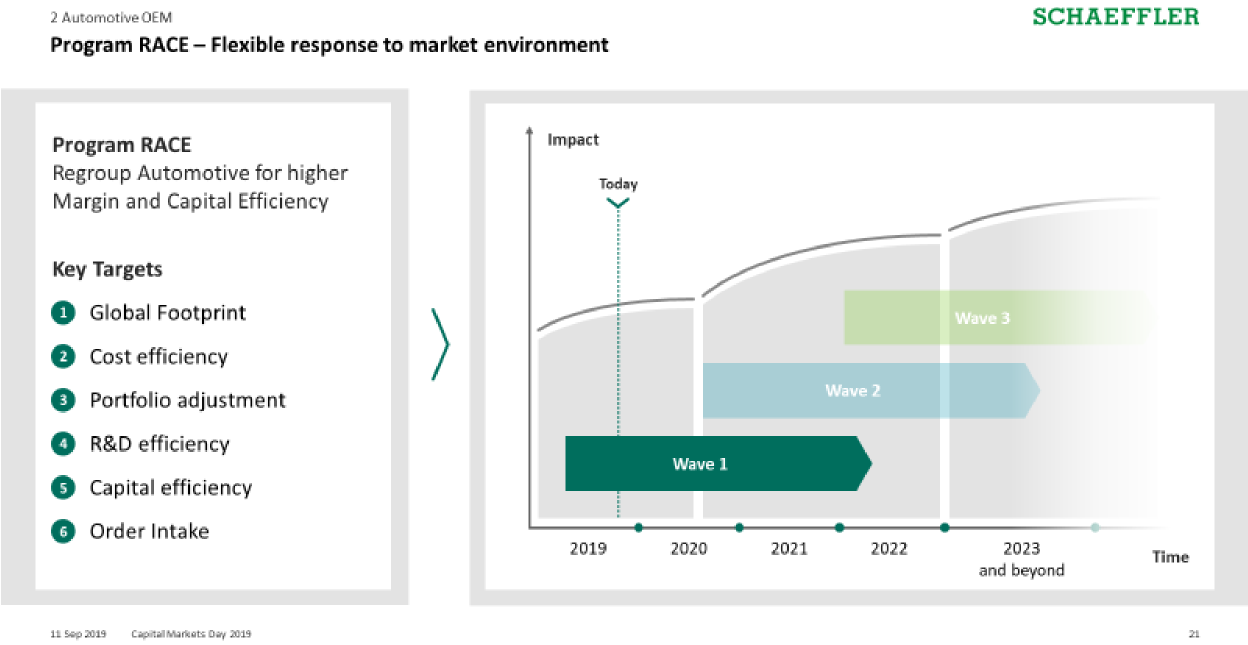
Besides these market-driven topics, we face the technological change. That is what Klaus already mentioned. We built our scenarios. In the middle we see this challenging market environment. On the left, we reconfirm our 30/40/30 scenario. That is what we repeatedly said. We see 30 percent pure E-Vehicles in 2030, 40 percent being Hybrids and 30 percent pure combustion engine. The more we talk and whatever talks we have, Klaus, at the IAA, our customers reconfirm this kind of structure, so for us that seems to be the new normal.

On the right, we see this ICV or intelligent and connected vehicle scenario we created. That looks as well similar points five years more to the future. We look here in 2035. There we believe that about 9 percent could be, will be Level 5 autonomous. I guess it is not about the digital numbers here. It is more about, yes, there will be mechatronics, yes, there will be connectivity and yes, there will be more intelligence in the vehicles. That is exactly how we plan our strategy for the Chassis division going forward. That is as well giving the rationale for the one or the other M&A transaction we made in these two fields.



Now – Klaus said it – where to play and how to win and how to sort our portfolio. On the left, you see, again, this Harvest, Grow, Build and Exit structure. All we do right now is that we prepare our business here on the upper right for this structure, for our portfolio dialogue. This is how we derive our rationale for investment, for growth, for all activities we are doing, including R&D quota etc. This gives us the structure going forward.

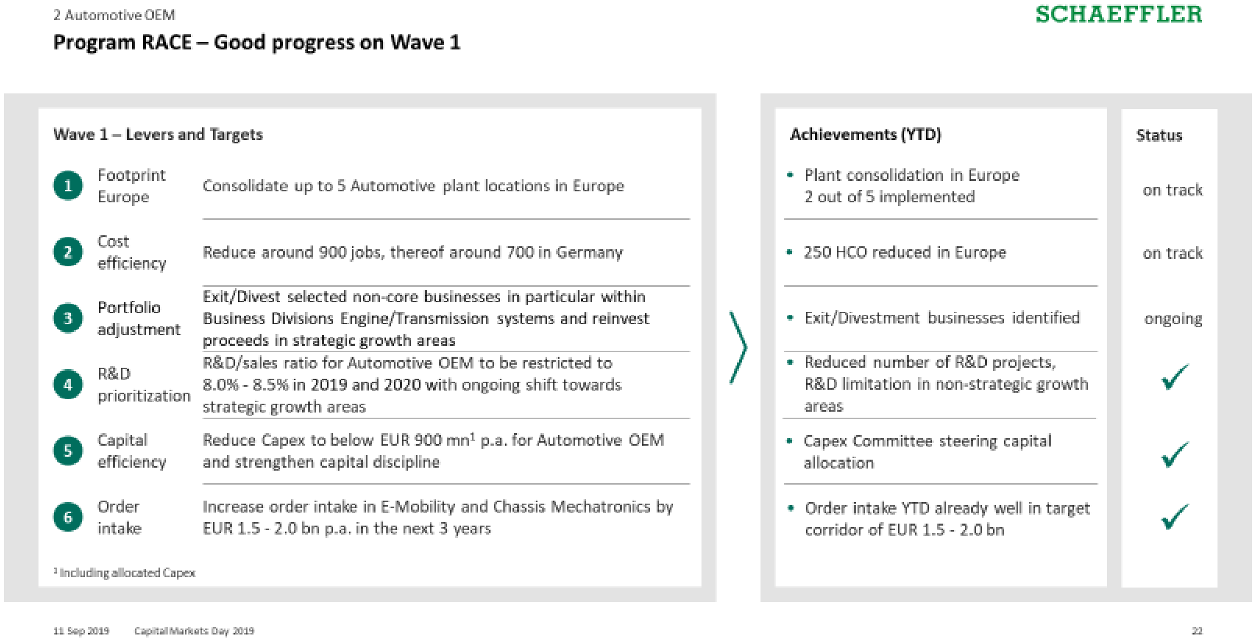
In the same way important, at the bottom on the right here, is our acquisition logics. Those follow this portfolio you saw before. Those follow this Build structure here on the slide where we say, we buy very purposely e.g. here a special machine maker, Elmotec Statomat, filling the gap for our E-Motor technology, or Schaeffler Paravan, to prepare ourselves here for this autonomous driving scenario.



I repeatedly said that the challenging marketing condition, the transition, the transformation is ahead of us. We said we have to think about our portfolio. We have to structure all our activities because it is both: it is an adaptation to the challenging market, but it is as well a transformation going forward. So, we have to clearly structure that.

We structure that in the following six workstreams on the left here: Global Footprint, Cost efficiency, Portfolio adjustment, R&D efficiency, Capital efficiency, plus Order intake. There you already see: it is not only cost-cutting, it is as well defining the future target with this order intake. So, it is a pretty complete program. We announced it during our Annual Press Conference in March this year.

On the right, we say we cluster it depending on the needs, depending on the challenges, depending on the market, in these three waves. Wave 1 is sharply defined and executed. Wave 2 and Wave 3 are predefined or defined. According to the needs, according to the further development of the market, of the technical changes, we will execute those waves accordingly.



Now, where are we? What did we promise in March? We talked about the footprint. We said we want to consolidate our footprint in Europe up to five plants. I can state here, we executed two of those cases, one in Llanelli and one in Hamm. That was published, so we can talk about it. More to come for the next three, I guess. Klaus, we are in good progress there as well.

Secondly, we announced that we reduce about 900 jobs in Europe, thereof 700 in Germany. We are under way with these 250 headcounts, going in line with the plant consolidation, but as well with some on-top measures we took since March this year.

A very interesting measure was this portfolio discussion, the portfolio dialogue we had. With that we prepared the structure in this Harvest and Grow idea. By that, we can now derive our further continuation in the different business fields. Some are defined, some are predefined, nothing to disclose yet. That is something we are very stringently working on. You see, that is an ongoing process.

R&D, already with Uwe Wagner's support who will talk on that later on. We prepared for better R&D efficiency or the R&D quota going in line with the portfolio adjustment discussion. We cancelled some of our advanced development projects where we said, those are not contributing to the growth area. There we have a significant reduction this year already.

Capital efficiency: we installed the CapCo, which is a tough one for my boys there, for my divisional leaders. If you are that much invested in the value-add structure, it is maybe a little bit new and inconvenient to go in these discussions with your COO, with Dietmar in the CFO session. But we clearly challenged the boys: do you really add value to the company, or do we even dissipate value? There, we have achieved a lot already in changing the mindsets of our team there.

Last, but not least – that I leave to Jochen because it is his and his team's success – we have a very good track record here with the order intake. We are more than in the corridor of these 1.5 to 2 billion. There is more to come in the next couple of months, as it looks.

2 Automotive OEM

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Divisional FY Guidance and current trading development

Divisional Guidance

	Actuals FY 2018	Actuals H1 2019	Guidance FY 2019
Sales growth[1]	+2.1%	-2.9%	**-2 - 0%**
Absolute figure	EUR 8,997 mn	EUR 4,514 mn	-
EBIT margin[2]	7.7%	4.8%	**5 - 6%**
Absolute figure	EUR 693 mn	EUR 216 mn	-

[1] FX-adjusted | [2] Before special items

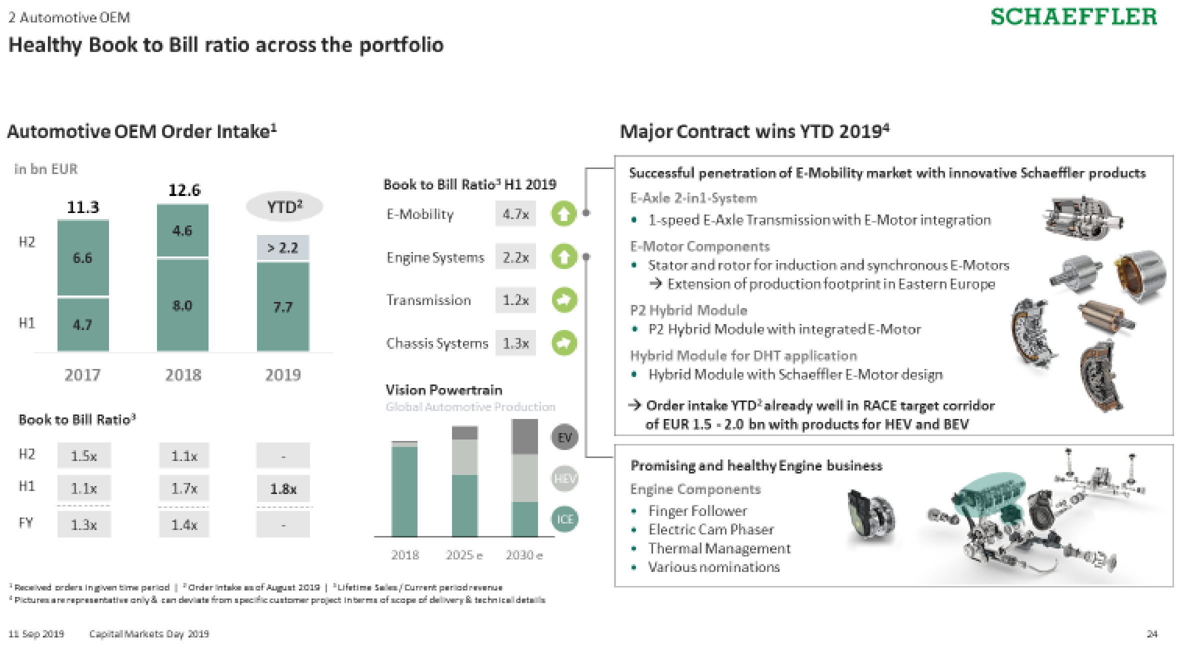
Current trading – Top line trends July and August 2019

- Continued weakness in Automotive OEM business in Europe
- Region China still impacted by trade disputes, new regulations and overall economic development. However, August sales positively influenced by OEM restocking
- Region Americas with continued solid growth development

11 Sep 2019 Capital Markets Day 2019 23

Where are we standing here today? In September, for sure, the market is still uncertain. So, we see still the weakness in the European business. Many of us and probably even OEMs thought that this WLTP thing will be gone in Q2. That is not yet the case. I guess there is so much uncertainty with the end customer really spending capital for a car or leasing it or waiting for a buy. So, currently we still see that weakness. Again, we see that most on the uncertainty.

China is still weak with all these tariff discussions and disputes. There are some signs of recovery right now. But we can't foresee whether this really comes true and for how long. But there are some signs of recovery, the positive news so far: region Americas – this is, as well, what Patrick Lindemann will refer to in a minute – really shows a solid growth or overproportional growth because there we really have a very nice content per car case. That is what Patrick will refer to.



Last, but not least, our order intake. That looks really promising. We are right now in a book to bill ratio, year-to-date 2019, of 1.8. On the left, the four green arrows, we see exactly the business situation in the field. So, we have a good order intake in Chassis. We have a normal order intake in Transmission. So, even there, in the standard business, the orders are continuing.

The interesting thing is the combustion engine. Engine Systems has an order intake of 2.2. Why that? The last or last but one generation of gasoline engines will see technology. That is what we always said. So, in valve train technology and heat management and thermal management, there are good order intakes. There are new projects to come. That is confirmed by these 2.2.

The best track record has Jochen. That is not only E-Mobility as such, that is exactly the projects and products on our roadmap. So, we talk now E-Motors. We talk now own production of E-Motors and we talk complete systems. But once again, here I ask your patience for a couple of seconds because Jochen should present that by himself. But that is really good news, this very strong order intake.

If you remember now our RACE program, I said it is not only cost cutting, it is as well building the future. With having said that, I would invite Jochen on stage to refer to that. Thank you.

E-Mobility – Delivering on our BEV and HEV targets

Dr. Jochen Schröder: Thanks, Matthias. Good afternoon, ladies and gentlemen, also from my side. Last year, at our Capital Markets Day, we introduced to you the new business division E-Mobility and our E-Mobility strategy.

My main message today is that this strategy begins to materialize very successfully. As Matthias already said, our order intake is fully within our expectations. We already reached year-to-date the targeted corridor and we have significant upside potential with further acquisition projects for the year to go.

The new projects fit very well into our 30/40/30 scenario. For the 30 percent of EV, we have received the first nomination for a project for a 2-in-1 E-Axle. That means, it is a transmission with an E-Motor in system combination. The transmission we carry over from the e-tron program with Audi, also from the Porsche Taycan, which was briefly mentioned in the introduction. You might have heard that also in the new Porsche Taycan, our transmission technology is in.

Also, in the area of Battery Electric Vehicles, we received the first nomination for a huge E-Motor program with a well-established OEM. We are very proud that we can execute this program now.

But E-Mobility is not only EV. E-Mobility is also Hybrids, the 40 percent. I explained last time at the Capital Markets Day that we are focusing on those Hybrids which have a strong CO_2 leverage. In this area, we received another nomination for our P2 Hybrid Module technology, which is also a carry-over of something that we have already introduced in 2017. And there is a new product: it is for a dedicated Hybrid

Transmission where we are nominated for a Hybrid Module with an E-Motor developed. That will be industrialized by Schaeffler in-house.

Last year, we decided to become an E-Motor maker. We explained to you why we are convinced that the E-Motor fits very well into our DNA at Schaeffler as a mechanical component. In combination with the transmission, the E-Motor and the transmission are the heart of every electric drivetrain.

We are following this path very successfully. The E-Motor is in the end a mechanical product. In this, Schaeffler is very strong and for decades we have been producing mechanical components in high quality and very high efficiency.

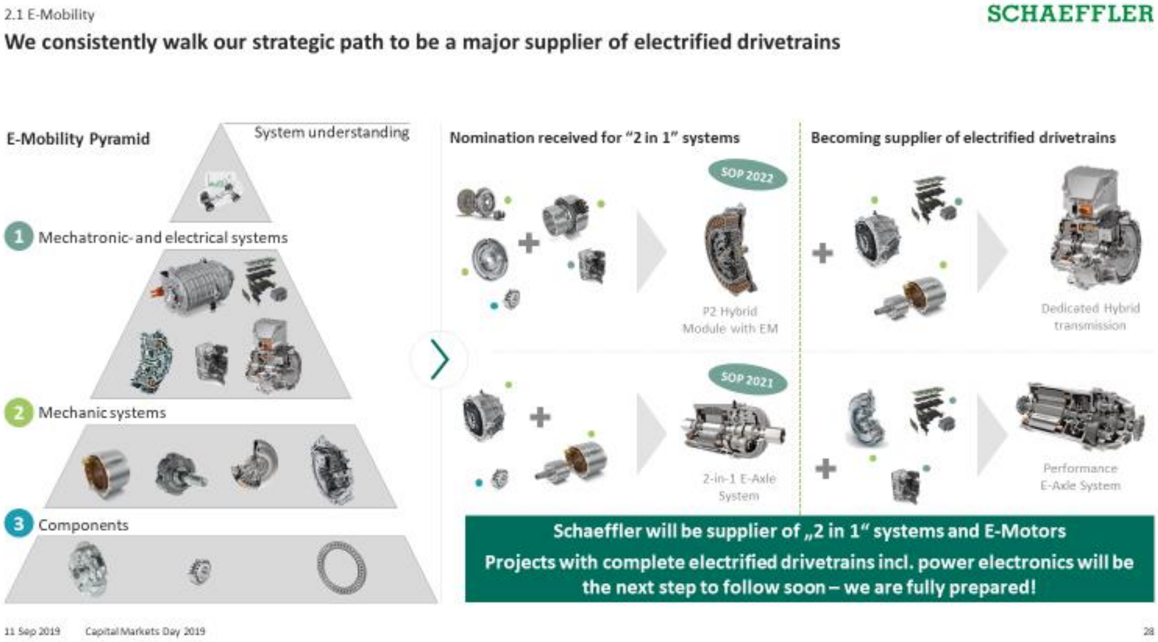
The only remaining technology gap that we had was the winding technology that is needed for the stator, the copper winding. As mentioned before, we managed to close this gap with the acquisition of Elmotec Statomat. Elmotec Statomat is a company with 70 years of experience in winding technology. Especially, they are a special machine maker for the mass production equipment. This fits very well to our strategy that we want to understand the foundations of the technologies we are focusing on.

With this combination, with the strength of Schaeffler and Elmotec Statomat and also Compact Dynamics – they have been in this area of E-Motors for a long time – we are now able to convince our customers that Schaeffler is the right partner for E-Motor programs.

So, we received, as mentioned before, the first nomination for producing E-Motors. This nomination is quite a big program, with an order intake of more than 1 billion euros in total. This will make us already a major E-Motor maker in the next decade.

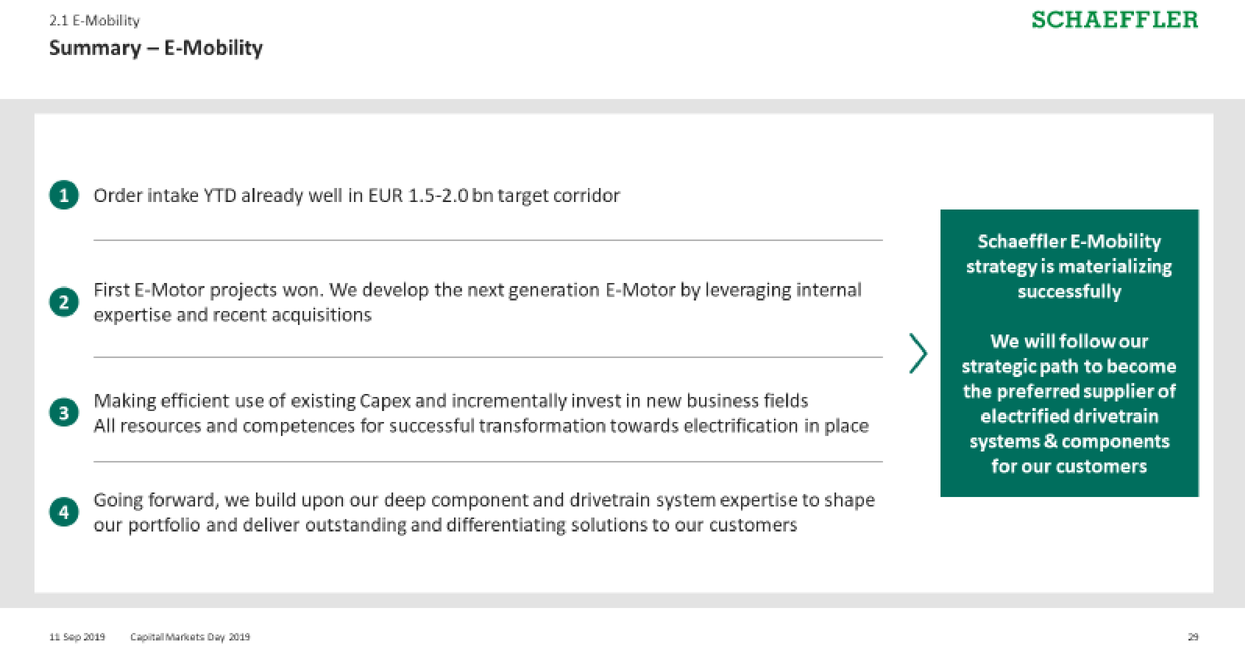
But there are many more programs. We receive very positive feedback from our customers on this E-Motor strategy. We are following quite a lot of acquisition programs with different technologies that we also show here on the IAA, in different winding technologies for different applications in Electric Vehicles and in Hybrids. I am very confident that this first success will be followed by more programs in the near future.

Also, for the dedicated Hybrid transmission program that I introduced earlier we were able to convince our customer here that the Schaeffler motor technology is differentiating. So, this was also a key factor for the nomination in the DHT program that we could use here our Schaeffler-designed, in-house E-Motor.



As Klaus and Matthias already said earlier, we are on our way to systems. Schaeffler is well established as a supplier, with a large portfolio of innovative and leading drivetrain components and mechanical systems. But more and more, Schaeffler is also recognized as a drivetrain systems supplier now. In our strategy, we consequently walk this path, especially in E-Mobility. We continue to be a strong components supplier and we are also investing in this area, also in electrification we are doing a lot on the components side. This remains the basis also for our system approach.

But at the same time, we are pushing forward our system portfolio and our know-how in software, electronics and overall system design. And we are generating USPs on system level with highly integrated and efficient Hybrid Modules, e.g. with innovative E-Axles and dedicated Hybrid Transmission. We are fully prepared for the next step. We are working on customer projects for the complete electric drivetrain in the area of 3-in-1 E-Axles for EVs as well as for complete dedicated Hybrid Transmission in the area of transmission with electronics and software all integrated. I am very confident that very soon we will be able to report to you our first customer nomination also in this area.



Let me summarize: year-to-date, we already reached our target corridor of Order intake and we have substantial upside potential for the year to go.

We made our first steps in becoming a major E-Motor supplier and we will have our first SOP in E-Motors in 2021.

