COMMENTED SLIDES / CONFERENCE CALL Q2 AND H1 2022 EARNINGS

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Q2 and H1 2022 Schaeffler AG earnings

Earnings Call
August 4, 2022
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August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings 2

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Renata Casaro, Head of Investor Relations

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Renata Casaro

Dear investors, dear analysts, good morning. Welcome to today's earnings call. Mr Rosenfeld, Group CEO, and Mr Bauer, Group CFO, will take you through the presentation slides prepared by us, the IR team. May I remind you to limit the number of your sequential follow up questions to one, so that everyone has a chance to participate in this call. As usual, the call will be conducted under the disclaimer. Without further ado, I leave the floor to Mr Rosenfeld. Klaus, the floor is yours.

Klaus Rosenfeld

Thank you very much, Renata. Ladies and gentlemen, good morning. Thank you for joining our Q2 conference call.

We will immediately go into the presentation as usual and leave as much room for your questions as possible.

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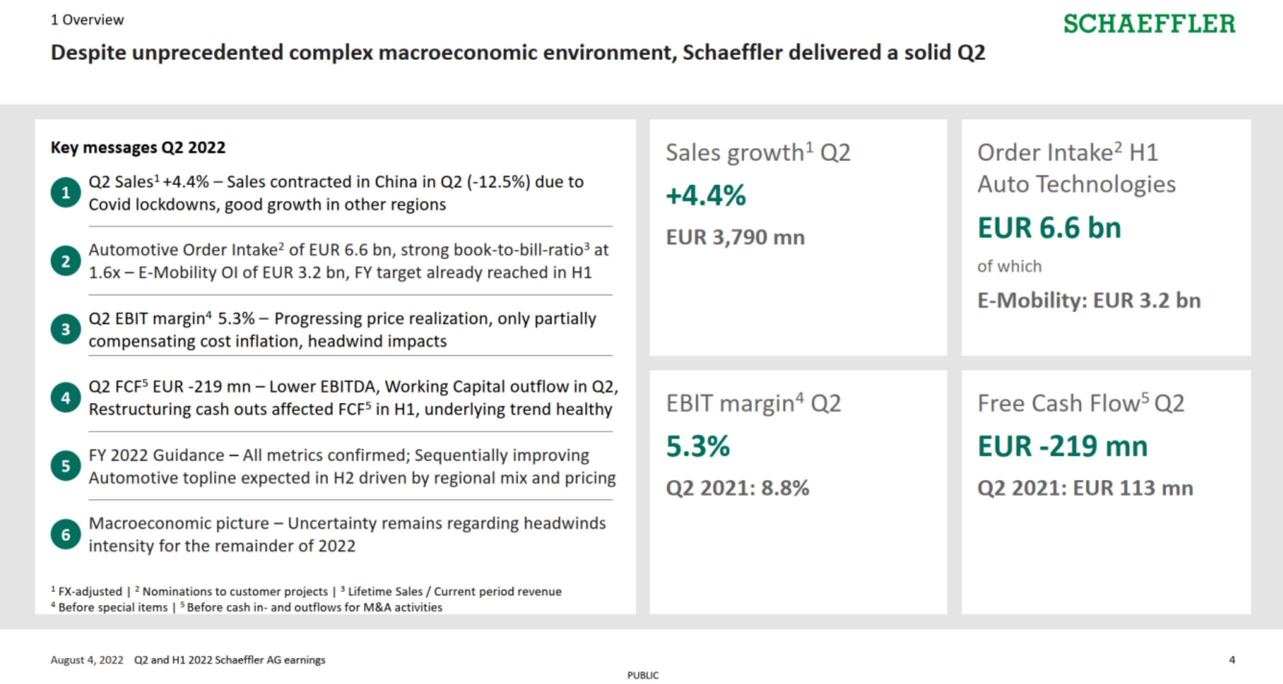
Agenda



Klaus Rosenfeld

Let me start on page 4 of the agenda where you have the overview with the usual key messages.

You will all concur that the Q2 2022 quarter was unprecedented in terms of the mix of headwinds, uncertainties and constraints. And in light of that environment, I think we have posted a solid and encouraging Q2. Encouraging, why? Because I can proudly say that the management team here has been successful and aligned in fighting this environment and doing the right things for the company.

Not only in terms of performance, but also in terms of transformation. Q2 sales, 4.4% up. That includes a sales contraction in China of 12.5%. We have never seen something like this. And if you look into detail, Claus will explain this later on, you saw a really bad April with nearly 50% loss of revenues, but also a speedy recovery after the lockdown was lifted.

And that comes together with good growth in the other regions. So, if we take the 4.4% and consider the China impact, we are definitely okay on the top line and think that will further continue in the positive also in the second half. In terms of business development, the key number you look at is Order Intake in Automotive Technologies, € 6.6 billion for the whole division.

Strong book-to-bill-ratio with 1.6x, indicating further growth in the future. And we are particularly proud of the E-Mobility Order Intake, € 3.2 billion is already in the first half above the full-year target. We will not share with you any new target, but I can share with you that the trend is continuing and we're seeing further interesting orders coming in.

As you know, we have always been selective, and we will remain selective. But I think we have reached the point where the E-Mobility division has earned its right to grow, has the licence to operate and will now manage in the next years the ramp up phase to make sure that the division will then ultimately become profitable and earn money.

