

Results Q1 2018 Schaeffler AG

Conference Call
May 8, 2018
Herzogenaurach

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- 1 Overview**
- 2 Business Highlights Q1 2018**
- 3 Financial Results Q1 2018**
- 4 Outlook**

Solid start into the year – Q1'18 reporting with 3 divisions

	Q1'17	Q1'18
Automotive OEM		
Sales	2,308 mn	2,279 mn
EBIT margin ²⁾	11.9%	9.5%
Automotive Aftermarket		
Sales	484 mn	446 mn
EBIT margin ²⁾	19.2%	17.9%
Industrial		
Sales	782 mn	826 mn
EBIT margin ²⁾	8.6%	11.4%

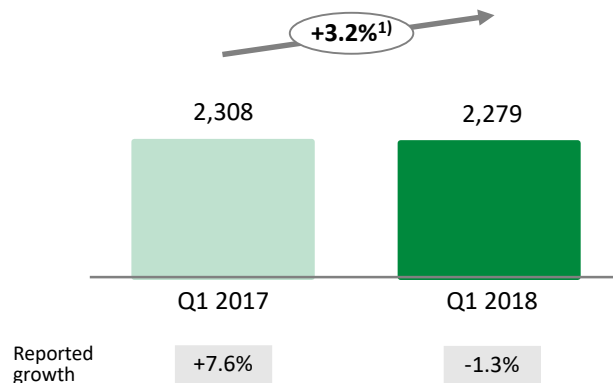
Key aspects

- 1 Solid start into the year – Q1 group sales +3.9%¹⁾, Q1 EBIT margin²⁾ 11.0% (PY 12.2%)
- 2 Outperformance Automotive OEM ~ 4%-pts – EBIT margin²⁾ 9.5% (PY 11.9%)
- 3 Automotive Aftermarket with temporary decline in top-line – EBIT margin²⁾ 17.9% (PY 19.2%)
- 4 10.8% growth¹⁾ in Industrial – EBIT margin²⁾ 11.4% (PY 8.6%)
- 5 Free Cash Flow Q1'18 with EUR -71 mn improved (PY EUR -130 mn) – Capex to sales at 8.6% (PY 8.4%)
- 6 Transformation continues – Reallocation of plants to enhance accountability, customer focus and efficiency
- 7 Guidance 2018 confirmed at group and divisional level – Accelerated growth expected in H2'18

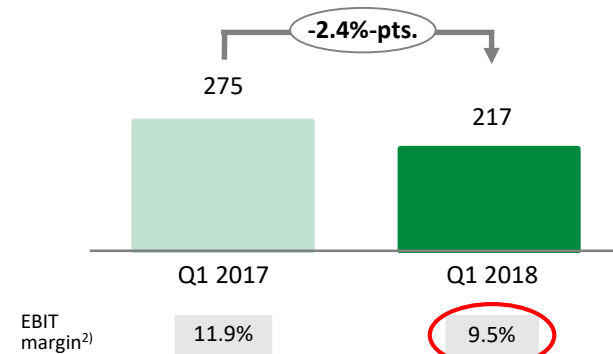
1) FX-adjusted 2) Before special items

Automotive OEM sales

in EUR mn

**Automotive OEM EBIT**

in EUR mn



1) FX-adjusted 2) Before special items

FX-adjusted sales growth in Q1'18 +3.2%¹⁾ – All business divisions contributing, new business division E-Mobility +6.6%

Outperformance of 3.9%-pts versus market – Driven by continued positive development in Greater China and Americas

EBIT margin²⁾ in Q1'18 at 9.5% (PY 11.9%) – Higher R&D expenses and costs resulting from initiative E-Mobility

Very positive customer response on Schaeffler Symposium – New Hybrid Transmission and Schaeffler Mover

11th Schaeffler Symposium 2018 in Baden-Baden



Every four years Schaeffler invites industry specialist for an exclusive event of technical presentations with exciting insights into the technologies and mobility concepts being developed by Schaeffler.

Facts and figures

- ▶ ~ 400 customers
- ▶ 96 exhibits & 28 technical presentations
- ▶ 12 world debuts

Schaeffler Symposium 2018 Product Highlights



New HV Hybrid Transmission

- ▶ 6 speeds for combustion engine-, 2 electrical speeds and eReverse
- ▶ Lower fuel consumption compared to existing P2 Hybrid Modules
- ▶ Reduced gearbox complexity
- ▶ Modular design with scalable electric machine

Schaeffler Mover

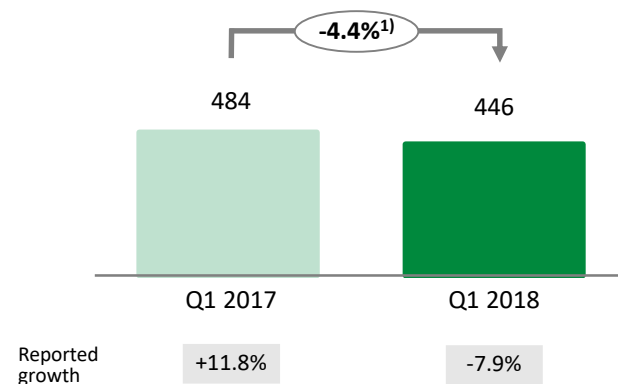
- ▶ Urban vehicle concept
- ▶ Flexible and zero-emissions platform for diverse vehicle concepts
- ▶ Drive and suspension modules installed in a single unit, "Schaeffler Intelligent Corner Module"
- ▶ Easily scalable (vehicle length and width)



Automotive Aftermarket – Sales¹⁾ -4.4%, EBIT margin²⁾ at 17.9%

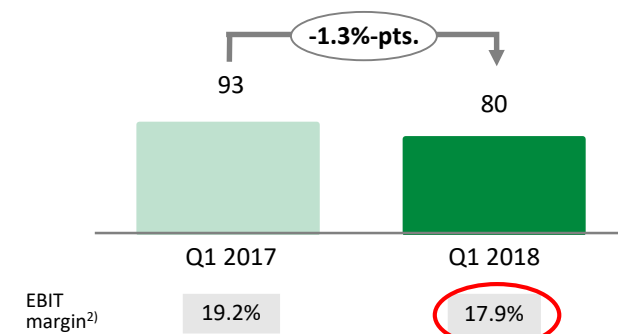
Automotive Aftermarket sales

in EUR mn



Automotive Aftermarket EBIT

in EUR mn



1) FX-adjusted 2) Before special items

▶ FX-adjusted sales growth in Q1'18 -4.4%¹⁾ – Driven by weaker development in Europe (-3.6%) and Americas (-16.5%) compared to Q1'17

▶ Temporary weakness in sales region Americas – Strong base effect in Q1'17 due to positive one-offs in OES distribution channel

▶ EBIT margin²⁾ in Q1'18 at 17.9% (Q1'17: 19.2%) – Base effect in Q1'17 and growing investments into distribution network

▶ Continuous improvements in operational excellence – Product innovation, improved supply chain management and service quality

Supply Chain Management



- ▶ New Warehouse in Lyon, France
- ▶ More space to better serve customers
 - Larger incoming and outgoing areas
 - Increased pallet space

Products



- ▶ New Repair Solutions for LUK GearBOX enabling transmission repairs by standard garages
- ▶ Significant progress in Q1'18
 - 9 new applications (new total of 38)
 - 95% YoY sales growth in Q1'18

Operational excellence and service quality

Customer Focus



- ▶ TEMOT Asia Pacific Appreciation Award
- ▶ Awarded for:
 - Customer relationship management
 - Future orientation
 - Local competency
 - Service quality

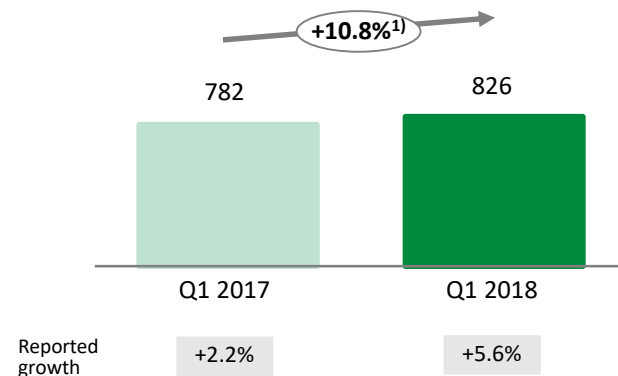
Efficiency



- ▶ Ruville integration
- ▶ Egon von Ruville GmbH now part of Schaeffler Automotive Aftermarket GmbH & Co. KG
 - Schaeffler management system has been implemented
 - Ruville converted to latest ISO standard, common Schaeffler certification to follow

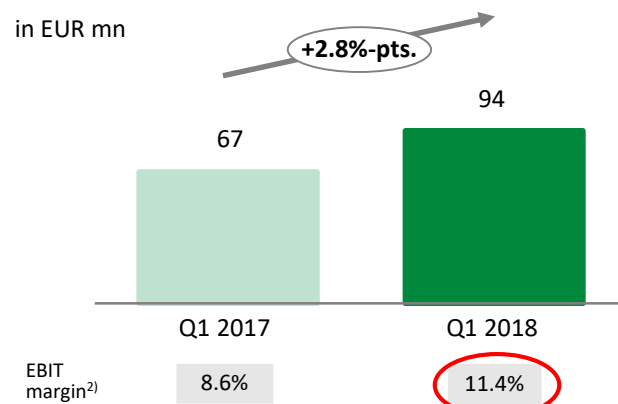
Industrial sales

in EUR mn



Industrial EBIT

in EUR mn



1) FX-adjusted 2) Before special items

▶ FX-adjusted sales growth in Q1'18 +10.8%¹⁾ – All regions contributing, Industrial business in Greater China +40%