We are well prepared for the system business. We have all resources and competences on board to execute our E-Mobility strategy that I presented to you.

And we are making strong use of our production network and of our Capex and we are incrementally investing where it makes sense for us to grow.

We are going forward as a component and a system supplier for electric drivetrain, shaping our portfolio with differentiating products for our customers.

At this point, I want to say thank you for your attention and will hand over to Patrick who will elaborate more on our transformation in E-Mobility, especially in the area of Hybrids. Thank you.

SCHAEFFLER

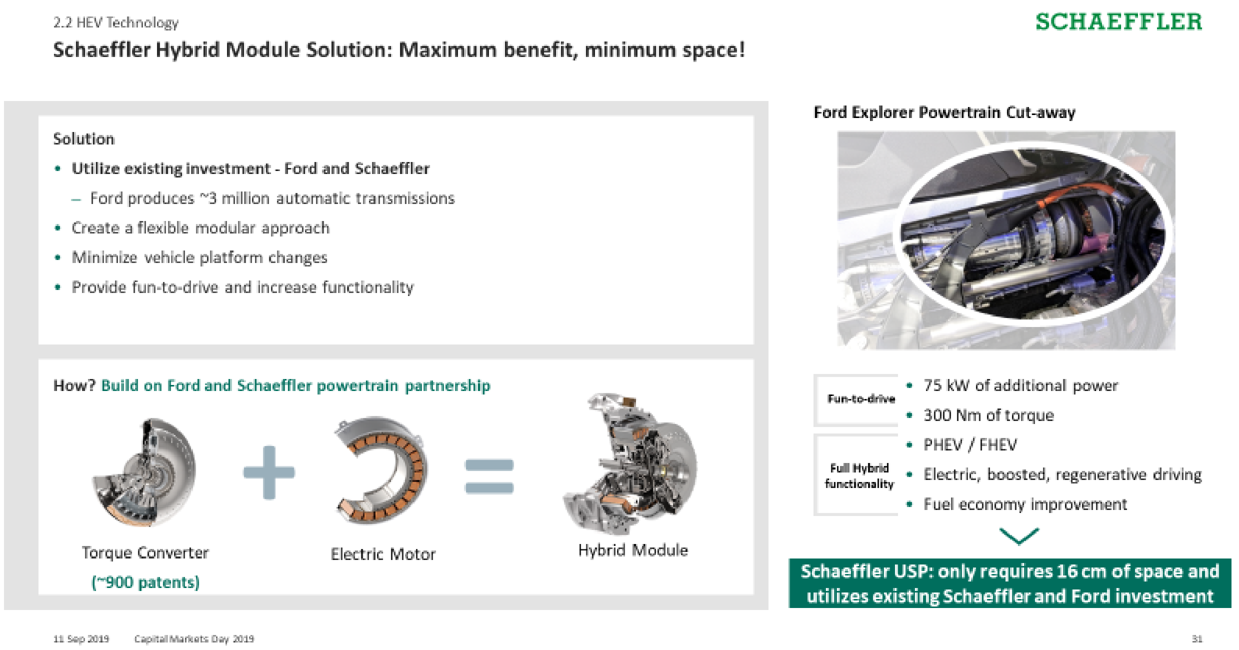
2.2 HEV Technology –
Maximum benefit, minimum space

Patrick Lindemann, President Transmission Systems & E-Mobility Americas

11 Sep 2019 Capital Markets Day 2019 30

HEV Technology – Maximum benefit, minimum space

Patrick Lindemann: Thank you, Jochen. Hello everybody! It is a pleasure to be here. I am really excited to talk about our Schaeffler Hybrid technology. I will talk a little bit about how to win. I also brought a product with me that we have just launched. I will tell you a little bit about the background.

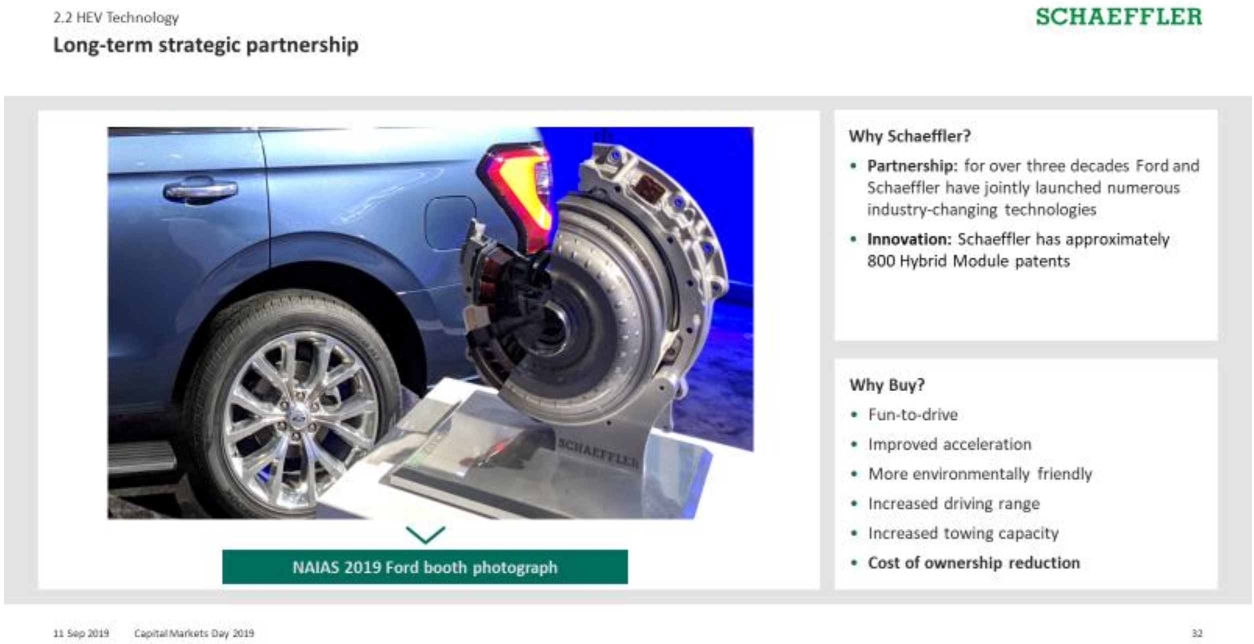


Hybrid electric vehicles are the major part of the future E-Mobility. That is based on industry experts. We at Schaeffler share this opinion. Matthias already showed the 30/40/30 scenario. The largest part, the 40 percent, are Hybrids. Also, in the US, even if sometimes it doesn't seem that way, we see this trend strongly coming. There is a strong move into this direction.

Typically, Hybrid and Battery Electric Vehicles are smaller cars, passenger-like cars. But if you look at the consumer, they are more buying larger vehicles. Especially where I am coming from, in the US, the top three selling cars are pickup trucks. The number one selling car is the F-150, over 800,000 units a year, and no real hybridization is in sight. So, we need a solution for that. Already back in 2013, Schaeffler was challenged by Ford if we can find an innovative solution to bring an electric motor into the launch device: the torque converter that we already supplied to Ford for many, many years on their 6-speed transmission.

The goal was to utilize existing equipment investment at Ford and at Schaeffler, to create with minimal changes on engine and transmission a non-compromise Hybrid, a Hybrid that people really wanted to buy. So, the outcome was the 2020 all new Ford Explorer Hybrid, up to 75 kW electric power installed, 300 Nm of torque, available as full Hybrid and Plug-in Hybrid.

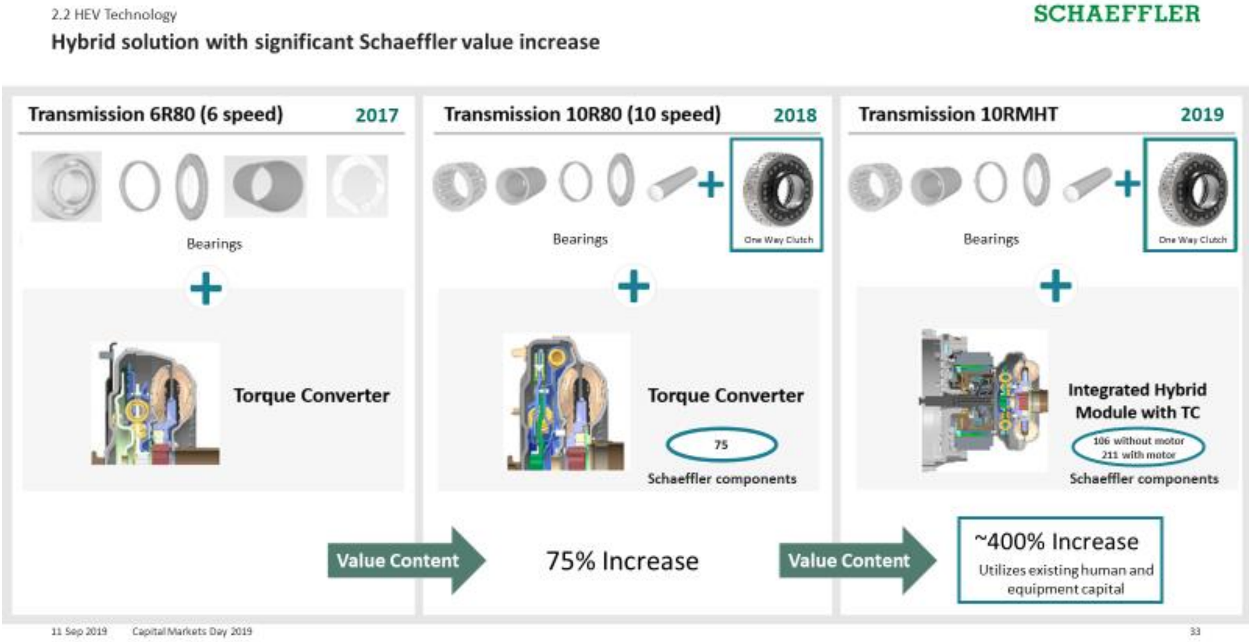
What is our USP? Our USP is the high integration of our core components with the electric motor. That helped us to make this module very compact. The same module is also available now in the 2020 Lincoln Aviator and, as Ford already announced, will follow next year in their flagship, the F-150. So, we are really proud about that.



Here, I brought a picture that was shown at the Detroit auto show, the North American International Auto Show. This is at the Ford booth. Ford showed our module in their booth and you can see it here with our name on it. This shows a symbol of our strong standing partnership that we have with Ford for over three decades. Together with the OE, we have jointly launched numerous industry changing technologies.

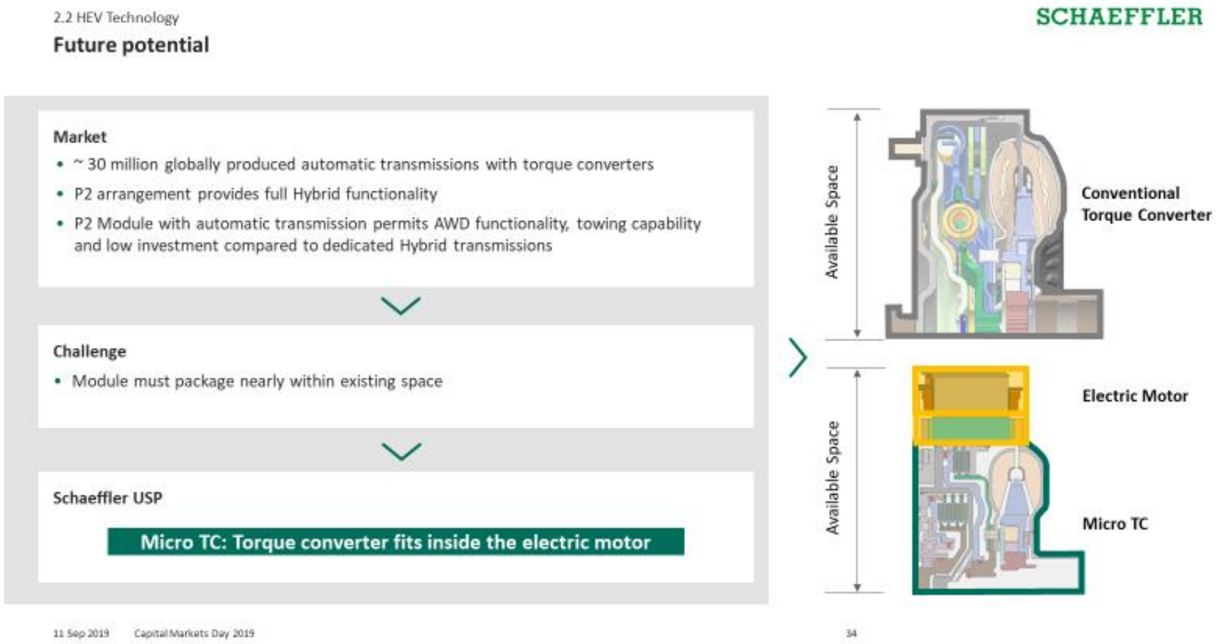
If we look at the “why buy?”, why a customer should buy a Hybrid Vehicle: We know it is good for the environment and we know it is really good for CO2 reduction. But this Hybrid Module delivers fun to drive, improved acceleration, increased towing capacity and increased driving range of up to 500 miles on one tank of gas.

The cost of ownership is reduced, and this is very interesting especially for fleet vehicles. This is, for a special fleet that I mention now, why this module is going into the 2020 Police Interceptor in all US vehicles starting 2020. We are very proud about that as well, as long as it doesn’t show up behind you with the lights on.



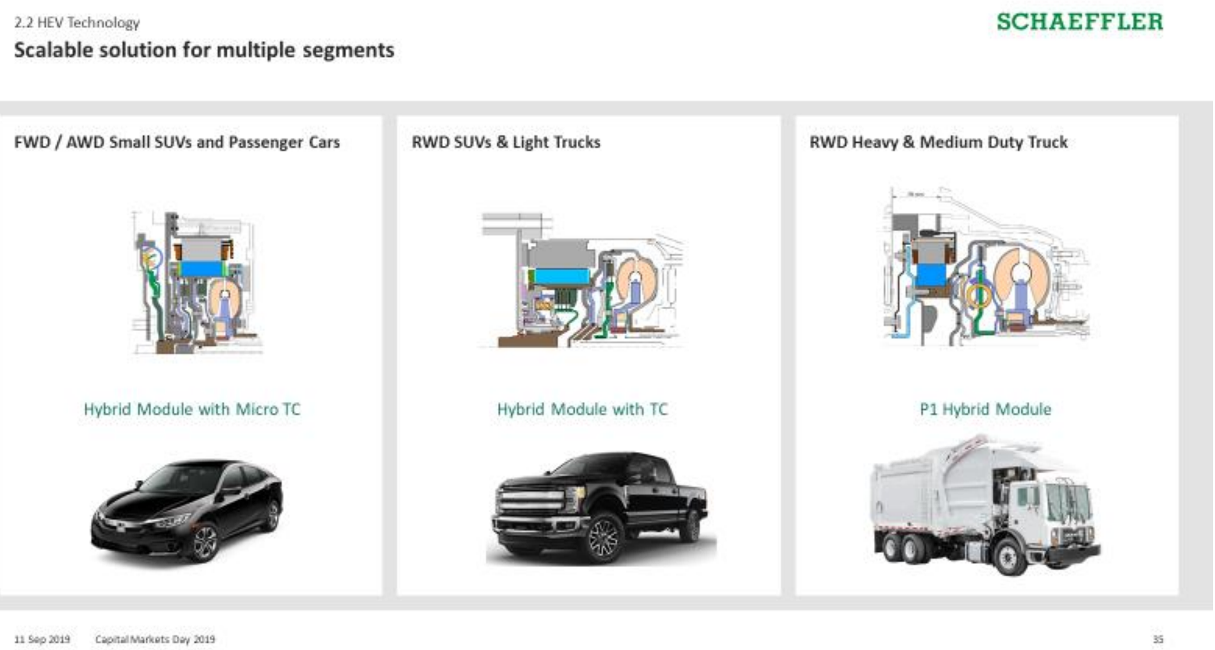
Over the years, we have increased the content in the transmission. So, we started with the 6-speed already in 2000. Then it got replaced by the 10-speed. In the 10-speed we added complex damper inside the transmission components like the one-way clutch and we added that to our existing portfolio.

Going to the Hybrid Module, it is actually really exciting. Now we can increase our content by a factor 4, 400 percent. This is really exciting for us.

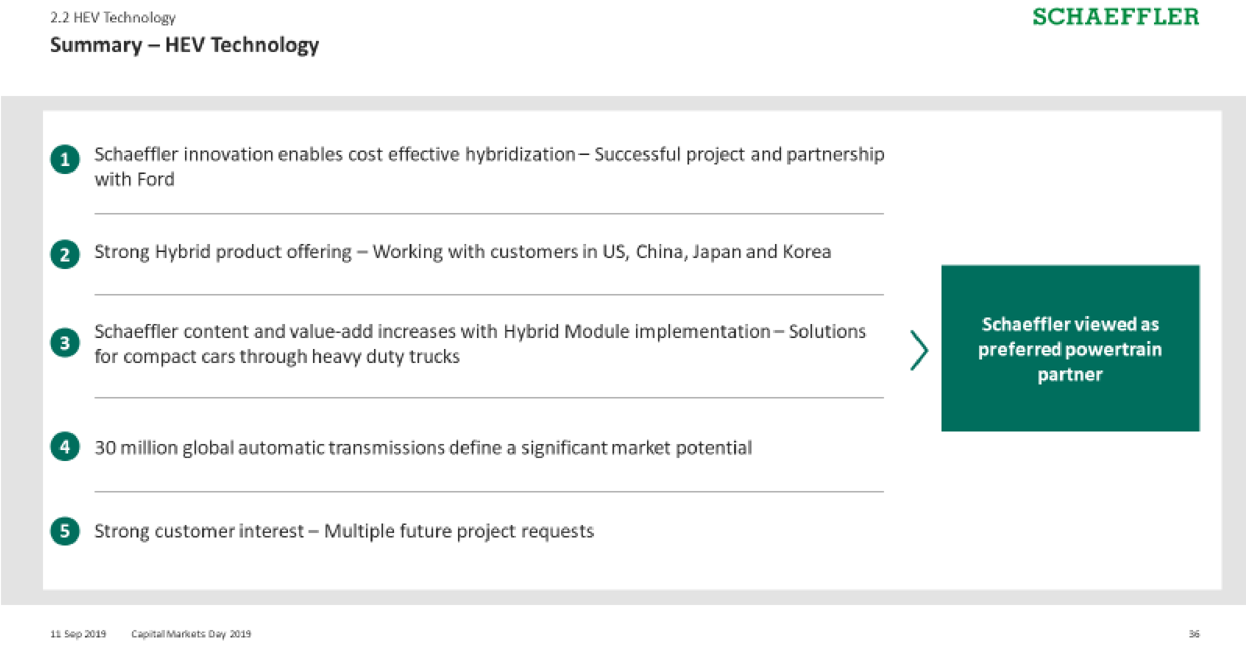


Now, let's look at some other opportunities. More than 30 million automatic transmissions and CVTs are built annually. With our product, it is easy to convert those powertrains into hybrid drives. The P2 arrangement that I showed here has the full hybrid functionality including electric driving, full electric driving, without compromises in all-wheel drive or towing performance.

If we talk about small SUVs and passenger cars with traverse engine transmission architecture – basically sideways, the engine and transmission – we know that the space is very challenging. The installation space is pretty tough. The team came up with another very excellent and innovative idea. The conventional torque converter you see here at the right side at the top was redesigned, so it fits in our electric motor. Now we have created a module that fits in almost every Hybrid Module, in every front-wheel drive car.



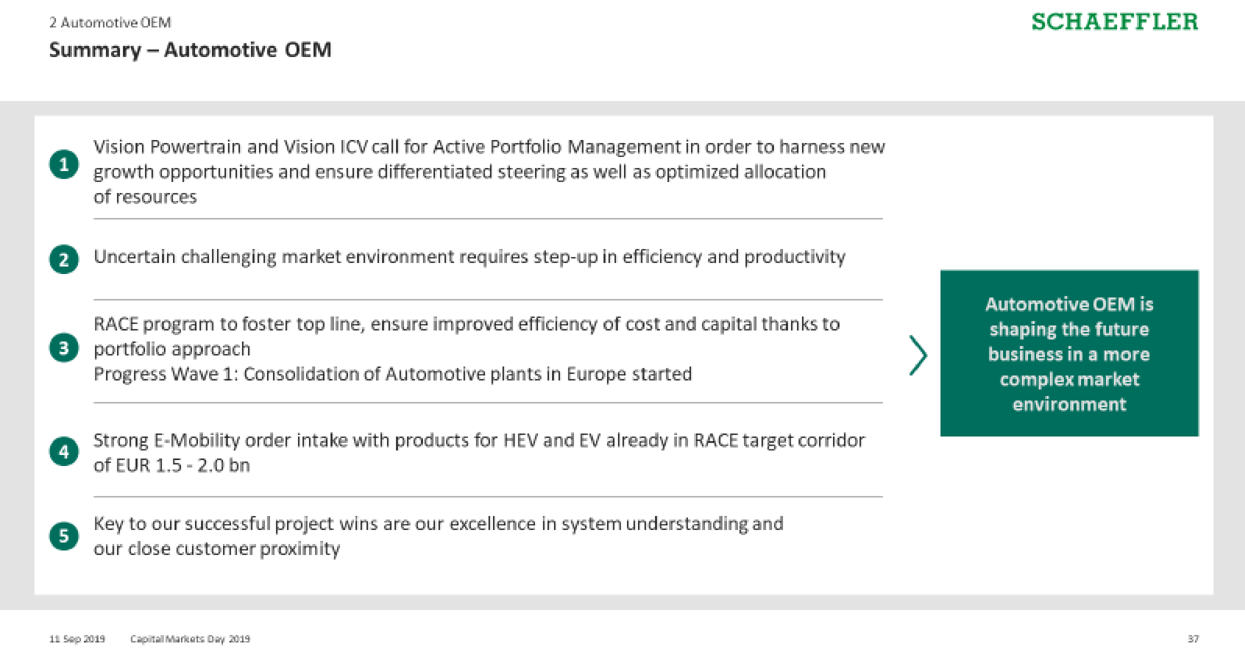
Now, we have a very scalable solution for Hybrids. We start with the front-wheel drive for passenger cars and small SUVs. I already talked about the project that we just launched with Ford on rear-wheel drive and light trucks. Then we are also working on heavy-duty and medium-duty commercial applications which is also very exciting.



Let me summarize: Schaeffler innovation enables cost-efficient hybridization, as shown in a successful project and partnership with Ford. We have a strong hybrid product offering and we are working with other customers in the US, China, Japan, and Korea. Schaeffler content and value-add increases with Hybrid Module implementation. We have solutions for compact cars all the way to commercial vehicles. 30 million transmissions define a significant market potential that we can tap into. And we have a strong customer interest. We are working on many, many projects.

The combination of our core products with the electric drive is leading into an exciting future for us, especially on the engineering side. This makes us at Schaeffler the preferred powertrain partner for our customers.

With this, thank you very much for your attention and I hand back over to Matthias.



Matthias Zink: Thank you, Patrick, for this live example from the US. – I would just briefly summarize the Automotive session, ladies and gentlemen.

