SCHAEFFLER

IR release

Schaeffler increases net income by 14 percent in 2017

- **2017 revenue increases by 5.9 percent at constant currency**
- **2017 EBIT margin before special items at 11.3 percent (prior year: 12.7 percent)**
- **Net income increases by approximately 14 percent to 980 million euros**
- **Approximately 1.3 billion euros invested, 3,500 new jobs created**
- **Net financial debt further reduced, quality of balance sheet further improved**
- **Program for the future "Agenda 4 plus One" on track, three divisions going forward**
- **Outlook 2018 positive despite imponderables**

HERZOGENAURACH, *March 7, 2018.* Global automotive and industrial supplier Schaeffler increased its revenue to 14.0 billion euros (prior year: 13.3 billion euros) in 2017, growing by 5.9 percent at constant currency. The company's EBIT margin for 2017 amounted to 11.3 percent (prior year: 12.7 percent). The decrease is primarily due to expenses for the program for the future "Agenda 4 plus One". Net income attributable to shareholders increased by approximately 14 percent to 980 million euros (prior year: 859 million euros) nonetheless, the highest ever in the history of the Schaeffler Group.

In 2017, the Schaeffler Group increased its capital expenditures by 127 million euros to 1,273 million euros (prior year: 1,146 million euros) and created approximately 3,500 new jobs. The number of employees rose to more than 90,000 (prior year: approximately 86,700) by the end of 2017. Free cash flow for 2017 came in at 488 million euros (prior year: 735 million euros) due to the high level of capital expenditures, and the company further reduced its net financial debt. With its program for the future "Agenda 4 plus One", the Schaeffler Group is firmly aligning itself toward the future. Despite current imponderables, the outlook for the year 2018 remains generally positive.

Revenue increases by 5.9 percent at constant currency

Both of the company's divisions and all four of its regions contributed to the encouraging revenue trend in 2017. While Automotive division revenue increased to 10.9 billion euros (prior year: approximately 10.3 billion euros), representing a constant currency growth rate of 5.9 percent, the Industrial division grew its revenue to approximately 3.1 billion euros in 2017. At constant currency, this represents a growth rate of 5.7 percent.

Thanks to the strong second half of the year, the Automotive division has once again grown faster than the market – global production of passenger cars and light commercial vehicles – for the full year. Given market growth of approximately 2.1 percent in 2017, the division has outperformed the market by 3.8 percent. The strong growth of the Automotive division was driven by both Automotive OEM (up 6.5 percent at constant currency) and Automotive Aftermarket (up 3.2 percent at constant currency). The Industrial division has returned to a growth path, with industrial applications especially in the “power transmission” (including electric motors, hydraulics, and transmissions), “offroad” (agricultural engineering and construction machinery), and “raw materials” (raw material extraction and processing) sectors contributing double-digit growth rates.

All regions of the Schaeffler Group contributed to the increase in revenue in 2017. The Greater China region once again turned in the highest constant currency growth rate of 24.1 percent. Asia/Pacific was up 5.6 percent at constant currency. In the Americas region, revenue was up 4.6 percent at constant currency, while Europe expanded by 1.4 percent at constant currency.

2017 EBIT margin before special items at 11.3 percent (prior year: 12.7 percent)

Earnings before financial result and income taxes (EBIT) before special items were 1,584 million euros (prior year: 1,700 million euros), resulting in an EBIT margin before special items of 11.3 percent (prior year: 12.7 percent). Special items of 56 million euros consisted mainly of restructuring expenses. The lower EBIT margin is largely due to the additional expenditures related to the program for the future “Agenda 4 plus One”. These expenditures amounted to approximately 160 million euros or about 1.1 percent of revenue. The program for the future consisting of 20 initiatives is designed to align the Schaeffler Group toward the future for the long term.

Net income increases by approximately 14 percent to 980 million euros

Despite the adverse impact from operations, net income attributable to shareholders increased by approximately 14 percent to 980 million euros (prior year: 859 million euros) since the financial result improved. That is the highest net income the Schaeffler Group has generated to date. Based on the encouraging results of operations, the Board of Managing Directors is proposing to raise the dividend by 5 cents to 55 cents per common non-voting share. This represents a dividend payout ratio of approximately 35 percent (prior year: approximately 34 percent) of net income attributable to shareholders before special items.

Approximately 1.3 billion euros invested, 3,500 new jobs created

The Schaeffler Group expanded its capital expenditures by 127 million euros to 1,273 million euros (prior year: 1,146 million euros). This resulted in a capex ratio, or capital expenditures as a percentage of consolidated revenue, of 9.1 percent (prior year: 8.6 percent).

The Schaeffler Group has also generated 3,489 new jobs in 2017. As at December 31, 2017, the group had 90,151 employees worldwide, 4 percent more than in the prior year. The headcount in Germany increased by about 500 to 31,700 employees.

Klaus Rosenfeld, CEO of Schaeffler AG, stated: “In 2017, the Schaeffler Group has invested more than ever before. These investments, including those under our program for the future ‘Agenda 4 plus One’, secure the company’s continuing profitable growth and value creation. They are also the basis for bringing our EBIT before special items back to its longstanding average of 12 to 13 percent and for achieving the financial ambitions we have set for 2020.”