▶ Strong growth¹⁾ in Industrial Distribution business – Double digit growth rates in four out of eight sectors

▶ Q1 Industrial EBIT margin²⁾ at 11.4% (Q1'17: 8.6%) – Higher volumes and positive impact from initiative CORE

▶ Industry 4.0 as a major strategic initiative – Significant business opportunities and growth potential

Hannover Fair April 2018 – Putting Industry 4.0 into practice

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Schaeffler at the Hannover Fair



- ▶ World's leading trade fair for industrial technology with 5,000 exhibitors and over 220,000 visitors
- ▶ Specific Industry 4.0 reference projects at the Schaeffler booth were presented under the heading "Schaeffler Puts Industry 4.0 into Practice"
- ▶ Industry 4.0, one of the key initiatives of the "Agenda 4 plus One", shows big growth potentials



Condition monitoring & digital service for electric motors

- ▶ Digital service "ConditionAnalyzer" (automatic diagnosis) enabled by Schaeffler SmartCheck & Schaeffler Service Cloud
- ▶ Distribution partner SPIT



Digital service for gearboxes

- ▶ Digital service "LifetimeAnalyzer" (calculation of remaining useful life - RUL) via Cloud-to-Cloud communication based on Schaeffler's Domain-Knowhow
- ▶ Customer ZF

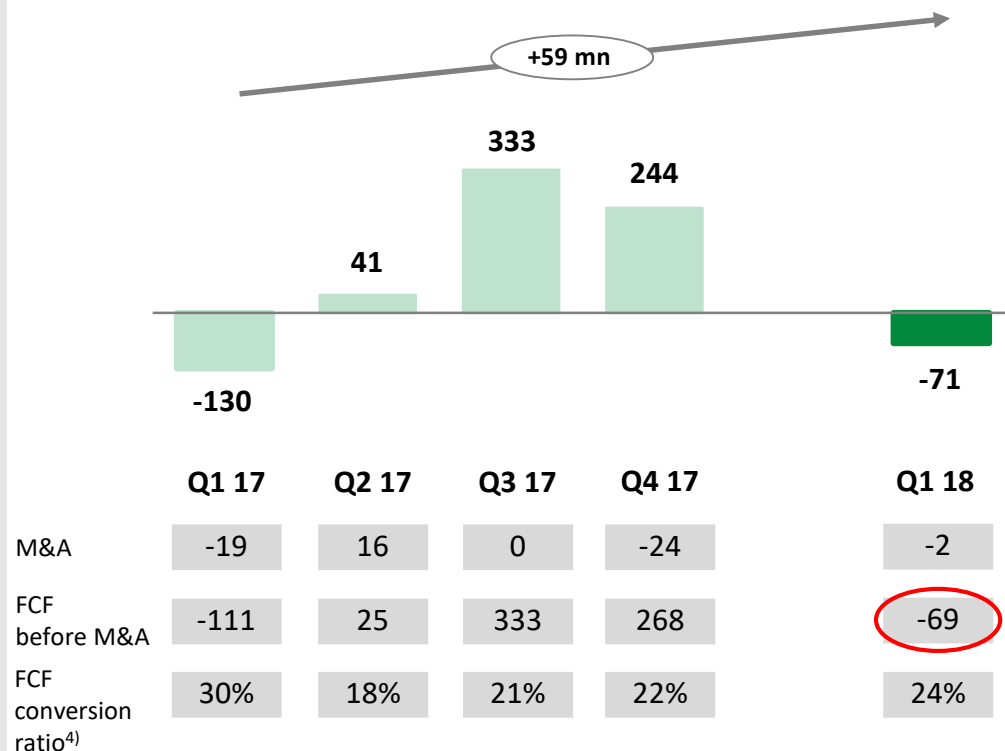


Condition monitoring and autonomous relubrication for intralogistics

- ▶ Condition Monitoring with SmartCheck and autonomous relubrication with Schaeffler's Lubricator Concept 8
- ▶ EDC Kitzingen and implementation partner SSI Schaefer

Free Cash Flow

in EUR mn



1) Including payments for legal cases and restructuring measures

2) Capex in major logistic projects Aftermarket Kitting Operation (AKO) and European Distribution Center (EDC)

3) Cash in- and outflows for M&A activities

4) LTM FCF before M&A divided by LTM EBITDA before special items

Key aspects

- ▶ Free Cash Flow increased by EUR 59 mn to EUR -71 mn in Q1'18, FCF conversion ratio 24%
- ▶ Free Cash Flow seasonally negative due to working capital development
- ▶ Capex to sales ratio at 8.6% (Q1'17: 8.4%)

FCF Details

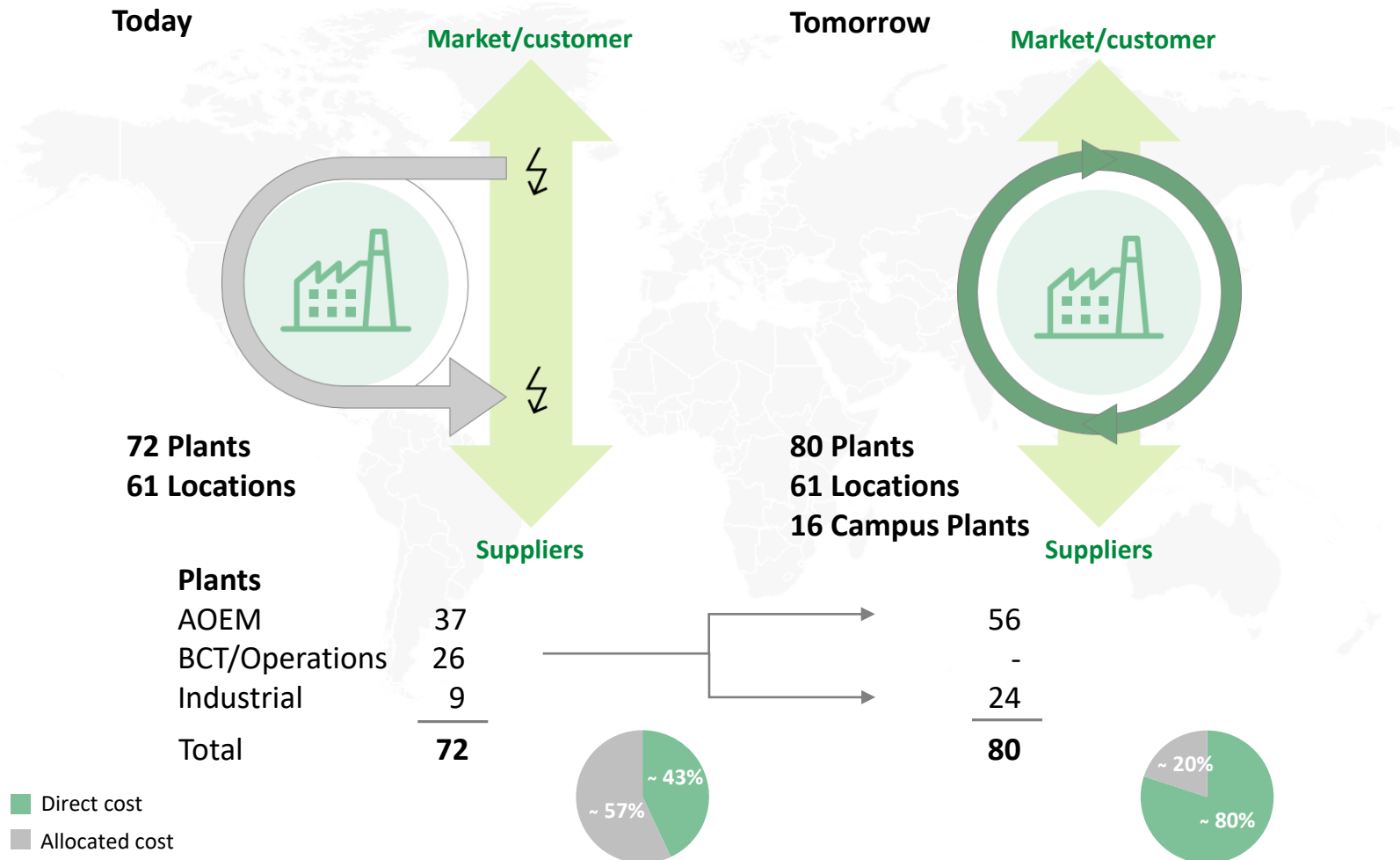
in EUR mn

	Q1 2017	Q1 2018	Δ Q1 17/18
FCF as reported	(130)	(71)	59
Non recurring items ¹⁾	36	33	(3)
AKO / EDC ²⁾	22	19	(3)
M&A ³⁾	19	2	(17)
Receivable Sale Program	0	0	0
	(53)	(17)	36