I said it in my introduction: this Vision Powertrain – you saw this example here from Jochen and Patrick – is defined and this Vision Intelligent Connected Vehicle ditto. Both call for active Portfolio Management because we can't do, and we won't do everything at the same time. This is why we set up this portfolio management. We want to harness new growth opportunities by that. What we do very purposely – that is nicely shown by Klaus – is, we want to change and adopt our steering model to that, including R&D quota, including Capex quota, and see where we continue to invest or even divest.

Secondly – I showed that – we have still some uncertain and challenging market environment. I guess it is up to all of us to get back to somehow normal in our buying behavior. But we called on this RACE efficiency part. So we do our cost measures, we do weekly, Klaus, our meetings on that. We track our plants. We did our measures on that. That starts to pay off and the productivity is to be maintained not only for the remainder of the year, but as well for the months and probably years to come. There is potential in Schaeffler.

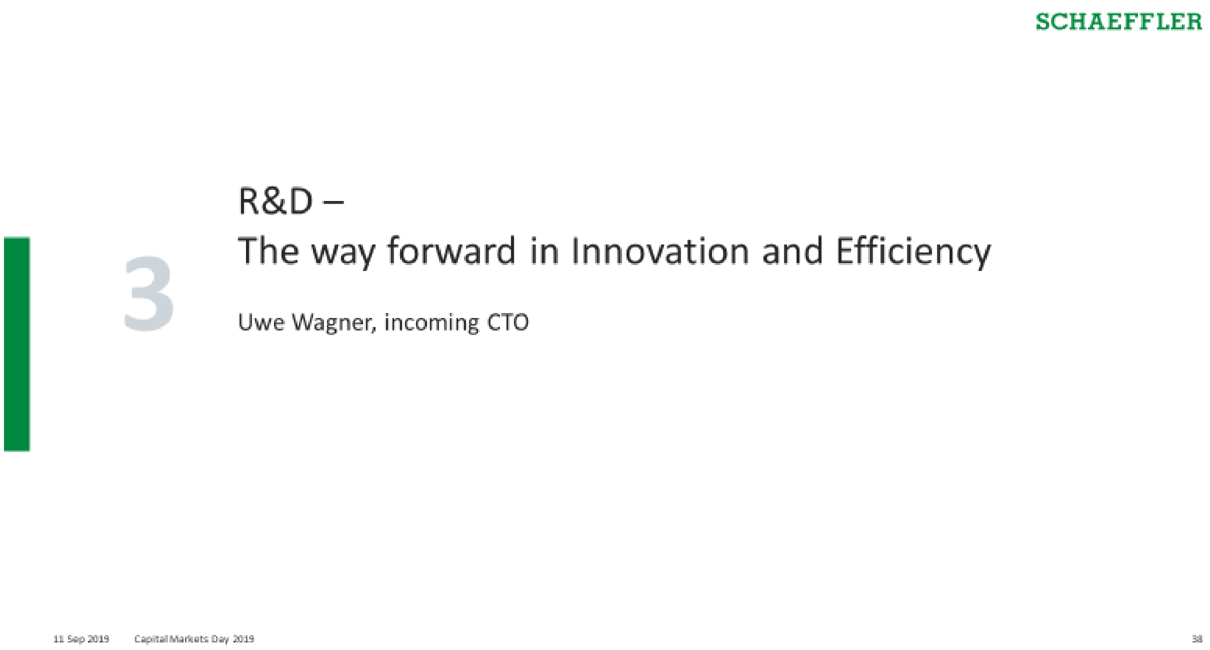
I said it: The RACE program is defined to foster the top line, but as well to improve efficiency and the capital. We see that – I guess, Dietmar, you will show the numbers later on – there is a significant evidence of this RACE activity already available.

Yes, as of now, the Wave 1 is clearly defined. The first two plants are closed and the rest is in definition going forward. Jochen nicely showed that: The E-Mobility pays off. That is as well going with the reorganization we made one and a half years ago. That goes with the transactions we made, with Elmotec and Compact.

If I would tell you how many interested customers we talked to – We just ran from the IAA booth exactly talking the torque converter example Patrick showed and hybrid drive and E-Axles and E-Motors. You can see there exhibits even of our manufacturing expertise in E-Motors. There is a huge interest. There are many customer talks these days. Whoever finds time to visit our booth at the IAA, I just can invite you warmly there to talk to our experts, just to give you an impression or maybe to see the evidence that we walked the talk over there. Yesterday, we had 1,200 visitors. We have more than 90 customer meetings. I would say, the majority of them go into E-Mobility, but, interestingly enough, as well in combustion motor drive lines, but as well in Fuel Cell etc.

So it is exactly this technology openness that we promote and that we can really experience there. At least for me, it is the best IAA in terms of our customer contacts I have ever experienced. For sure, we are a little bit proud, despite all the humbleness we have to show. We really have these project wins now and we refer those to the system understanding, but as well to our credibility in this vertical integration, plus our customer proximity. That was the Ford example. Normally, we don’t disclose customer names that much. But exactly there, I guess, it is really a role model how this contact and this proximity went.

With all that, with all the difficulties we saw the Automotive industry is in, we are more than optimistic and we are convinced that we can shape the future and that we can transform ourselves into that future. – Thank you for your attention. I would hand over to Uwe now.



R&D – The way forward in Innovation and Efficiency

Uwe Wagner: Thank you, Matthias. Welcome, ladies and gentlemen, to a short run through R&D.

3 R&D

Introducing Uwe Wagner

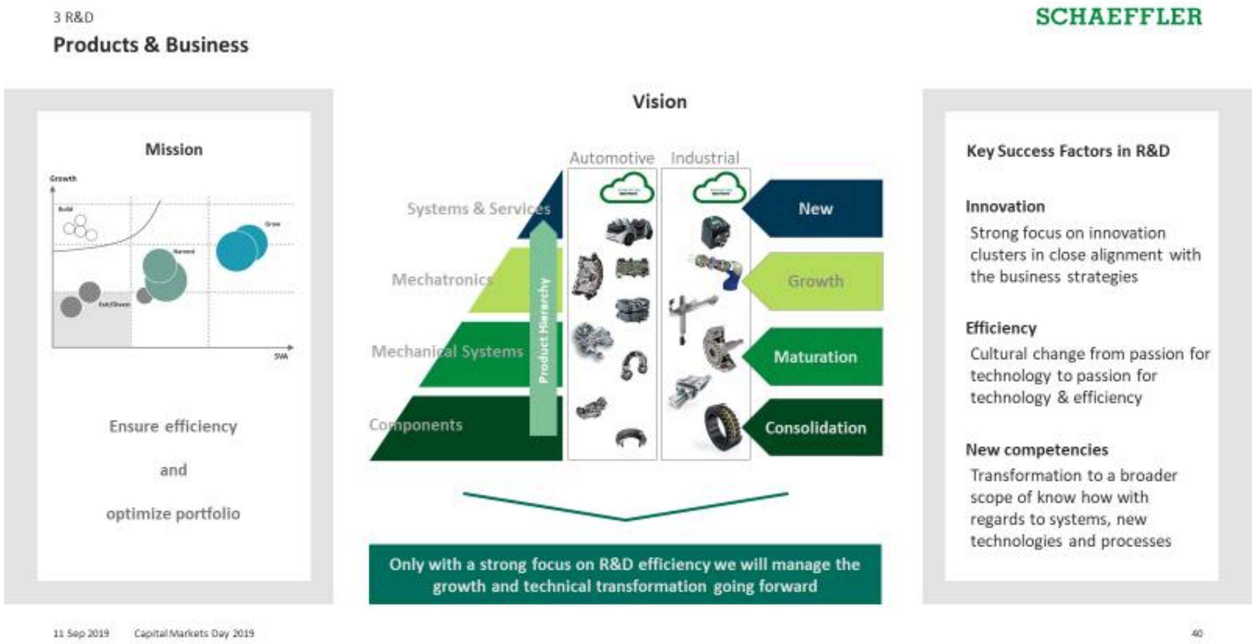
SCHAEFFLER

- 26 years with Schaeffler
- Experience in industrialization of new products
- Leading R&D Automotive & Industrial

11 Sep 2019 Capital Markets Day 2019 39

As I am on that stage for the first time, I would like to introduce myself shortly. As Klaus Rosenfeld said, I will be the new member in the Executive Board, but I am not new at Schaeffler, I have been at Schaeffler for 26 years and spent over 20 years in different business responsibilities, always working on bringing new technologies to the market – so that is a clear red thread.

Today, I am leading R&D Automotive and Industrial. There I was working on the E-Mobility strategy, on the new strategy for Chassis 2030 and on the Industrial side on the Industry 4.0.

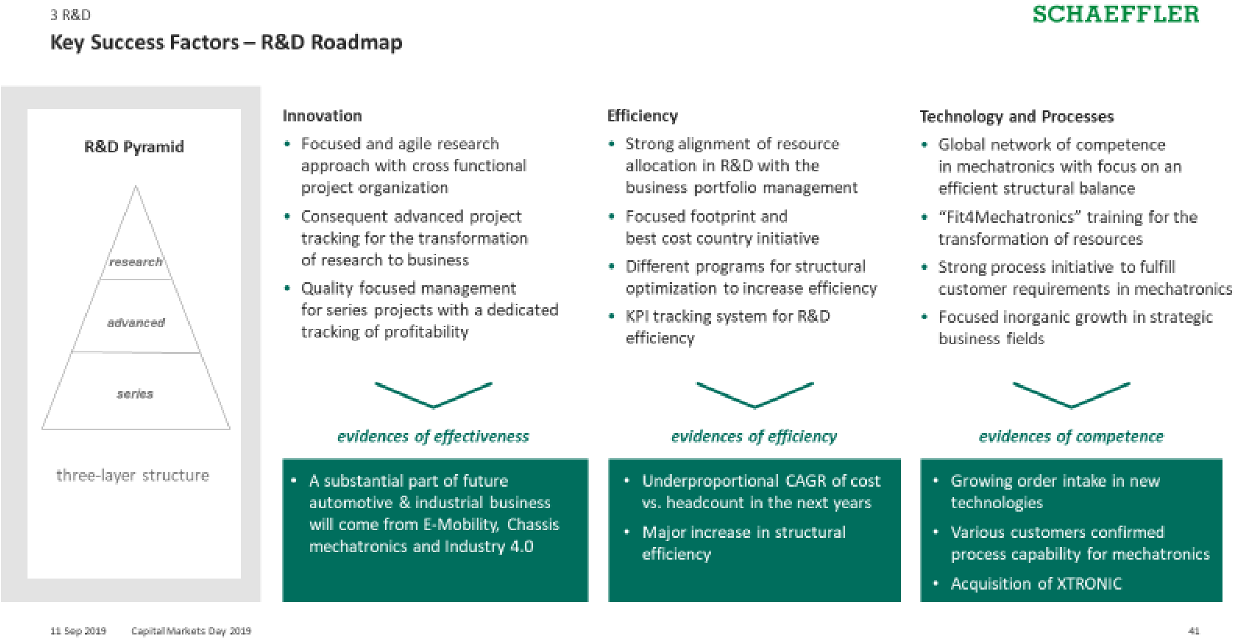


Matthias explained that our mission in R&D in Automotive is clearly that we have to ensure efficiency and optimize our portfolio. That sounds simple. Out of that, we built our strategy where we say, on a solid basis of mechanical components and mechanical systems, we now want to extend our scope in mechatronic applications with E-Mobility and also Chassis Mechatronics. From there on, we are currently already working on new opportunities on a higher systems level. This is our clear strategy in Automotive.

What does that mean for R&D? First of all, we definitely have to consolidate on the components level. That means, we have to structurally optimize our R&D on the components level. In the mechanical systems, we certainly will face a phase of maturation. That means that we still will see some solid growth there. But the clear focus for R&D and especially for allocation of resources is now the mechatronics area. And we may not forget the higher level. That means we still have to look for opportunities, as I said before, on a higher systems level, as you can see on our IAA booth where we show our people mover. The people mover is not meant as a complete product, but it is a technology base for us where we show now new E-drive systems or the drive-by-wire technology.

This story for Automotive is quite similar for Industrial. There as well we have a solid basis of mechanical products on the components and system side. We currently are intensively working on our Industry 4.0 strategy and we are already also working on the Level 4 where we develop databased services in our Industry 4.0 organization.

For R&D, that clearly means that only with a strong focus on R&D efficiency – you have heard that before many times – we will be able to manage this transformation which is basically really technologically-driven.



Out of that observation, we derived three key success factors for R&D. The first one is that we clearly need innovations in the future, but we need to focus in innovation. So, we need to have the right ones. Klaus brought that to the point when he said, we need to know "where to play".

The second one is efficiency. I would say, that relates to we need to know "how to win". That is not so easy for me as an engineer, but I clearly have to state that we have to extend our clear mindsets and our cultural organization from passion for technology to passion for technology and efficiency or even, in a broader range, to performance.

The third success factor is very simple. We have to build up the new competencies with regards to technology and with regards to the new processes we need.

Diving a little bit deeper into these success factors and starting with innovation, I would like to use this very simple R&D pyramid – we are working accordingly.

On the basis, we have the series development, in the middle you see the layer for the advanced development and on the top, we are working on our innovation and research projects.

In Innovation, as I said before, we clearly have to sharpen our focus and we need an agile project management for that. If I say focus, I clearly say that the only successful innovations are those who really make the touchdown from the top of the pyramid down to the series development. All the others are nice to have, but they are not successful. So, we clearly have to find out the right innovations which fit to our Schaeffler DNA and with which we finally can make the touchdown in the series development.

The second very important aspect is speed. In the middle area, in the advanced project management, we clearly need speed. There is a clear need for agile project development because once we have defined innovations and once, we have the ideas, we may not lose time by achieving the process or the concept readiness.

Finally, on the series layer, we clearly have a quality focus project management, I think that is clear. But at the same time, we also have to make profitability tracking as well as the technological project management.

The second success factor, as I said, is efficiency. There we have three activities. The first one, already mentioned before, is: we clearly have to allocate the resources to where we need them according to the portfolio management. We are changing the portfolio. That also means we are changing the allocation of the resources.

The second one is: we have, already for some years, a focused global footprint initiative where we meanwhile also have increased the priority for the best-cost country aspects.

The third one is: we step by step go through our organizational units and make structural optimizations.

Finally, as a bracket around that all, we have a KPI system with which we are on the one side setting the goals and on the other side tracking the goals for the efficiency in R&D.

The third success factor is technology. There we clearly have to say, as you saw before, we get more and more to mechatronical systems. So we have mechatronical competences on board, but not in that broad range we need it. This means, we clearly have to build mechatronic competences. We therefore organized a global network of competence where in the center we have a central mechatronics organization which takes care for the synergies in mechatronics like e.g. microcontroller platforms. Around that we have the dedicated resources in the Business Divisions which take care for the application engineering of the mechatronics.

The second one is training. We call that “Fit4Mechatronics”. As we do not get all the qualified resources on the market, we have to see: How can we train our people who are also capable in engineering for the new mechatronics? Therefore, we have set up this program.

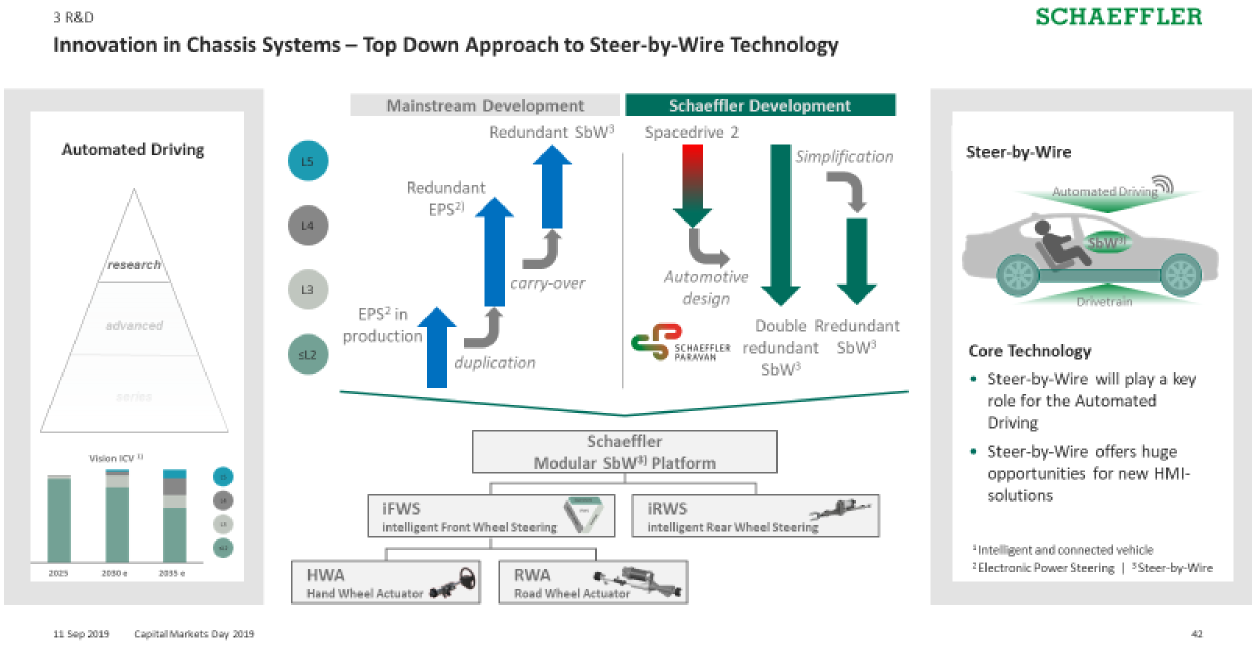
The third one is that we not only have to develop our technologies. We also have to develop the processes according to which we have to develop these systems. This is why we already some time ago started an initiative on the process side to fulfil the customer requirements.

Last, but not least, we are still looking for inorganic growth. Achieving the steps we need, the additional resources purely organically, that will be very difficult. So we are still looking for inorganic opportunities to grow.

As examples, on the very left side, for innovation, I simply can say: what Matthias has shown as order intake for the next years was exactly what we were developing or predeveloping in the last five years. So, it seems as if these predevelopment projects hit exactly what the customers need today.

On efficiency: we clearly see that in all the restructuration’s we make in the organizations we have a clear increase in efficiency.

Technology and processes: I think that the acquisition of XTRONIC is a pretty good example. Also, the growing order intake and the growing very good feedback from the customers with regards to process capabilities seem that we are also there on the right track.



Now, to give you an example of how we are working in practice with this system: on the right side, you see Steer-by-Wire. In the research phase or in the observation phase when we are talking about chassis strategy 2030, we clearly found – that is obvious – that the automated driving will be the strong trend in chassis technology in the future.

On the left side, we then were analyzing the automated driving. We clearly found that on top of the vehicle, you have a very powerful system, starting with backend connections, starting with a lot of sensors, huge software with algorithms. Somehow you have to bring that down to the drivetrain.

All the trajectories you calculate by the automated driver have to go through one gate and this is the Steer-by-Wire. So, the Steer-by-Wire is a very, very important element in the complete automated driving. So we said, well, that is perhaps the technology we should focus on.

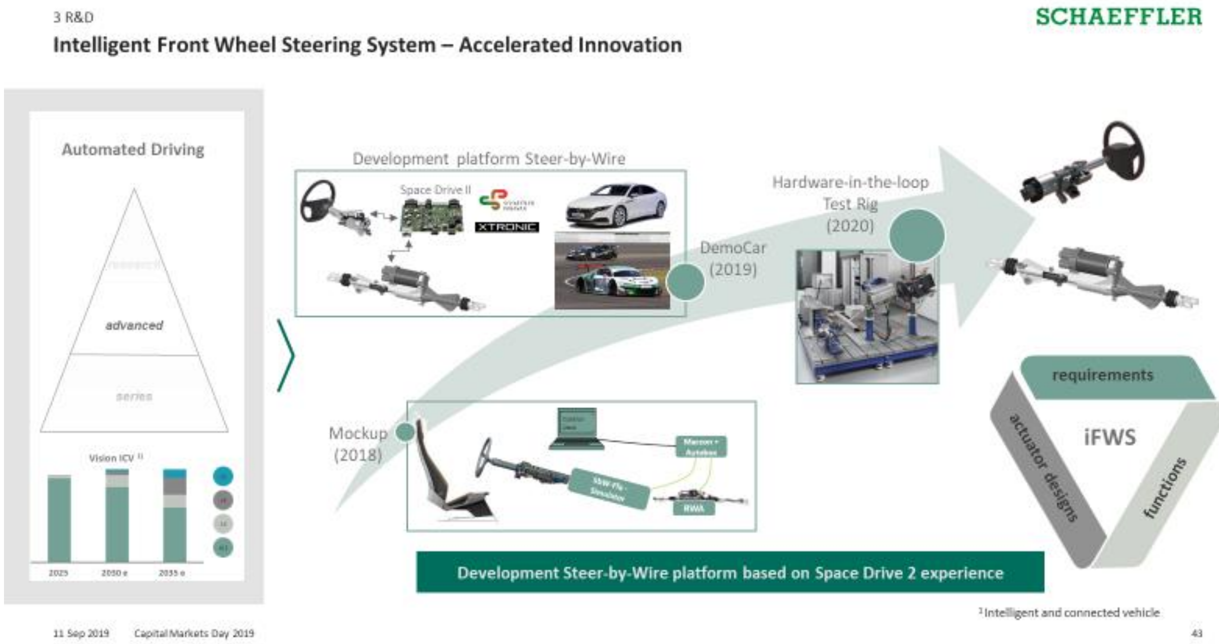
The Steer-by-Wire has a second very interesting aspect. It is not only important for the complete automation, it is also important if you want to install new HMIs, new human machine interfaces like force feedback, joysticks or completely new fancy steering wheels.

So, we looked at the mainstream. We found that the mainstream strategy is a bottom-up strategy. That means, in the mainstream we try to enable our EPS systems, our electronic power steering systems, with a redundancy to be capable for Level 3 or Level 4. Then, it is certainly sure that it needs some more redundancy to be finally capable for Level 5. That is a clear bottom-up strategy.

We are going just the opposite way. With the founding of the joint venture with Paravan, we clearly have now available a technology which already offers the Level 5 capability. It is installed in all the Paravan vehicles. We have a lot of experience already on the road with that system.

Our strategy now is to derive an automotive product out of that. Then we have a fully double-redundant Steer-by-Wire control unit. If we go to Level 3, we think that we even could perhaps simplify that, that's case by case, certainly. But with that simplification we could even make it perhaps a little bit smaller and cheaper.