Net financial debt further reduced, quality of balance sheet further improved

The company lowered its net financial debt by approximately 266 million euros over the course of 2017. Net financial debt amounted to 2,370 million euros as at December 31, 2017 (prior year: 2,636 million euros). This decrease has improved the net debt to EBITDA ratio before special items, i.e. the ratio of net financial debt to EBITDA before special items, from 1.1x to 1.0x in 2017.

Free cash flow for 2017 came in at 488 million euros (prior year: 735 million euros). This figure includes approximately 27 million euros in net cash outflows for M&A activities. Excluding these outflows, free cash flow was slightly higher than the guidance for the full year 2017 of approximately 500 million euros.

“We were able to further reduce our net financial debt and thus create additional financial flexibility for the Schaeffler Group in 2017. This is essential to our ability to grow externally in the future, as well,” said Dietmar Heinrich, CFO of Schaeffler AG.

Program for the future “Agenda 4 plus One” on track, three divisions going forward

In 2016, Schaeffler developed and started its program for the future, “Agenda 4 plus One”, which is designed to position the Schaeffler Group for success in meeting the challenges of the future, thus laying the foundation for continued profitable long-term growth. In 2017, the program was expanded to 20 initiatives and its implementation accelerated.

In addition, the Schaeffler Group has a new corporate structure. The Automotive Aftermarket was added as the company's third division along with Automotive OEM and Industrial effective January 01, 2018. The new division is headed up by Michael Söding, CEO Automotive Aftermarket. The three divisions of the Schaeffler Group will in future be managed from divisional headquarters located in Buehl, Langen, and Schweinfurt. The Automotive OEM division will be headquartered in Buehl. The new Automotive Aftermarket division is managed from Langen. The Industrial division continues to be located in Schweinfurt. The corporate head office of the Schaeffler Group is in Herzogenaurach. This new decentralized structure shapes the Schaeffler Group's future, makes it even more market-oriented, simplifies the company's structures, and speeds up decision-making.

The company is also still consistently pursuing its "One Schaeffler" approach. With one common strategy "Mobility for tomorrow", a uniform remuneration system, four common values, and one common corporate brand "Schaeffler". Please refer to the second press release "Schaeffler pushes ahead with key future program" for further details.

Outlook 2018 positive despite imponderables

Despite the imponderables affecting 2018, the Schaeffler Group expects its revenue to grow by 5 to 6 percent excluding the impact of currency translation. In addition, the company expects to generate an EBIT margin before special items of 10.5 to 11.5 percent in 2018. The group also anticipates approximately 450 million euros in free cash flow before cash in- and outflows for M&A activities in 2018.

The Schaeffler Group anticipates that its Automotive OEM division will continue to outperform the global automobile production of passenger cars and light commercial vehicles, expected to expand by about 2 percent, in 2018. Based on this anticipated outperformance, the Schaeffler Group expects its Automotive OEM division to generate revenue growth excluding the impact of translation of 6 to 7 percent (2017: 6.5 percent). This expectation is supported by orders won in the 2017 reporting period, known as lifetime sales, of 11.5 billion euros. The company also expects an EBIT margin before special items of between 9.5 and 10.5 percent for 2018 (2017: 10.8 percent) for the Automotive OEM division.

Based on stable growth in the global vehicle population and a nearly unchanged average vehicle age, the Aftermarket business will continue to grow as well. Based on its own observation of the market, the group expects the Automotive Aftermarket division to generate revenue growth - excluding the impact of currency translation - of 3 to 4 percent (2017: 3.2 percent) and an EBIT margin before special items of 16.5 to 17.5 percent in 2018 (2017: 19.0 percent).

In the Industrial division, an encouraging trend in order intake combined with the economic environment in certain sectors suggests a further increase in revenue in 2018. Based on these considerations, the company expects its Industrial division to generate 3 to 4 percent (2017: 5.7 percent) in revenue growth in 2018, excluding the impact of currency translation. In addition, the Industrial division anticipates generating an EBIT margin before special items of between 9 and 10 percent (2017: 8.0 percent) in 2018.

In closing, Klaus Rosenfeld, CEO, said: "We have decided to further accelerate implementation of our 'Agenda 4 plus One' with its 20 initiatives in 2018. With this program, we are well equipped to actively shape the challenges of the future. In the interest of our customers and business partners, we want to create value and increase our competitiveness. To do that, we want to and have to become more agile as well as quicker and bolder."

Our annual report is available at:
http://www.schaeffler-annual-report.com

Forward-looking statements and projections

Certain statements in this press release are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial consequences of the plans and events described herein. No one undertakes any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should not place any undue reliance on forward-looking statements which speak only as of the date of this press release. Statements contained in this press release regarding past trends or events should not be taken as representation that such trends or events will continue in the future. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Schaeffler, or persons acting on its behalf, may issue.

About Schaeffler
The Schaeffler Group is a global automotive and industrial supplier. Top quality, outstanding technology, and exceptionally innovative spirit form the basis for the continued success of the company. By delivering high-precision components and systems in engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications, the Schaeffler Group is already shaping "Mobility for tomorrow" to a significant degree. The technology company generated sales of approximately EUR 14 billion in 2017. With more than 90,000 employees, Schaeffler is one of the world's largest family companies and, with approximately 170 locations in over 50 countries, has a worldwide network of manufacturing locations, research and development facilities, and sales companies.

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