Transformation continues – All plants allocated to divisions

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Global plant network



Key aspects

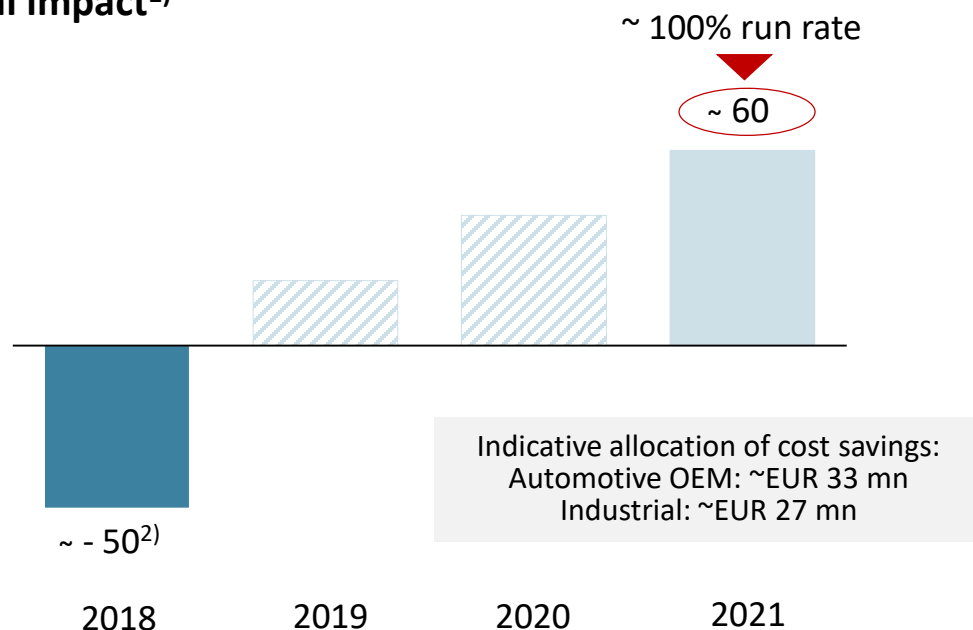
- ▶ Dissolution of "Bearing Components & Technologies" (BCT) as an internal bearing supplier
- ▶ Reallocation of all BCT / Operations plants to the divisions
- ▶ Simplified structure, reduction of overhead and less allocated costs
- ▶ Group-wide "Technology umbrella" is maintained

**More accountability,
more business focus,
more efficiency**

Indicative Business Case – Cost improvement potential around EUR 60 mn

Financial impact¹⁾

EUR mn



Targeted HCO reduction

Total	0		~ 950
Germany	0	to come	~ 450
Other regions	0		~ 500

1) Indicative numbers referring to EBIT / EBIT before special items

2) One-time restructuring charges, no impact on FY 2018 guidance

Key aspects

- ▶ Integration of BCT/Operations plants into the divisions offers significant cost and efficiency potential
- ▶ Around 950 jobs becoming redundant in BCT overhead and indirect functions of plants
- ▶ Around EUR 60 mn cost savings targeted to be fully realized in 2021 (Full run rate); around EUR 50 mn restructuring provisions expected in H2 2018
- ▶ Negotiations with workers council started; project headed by Andreas Schick, new Board Member responsible for Operations

Continuous cost and
efficiency improvement

in EUR mn		Q1 2017	Q1 2018	Q1 2018 vs. Q1 2017
Sales	1	3,574	3,551	-0.6% +3.9% ¹⁾
EBIT²⁾		435	391	-44 mn -10.1%
EBIT margin²⁾	2	12.2%	11.0%	-1.2%-pts.
Net income³⁾	3	279	240	-39 mn
EPS⁴⁾		0.42	0.36	-0.06
ROCE^{2) 5)}		22.1%	19.3%	-2.8%-pts.
Free Cash Flow	4	-130	-71	+59 mn
Capex		299	306	+7 mn
Net financial debt		2,742	2,439	-303 mn
Gearing ratio⁶⁾	5	114.3%	88.9%	-25.4%-pts.

1) FX-adjusted
2) Before special items

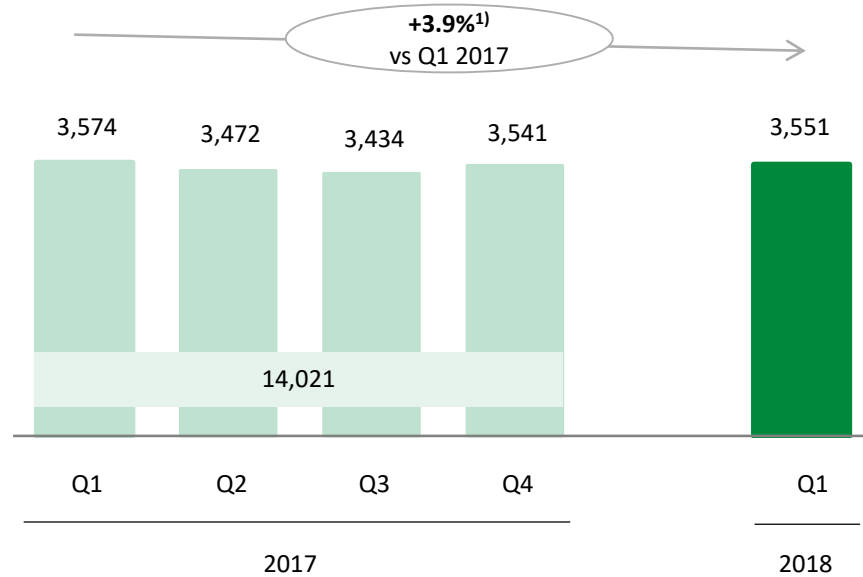
3) Attributable to shareholders of the parent company
4) Earnings per common non-voting share

5) LTM
6) Ratio of net financial debt to equity incl. non-controlling interests

1 Sales growth Q1'18 +3.9%¹⁾ – 18.1% sales growth¹⁾ in China

Sales

in EUR mn



Reported growth	+6.9%	+3.1%	+5.2%	+5.4%	-0.6%
Sales growth ¹⁾	+5.4%	+2.2%	+7.4%	+8.5%	+3.9%

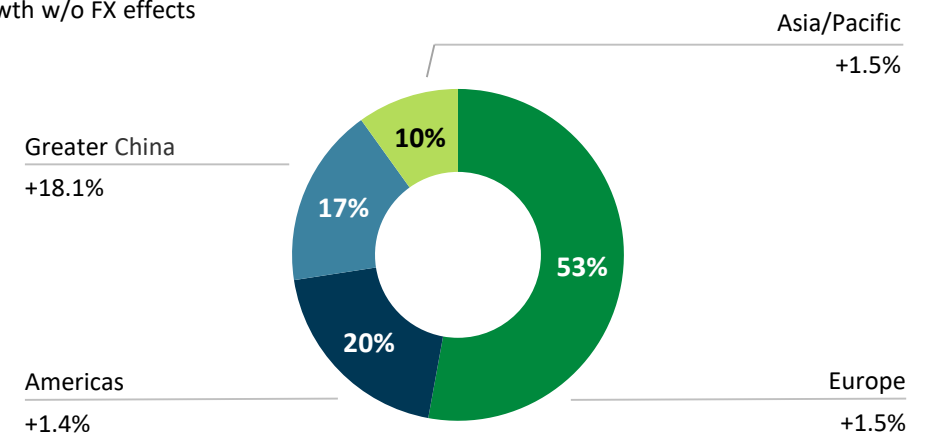
1) FX-adjusted

Key aspects

- ▶ Group sales +3.9%¹⁾ (Q1'17: +5.4%¹⁾)
- ▶ Sales growth mainly driven by China (AOEM +12.4%; AAM +40.9%; Industrial +40.0%)
- ▶ Further acceleration of group sales expected in H2'18

Sales by region Q1 2018

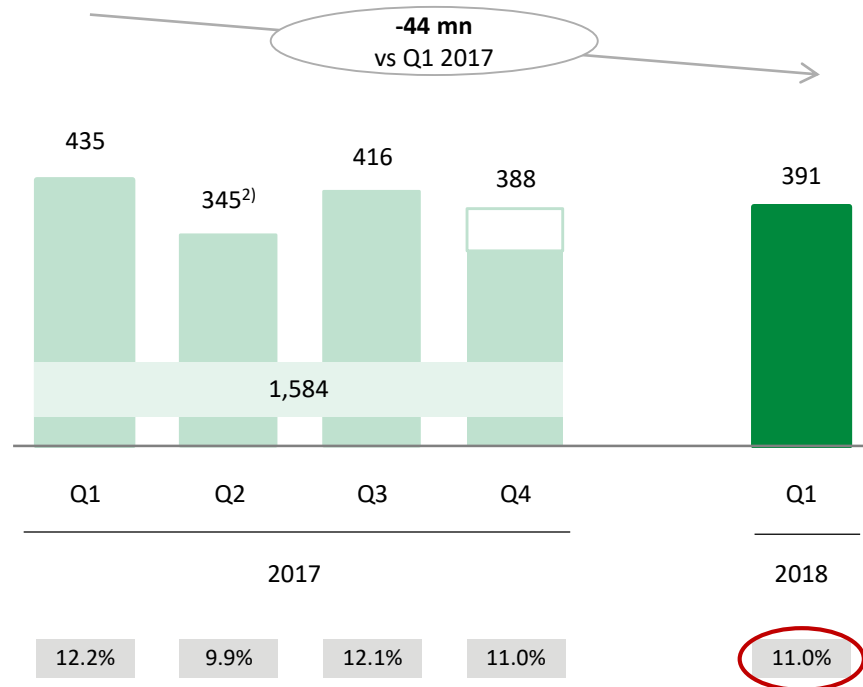
y-o-y growth w/o FX effects



2 EBIT Q1'18 11.0% – Mid-point of FY guidance

EBIT¹⁾

in EUR mn



1) Before special items
 2) Reported EBIT of EUR 358m including EUR 13m positive special item
 3) Compensating FX hedging effect in Others line

Key aspects

- ▶ EBIT margin¹⁾ at 11.0% (Q1'17: 12.2%)
- ▶ Gross profit margin decreased from 28.9% to 27.0% mainly driven by negative FX effect³⁾
- ▶ Overhead costs increased mainly due to Agenda 4 plus One initiatives and expansion of Automotive Aftermarket distribution network