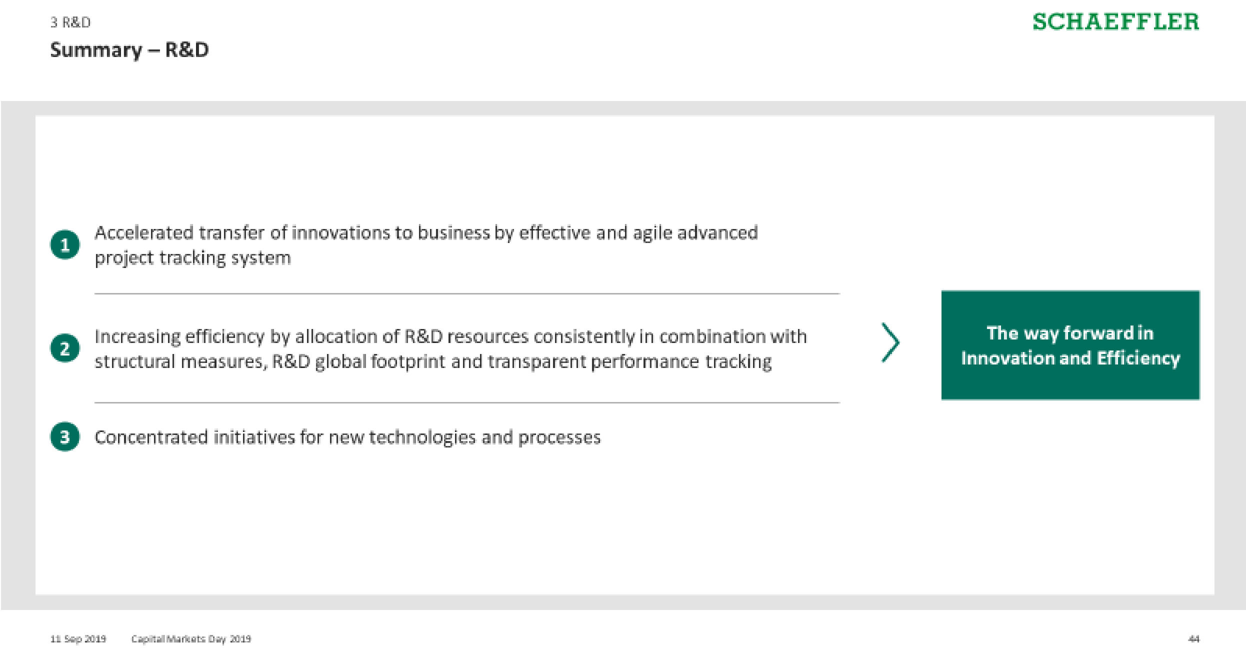
So, our approach is clearly top-down, based on the Schaeffler Paravan joint venture. Our vision then is that we say, we build a Schaeffler modular Steer-by-Wire platform, on the right side for the intelligent rear-wheel steering systems, on the left side for the intelligent front-wheel steering systems. These front-wheel steering systems are consisting on one side for the road wheel actuator, so for steering the wheels, and on the other side, for the force feedback, steering actuator.



Coming to the next phase, to the advanced phase. We clearly knew, as I said before, we need speed. Now we have the strategy, we have a very good platform. Now we need speed. This is why we very early started with hardware, building test benches, last year. This year we built several cars. On the top you see, this is a close-to-production car with a Steer-by-Wire steering wheel which we show to our customers and with which we already now get a very, very valuable feedback. We collect all this feedback and all these data. To get, I would say, limit experiences, we also built a race car with which we already were racing at a race track. It is also interesting to see how this technology works in these limit situations.

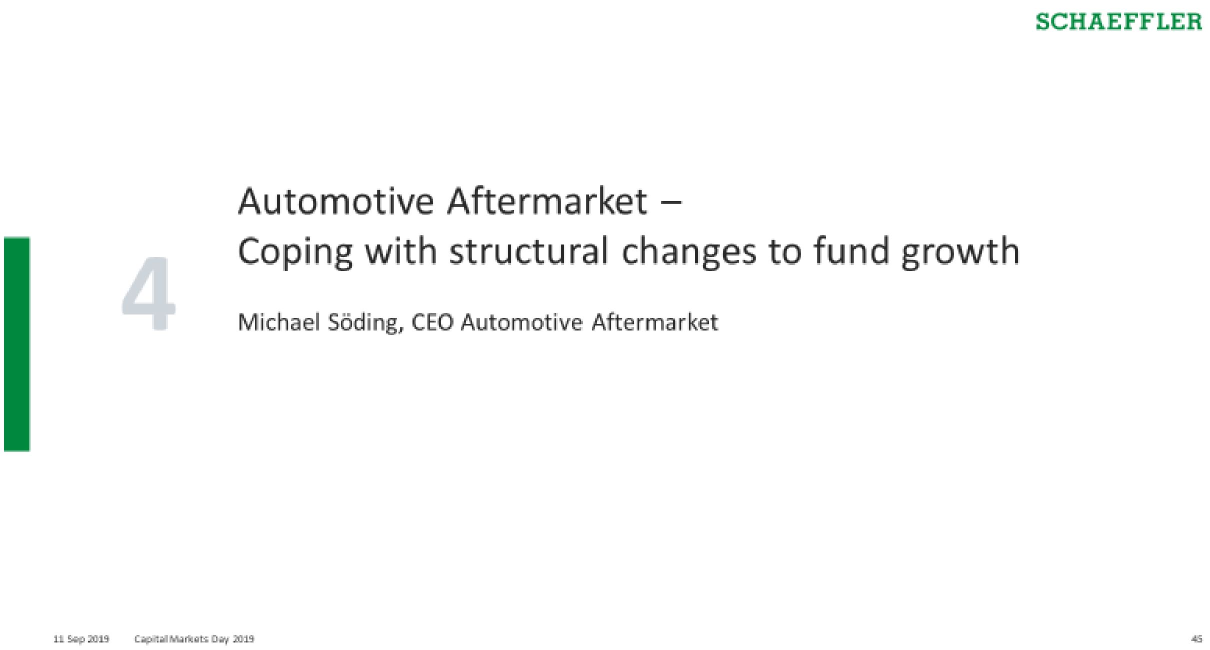
Out of that, we plan for next year to build a HIL, hardware in the loop, test bench. That means: with all these data we get, we put that into the simulation model, added with our control units, and then speed up with the development speed. With the data we collect this year, we think that next year we have a very, very good platform for this hardware in the loop development phase.

In addition – that is not shown here in this graph – we clearly say: from that time on we think that we have a certain concept readiness for that. Then we start with the series development. The question is: do we get any customer order? But at the same time, as the complete automation in the car area might not come so early, we see it comes much earlier in the commercial vehicle area. We can then make derivatives out of that to apply that in some commercial vehicles and thus collecting and generating data from the real road. This is how we really try to speed up in this advanced phase and the first series development phases to keep really the advantage we have today with this product.



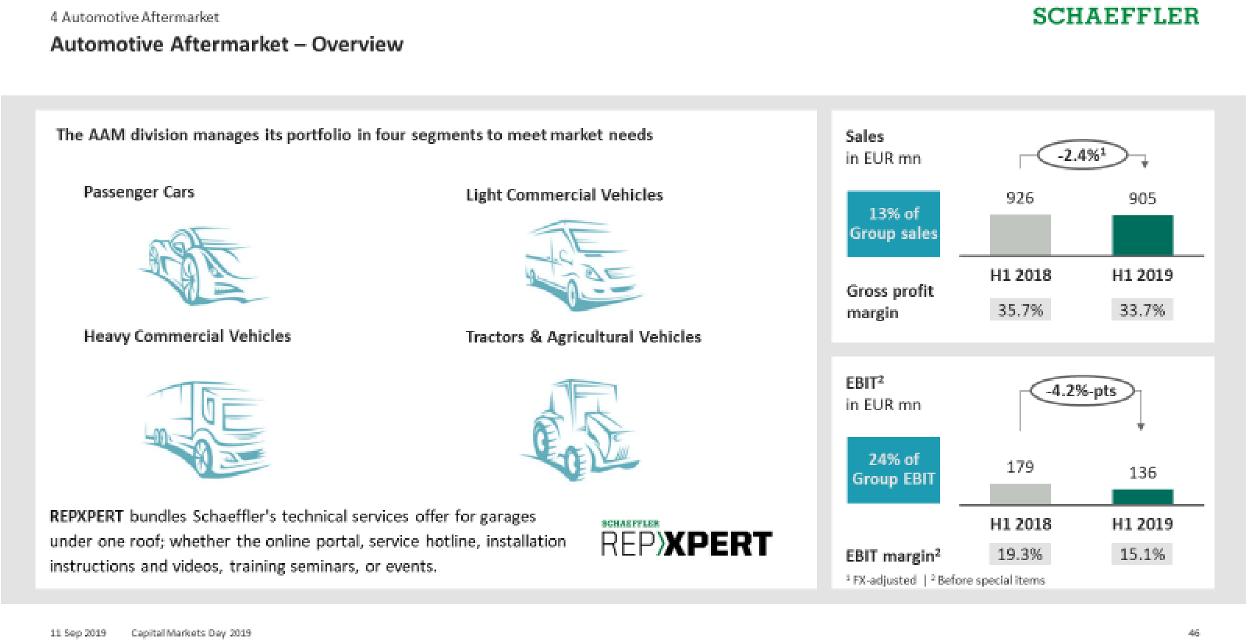
Summarizing all that, certainly our first mission is: we need an accelerated transfer of innovation to business by an effective and agile advanced project tracking system. The second one, you heard that for several times: we have to increase efficiency by several means. The third one: we have concentrated initiatives set up for the new technologies and processes.

Thank you very much. I hand over to Michael Söding.



Automotive Aftermarket – Coping with structural changes to fund growth

Michael Söding: Thanks, Uwe. A warm welcome, good afternoon, ladies and gentlemen! Looking into the next division of Schaeffler, the Automotive Aftermarket. We are there to make sure that mobility lasts for a very long time. So we are very closely cooperating with our OE colleagues but bringing the mobility into older cars and generations.



With that, we can say that we are very well positioned and structured in all the channels that are important in the aftermarket passenger cars, to name the most important one, but also the light and heavy-duty commercials and last, but not least, the agricultural area.

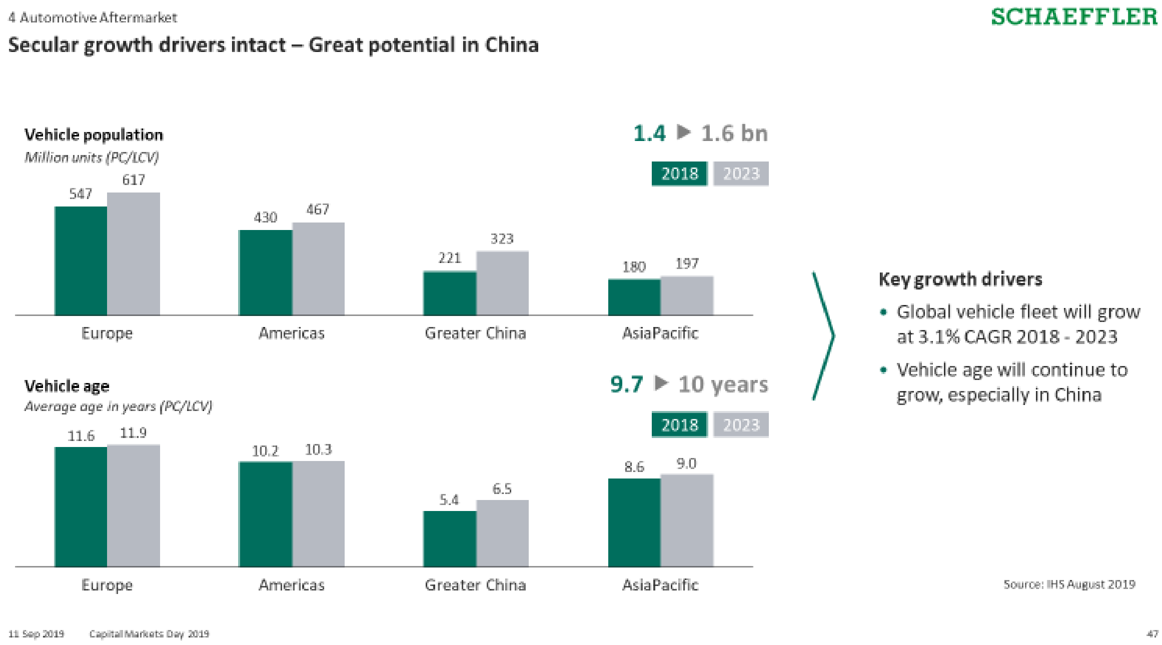
Important to note: Schaeffler – you saw impressive examples from our colleagues of the front end of the technology – is very much into very technical products. There is nothing like easy-to-fit, there is nothing like do-it-yourself products, which need a direct link, a direct connection not only to the distribution level, but obviously also to the service level, to the workshops and garages all across the globe.

Our mantra stays: fixed first visit. Imagine for a second a workshop owner: he is confronted in a market like Europe with easily 8,000 to 10,000 different car types and models. These cars come in the next days and then he has to repair. Therefore, we need that direct link to these people to give them latest technology information, video tutorials, access to special tooling. At present, with our online tool, we have more than 100,000 active customers, workshop clients to dialogue with us and to receive numbers.

With regard to our business, the Automotive Aftermarket stands for 1/8 of the Group sales and almost 1/4 of the Group’s EBIT. Nevertheless, looking back into our Q2, H1 results: in principle, we are facing very much the same challenges like our colleagues from OE are doing, to a certain extent for different reasons. If you look into our EBIT development I want to highlight just a couple of things.

Number one. Last year at this time, we were enjoying a one-off that was in the area of one percentage point EBIT. Secondly, we changed our interaction model between the factories. That means the Divisions who produce parts in our organizations. That goes very much in line with our management setup. So put the responsibility there where the decision-making is. What it says is: We have now a fixed transfer price from the factories and changes in material, product variances, namely in material costs, are not any more part of our responsibilities. So, our Schaeffler factories treat us at Aftermarket as if they were third-party suppliers.

But still there is a significant rest of EBIT decline, which is partially due to our investment, but also partially due to the headwinds that we see in sales which – Klaus has already mentioned it – calls for an efficiency program which we run under the name GRIP. I will come to that in a second.

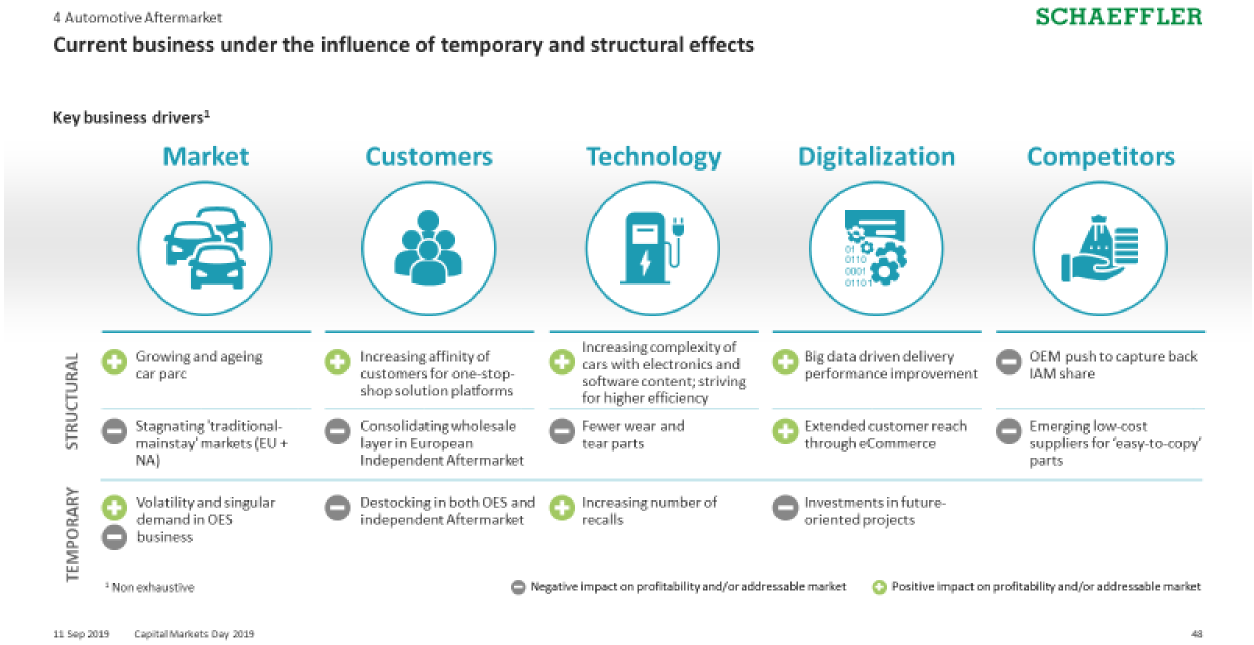


Let me please first talk about the market fundamentals. There is pretty little to tell here. The fundamentals are unchanged. One is how are new car sales adding into a growing vehicle population? Obviously, very importantly, the Chinese market shows that the car population is growing. But more specifically in China, also the average age of cars is now increasing significantly.

Back to the situation of Schaeffler. Typically, the parts last like 120,000, 150,000, 180,000 km. That translates, with an average driving mileage per car of 12,000 to 15,000 km per year, into something that we see the market coming our way on average after 8 to 10 years of the car being of the road.

What we have to bear in mind, though, is that these drivers affect what we call the sell-out of our distributors. Our reality in our sales numbers is affected by the sell-in to our distributors. In most cases there is not only one layer there is more than one layer from national importer to warehouse distributor to retailer. They all make their own business assessments and their own decisions. So, what we can't offer you is a direct connection between our sales numbers and what the market is doing. This makes it a bit more complex to explain the market dynamics.

One word on E-Mobility: you all follow the new car registrations. In the next years to come, we would be very clear to say that e-mobile cars will not be our core business, specifically in the Independent Aftermarket, going forward in the next couple of years.



What is driving then our business? We subdivided it into five different major trends. I am not going to read them all to you. But allow me to highlight that we have subdivided them into structural changes and what we call temporary changes or headwinds. The markets as such see that the volatility and singular demand in the OES business is very much declining. So, our OES customers are destocking significantly. Why are they doing that? Because they are part of the OE organizations that are challenged with the transformation process at their end and have to contribute to the financial implications that it has. So, working capital reduction, cash improvement situation is their number one activity. That is something that we have to report across the line of all our OE/OES-related customers. Again, the sell-out there is okay. But the sell-in is significantly lower.

This is also true for the Independent Aftermarket, partly due to different reasons. We see a huge consolidation process, namely in Europe. Major players out of the US, to mention LKQ, to mention GPC with their European organization AAG, Automotive Alliance Group, and also PHE, are buying and merging many of the formally very fragmented players in the market and with that optimizing their logistical set-up, reducing the number of warehouses and also living from the stock and burning them off before they are going to buy again from us. That is specifically relevant in Europe these days. We do not see those trends at present in markets like China or in Asia Pacific.

Technology. Please allow me to say again: we are not living from the fact that our OE customers at the front end of development are asking for wear and tear parts. That is not something that Schaeffler is doing. The specifications say, the product has to be developed and produced for lifetime.

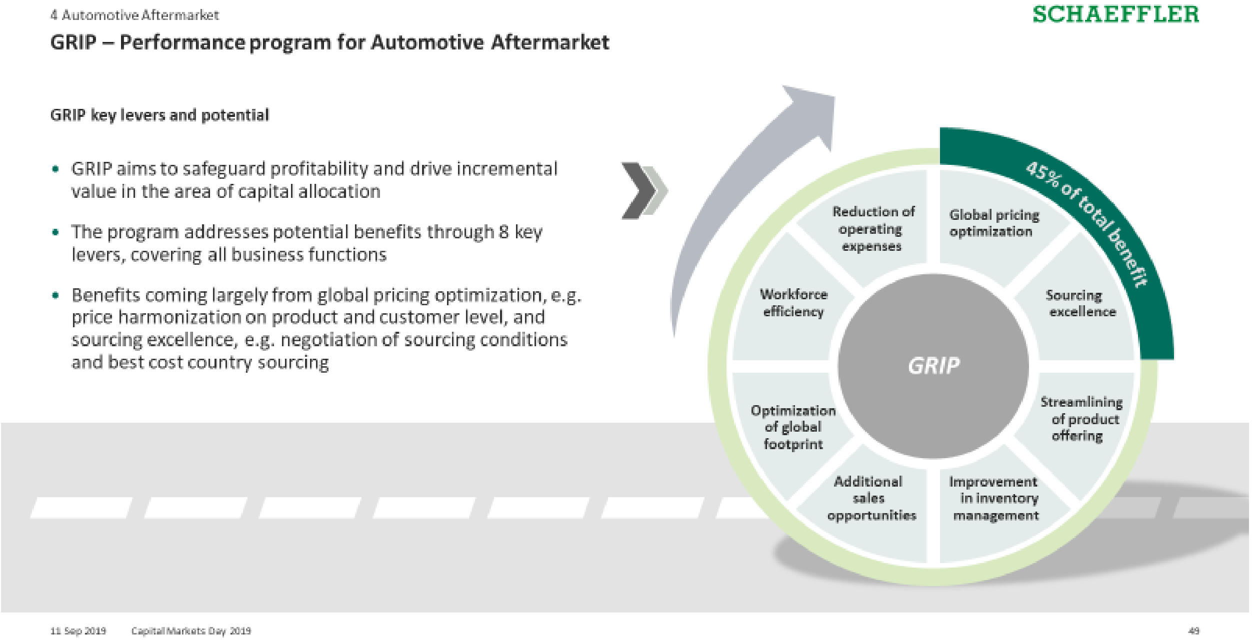
Second to that, also, we are awarded every year in a very frequent manner quality awards to our production plants.

Why do we then have an aftermarket? That is why things in reality do not work according to what has originally been planned. Systems are ever more complex. We see this with the number of recalls that are out there, partially run by the OE themselves and partially officially forced by the authorities in some given markets. What we also see is: there are special insurance companies out there offering warranty insurance for repaired cars. They report back that the number of significant repairs is increasing and also the value per repair is increasing significantly. So, those numbers tell us that the technology out there in the running generation of cars is getting ever more complex, with an ever higher implication on our Aftermarket business.

With regard to competition between the various sales channels into the Aftermarket, OEMs constantly try to gain back share against the Independent Aftermarket. Namely the two French OE players are running programs – Distrigo out of the PSA Group is an example – where they want to gain back what we call segment 2 and segment 3 car generation.

The loyalty of the car driver to the dealership where the car once has been bought is diminishing over years and it is specifically diminishing when the car is changing hands. When the car is in the third hand, then typically they will not show up in the area of a franchise dealer any more. That is obviously where these players want to gain back market share.

Another aspect of the competition: when OES is not asking for too much parts out of the factories, there is higher availability for the aftermarket which says there is a higher delivery service and availability. But that is also true for competition. Whenever factories are sitting on idle production capacity, they obviously try to find other channels to sell to. That is what we have to cope with in the Aftermarket.



Coming to the efficiency program that we run as an aftermarket organization: we call it GRIP because it indicates that we have to fix something with immediate effect. We have set it up in a very holistic manner, put it into eight different workstreams, but all with the aim to safeguard our profitability, to drive the incremental value in the area of Capital Allocation.

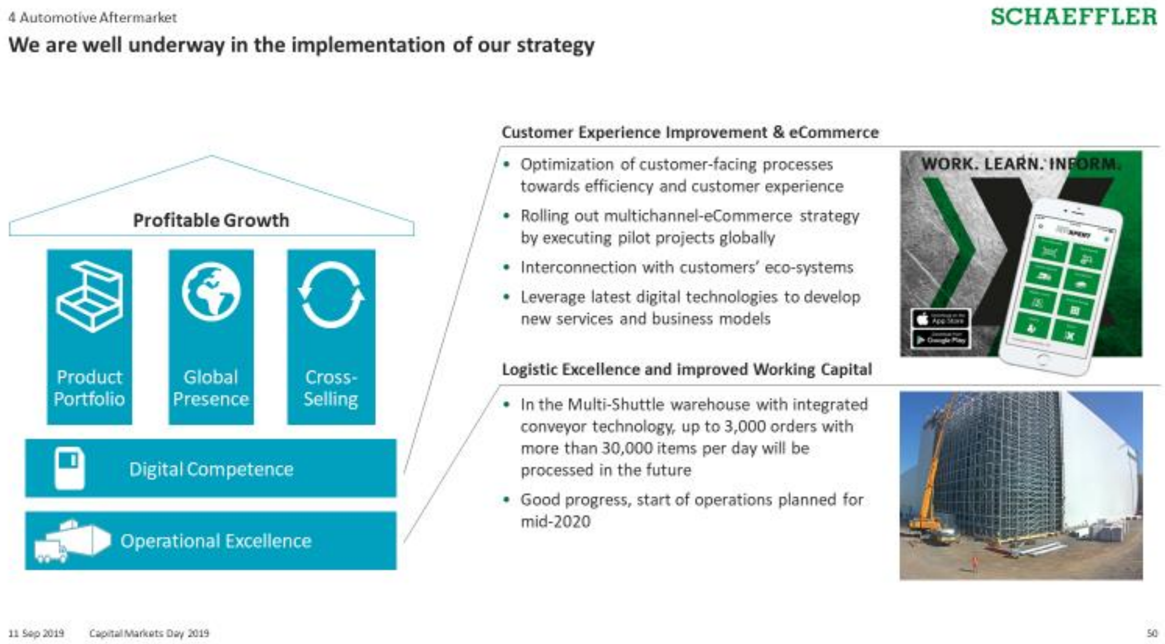
The first and foremost is the pricing, the selling price optimization. You may ask what is the rocket science about that one. Well, from demand, obviously, a Skoda part in France is required more rarely than it is required in Czechia, which is why the Czech prices should be lower and the Peugeot part just vice versa. That is so to speak the reality that we were coming from local markets were creating their own pricing.

The downside of this is obviously that it triggers grey markets. With the growing consolidation of our customers, the grey market is now replaced by internal sourcing strategies, which says: if we are not going to harmonize our price point to our customers, we will see a strong flow of products between markets which is obviously not in favor of us, which is why we are basically changing the concept now that, depending on the level of distribution – and for a second without taking currency exchanges into consideration – we are harmonizing, not standardizing, our price point to our distributors to a very large extent.

Sourcing excellence. Sourcing excellence for us is obviously something that relates to many of our numbers. It starts with minimum order quantities. It goes along with: Is the sourcing close to the region where we are going to sell? What are the lead times? What are the days on hand? It also tackles obviously sourcing in best-cost countries as well as to price points that are beneficial for us.

In the area of our product offerings, we once grew by saying, one-stop shopping to our customer we offer you everything that you would require. But, again, as our customers are getting larger and larger, as they are reducing their – call it – dependency or loyalty to one individual supplier per product line, it makes less and less sense to offer parts on an individual part number level. That doesn't provide a decent margin there. That lost maker discussion is on a part-by-part level. And it also is going to answer the question: Are we going to offer an availability in a range of 95 percent related to a country-based car parc, yes or no?

Inventory improvement. Yes, availability is the most important thing. But nevertheless, we find examples there and possibilities where to improve.



On the next slide I will update you on our Aftermarket Kitting Operation project. We are centralizing activities and getting them leaner and faster out.

Additional sales. This goes very much to our cross-selling activities. In many cases we have very viable and reliable business relations to many customers. But that does not yet translate in that they are sourcing everything that we have at priority one. We could – just as a reminder: we presented in the last Capital Markets Day the example in the US – attract our most prominent customers on clutches to do a significant wheel bearing business with us just to give you an idea of what we are after.

Global footprint, workforce efficiency, and reduction of operational expenses: These are, so to speak, standard activities. But they have a very high focus these days.

This program is contributing already a significant EBIT impact in this year. Obviously, it is supposed to help us to fund our future set-up and our technology change going forward.

Where are we at present with our activities? On the left side, that is our strategic house. The main growth drivers stay in the portfolio environment. We established a full assortment in Europe for the steering and suspension program under the brand FAG. Our global presence is going to be optimized. Yes, in one or the other area, namely in the Middle East, these days we have to ask ourselves: are we rightly sized there? Or do we have to right-size these activities? But in general, it is a growth activity.

I already mentioned the cross-selling activities. But we brought now two examples, firstly our digital competences. Namely in the market of China, we are building up a supply chain e-commerce platform where we connect directly with a selection of distributors, in order to facilitate and fasten the availability on the workshop level going forward. There is more news to come at the beginning of next year.

I started explaining the REPXPERT concept and our online portal. We are now moving this into mobile apps. Literally, the mechanic should be in the position, when he is standing underneath the car and doing a clutch repair, to get latest video tutorials to get information about torque, about data etc. That successfully started in markets like the UK and the US and is going to be rolled out over time into various markets.

On our major investment, the Aftermarket Kitting Operation in the East of Germany dedicated to Europe: that program is really progressing well. It is a 180 million investment. The start of production is still planned in the mid of next year, so it is on track.

Divisional FY Guidance and current trading development

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Divisional Guidance

	Actuals FY 2018	Actuals H1 2019	Guidance FY 2019
Sales growth[1]	+2.2%	-2.4%	**-2 - 0%**
Absolute figure	EUR 1,859 mn	EUR 905 mn	-
EBIT margin[2]	17.0%	15.1%	**15 - 16%**
Absolute figure	EUR 316 mn	EUR 136 mn	-

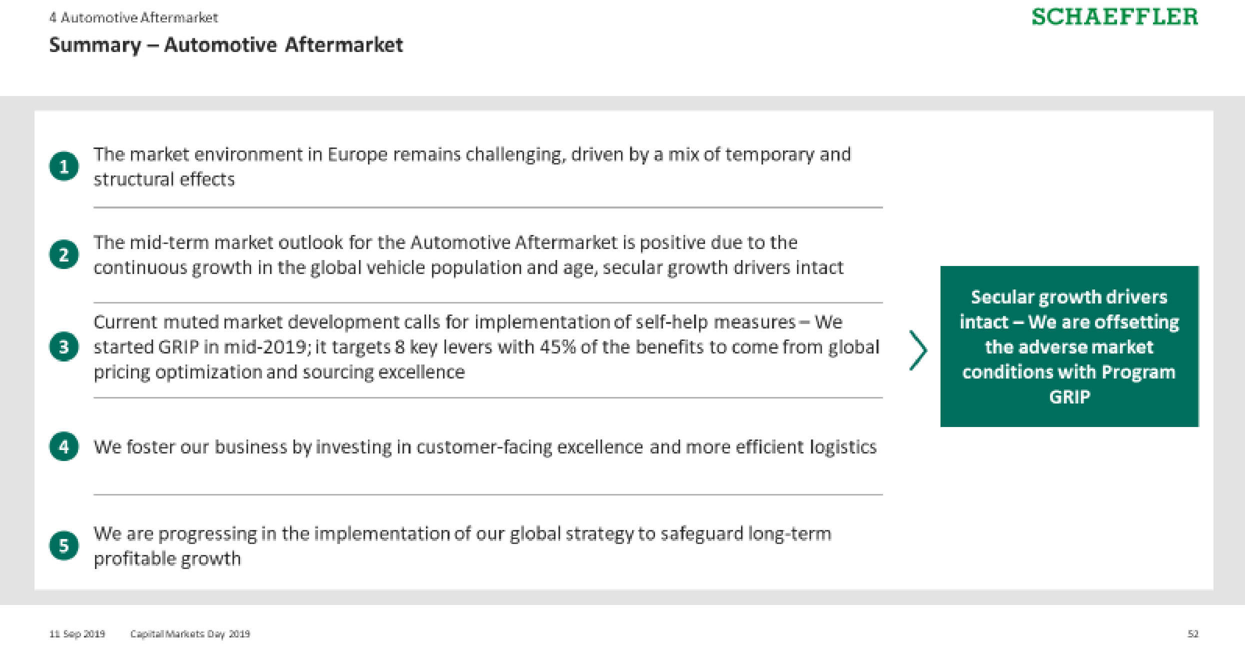
[1] FX-adjusted | [2] Before special items

Current trading – Top line trends July and August 2019

- Sales channel Independent Aftermarket growing
- Realized price increases show positive results
- Customer consolidation in European Independent Aftermarket, leading to further destocking at the distributor level
- Weak demand in OES business in Region Europe driven by continuous destocking

So where do we stand right now? We had to change our sales guidance in the second half of the year. That is what you are familiar with. EBIT margin stays firm. Nevertheless, till present from all the market intelligence that we have, Schaeffler Aftermarket has the highest EBIT margin in the Independent Aftermarket or in the Automotive Aftermarket as such.

We are constantly working on these price increases and they are showing first positive results. I mentioned the customer consolidation and the destocking in all areas, which is why I again want to emphasize that the sell-in that we are delivering to the aftermarket is not like we sell out into the market as such.



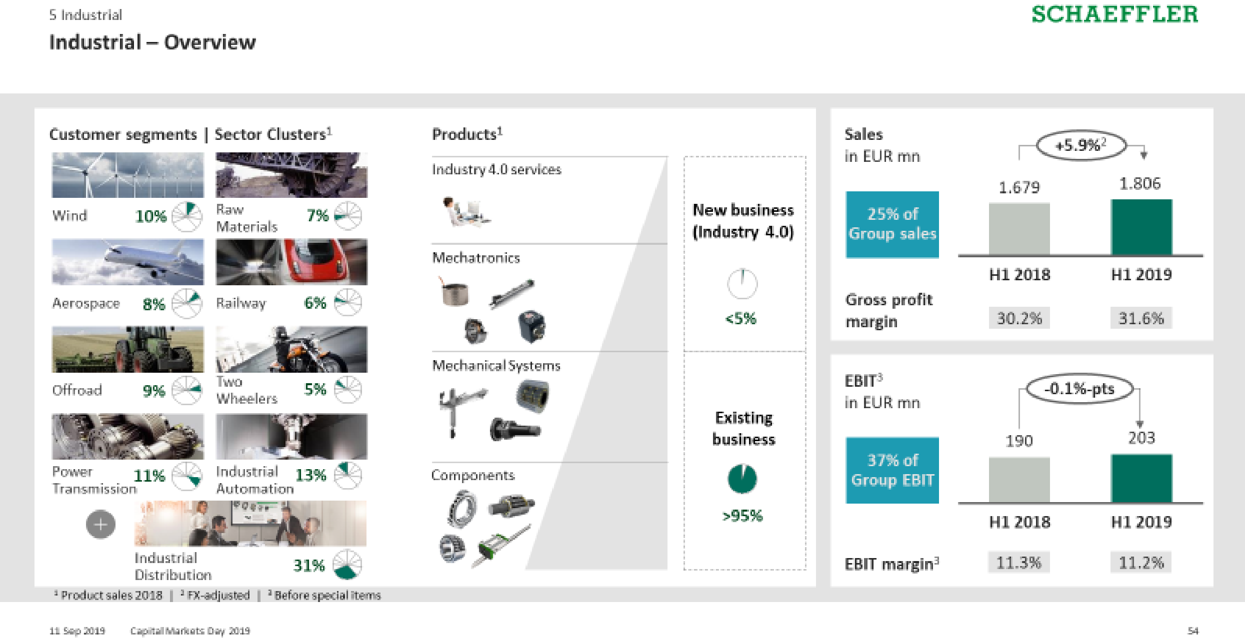
In order to summarize, namely in Europe we are facing at present a combination of temporary structural effects. But nevertheless, in the mid-term, growth drivers are fully intact, even though customers are destocking, no doubt, but at a certain point in time that trend should have been overcome.

Our GRIP program is helping us in the short-term as well as in the mid-term to improve our margin. With the AKO and all the activities that we have, the major weakness of our offering, our service offering, the availability i.e. the delivery service level, is going to be history. We are quite well progressing in implementing our global strategy which, in a nutshell, says: we are working on our growth pattern and we are working on our profitability.

With that, I would like to hand over to Stefan Spindler. Thank you very much.

Industrial – Successful execution in a more challenging environment

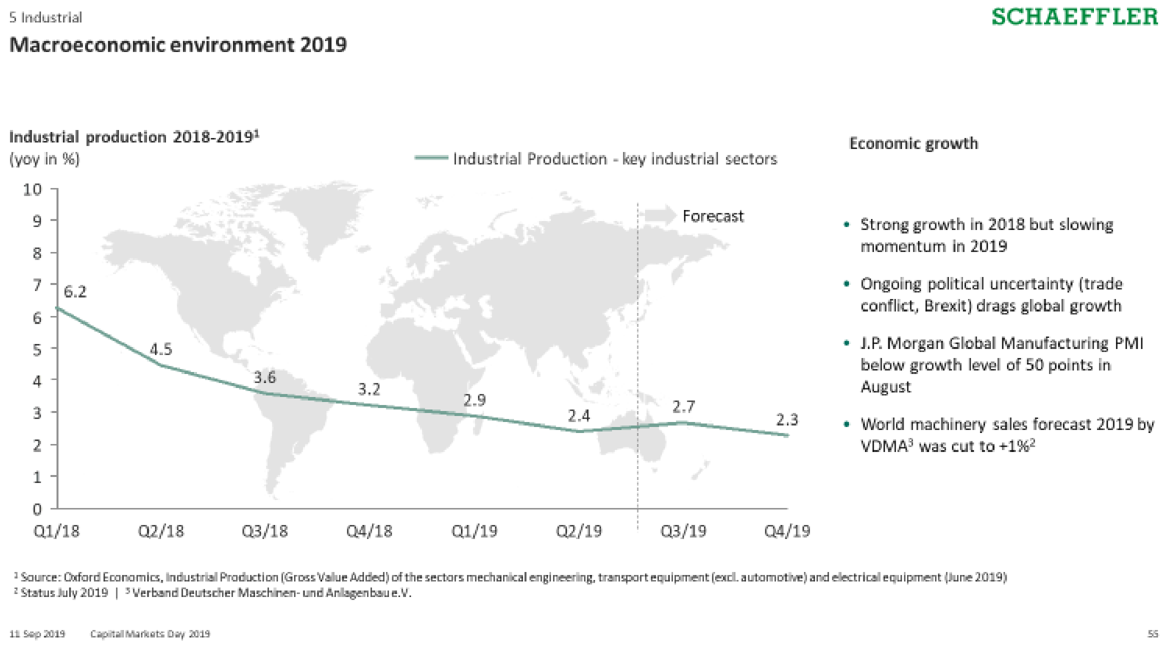
Dr. Stefan Spindler: Thank you, Michael. Good afternoon, ladies and gentlemen! So, we are coming to the Industrial business, a more challenging environment. You know we had a very nice market development in 2018, also in the beginning of 2019. Now it’s getting a little bit more challenging. I want to explain to you what we are doing in order to tackle this more challenging environment.



Here is the structure which you know: On the left-hand side, what is the Industrial business all about? You see at the bottom the Industrial distribution, i.e. the indirect channel. About one third of our business, mainly standard products, we sell through the distribution channel. And then we have these eight sector clusters, well-diversified, you could say, with rather different drivers. Some of the drivers are infrastructure-related, some of them energy-related, some of them mobile equipment-related. And that means, also the cyclicity of these sectors is different which then also helps equalize the ups and downs which we see from one or the other sector.

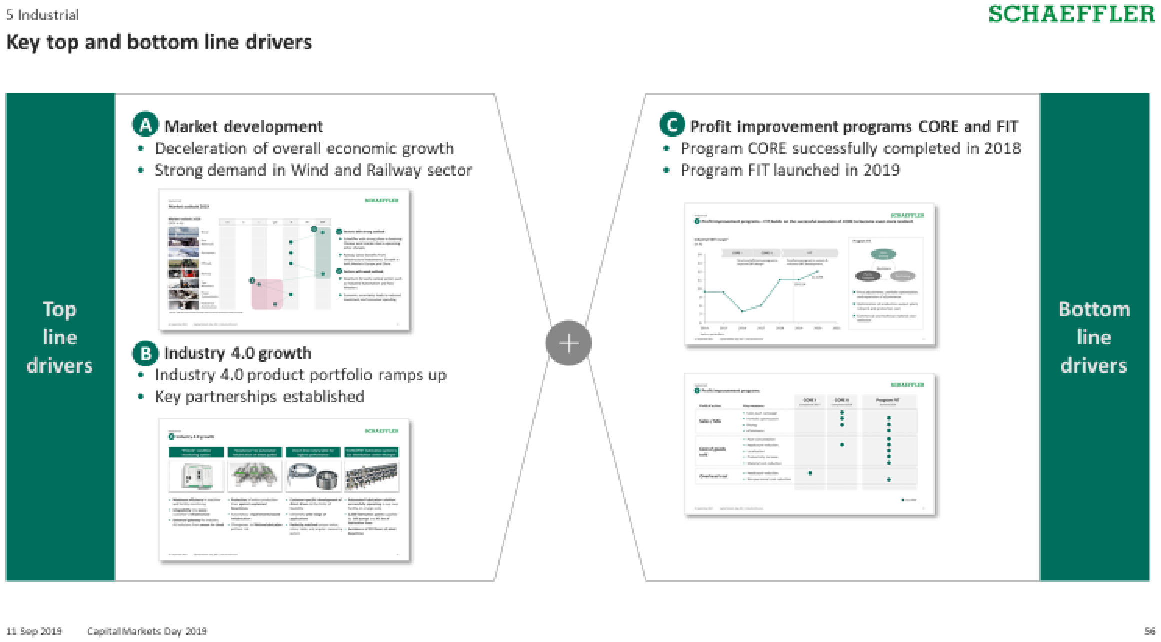
On the pyramid side, you see the similar logic which we have rolled out across the whole Group, as Matthias Zink and his colleagues and Uwe Wagner have shown. Of course, the core business is a component business. Then we also go into systems you have already seen a few examples. Mechatronics basically is all about supporting the automated and the connected industry. That means, there we go into sensorization of components and also into electrical drives and integrated drives. And then the Industry 4.0 is a growth area, the service area where we talk about service business which is enabled by data which we gather from the field.

The numbers you know. It’s good, solid growth in the first half and it’s a solid margin which we have achieved in 2019 so far. So, on the market side, these are numbers which you know. That’s basically the gathering of all kinds of different intelligence on the market.

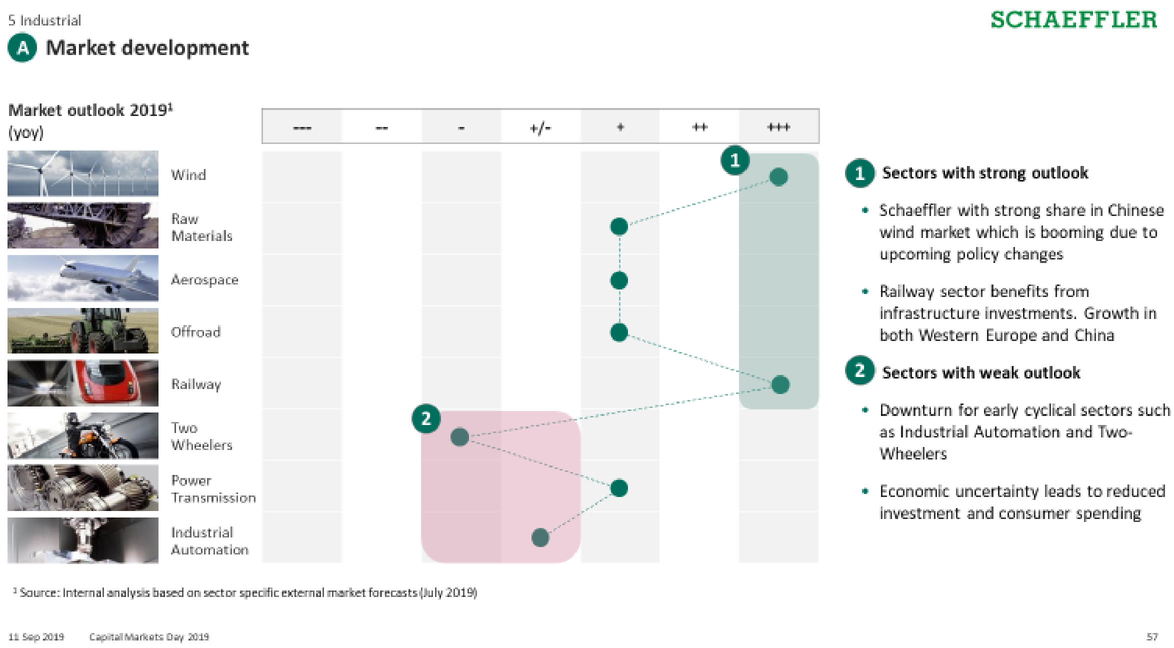


You see, in 2019, the forecast is something between 2 and 3 percent on the industrial production. You also see the latest forecast in terms of machinery sales worldwide – it's 1 percent. The difference: production is higher than sales because there are also of course efficiency gains from the plants which are in operation. So, it's flattening out.

You also know all the different impact factors like the political uncertainty and of course also the currently, let's say, weakening Automotive industry which Matthias has talked about. That's impacting the industry also because that has a direct impact on factory investments, machine tools, automation equipment etc. So, we are basically also seeing that.



Well, so what are we doing in order to drive the business forward? I would like to talk about two categories. One category is: what happens on the top line? Also, of course, what are we doing, in order to improve the bottom line, on the cost and on the structural change? I would also like to summarize some of what you have seen before. We have talked about CORE e.g. I would like to explain to you what we are doing in that respect looking forward.



So, let's start with the top line. You have seen the eight sector clusters. I show them here again. When we summarize how we see the 2019 market development, so basically the external influence which we are seeing coming from these customer groups, then we have two sectors which are very strong in 2019, that's Wind and Railways – wind very much driven by, let's say, still political boundary conditions. We have a very strong focus on China there. There are still subsidies and these subsidies are not going on forever. So, these are effects which are now pushing the Wind business really significantly.

On the other hand, we know it's a short-term push, but we also know Wind is going to be a strong business over the next years to come because with the additional need of electricity, also looking at the E-Mobility, we definitely have the need for power and the power will not be produced conventionally, but with renewable energies. So, Wind is strong and a very potential business driver for us.

The Railway is, of course, related to infrastructure issues, not only interurban but also urban. That's also very strong in Europe. We see a lot of railway investments in Europe and therefore also very good two-digit growth.

On the Raw materials and Aerospace side, these are also two very strong sectors, Raw materials as a consequence of the oil price which has recovered. So, people are investing into oil exploration, gas exploration also, but also, of course, infrastructure is directly related to the cement industry and then people are investing into cement plants, steel production, all these various sectors which are more or less related to heavy equipment.

Aerospace: There we see a solid growth. It’s not so much going in peaks and ups and downs, it’s a solid growth. We see that this year and we also are very confident for the years to come there.