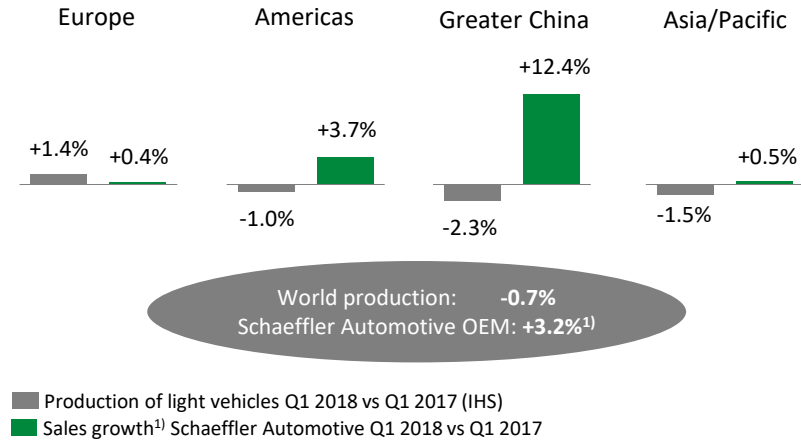
EBIT margin

Before special items	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Automotive OEM	11.9%	9.4%	10.7%	11.2%	9.5%
Automotive Aftermarket	19.2%	15.3%	23.1%	17.9%	17.9%
Industrial	8.6%	8.5%	8.9%	6.1%	11.4%
Total	12.2%	9.9%	12.1%	11.0%	11.0%

Automotive OEM – 3.9%-pts. outperformance versus market

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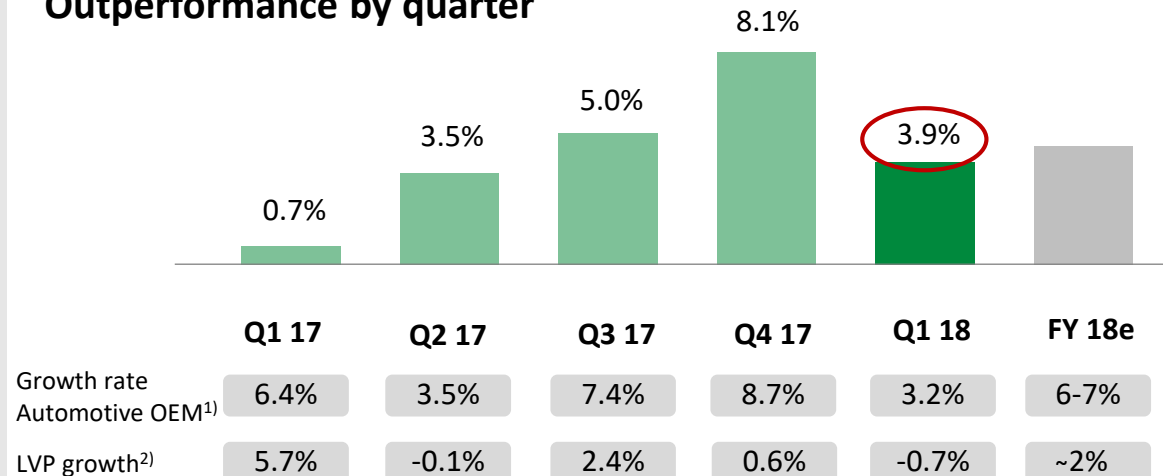
Automotive OEM sales and market development Q1



Sales by business division

in EUR mn	Q1 2017	Q1 2018	Δ ¹⁾
Engine Systems	716	709	+4.1%
Transmission Systems	1,084	1,075	+3.9%
E-Mobility	101	104	+6.6%
Chassis Systems	407	391	-0.3%
Total	2,308	2,279	+3.2%

Outperformance by quarter



Key aspects

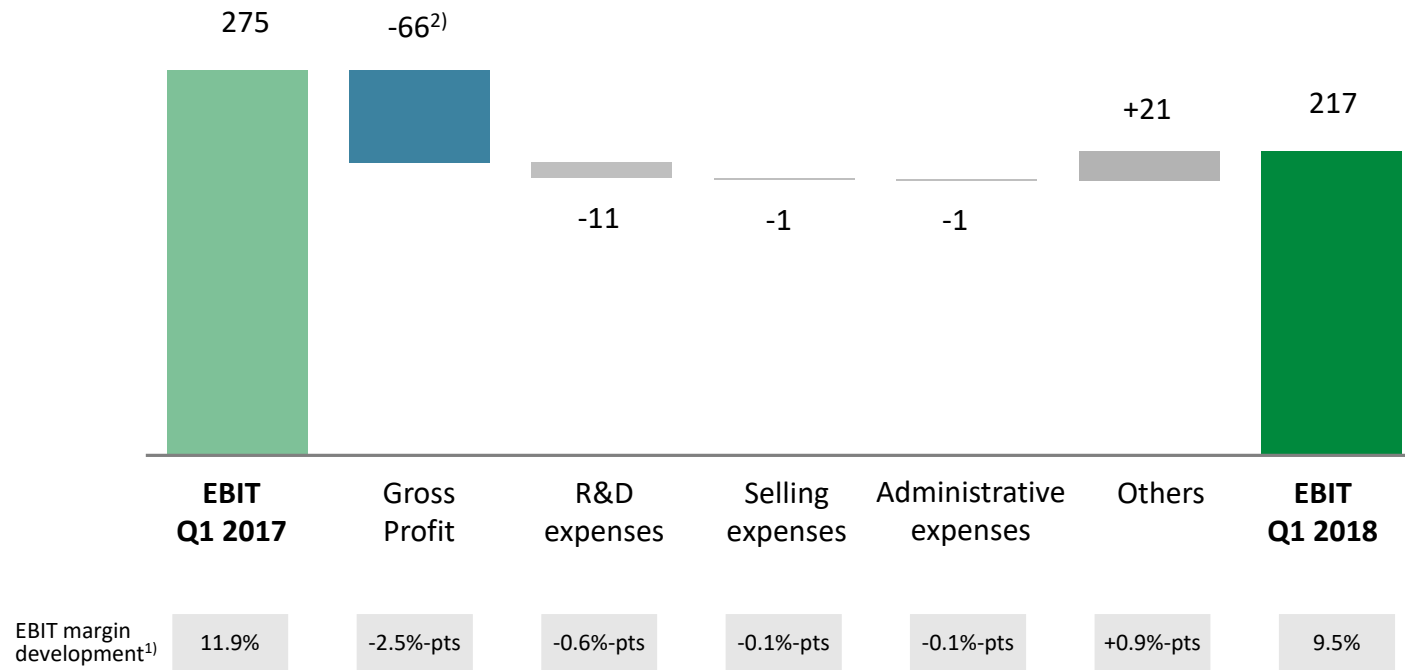
- ▶ Outperformance Q1'18 of 3.9%-pts. versus global production growth
- ▶ New business division E-Mobility includes e-axles and hybrid modules as well as CVT, wet DCT and actuators
- ▶ FY sales target for BD E-Mobility of EUR 500-600 mn

1) FX-adjusted 2) Source: IHS, as of April 2018

A Automotive OEM – EBIT margin²⁾ of 9.5% (Q1'17: 11.9%)

EBIT¹⁾ Q1 2017 vs. Q1 2018

in EUR mn



1) Before special items

2) Includes negative FX effects of EUR -45 mn

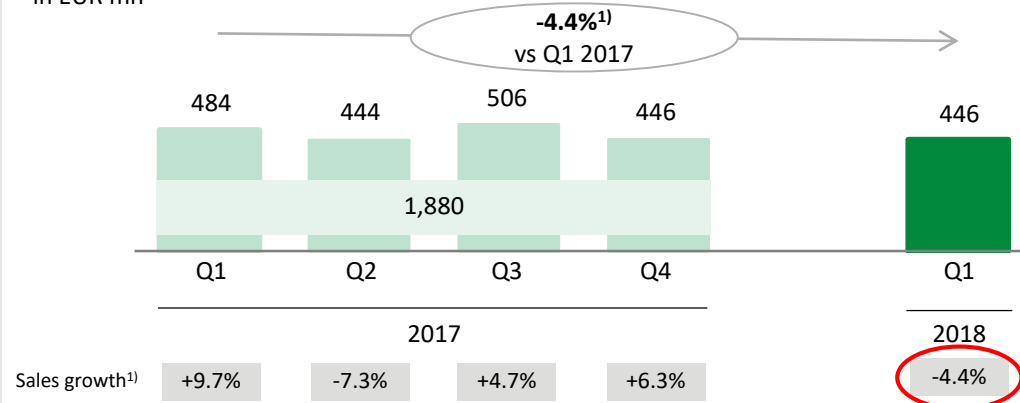
Key aspects

- ▶ Gross profit margin declined from 26.6% to 24.1% mainly driven by negative FX effects and ramp-up costs
- ▶ R&D expenses increased from 7.4% to 8.0% of sales mainly due to higher costs into E-Mobility
- ▶ Selling expenses remained almost flat at 3.8%
- ▶ EBIT margin 9.5% in Q1'18 after 11.9% in Q1'17