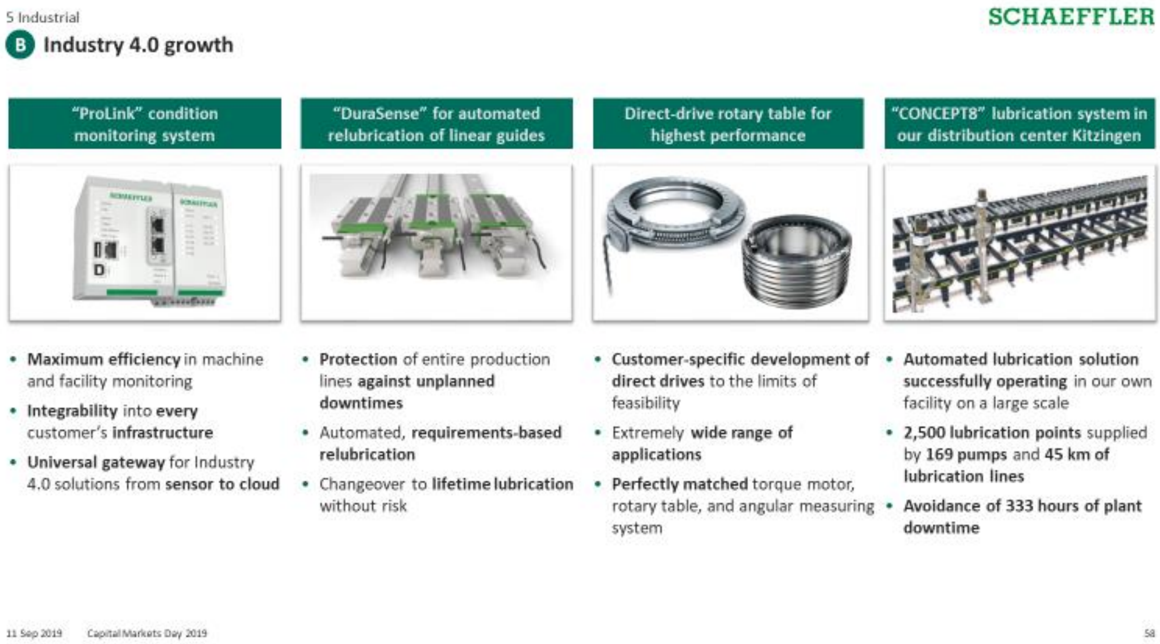
Offroad started very strongly, it’s now going down, both in terms of the agricultural and the construction industry, but overall, if we summarize the whole year, it’s still a positive development.

And then you see also Two-wheelers which has a completely different market characteristic that is negative.

In Industrial automation, as I said, is the hesitation on the investment in machine tools and in large production plants at the moment. So that’s negative.

And Power transmission is more or less related a lot to Industrial automation and a certain general downward trend.

But all in all, that means we are confident that 2019 will be a good year for the Industrial business.



Besides the sector developments which are kind of the external factors which we can just accept and take as they come, here are some topics on the Industry 4.0 side. Again, Industry 4.0 is all about supporting the automated industry, supporting the connected industry. And the more our customers go into automation, i.e. the less they go into manual monitoring of their equipment, the more they want to rely on uptime of their equipment without constant fixed maintenance intervals. And therefore, on the left-hand side, condition monitoring is something where we have brought out a new product this year. We have a roadmap. We will definitely also bring out new products next year. We are quite positive that this provides a business potential also in the years to come and we definitely have not explored that to the full extent yet.

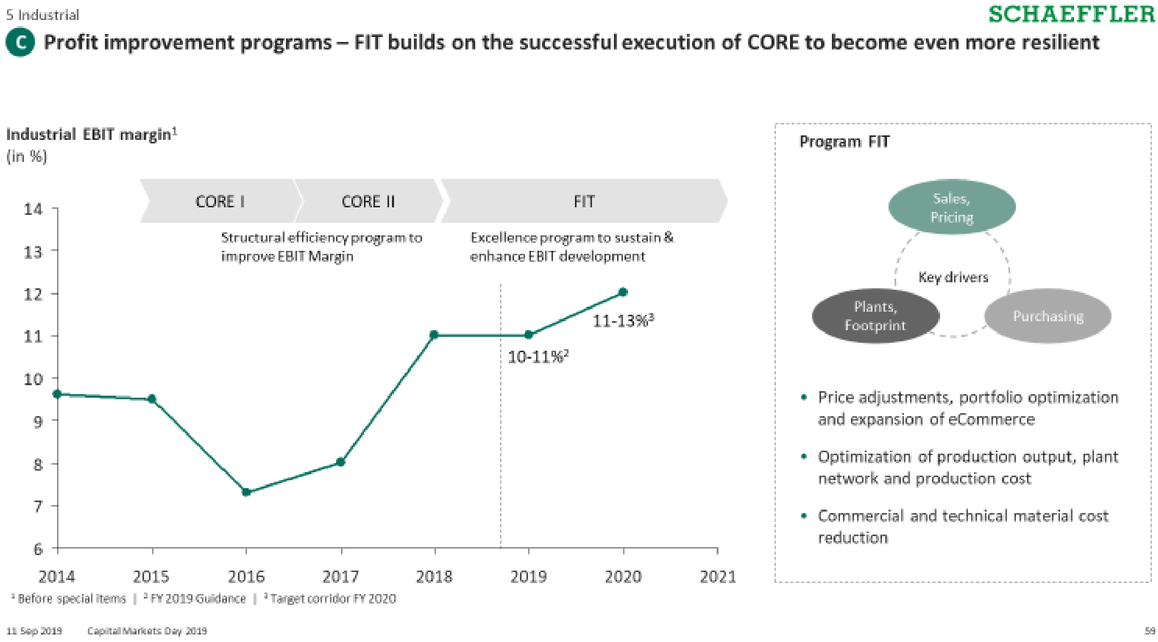
On the side of sensorized systems, you see that also in combination with lubrication. That means people want to just have their components work. They don't want to go there and do manual lubrication, do manual checks. So, we have that in various applications.

The third example which you see is maybe also an interesting one because that's a little bit similar like the integration of our E-Motors into a drivetrain of a car. Here we are talking about rotating equipment in machine tools or in other automated systems. The customers are more and more looking at these kinds of things as a functional module where they want to have one supplier who can provide that.

Because, at the end of the day, it’s about speed, accuracy, it’s about controllability, it’s about acceleration behavior. The whole thermal behavior of the systems needs to be managed by one entity. The OEMs don’t want to micromanage that, but they want to have one system integrator who provides that.

And we are also doing E-Motors in the Industrial business. I think there are also quite nice synergies between Automotive and Industrial.

So that’s a top line growth driver. I think we have said that before: it’s not a huge number yet, it’s a solid, high two-digit number, but of course with very good growth rates and it’s definitely a medium-term contributor to a business growth which goes beyond the classical cyclicity of our sectors.



I am now coming to the bottom line. Here we have summarized it a little bit: where are we coming from? In 2014/2015 we talked a lot about CORE, CORE I having been mainly an overhead program. That was the first step. You remember the 500 head-counts on the overhead side which we reduced. The CORE I contribution was 40 million euros on the EBIT side. We then made CORE II, that provided another 90 million. We have also shown you how we followed up on that, executed that. So that brought us, of course in combination with a strong market in 2018, to the result exceeding the 11 percent.

Now, in 2019, we have started the FIT program. You see that on the right-hand side. FIT is not so much an overhead cost-cutting reduction program, at least it's not the only or the main focus. It's a holistic performance program.

5 Industrial

C Performance improvement programs

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Field of action	Key measures	CORE I *Completed 2017*	CORE II *Completed 2018*	FIT *Started 2019*
Sales / Mix	• Sales push campaign		●	
	• Portfolio optimization		●	●
	• Pricing		●	●
	• eCommerce			●
Cost of goods sold	• Plant consolidation		●	●
	• Headcount reduction		●	●
	• Localization			●
	• Productivity increase			●
	• Material cost reduction			●
Overhead cost	• Headcount reduction	●		
	• Non-personnel cost reduction			●

● Focus field

11 Sep 2019 Capital Markets Day 2019 60

To give you a little bit of a feeling what that involves, we have shown that here on this slide. You see, it starts with quite a few topics on the sales side, starting with portfolio optimization, the same logic as Klaus Rosenfeld has shown: Where do we invest? Where do we not invest? Where do we actually just leave things away?

Pricing is an important factor also in the Industrial business. E-commerce sounds very simple, but it’s basically something where our customers can get automated consulting and they can do transactions automatically which then also means we can save cost on the back-office side.
Cost of goods sold: there you see three topics, in the beginning plant consolidation, headcount reduction, localization. That is all connected to each other somehow.

Localization: I think we have also explained that before. We are still not localized to a degree as we should be in China and in America, very much coming from the European production. We are now going more and more into China, into America. That means we build up capacities there which are, of course, closer to the customer, which are more cost-effective etc. And that means, of course, also structural changes on the European side. That also goes along with a certain headcount reduction. So, in that respect, it is definitely also a cost-cutting program on the headcount side, but not a pure overhead topic. It’s more coming from the plant and location structure.

Productivity increase is clear. Material cost reduction, the typical issues. So, you see, FIT is a holistic performance program and we have started that. We have a lot of measures there and we have a target for a contribution which ensures our EBIT corridor which we have explained to you also before, which we want to maintain in the range of 11 to 13 percent.

5 Industrial

Divisional FY Guidance and current trading development

SCHAEFFLER

Divisional Guidance

	Actuals FY 2018	Actuals H1 2019	Guidance FY 2019
Sales growth[1]	+10.1%	+5.9%	**2 - 4%**
Absolute figure	EUR 3,385 mn	EUR 1,806 mn	-
EBIT margin[2]	11.0%	+11.2%	**10 - 11%**
Absolute figure	EUR 372 mn	EUR 203 mn	-

[1] FX-adjusted | [2] Before special items

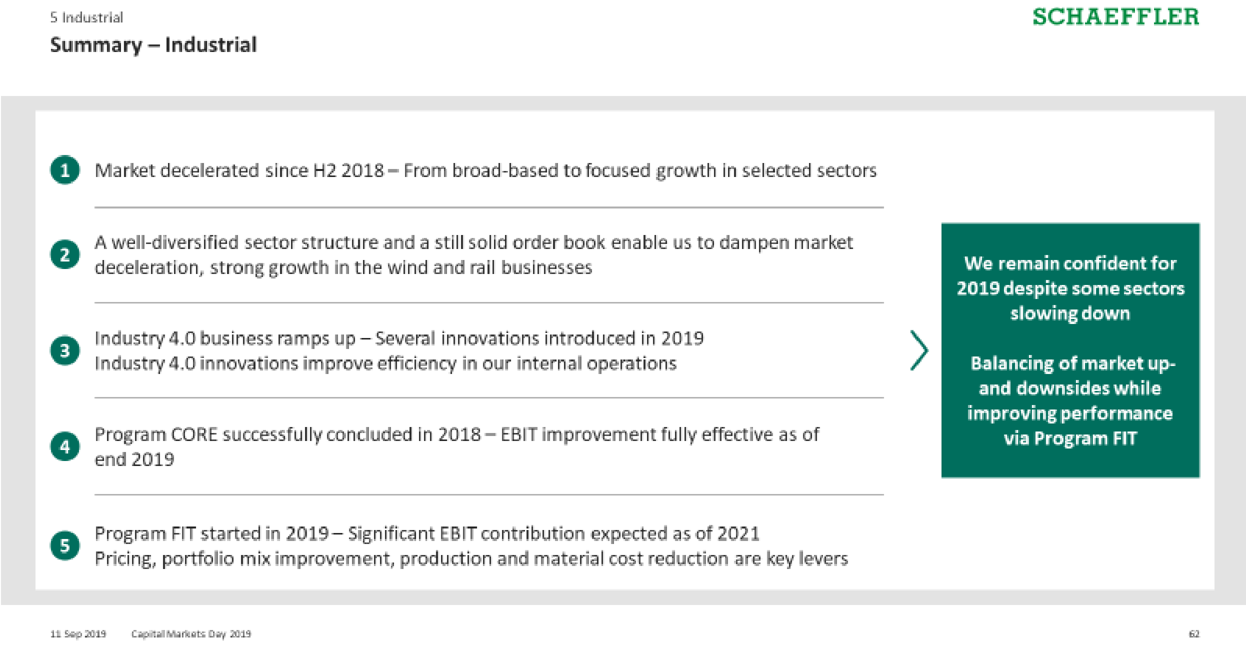
Current trading – Top line trends July and August 2019

- Wind and Rail with continued strong sales development
- Greater China remains the regional growth driver
- Weakening sales development in Europe and Asia Pacific

11 Sep 2019 Capital Markets Day 2019 61

So, summarizing that: you know our guidance, 2 to 4 percent. We saw in the beginning that the second half of the year 2019 will be weaker. So, we didn’t give a guidance in the same magnitude as we have seen the growth in the first half of 2019. The 2 to 4 percent we are going to hit. The EBIT margin is also in the range which you know.

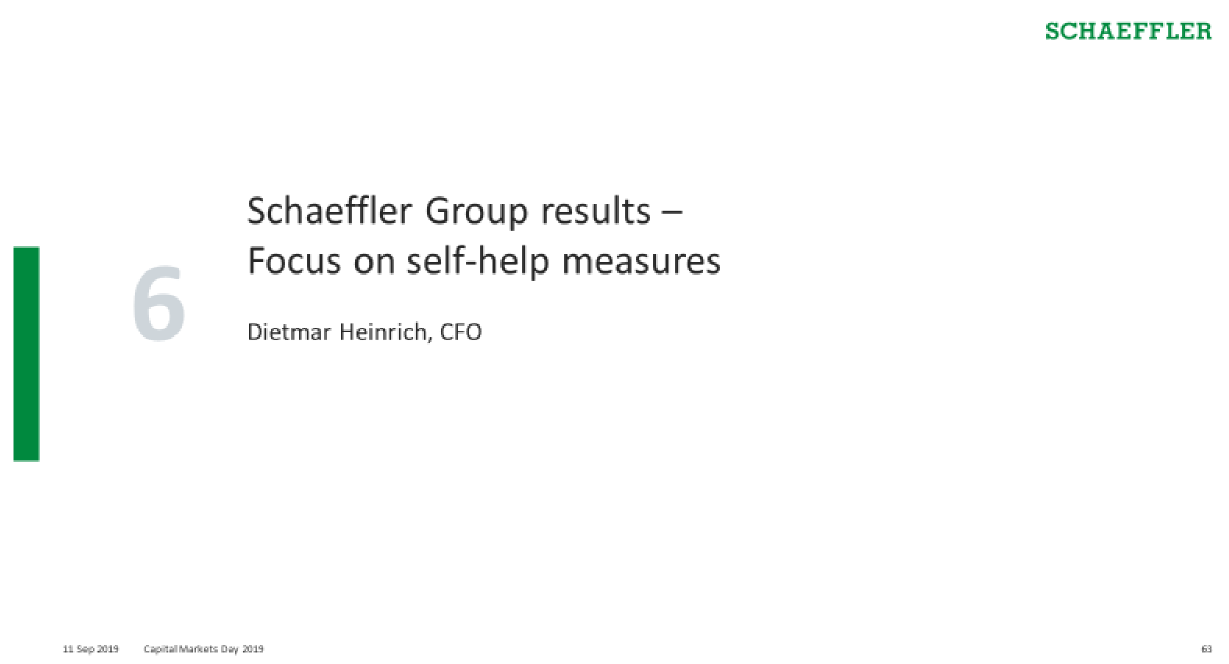
I have talked about the red topic, the weakening sales development, mainly in Europe and Asia Pacific. But there are also significant growth drivers this year which we believe will continue to be strong drivers in the next years.



In summary, when we say on the right-hand side "we remain confident for 2019, despite some sectors slowing down", that means we are confident that we confirm our guidance and we are also confident that with the organization, with the sector structure, with the programs which we have put now into the pipeline, we are on the right track in the Industrial business.

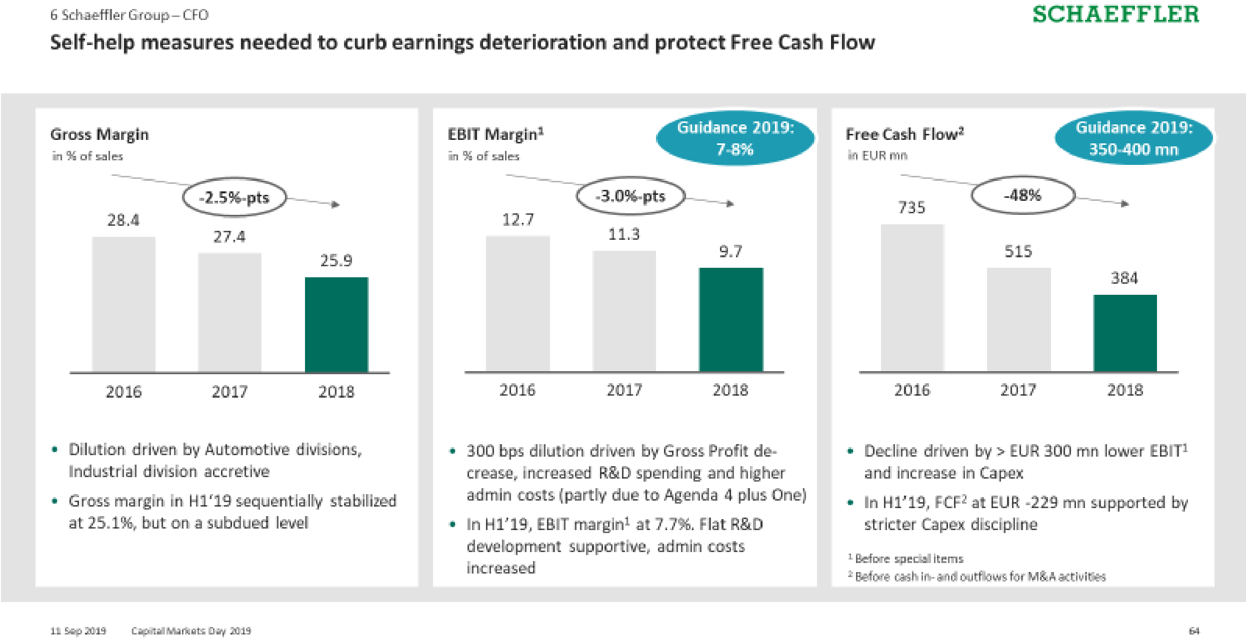
Of course, we are depending on the market. We all know that. I think we are finishing the year 2019 now as we have planned, and we are going to see what 2020 will bring.

With this, I want to conclude my presentation and hand over to Dietmar Heinrich. Thank you.



Schaeffler Group results – Focus on self-help measures

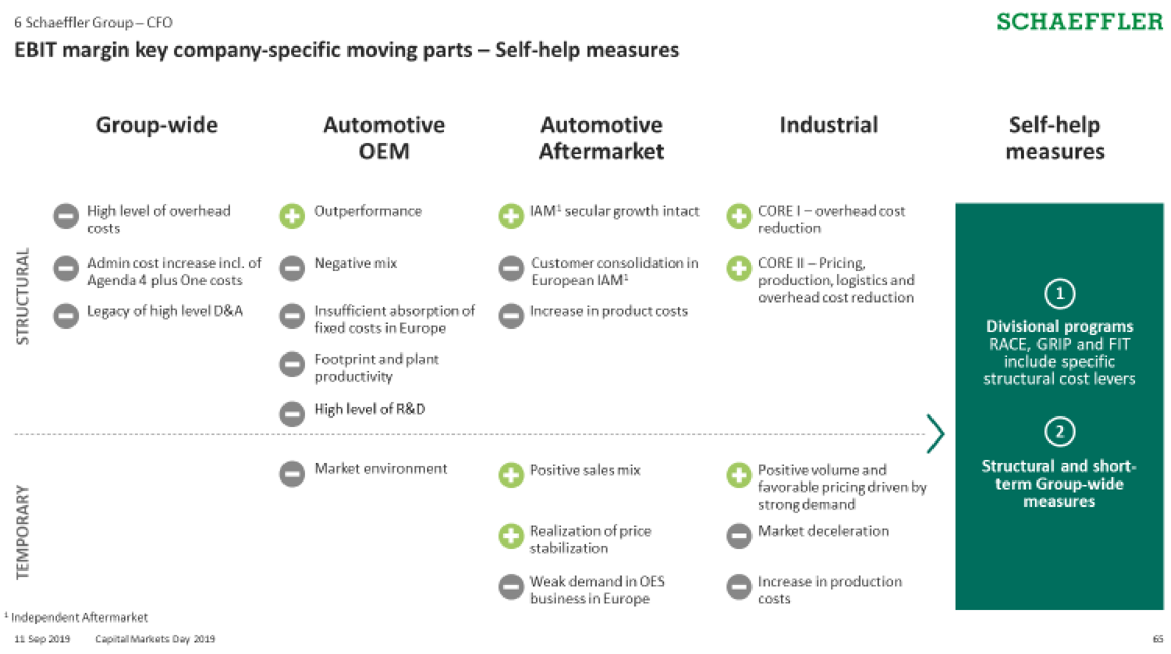
Dietmar Heinrich: Good afternoon also from my side. After having gained now insights into Klaus' presentation regarding the Group steering and also the divisional colleagues regarding divisional steering and also Uwe's view on how to steer R&D, I want to give you a little bit of insight in regard to the financial development. As the title already mentions, there is a challenging environment. It requires actually special measures from our side.



You can see it even more if you look at the chart over here that definitely the development is not satisfactory. It's not satisfactory from a CFO point of view, but it's also not satisfactory from a joint management point of view.

You see, over the last years we have a strong decline in the Gross Profit and we also have a further decline on the EBIT side, being caused on the one side, in Gross Profit, by the two Automotive Divisions. We have the challenges that are there in the Aftermarket, as Michael explained, and also in the AOEM area, as Matthias explained roughly, and I think you can get some indication as well – challenges that are causing cost – from Dr. Schröder's explanation and also from Patrick's explanation.

In addition, this has an impact not only on profitability, but it cuts out a huge amount of the cash flow that we are generating continuously. That's what we see on the right side. So, our cash flow declined, around 300 million euro of the decline over the years were caused by the profit development. This is something we are tackling.



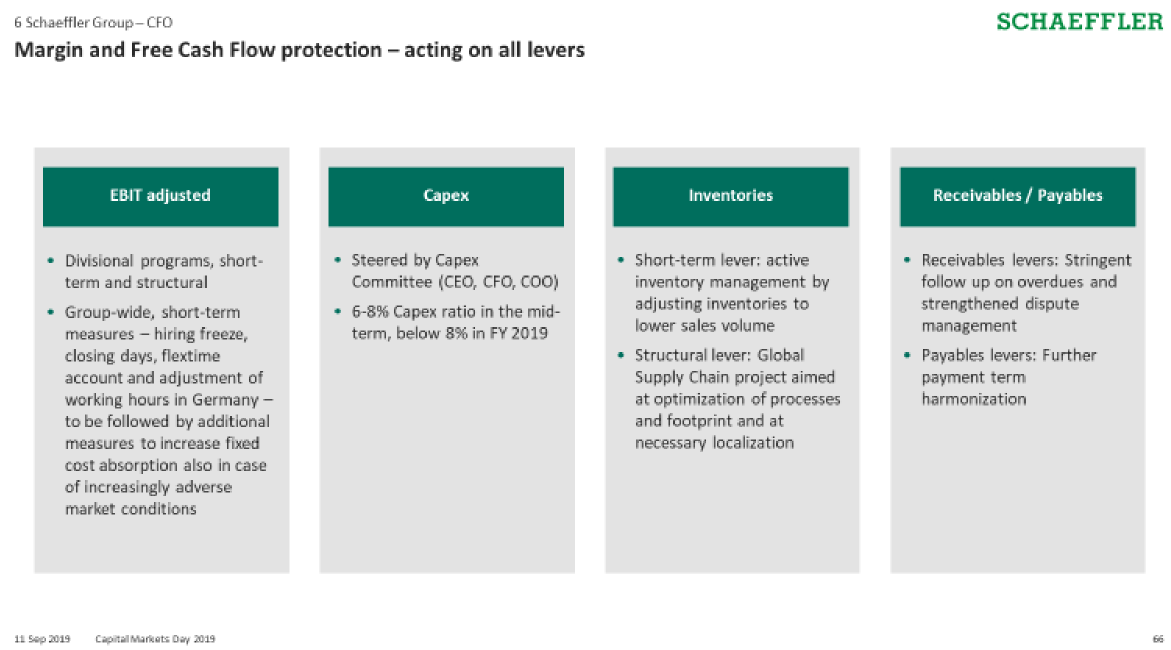
That needs a diligent analysis which the colleagues are doing. They provided already insight in what they are doing. Actually, I highlighted, I also mentioned a few of these topics which basically you could already find in the presentations of the colleagues. But it requires in addition to divisional views also Group-wide attention.