Automotive Aftermarket – High base due to very strong Q1'17

Automotive Aftermarket sales by quarter

in EUR mn

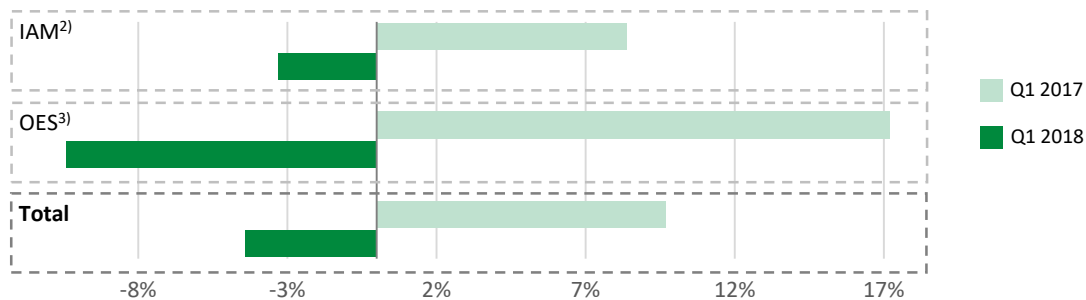


Sales by region

y-o-y growth

	Q1 2017	Q1 2018	Δ ¹⁾
Europe	351	337	-3.6%
Americas	107	78	-16.5%
Greater China	14	19	+40.9%
Asia/Pacific	11	12	+16.1%
Total	483	446	-4.4%

Automotive Aftermarket sales growth by channel Q1 2018¹⁾



1) FX-adjusted 2) Independent Aftermarket 3) Original Equipment Service

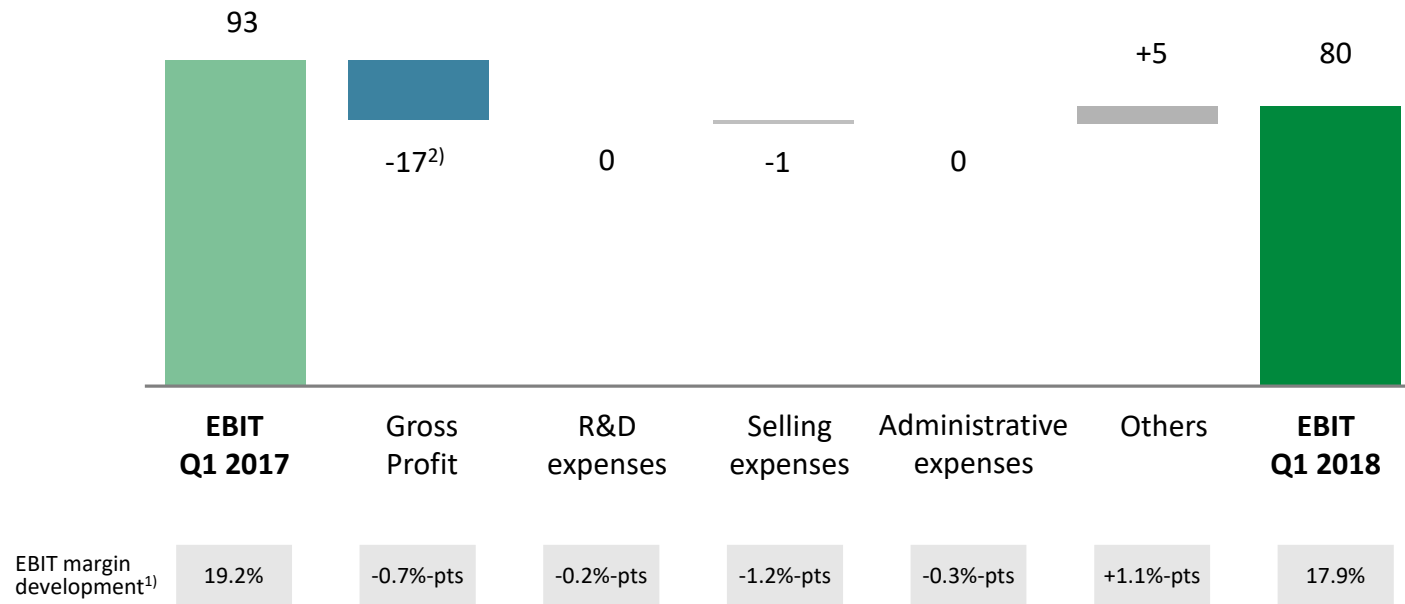
Key aspects

- ▶ Sales growth¹⁾ of -4.4% in Q1'18
- ▶ High base in Independent Aftermarket as one large customer has opened new warehouse in Q1'17
- ▶ High base in OES due to very strong Q1'17
- ▶ Significant acceleration of growth expected in Q2'18

B Automotive Aftermarket – EBIT margin²⁾ of 17.9% (Q1'17: 19.2%)

EBIT¹⁾ Q1 2017 vs. Q1 2018

in EUR mn



1) Before special items

2) Includes negative FX effects of EUR -7 mn

Key aspects

- ▶ Gross profit margin declined from 36.6% to 35.9% of sales, mainly driven by negative FX effects and lower volumes
- ▶ R&D expenses increased slightly to 1.6% (Q1'17: 1.4%)
- ▶ Selling expenses increased from 11.8% to 13.0% due to expansion of distribution network
- ▶ EBIT margin 17.9% in Q1'18 after 19.2% in Q1'17

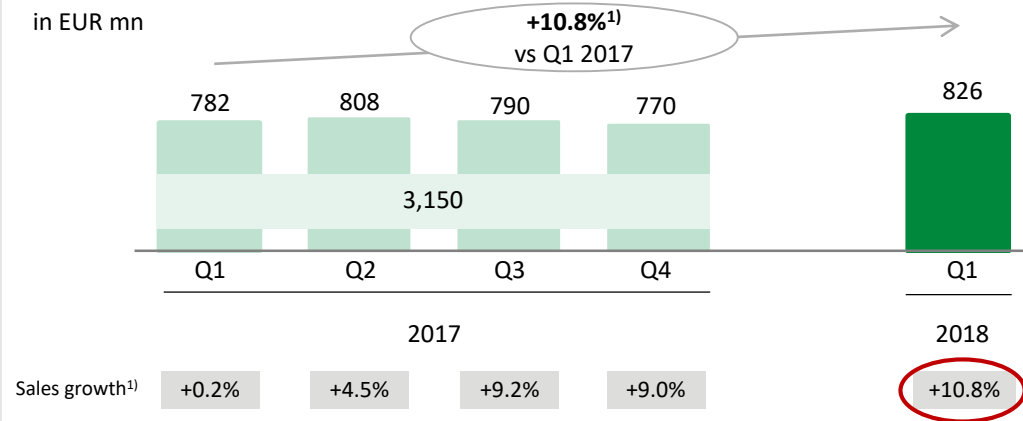


Industrial Division – Double-digit growth rates in most sectors and Industrial Distribution

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Industrial sales by quarter

in EUR mn

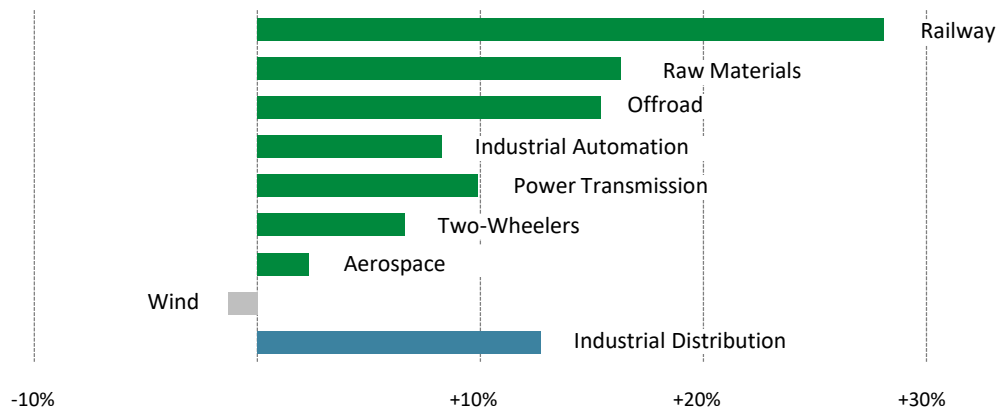


Sales by region

y-o-y growth

	Q1 2017	Q1 2018	Δ ¹⁾
Europe	455	484	+8.0%
Americas	153	141	+5.4%
Greater China	102	131	+40.0%
Asia/Pacific	72	70	+4.4%
Total	782	826	+10.8%

Industrial sales by sector cluster Q1 2018¹⁾



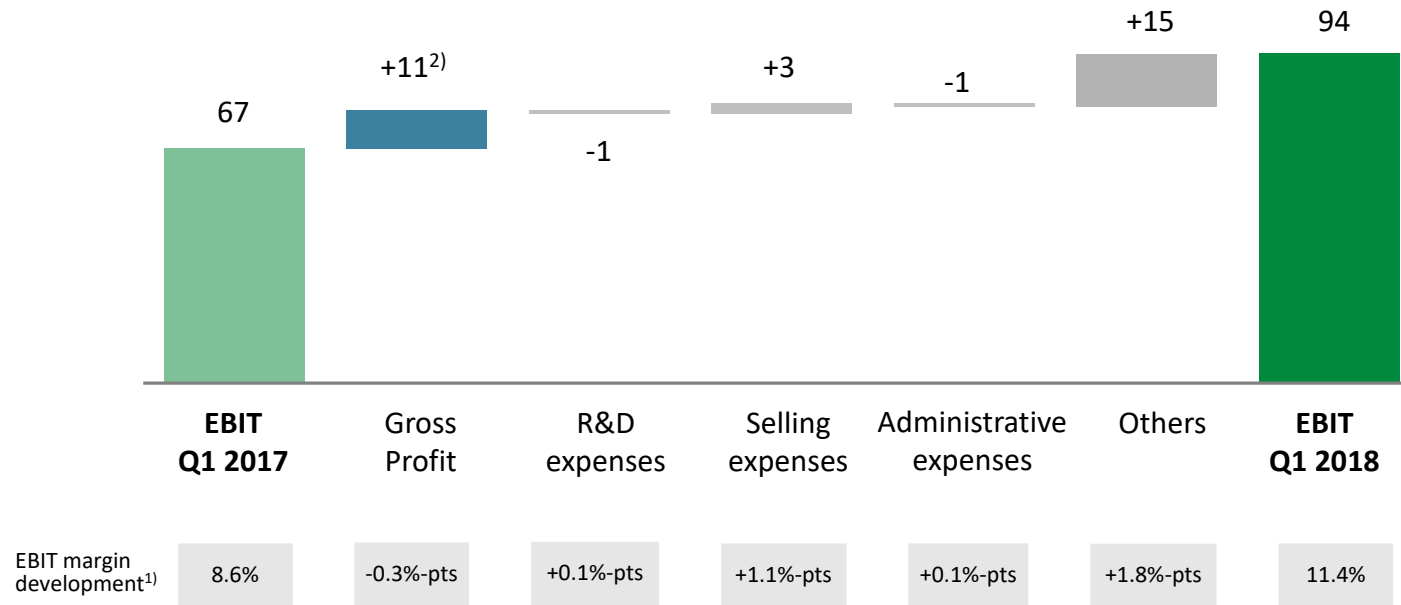
Key aspects

- ▶ Sales growth¹⁾ of 10.8% in Q1'18
- ▶ Positive development in most sectors as well as Industrial Distribution
- ▶ Growth rates to normalize in coming quarters as base effect declines