We have a high level of overhead cost, we have a high level of depreciation and amortization, being caused by investment that was done in the past with good intention, which is needed but actually increased the level of depreciation that is there in the Group.

On the Automotive side, a positive development, the outperformance that we could achieve. As Dr. Schröder explained, the growth path we are taking in E-Mobility, a new field that was only entered with a strong move now in the last few years actually. But we also see, on the other side, challenges coming from the market, the negative mix implications which are there, the absorption of fixed cost that is not working so well, having established a footprint that is having a legacy. Not all of that would be the same if we built it today. So, there are a lot of things to do. Matthias highlighted a couple of things. We have now two plants being in the closing or in the process of dissolving these activities. And there are further activities going on in conjunction with the RACE program.

On the Aftermarket side, Michael explained regarding the challenges coming from the market, but also our own challenges which we need to manage. I think – Dr. Spindler, we discussed this various times – the CORE program was very successful. It was executed very well and it highlights that we can do this kind of transformation programs, that we can do this successfully and that it benefits finally that our target will be achieved.

Summarizing this, when you are looking at this, we need two different categories now for improving the company's situation, on the one side these divisional programs RACE, GRIP and FIT, but also, on the other side, Group-wide short-term measures.

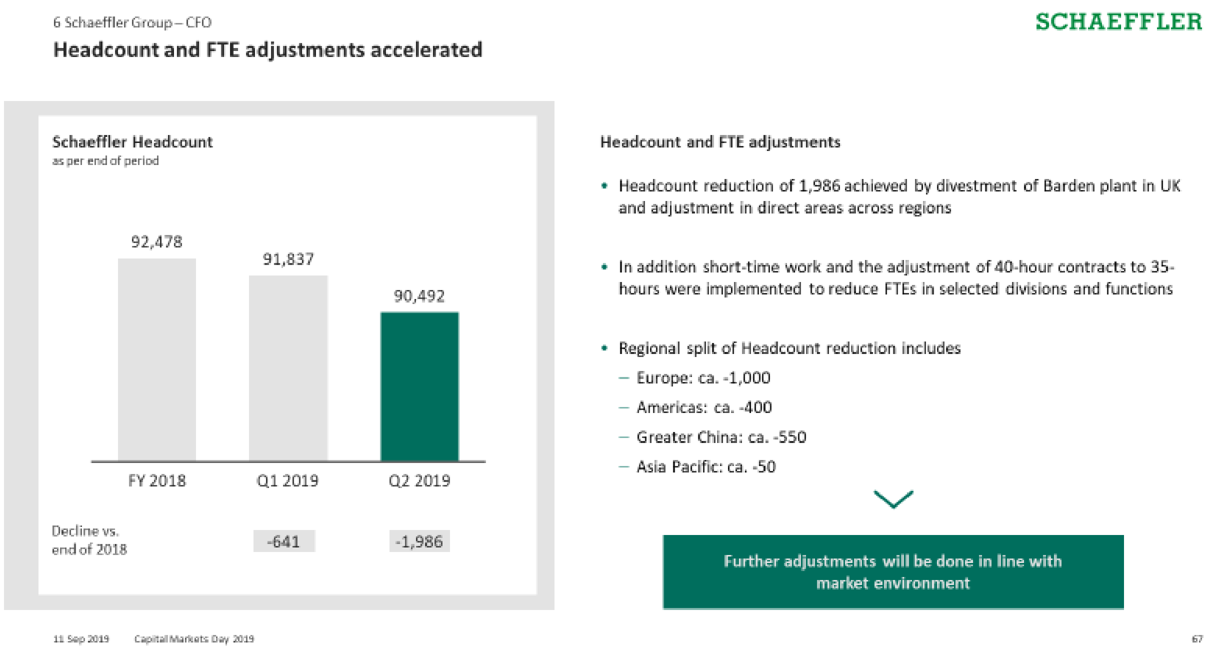


How are we approaching this? Actually, we are looking at four different levers. First of all, we are looking into the Capex. I think profitability we explained, the colleagues explained. But we will have some more examples later on.

In regard to Capex: We had a high spending of Capex over the last years, even going beyond 9 percent. Our target is to be in a range of 6 to 8 percent. We had a high level of spending in the first quarter, but we managed to bring it down to a level of 6 percent in the second quarter and we are targeting to be below 8 percent for the whole of this year and to be sustainable in a range of 6 to 8 percent then when moving forward.

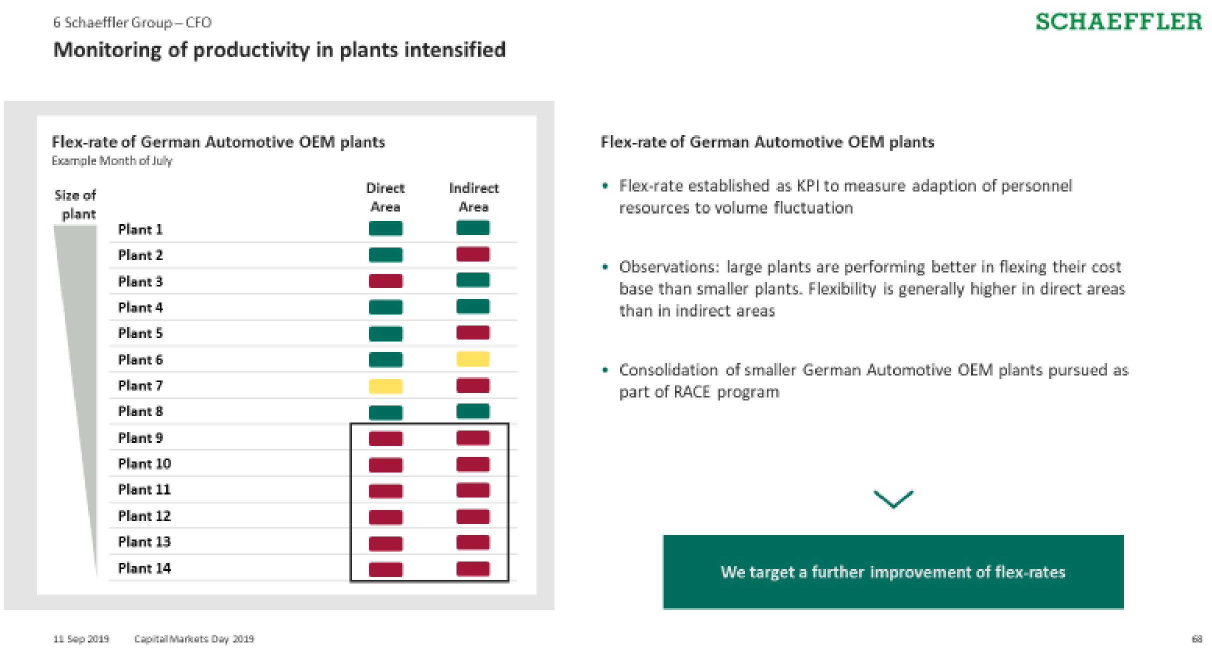
On the inventory side, there is still some work to be done. On the one side, we are adjusting to the volume declines that we see in the market. Everybody is actually required to review his own supply chain and do the adjustments as needed. But we are also working on this and we already gave information in the past. We have a global initiative, our global Supply Chain Initiative. We are approaching this, different from a short-term steering, really from a long-term point of view, structural measures to change, looking into optimization of process, looking into the footprint moving forward and, of course – what is very close to the finance person in the Board – then looking to the receivables and the payables.
We explained last year that we had a great progress with reducing working capital on the financial supply chain side significantly, by an amount of around 350 million

euros. We are making further progress with dispute management, following up on overdues, and we are also moving forward with strengthening our measures to harmonize payment terms and to manage the payables in a more improved way.



Nevertheless, the challenge in the current market situation is focus on personnel resources: How do we adjust our personnel resources in the current situation to the market development? There are basically two areas where we are doing something. On the one side, as you can see, we are reducing headcount. It's done in a way that fits actually to our business. Nevertheless, we reduced since the end of last year by 2,000 headcounts, out of this around 1,000 being reduced in Europe. Of course, the selling of the British factory Barden is part in there, but also selling the Hamm factory that was announced. Also, in the Eastern European countries we are adjusting our resources to the demand that actually is there.

You can also see: We did a significant adjustment in China, also in line with the development, a drop in demand. We are happy with what we are doing there. But it's important to know: further adjustments will be done in line with the market environment. So, we will look continuously into this.

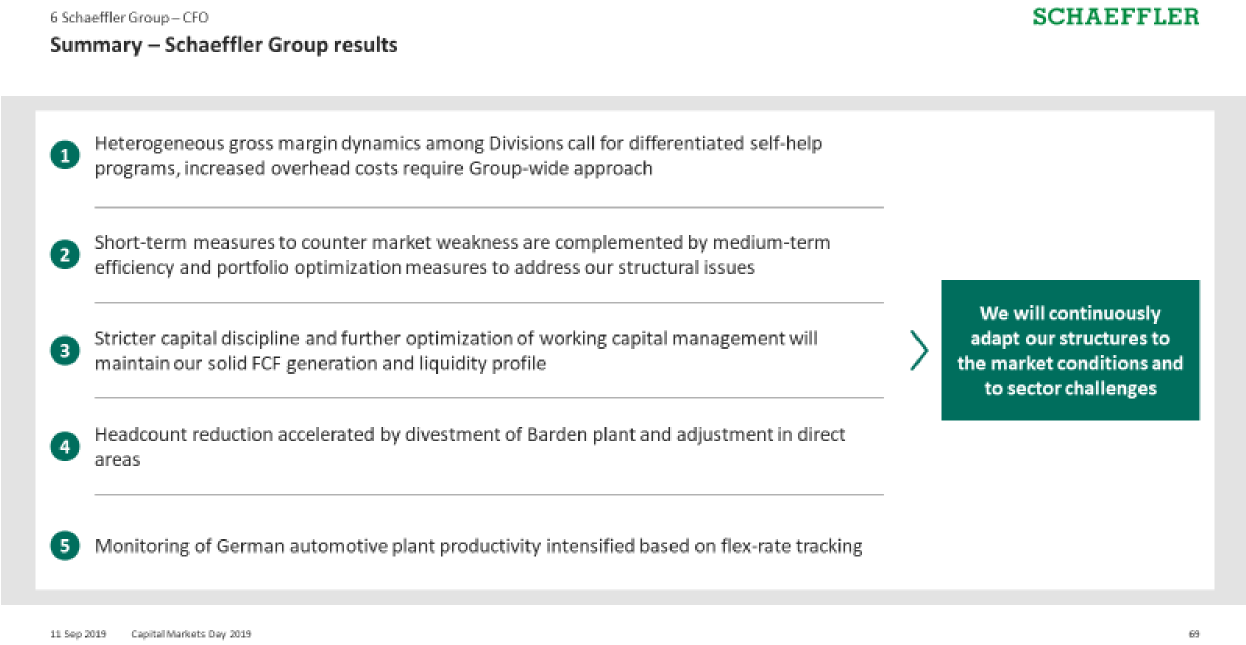


On the other side, in regard to this point of view, it's also important to look at it from a short-term point of view and focusing on productivity. Matthias briefly referred already to this: What the colleagues in Automotive implemented is here that they are looking at these 14 German plants and they are looking at: how do these plants actually adjust their operation to the volume decline? We call it flex rate which actually measures whether the personnel, the resources are exactly adjusted in the way the volume is developing, whether it's a decline or it's an increase, in order to generate the efficiency that we need.

We have made a couple of observations actually. This is also behind it when we discuss now about the footprint. We can first of all realize: bigger plants are in a better position to adjust to this volume fluctuation. On the direct side, it works basically, as we can see from the green lights on the left side, also in the smaller plants, but not to the same extent. In the bigger plants it's working much better and it works especially better in the indirect area, in logistics in a plant, in industrial engineering, in quality assurance and all these parts.

So, it highlights first of all: we have to focus on this, we make it transparent. The plant managers, the head of operations are working very hard on this. They are monitoring the progress every week. But, secondly, it also highlights: we need to continue our activities – this is being done in the RACE program – to consolidate the factories, to change the footprint to make it actually a better footprint to handle the challenges of the future.

We will continue to target to actually improve then and change the red traffic lights that we still see there to yellow or green ones.



So, let me summarize at the very end my key points: we have a different dynamics of Gross Profit development in the three Divisions and it needs different self-help measures. And also the overhead situation of the Group needs a Group-wide approach.

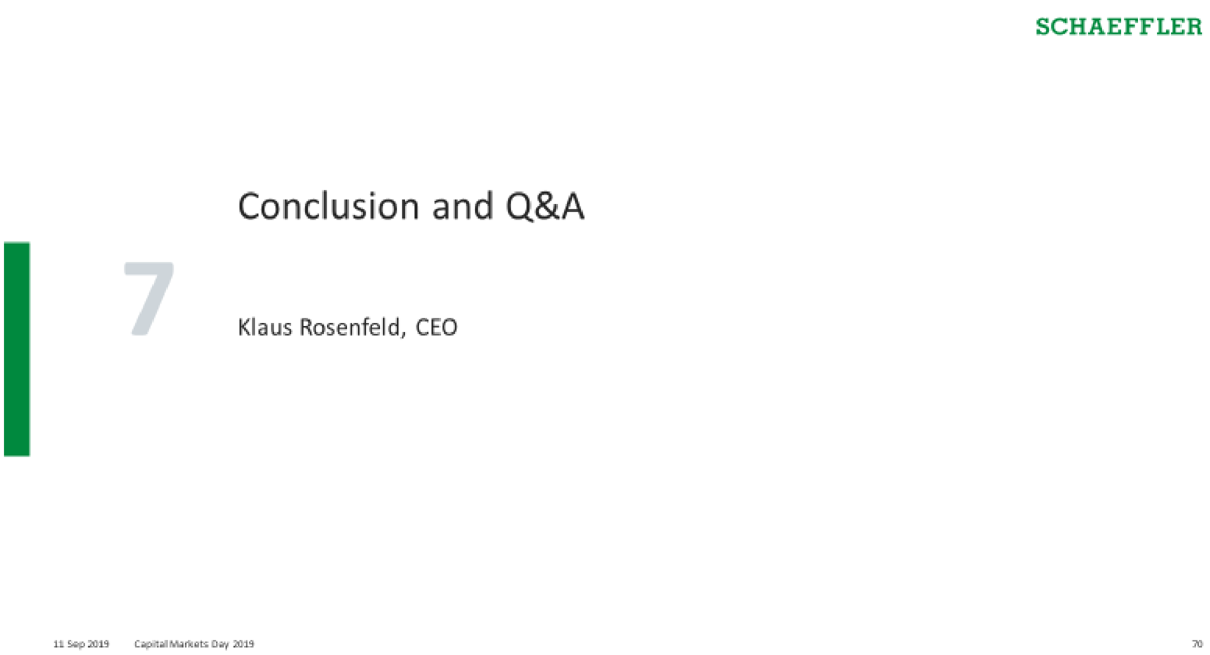
Secondly, the short-term measures are in place to counter the market development and they are complemented by the medium-term efficiency, portfolio optimization measures to address our structural issues.

The third point is stricter capital discipline being done and further optimization of working capital. One topic with the stricter capital discipline was, as Klaus explained, how we are doing the Capital Allocation right now. So, we are improving in that regard.

The fourth point over here is the headcount adjustment.
And the last point over here is the continuous monitoring of the productivity, of the flex rate in the factory.

At the very end, I just want to highlight: we have a clear direction there. The direction is: we will continuously adapt our structures to the market conditions and to the sector challenges.

That’s actually the conclusion of my part. – Klaus, I would like to hand back then to you.



Conclusion

Klaus Rosenfeld: Thank you, Dietmar. Ladies and gentlemen, we made it before time. Hopefully, that's helpful because there is more time left for questions and answers. We prepared one more slide to conclude this – or in fact two slides.

SCHAEFFLER

We are committed to our FY 2019 Guidance – New mid-term Targets 2024 to come

Group Guidance

	Previous Guidance FY 2019	New Guidance FY 2019
Sales growth[1]	1 - 3%	**-1 - +1%**
EBIT margin[2]	8 - 9%	**7 - 8%**
Free Cash Flow[3]	~ EUR 400 mn	**EUR 350 - 400 mn**

New mid-term Targets 2024 to be announced

[1] FX-adjusted | [2] Before special items
[3] Before cash in- and outflows for M&A activities

Divisional Guidance

Automotive OEM		Automotive Aftermarket		Industrial	
Previous	**New**	Previous	**New**	Previous	**New**
1 - 3%	**-2 - 0%**	1 - 3%	**-2 - 0%**	1 - 3%	**2 - 4%**
6 - 7%	**5 - 6%**	15 - 16%	**15 - 16%**	10 - 11%	**10 - 11%**

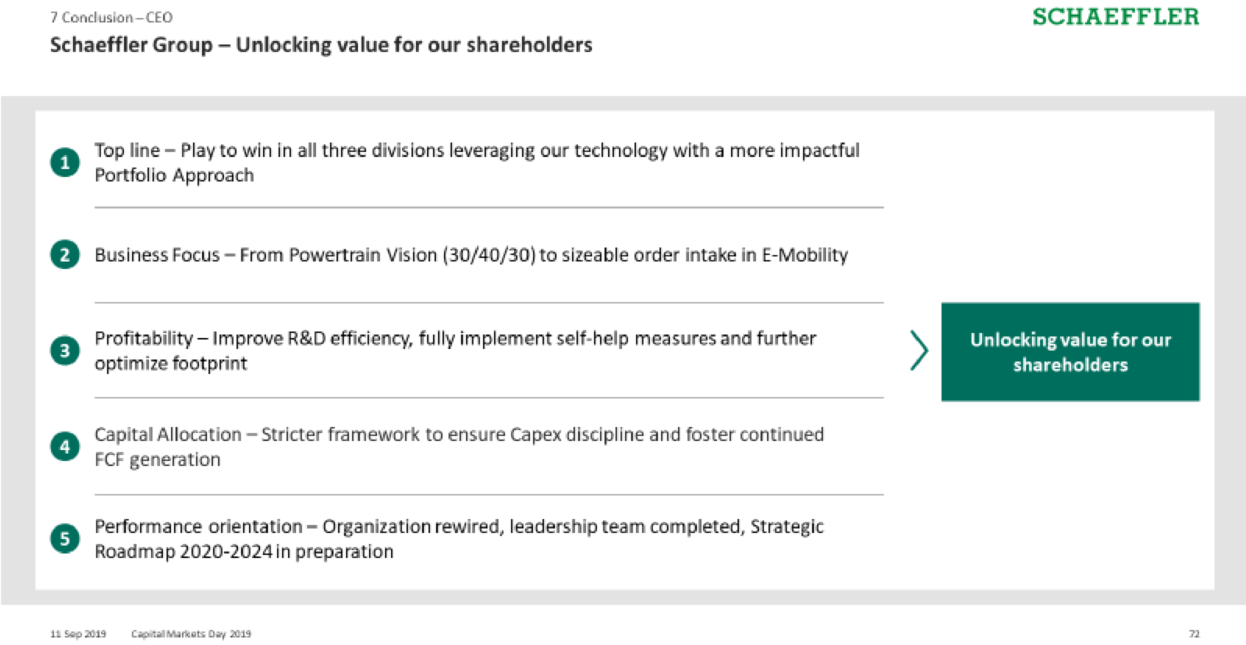
Market assumptions 2019

- Automotive OEM: Decrease of global passenger car production of around - **4%** (Previously[4]: -1%)
- Automotive Aftermarket: Slower growth in the global vehicle population and a nearly unchanged average vehicle age
- Industrial: Growth of industrial production of approximately 2%

[4] As of March 6th, 2019

11 Sep 2019 Capital Markets Day 2019 71

Just to go back a little bit to the near term: Yes, we are committed to our guidance. What we are seeing at the moment, in July and August, indicates to us that the guidance is achievable, both on the Group side and on the Divisional side.



Let me quickly summarize and then open up the discussion. I think the nature of the game is focus and prioritization. We want to unlock value for our shareholders. Top line is clearly: play to win in all three Divisions. We talked about technology, Uwe explained it. We clearly want to leverage that technology with a more impactful portfolio approach.

Business focus: clearly, E-Mobility is one of the successes we can share with you. From the Powertrain Vision that was announced some years ago to a sizeable order intake is something that really is a sign that we can pull of these new growth initiatives in even difficult markets.

Profitability: yes, there is still a lot to do. We need to improve R&D efficiency. We want to further implement our self-help measures and we will further optimize our footprint.

Capital Allocation: I talked about this, the stricter framework.

And last but not least, the performance orientation with a rewired organization, leadership team completed and our Strategic Roadmap in preparation.

That’s where I want to stop here. Thanks for your attention. Thanks for giving us the opportunity for this update. The floor is yours.

SCHAEFFLER

Q&A

11 Sep 2019 Capital Markets Day 2019 73

Q&A SESSION

Tim Rokossa (Deutsche Bank): Thank you very much, Klaus. – That's certainly a very impressive line-up here on stage. Thank you very much for this very comprehensive overview. I think that was a very detailed deep-dive into all of your key businesses.

I'd like to open it up with one or two questions. Klaus, I remember I also had the pleasure of helping you on your IPO. This was September/October 2015, not the easiest time. We had our sales "teach-in" a day after the VW ad hoc where suddenly we had to find out how much diesel exposure you actually have, which no one really cared too much about. And since then we also realized, in hindsight, this was pretty much the peak for Automotive stocks. Volatility has increased substantially, forecasting became a lot more difficult. We had a couple of issues with you guys also over the last four years when it came to forecastability. And the volatility is certainly not getting easier.

The changes that you announced today – I know this is very much at your heart – do you think they will help you to also improve the forecastability of your businesses internally and externally?

Klaus Rosenfeld: I think the simple answer to this, Tim, is yes. I think the grip we have established into the organization, the understanding why forecasts are more important, the more differentiated steering, Matthias talked about the portfolio approach, the sense of urgency in the management team that is compensated also partly at least by stock performance-related measures, is there and people want to move forward.

I think we all understand how important forecasting is. It's more an art than a science, in particular in this environment. But I can assure you, there is much more attention than before on this topic. So let's see what we get out on the 24th of March. We will definitely be a little bit more cautious with this. We have learned it the hard way. But what counts is that you have learned it.

Tim Rokossa (Deutsche Bank): Great. When we think about the mix of E-Mobility going forward, Matthias, you know this. We had this discussion in Detroit earlier this year also. You said it again: you focus very much on Plug-in Hybrids. I spent about six hours with one of your key customers and executives of them on stage here over the last two and a half days. They talk very much about BEVs. They have fairly big numbers that they sell every year. Where do you think this difference in perception is coming from?

Do you really care – now with you having an E-Motor also internally e.g. – whether we are talking about 40 percent BEVs or 40 percent Hybrids?