1) FX-adjusted

EBIT¹⁾ Q1 2017 vs. Q1 2018

in EUR mn



1) Before special items

2) Includes negative FX effects of EUR -25 mn

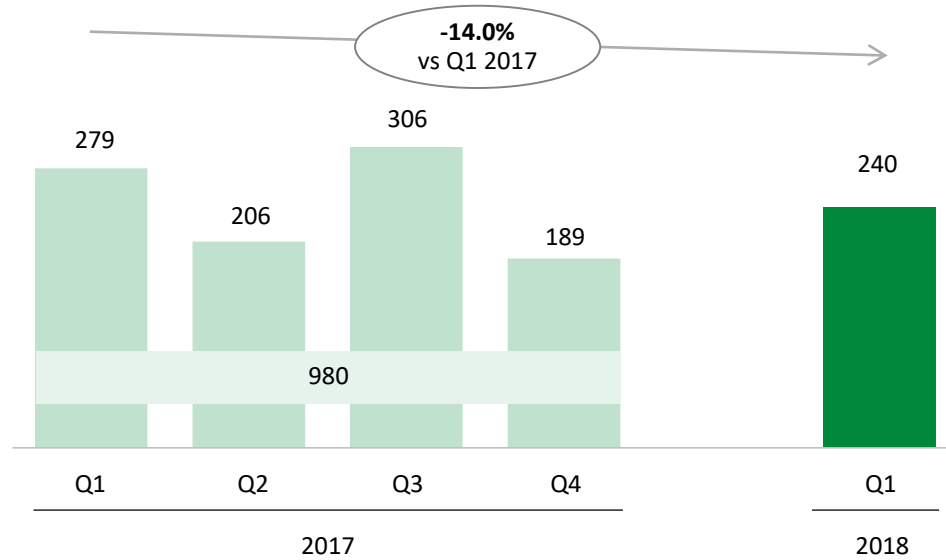
Key aspects

- ▶ Gross margin remained fairly stable at 30.4% (Q1'17: 30.7%) as high volumes are compensated by negative FX effect²⁾
- ▶ Significant improvement in Selling expenses driven by CORE program
- ▶ EBIT margin 11.4% in Q1'18 after 8.6% in Q1'17

3 Net income Q1 2018 EUR 240 mn – EPS decreased to EUR 0.36 (Q1'17: EUR 0.42)

Net income¹⁾

in EUR mn

EPS²⁾
in EUR

1) Attributable to the shareholders of the parent company

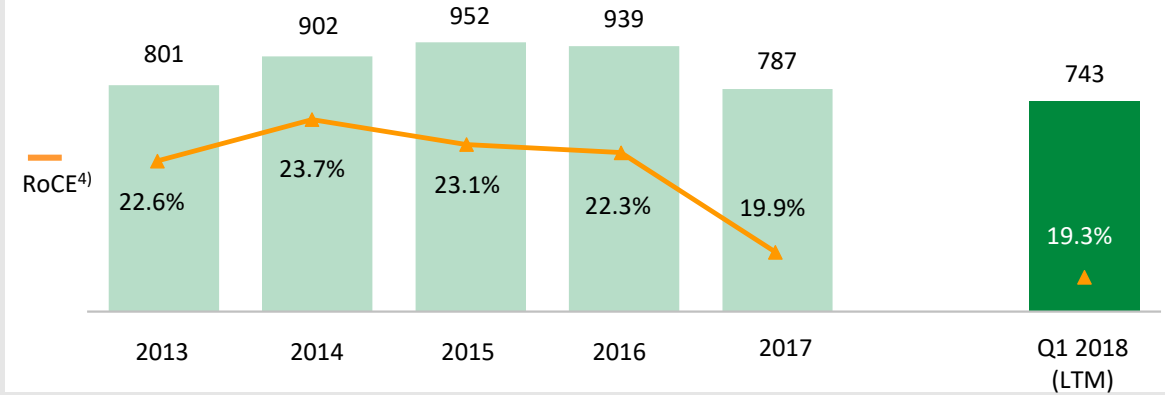
2) Earnings per common non-voting share

3) Defined as LTM EBIT before special items minus Cost of Capital (10% * Ø Capital Employed)

4) Before special items

Schaeffler Value Added³⁾

in EUR mn



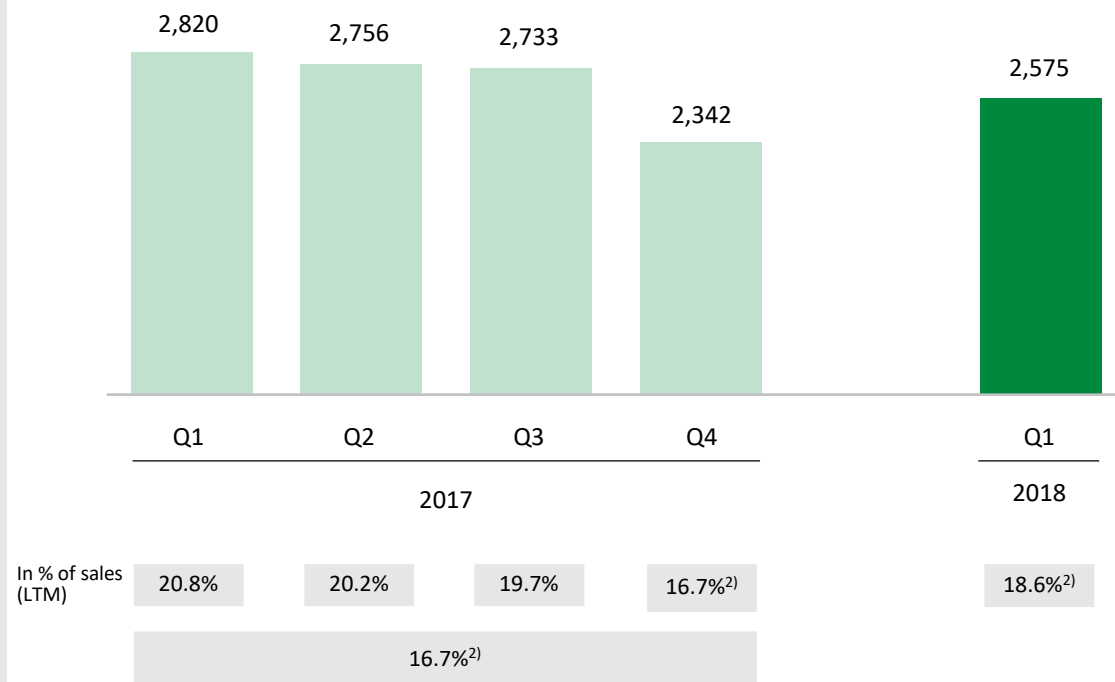
Key aspects

- ▶ Net income decreased to EUR 240 mn (Q1'17: EUR 279 mn)
- ▶ Decline of net income mainly driven by lower EBIT margin⁴⁾
- ▶ EPS decreased to EUR 0.36 (Q1'17: EUR 0.42)

4 Working Capital ratio 18.6% of sales – Capex ratio 8.6% of sales

Working capital ¹⁾

in EUR mn

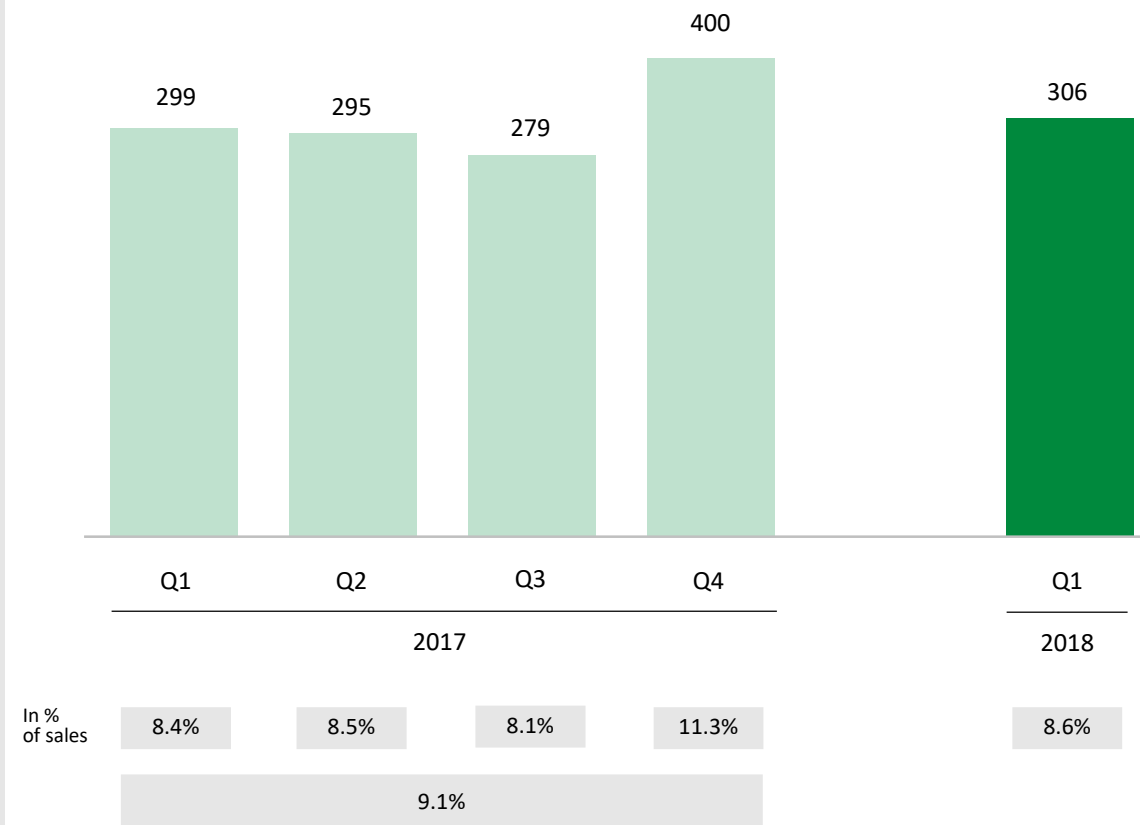


1) According to balance sheet; figures as per the end of period

2) At March 31, 2018, trade receivables with a carrying amount of EUR 156 mn (December 31, 2018: EUR 123 mn) net of retained default risks had been sold under the ABCP program

Capex²⁾

in EUR mn

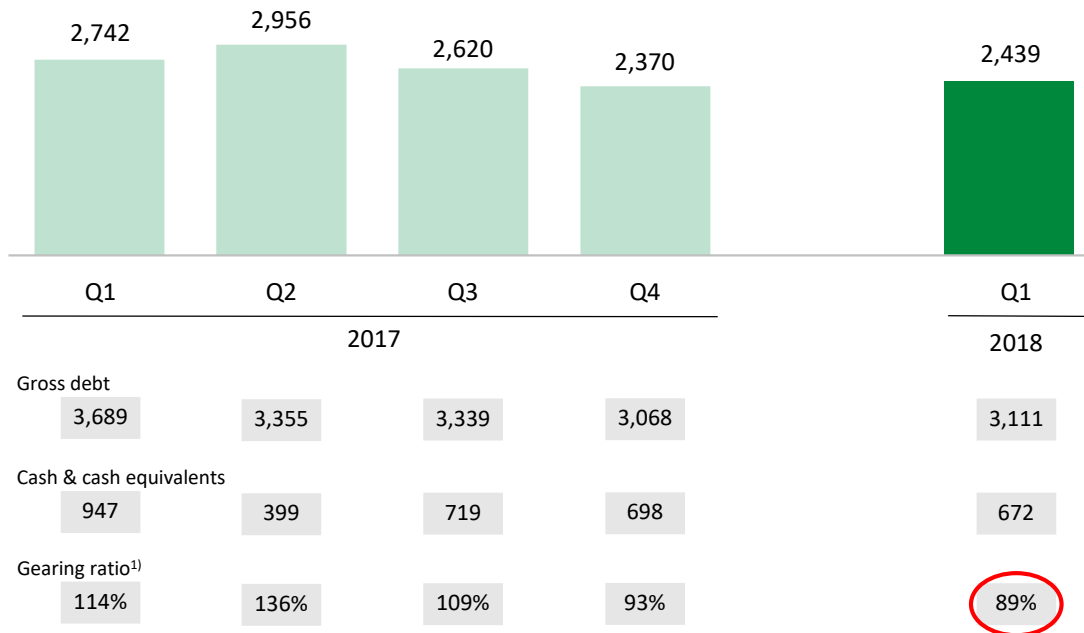


2) Cash view

5 Net debt increased slightly due to negative FCF – Gearing ratio at 89%

Net financial debt and Gearing ratio

in EUR mn



1) Gearing ratio: Ratio of net financial debt to equity incl. non-controlling interests in %

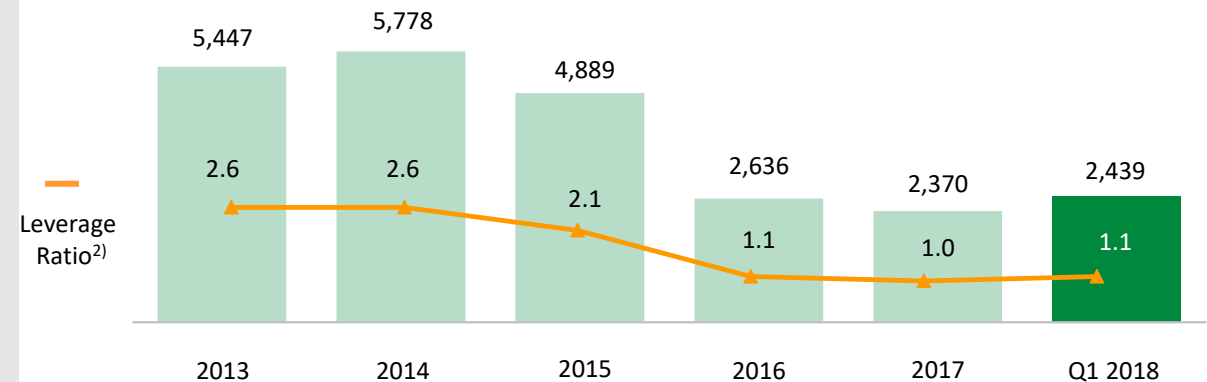
2) Leverage Ratio: Net financial debt to LTM EBITDA ratio before special items

Key aspects

- ▶ Net debt increased slightly to EUR 2,439 mn (FY'17: EUR 2,370 mn) due to seasonally negative FCF
- ▶ Gearing ratio further improved to 89%
- ▶ Ratings remained unchanged in Q1'18 compared to Dec'17

Net debt development

in EUR mn



Outlook - FY 2018 guidance confirmed at group and divisional level

Group Guidance

Group	
Sales growth	5-6% FX-adjusted
EBIT margin	10.5-11.5% before special items
Free Cash Flow ¹⁾	~ EUR 450 mn