Matthias Zink: No, I do not really care because I feel well-prepared as well for the BEVs. I guess that's simply a true statement that we believe in these Hybrids. This is not wishful thinking, that's what we get from not that one maybe, if I think of the same one as you quote here. I can understand that approach if it's that one.

On the other side, I guess, we have the privilege to talk to all the 17 regularly and we did so during the IAA these days. If you consolidate those numbers, you come very close to these 30/40/30, not as a Schaeffler scenario, as the market scenario currently.

But once again, as we have now grip with our transmissions on the Taycan, on the e-tron, as we have now these E-Motor orders, I feel as good with a BEV as with a Hybrid. So I don't care too much.

Tim Rokossa (Deutsche Bank): Before I open it up to the audience, after the next question, Stefan, I'd like to address you or maybe also you, Klaus, I don't know.

I am an Automotive analyst, I obviously like to talk about autos and anything that has to do with autos. Your Industrial business is extremely strong, you are not just an Automotive supplier. But in the public perception, you are very often just seen as one. Do you intend to somehow change this going forward? How important will the Industrial business really be for you in the years to come?

Klaus Rosenfeld: Well, maybe I address this and then Stefan hopefully doesn't say the opposite.

The Industrial business is extremely important. We have continuously reiterated that we are an Automotive and Industrial supplier. For you guys it's sometimes easier to understand pure plays. We are not a pure play, we are pure play in terms of our core competence and the core competence is used both in auto and in industrial.

When you followed the presentation, also the one from Uwe, you see that this idea from Components to Systems, the idea of mechatronics is something that doesn't stop at the Automotive sector, it extends into the other sectors. We think that's an asset. But I agree: We probably need to reiterate it further, probably show a little bit more substance to this. It's a key element of our strategy going forward, it will not change. I think it's also, as you see today, a big diversification factor.

So, we will definitely follow that. Any advice where you think we can do better in explaining that also to the capital markets is clearly appreciated. – Stefan.

Dr. Stefan Spindler: I can only underline that.

Klaus Rosenfeld: Very good.

Tim Rokossa (Deutsche Bank): I have one question that we need to clarify probably. You spoke a lot about FTE adjustments and also short-term measures. The German press picked up this shortened workweek announcement of yours in a way that I thought was actually pretty remarkable because you really made a very bad story out of this instead of showing that you guys react to something. It only impacts very, very few of your employees. Maybe we can use this opportunity to clarify that also.

Klaus Rosenfeld: Well, maybe I try to answer that. In the second quarter, we started to design the list of short-term measures. There is a variety of things you can do, to flex in particular. It's not that you can't flex in a German environment. There is a variety of things. You remember that you all requested better capital discipline. That was the first one we approached.

Now, if you understand that we have a captive, what we call, special machinery building unit, that unit has about 1,800 people and it produces about, let's say, up to a third of our machines. So, if you put a stop on certain Capex and say, that's not needed for the time being, where it hits you first is your own "Sondermaschinenbau".

And that's why we decided: we are not going to lay off these people, that would be completely stupid. The German environment allows for "Kurzarbeit" as short-term measure, for part-time work. They even compensate you for this. It would be foolish not to take this measure. I tried to phrase it for a moment – because everyone went ballistic when they heard the word "Kurzarbeit" – into temporary plant holidays, but that only held one week and then everyone thought it's "Kurzarbeit".

I explained it yesterday to the press: we think it's a very legitimate measure to take. It's focused on this activity that is described. You always need a little bit of time to prepare for this. It's not there to overcome structural issues, it's there to overcome situations where you have a tentative underutilization. That's what we did. I think, from a measure point of view, it's something that is obvious, and we needed to do it.

What the press says about this is more about who is the face of the crisis at the moment. We don't think that we are the face of the crisis. We think that we are doing the right things to stabilize our profitability and do the necessary short-term measure work that we need to achieve our targets.

Tim Rokossa (Deutsche Bank): I think we very often take over that role from you: being the face of the crisis. But that's a different topic.

Let's move over to the audience. – Sascha.

Sascha Gommel (Jefferies): Thank you very much for spending so much time with us today, the whole Management Board almost. I don't want to sound rude, but there were a lot of fancy slides like last year, but financials and share price are a lot weaker than they were last year. So, my question is actually: aren't you reacting a little bit too late? The name "ahead of the curve" is a bit like actually being behind of the curve in terms of cost adjustment. Some of the other suppliers have been much faster in adjusting their cost base and protecting their financials much better so far, as a general first question.

And then the second: the businesses you want to exit, could you give more clarity on that?

And then lastly, on your dividend: given that the free cash flow keeps coming down, net debt is still quite high in your business and the cycle is very far progressed. Would you consider actually reducing the dividend, given the situation at the moment?

Klaus Rosenfeld: Sascha, let me start with the last one and then, I think, the colleagues can chip in.

I said, what we will maintain is the dividend payout ratio, 30 to 40 percent. What the outcome of the absolute dividend will be remains to be seen. You can make your own calculation. I am not saying that we keep the dividend stable in terms of absolute number. I am saying that the dividend payout ratio, 30 to 40, will not be changed. Where the outcome will be remains to be seen.

In terms of businesses that we want to exit: again, this is not something where we will announce things before we come to the transaction. But I can tell you, with the scheme that we have identified, we have a clear view on where others could be the better owners.

Sascha Gommel (Jefferies): Is there a timeline?

Klaus Rosenfeld: There is certainly a timeline how to address this. I think Matthias said that in RACE there is one of these elements that we want to address. It's easier to address these kinds of things in very positive market environments than in difficult market environments, but we have a selection of examples and cases where we are preparing for these kinds of things. But that is not simply something that you can share with the public, that would not be the right way and clearly not value-accretive.

In terms of reacting faster: certainly, you can always request that. We are certainly not really happy with what our margin did in the last couple of months and quarters. But, I think, today we have really identified the right measures and we are doing our homework. I think, on the Auto side, with the example that Dietmar showed in terms of the German plants, flexing that in a better way, is something where we are getting much better. I think with our weekly steering on RACE, that's the key driver. The flex ratio starts to bite, as the capital ratio started to bite at the beginning of the year. I am confident that this will help us towards the end of the year.

Yes, certainly, sometimes you can be faster, but what counts at the end of the day: that these are really sustainable improvements and not only lip service.

Henning Cosman (HSBC): With Mr. Wagner and Mr. Schröder on the stage, I maybe wanted to run something by which I know especially Mr. Wagner is very passionate about. We have had a long discussion in Hong Kong a few months ago. Tesla has presented earlier here today and they have very much attributed their success, especially of the Model 3, as they have indicated it, to a superiority of their powertrain, with a 70 percent superior efficiency that allows them to either use smaller batteries and in turn have lower costs and, therefore, price much more competitively.

My question to them was how that can be sustainable and what the barriers to entry are. They were quite firm in saying, it's actually really difficult, despite all the effort that guys like you, but also the OEMs are putting into this to catch up. Ranges haven't really been achieved even comparable with the Model S of 2012, I believe.

So I wanted to hear your opinion, please – obviously, you are actively in a holistic, integrated system now – if you think about ranges, but also other KPIs like acceleration, top speeds, energy efficiency, where you are and if you think the German OEM premium customers can catch up with your help to Tesla any time soon.

Dr. Jochen Schröder: Maybe I can try to give an answer to that. I will not comment too much on what Tesla said because that's a little bit hard to judge. But I can say, in terms of technology, what we are doing: we are focusing a lot on efficiency and on weight e.g. I have shown a couple of times and also last year that our E-Axle transmission e.g. has double the power density of what Tesla has, more or less. And this weight reduction gives you a good benefit in that direction.

I think we can say from Schaeffler side: we are seeking an innovation and technology leadership and our products are absolutely in that direction.

Maybe Uwe can also comment further on that but our products are kind of benchmark in what we do and what our customers expect from us.

Uwe Wagner: When we were talking about that topic five years ago with the OEMs, they said: we don’t need any efficiency because we have enough electric energy.

We were from the very beginning focusing on efficiency. So, we were focusing on mechanical efficiency of the transmission as well as the efficiency for the E-Motors. I think, for the transmissions we have really benchmark transmissions today. Also, with this new technology which we have from Elmotec, this new winding technology, we have an E-Motor which also offers in a wide range of the field a very good efficiency.

So, we really were working on that topic from the very beginning, whereas we clearly see, I would say, in the last one, two years this topic also raised from the customer side.

Henning Cosman (HSBC): Maybe just to share one of the numbers they gave: they have said e.g. that the Model 3 has 4 miles per kilowatt hour efficiency, as compared to the e-tron e.g. at 2.5 miles per kilowatt hour.

I just want to make sure we are talking about the same thing. When we talk about power density, efficiency, are we talking about the same numbers here? How is it possible that you are saying you have twice the efficiency of the Tesla, and yet they run around in their presentation with numbers which indicate the exact opposite?

Uwe Wagner: It’s really getting technical now. But if you look at the driving range for a complete car, there are much more influencing factors than just the E-Motor, the mechanics and the power electronics, much more. So, what we are talking about is really the efficiency of an E-Axle e.g. with three elements: mechanics, E-Motor and power electronics. And there we really can say that we have very good efficiency values and there we are talking about efficiency values of 90 percent, 93 percent, things like that.

But I think this is not what you are looking for. If you install such an E-Axle into the complete vehicle, you have the battery management, you have finally the complete weight of the vehicle, all that stuff. So, I cannot comment, let me say, on this comparison Tesla did. I just can say what we contribute to such a powertrain, that we really focus on efficiency and we have very good values.

Christian Ludwig (Bankhaus Lampe): You have a sizeable E-Mobility business already. When I talk to other suppliers basically nobody is really earning money with their E-Mobility business. How do you believe is the projection going forward? You said you want to get 1.5 to 2 billion of new orders over time. When do you think you will break even? When do you think you will actually make money on a Group level margin-wise with your E-Mobility business?

Dr. Jochen Schröder: I can comment on this: with the new programs that I have just explained. We are quite satisfied with the margins that we will achieve with these programs. So, we look at these individual business cases and they are positive for us.

So, I think that with more programs to come we are following very consequently our modular approach. So, we are reusing technologies that we developed to leverage more on economies of scale, then reusing equipment and technologies. This is how we are going forward in this regard.

But I would not say that we are unhappy with what we have taken on board now with the new projects. We are quite satisfied with the situation today.

Christian Ludwig (Bankhaus Lampe): Any indication when your E-Mobility business will be on a Group margin level? Is it three years out, is it five years out?

Dr. Jochen Schröder: Hard to predict, honestly. And also, what I want to mention is that the business model is changing when you are going from a component supplier to become a system supplier. For example, in a whole integrated drivetrain we have more purchased parts as well and there the margin situation is obviously different than when you have a deep vertical integration in some parts of the drivetrain. So probably this needs, let’s say, more elaboration to answer your question properly, but we are definitely developing there in a positive direction.

Kai Müller (Bank of America Merrill Lynch): To follow up on that question: I don't want to use the word "Group margin" because they have obviously been in decline over the last years. There is always the question: what is your Group margin? When we had the IPO, we had 12 percent plus margin on a Group level it's been in decline. When or where do you see that bottoming out?

I think most investors are puzzled what actually was the driver. We have had the Gross Margin compression, but that's not all to do with R&D investments and the new technology which is only starting to ramp up.

So, I think it's trying to understand: as we get bigger in the E-Mobility sites, you see further pressure from that. What can you do in the traditional business to offset that? That's the first question: what are the factors you are taking there? Because even when we look at your programs, I understand, you are not getting back to even where you were a year ago. So how much deeper can you go?

And then, I think, on the Industrials we have had a very good presentation on the parts and how a restructuring program can be successful. What do you think were the key points that made it successful? We obviously had a massive tailwind in the Industrial business in the last two years. How much was that a contributor versus in an environment where in Automotive we are seeing much more volume pressures? Can you use the same measures in the same way?

Dr. Stefan Spindler: If I can answer on the Industrial question: how much was just driven by the market and what were the contributions by the program?

The market driver was the volume part of the EBIT improvement. That was certainly a good two-digit million number. In addition to that, we had structural measures which were about the same as the market growth. So, if I take what was market and what were structural changes, mix optimization, pricing topics, material side, it was, let's say, half/half. So that means: if the market significantly goes down, we cannot completely compensate that, but we certainly can compensate a certain weakness. What we believe is: if the market doesn't collapse completely, then we stay within our course which, we said, is 11 to 13 percent.

Dietmar Heinrich: Maybe I can add a little bit from the overall point of view. The measures need to be done in the areas where we see the weaknesses. That's why the Divisions are clearly in the lead. We have this overlapping framework that Klaus also mentioned to some extent. That needs to be done. And the Divisions are working on this.

So, let's start with Matthias, the RACE program, where we explained that we are focusing on the footprint, on consolidation, on efficiency, on Capital Allocation: where are we going to invest? Where are we going to put resources and where will we not do this? I think this is the right approach to move forward and it will lead to the improvements.

We outlined for the first phase of Wave that we are going to target an improvement of one percentage point, around 90 million euro. We are having a really good progress in that regard, with implementation, not yet so much with the impacts finally on the financial side. But when the measures are done, the impacts will come naturally then in line with this one.

When we move now from the Automotive OEM part to the Aftermarket part: Michael also explained regarding the challenges there. One big thing he just mentioned very briefly – there was a little picture – is the AKO. We have today this scattered landscape and in our Aftermarket three quarters of the business are European business. We have a scattered landscape of distribution centers, around ten of them across Europe. We are doing this Aftermarket Kitting Operation in the future in one place, highly automated, to do this in a very efficient manner in regard to the resources, workforce that we need to put, but also in regard to inventory management. We will then distribute via satellite logistic centers that will be significantly reduced. So that will also help to reduce cost and will help to improve margin.

Michael also mentioned: in regard to pricing, we regained some power, we could stabilize. That's definitely a topic in the market as well.

I think to what Stefan mentioned I don't need to add anything. It's a success story what we did. They did really great. I am having the confidence that we will do in the same way with the other two Divisions as well.

Christophe Boulanger (Barclays): I would have some questions around financial policy, on net leverage and also on cash management at the holding company.

So just to start on the net leverage: you guys ended up with 1.6 net leverage at the end of H1, coming from 1.2. If we included that at the holding company, you are above three times, depending on how you do the calculation. So, the question going forward is: do you intend to put in place a functional policy and certain limits of net leverage at the OpCo, at Schaeffler AG, and at the holding company?

As a follow-up question as well: I believe that you are sitting at IHO Verwaltungs GmbH with around 500 million, both 400, 500 million euros of cash and deposits, and at IHO Beteiligungs GmbH with above 200 million, so more than 700 million. What do you intend to do with this cash? My understanding is really that the cash consumption on an annual basis including interest expenses at IHO Verwaltungs GmbH is slightly below 300 million. So, you have more than two years of coverage of expenses there.

Klaus Rosenfeld: Christophe, thank you very much for the questions. The debt question is clearly not the main topic of the day today. Let me be very brief here: you cannot just add up debt at Holding with debt at Schaeffler. That's wrong because you would need to consider the Continental cash flow as well.

We don't manage the debt at HoldCo by leverage ratios because you need to think about: how is this debt covered? We have clearly seen a decline in share prices that is an issue for the Holding. You have also seen that we just refinanced a significant part of the debt with new bonds. You have also seen that we started to deleverage the Holding. That was the first time that we decided there to put some of the cash that was in the bank account against that and we promised as part of this debt issuance that we will continue to do so, to go to a more normalized level.

But, again, don't mix up leverage at AG with the situation at HoldCo. The situation is very stable you just saw what the rating agencies did. So, we fare good with that leverage. It doesn't change our dividend policy and it does not the change the way we run the Schaeffler AG.

Tim Rokossa (Deutsche Bank): Since we have the whole Board of operations here, do we have a question that is focused on the operations?

Ashik Kurian (Exane BNP Paribas): Two questions. The first one is on E-Mobility. Can you comment on profitability or at least what timeline you have in terms of the E Mobility business breaking even? Given the previous place that you were working with Dr. Jochen Schröder: they have disclosed what the operating loss is for the E-Mobility businesses. Compared to some of your peers, do you have a better case for getting to break-even on the E-Mobility business earlier?

And then the second question: I know you have said you want to maintain the dividend payout ratio between 30 to 40 percent. Despite the drop in EBIT margin, I think, you are guiding for a similar free cash flow. Is that a case we made that you could keep the dividend flat this year?

Klaus Rosenfeld: Once again, when you mean “flat” in terms of dividend per share, I am not going to say something on this. What I said is: 30 to 40 percent of net income. That’s the ratio we have agreed during the prospectus, that’s what we have done in the last years and that’s the guidance for the dividend in 2019 that we pay in 2020.

So, let’s leave it like this. We need to see what the calculation will bring and then we make a decision.

Maybe let’s help Jochen a little bit. Your question is clearly legitimate, but let’s wait and see how we respond to this. For today, we are not going to give you more insight in terms of the divisional or business divisional profitability. We understand the interest here.

What I can say as the one who is heading the Capital Committee: we are strict in a way that Jochen and the colleagues don’t buy business. We want to see a decent Gross Profit margin. The Gross Profit margins vary quite a bit in terms of what it is. If it’s a plug-and-play thing, it’s something build-to-print, it has a different profile than if it’s something that is highly value-added. So, there is not one single number that determines whether this makes sense or not.

I think Jochen indicated this: it’s clearly a function going forward of how we optimize our footprint. If you think about this large E-Motor contract, this will not happen in Germany, it will happen somewhere outside Germany. So, we are not looking at this only from the pricing equation, but also from the way how we can further optimize cost.

We are proud of what we have achieved in the last years and we will clearly move forward in making sure that this is a profitable business, but that doesn’t happen overnight.

Sascha Gommel (Jefferies): The first question is on Aftermarket. I think last year at the Capital Markets Day we were actually discussing if 18 percent EBIT margin is possible in that business. I think you didn’t rule it out at some point. Now you had

15 percent and are kind of questioning if it's even possible to get back to the old levels.

Can you help us understand the gap and put more numbers behind? What is the gap of 18 to 15, those 300 basis points that we lost over the last twelve months?

Michael Söding: First of all, I am going to repeat what I said earlier on. We have changed in the meantime the business relation between the Divisions that are providing parts to the division that is the Aftermarket in favor of making our business, our forecasting and our budgeting more predictable. In the past, we were affected by product variances, by material variances which we are not any more in the future.

With that in consideration, we are doing a lot of investments these days, namely it's the AKO thing. It's not only on the Capex side, but obviously also on the Opex side. We are going to see in the next two years a double layer of activities. The new structure is already in place while the other structures in a stepwise approach have to move in.

So, after that period, we see a clear positive effect out of these logistical changes in the area of 1.5 to 2 percentage points of EBIT. So that will raise our bottom line then in the mid-term. And the rest is basically as we described with regard to efficiency, so stopping to sell individual part numbers on a loss-maker basis. These activities going forward will clearly help us to come back to that level in the upcoming future, in the next couple of years.

Sascha Gommel (Jefferies): Thank you. And the second one would be on Industrial. Is it only product mix why the organic growth is not translating into more margin? Basically, over the last four, five quarters, you have been consistently growing organically, but your margin stayed slightly above 11 percent. So, I was wondering: why is that not dropping through at a higher degree to your EBIT line? Is that only product mix in terms of end markets or is there any other reason?

Dr. Stefan Spindler: We have had a few cost positions which ran against the margin. We have said previously that we have invested into logistics also. We opened up a European central logistic warehouse which has cost us. We have of course certain cost contributions to pay to the central programs like the Agenda. And we also have a couple of cost increases via customs. It's an accumulation of cost increases. We are also investing into Industry 4.0. Let's say, that's a little bit a pre-investment for the growth which is still to come.

If we had stepped hard on the break with all these cost positions, we would have increased our margin, but it was kind of a conscious investment into the future.

Megi Leka (PGIM Limited): I have two questions. Firstly, how much pricing pressure are you receiving from the OEMs? Do you have more bargaining power when it comes to electrification, E-Mobility business with regards to that?

Then just secondly: Is your current investment grade rating a requirement? How much do you need that now that you have refinanced so much of your debt? Do you have any flexibility in protecting this rating going forward?

Matthias Zink: Maybe I should take the pricing pressure question if it refers to Automotive because I am just coming from all these customer meetings. I talked about those. They have been nice on technology, they have been maybe not that nice on pricing pressure. Yes, there is pricing pressure in the market. On the other side, that always has been the case.

So, pricing pressure in Automotive is nothing really new, but we have to state: every OEM, everybody tries to finance all this new stuff via the current business. So, we do and so every OEM is doing. By that, yes, there is more pricing pressure. On the other side, there is as well more headroom than ever to appeal to value engineering, value analysis, common cost measure or ways measure activities on the OEM side as well.

In the past, it was very difficult to get some design changes in current programs. Right now, even the OEMs have special programs for special releases for design changes to get cost down together with their suppliers. So that's the answer we place in that case and that's more accepted than ever.

Klaus Rosenfeld: Maybe, Matthias, I add one more thought: this concept of price pressure is something that is a sort of critical part of our industry we are used to price pressure.

I want to share one thought with you that extends a little bit into Sustainability. In future, the aspect of how much CO2 a supplier brings to the table will play a much more important role. Therefore, the larger suppliers that are able to show that they have a decent CO2 footprint or a strategy to optimize this footprint and are able to control their own chain of sourcing, will have a certain second element how to show up at the customer front.

This idea that the OEMs are squeezing us to death with their price pressure is something that has never been true. You see it at the Fair: OEMs want innovation, they want flexibility, they want the ability that we invest also further. They want a robust balance sheet, they want reliability and they want in particular people that they can rely on in the long term. Because none of these products that we were talking about is something that you buy from the shelf. It's all very much adjusted to the needs of the customers.

Therefore, we accept the comment, but put it a little bit in a different context. Don't only ask for price pressure. Ask for the competence and for the innovation that people can bring to the table.

Matthias Zink: And that helps with the bargaining power.

Klaus Rosenfeld: Correct.

Matthias Zink: Because on the E-Mobility side it's about unique selling point, it's about technology or it's exactly the sustainability topic. We had this discussion with even a Board member of one of our customers that this will count more than ever. We are definitely well prepared for that.

Klaus Rosenfeld: We are not here to talk about consolidation in the Automotive supplier industry, but I think there are some exogenous pressures at the moment on the whole space that need to be taken very seriously into account. We do this, the OEMs do this as well.

And that goes back to your rating question: is the investment grade rating a requirement? That was your question. No, it's not a requirement. There is a company here close where our new head of treasury comes from, in Bad Homburg, who is a master of acquisitions, who deliberately say: we don't want an investment grade rating because it's always a hustle if you move one up, one down.

We are not a company that is known for its external growth. But can we survive with a downgrade? Yes, absolutely, in particular in this low-interest environment. Is an investment grade something that we strive for? Yes, absolutely. Because we see it as a quality, maybe even as a reputational thing for the quality of our balance sheet.

Dietmar, do you want to add something?

Dietmar Heinrich: No, that was perfect.

Tim Rokossa (Deutsche Bank): I indeed think those are pretty good closing remarks. Thank you very much to all of you guys. Matthias, I hope you make it back to the show and sell a few more of those torque converters.

Some more successful days! Thank you very much. This also concludes our conference. Thank you all for attending and the interesting questions. We hope you enjoyed it.

Klaus Rosenfeld: Thank you.