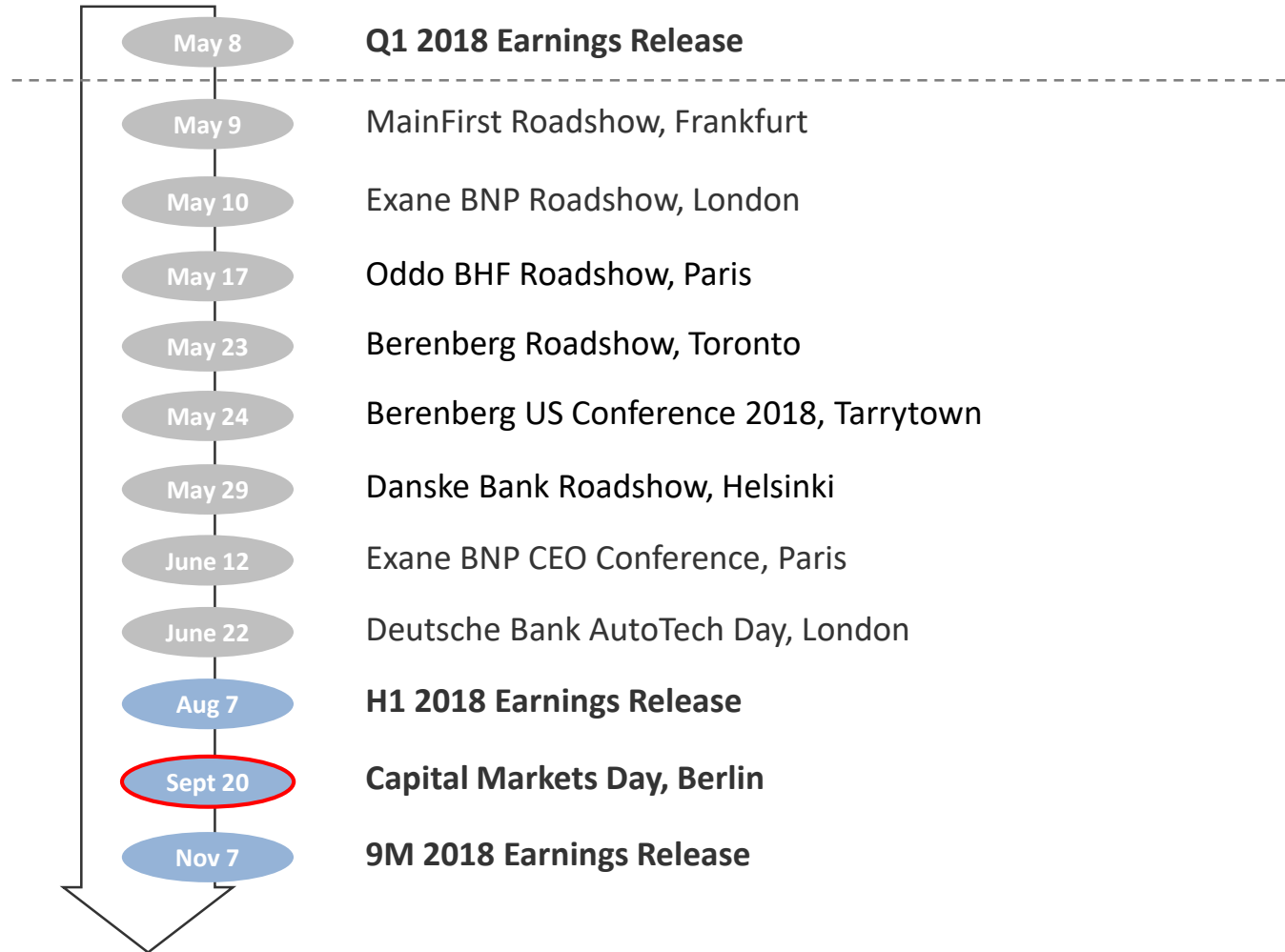
Divisional Guidance

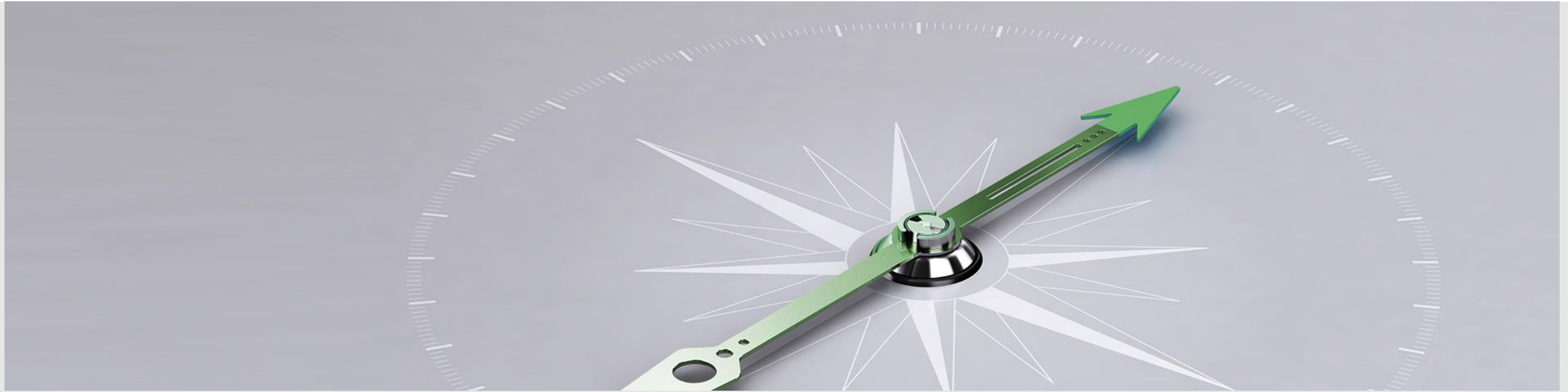
Automotive OEM	Automotive AM	Industrial
6-7% FX-adjusted	3-4% FX-adjusted	3-4% FX-adjusted
9.5-10.5% before special items	16.5-17.5% before special items	9-10% before special items

Market assumptions

- ▶ Automotive OEM: Growth of global passenger car production of around 2%
- ▶ Automotive Aftermarket: Stable growth in the global vehicle population and a nearly unchanged average vehicle age
- ▶ Industrial: Similar growth rate of industrial production in 2018 compared to 2017

1) Before cash in- and outflows for M&A activities





Investor Relations

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Key figures¹⁾ by division – new structure**Automotive OEM**

in EUR mn

	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18
Sales	2,308	2,220	2,138	2,325	2,279
<i>Sales Growth²⁾</i>	+6.4%	+3.5%	+7.4%	+8.7%	+3.2%
EBIT	275	221	229	226	217
EBIT Adjusted ³⁾	275	208	229	261	217
EBIT Margin Adj.	11.9%	9.4%	10.7%	11.2%	9.5%

Automotive Aftermarket

in EUR mn

	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18
Sales	484	444	506	446	446
<i>Sales Growth²⁾</i>	+9.7%	-7.3%	+4.7%	+6.3%	-4.4%
EBIT	93	68	117	55	80
EBIT Adjusted ³⁾	93	68	117	80	80
EBIT Margin Adj.	19.2%	15.3%	23.1%	17.9%	17.9%

1) Proforma figures

2) FX-adjusted

3) EBIT before special items

Industrial

in EUR mn

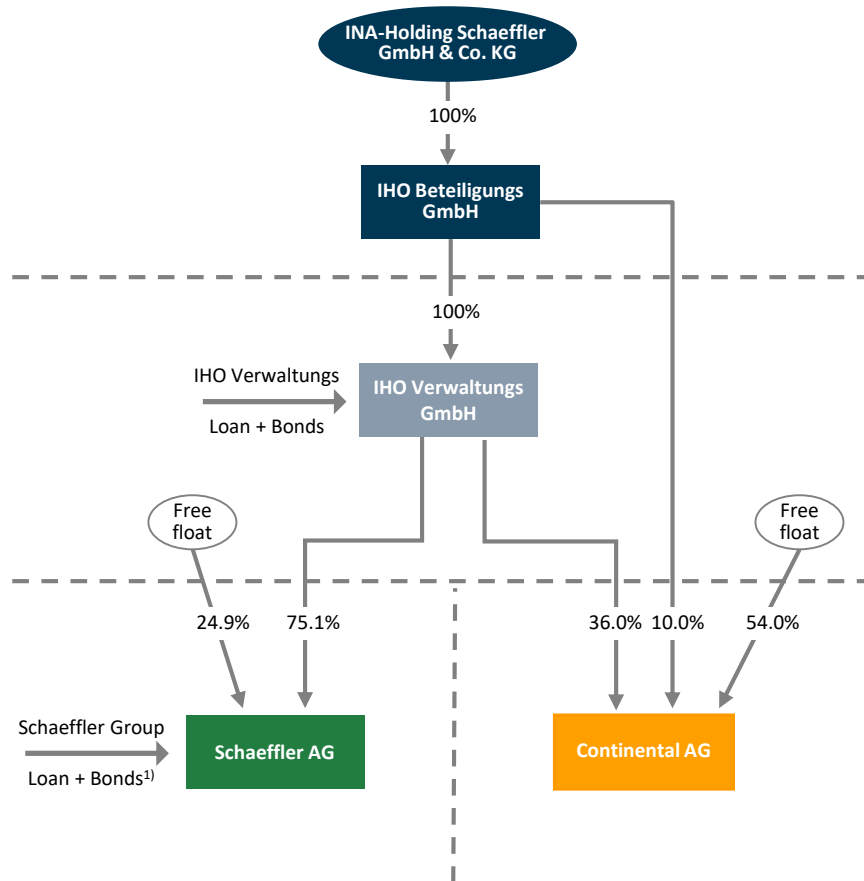
	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18
Sales	782	808	790	770	826
<i>Sales Growth²⁾</i>	+0.2%	+4.5%	+9.2%	+9.0%	+10.8%
EBIT	67	69	70	38	94
EBIT Adjusted ³⁾	67	69	70	47	94
EBIT Margin Adj.	8.6%	8.5%	8.9%	6.1%	11.4%

Overview Corporate and Financing Structure

SCHAEFFLER

Corporate structure (simplified)

as of March 31, 2018



1) All outstanding bonds are issued by Schaeffler Finance B.V., a 100% subsidiary of Schaeffler AG.

Financing structure

 in EUR²⁾ mn, as of March 31, 2018

IHO Verwaltungs GmbH

	Debt instrument	Nominal (USD mn)	Nominal (EUR mn)	Interest	Maturity	Rating (F/M/S) ⁴⁾
Loans	Term loan (EUR)	-	750	E+2.25%	Dec-22	not rated
	RCF (EUR 250 mn)	-	-	E+2.25%	Dec-22	not rated
Bonds	2.75% SSNs 2021 (EUR)	-	750	2.75%	Sep-21	BB+/Ba1/BB-
	4.125% SSNs 2021 (USD)	500	406 ²⁾	4.125%	Sep-21	BB+/Ba1/BB-
	3.25% SSNs 2023 (EUR)	-	750	3.25%	Sep-23	BB+/Ba1/BB-
	4.50% SSNs 2023 (USD)	500	406 ²⁾	4.50%	Sep-23	BB+/Ba1/BB-
	3.75% SSNs 2026 (EUR)	-	750	3.75%	Sep-26	BB+/Ba1/BB-
	4.75% SSNs 2026 (USD)	500	406 ²⁾	4.75%	Sep-26	BB+/Ba1/BB-
Total			4,218	Ø 3.47%³⁾		

Schaeffler Group

	Debt instrument	Nominal (USD mn)	Nominal (EUR mn)	Interest	Maturity	Rating (F/M/S) ⁴⁾
Loans	Term loan (EUR)	-	1,000	E+1.20%	Jul-21	not rated
	RCF (EUR 1,300 mn)	-	0	E+0.90%	Jul-21	not rated
	Investment Facility (EUR 250 mn)	-	140	E+1.00%	Dec-22	not rated
Bonds	2.50% SSNs 2020 (EUR)	-	400	2.50%	May-20	BBB-/Baa3/BB+
	3.50% SSNs 2022 (EUR)	-	500	3.50%	May-22	BBB-/Baa3/BB+
	4.75% SSNs 2023 (USD)	600	487 ²⁾	4.75%	May-23	BBB-/Baa3/BB+
	3.25% SSNs 2025 (EUR)	-	600	3.25%	May-25	BBB-/Baa3/BB+
Total			3,127	Ø 2.80%³⁾		

2) EUR/USD = 1.2321.

3) Incl. RCF commitment fee.

4) Fitch Ratings / Moody's Investor Services / Standard & Poor's.