Q2 margin, 5.3%. We have also here several factors that impacted this margin level. We have seen progressing price realization from our self-recovery activities. Also here, Claus will give more detail. They and that's what we always said that can only partially compensate cost inflation. The biggest impact in the margin clearly came from the setback in China.

If I would just take that out and say, what would it have been if April would be at the same level like June? Then the margin would clearly have been above 6%. And that clearly indicated that we are in the midpoint of our guidance range for the first half 2022. Free Cash Flow minus € 219 million in the quarter.

It's more prudent to look at the half year minus 204. The minus 204 is exactly the number we paid out for restructuring, driven by the realization of the SPACE program. So, we can more or less say the cash flow before M&A and without these one-off restructuring costs is still positive in such a quarter. With that impact from China, that is an acceptable result.

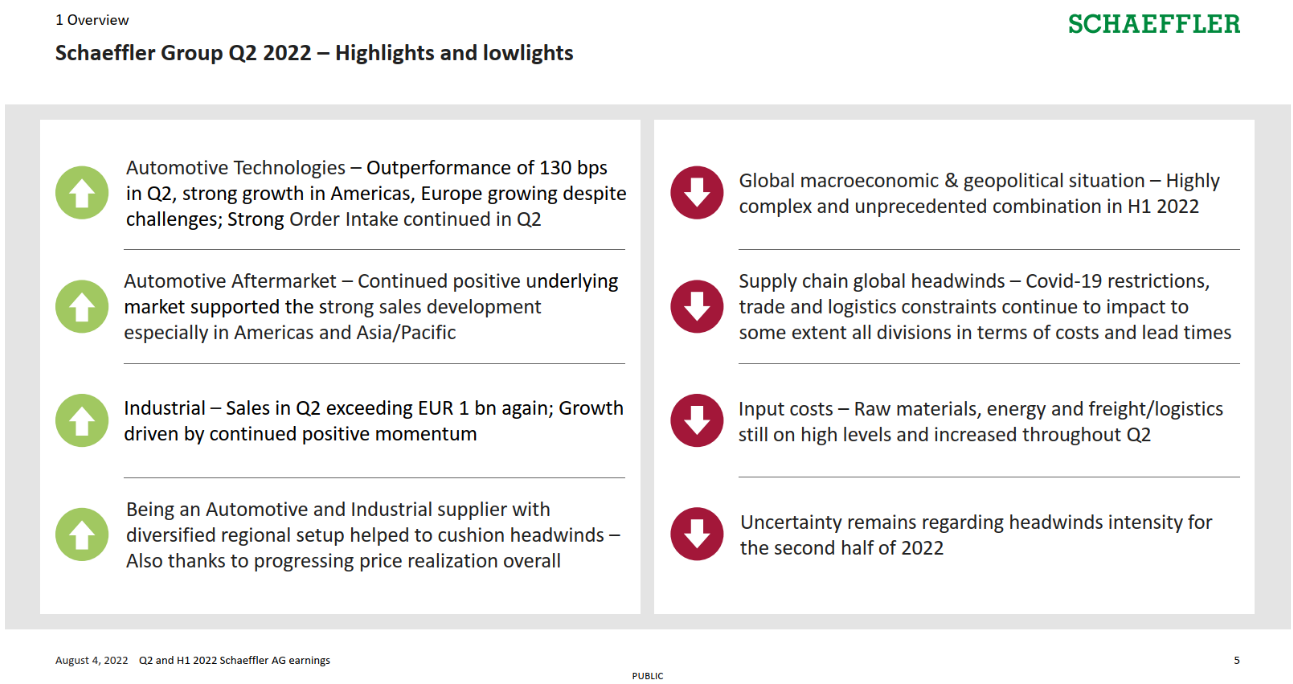
Also here, I can already say we are clearly focused on making the guidance on cash flow and Claus will explain how that can be calculated. But I can say upfront I am very confident that we will make above € 250 million or even the number that you have in mind when you look at consensus figures.

We have always been able to demonstrate cash flow strength in the second half. And we will clearly build on this with a focus on Working Capital as Claus will explain. Guidance: All metrics confirmed. The only area where we failed to meet the guidance floors was the margin for Automotive Technologies, 2.5%. We made 2% in the first half. And also, here the impact was China, and this is something we will be able to mitigate in the second half. So, we are confident on all components and all metrics that the guidance will be met based on the understanding that Automotive top line will sequentially improve in the second half driven by the regional mix, pricing and still being based on a conservative outlook in terms of volume.

You saw this in the backend of the slide deck that we are still projecting 77 million cars or around this. So, a slight growth in market volume in the second half. And then clearly improved outperformance going forward. Let me finish this first page by the macroeconomic picture. There are clearly uncertainties that will determine also the second half.

The intensity in the mix of uncertainties and headwinds, will remain from our point of view. So, it will be important to manage through this in a careful but also straightforward manner. Let me finalize the page here. In this environment also in Q2, we have been clearly focused on continuing, if not even accelerating our transformation.

And you will see some later examples where we have been successful. We are clearly determined not to just manage the environment but also continue to manage our transformation.



That leads me to page five with the highlights and the lowlights. You could read all of this, I'm not going to do every sentence here.
But we are positive on the Automotive Technology division. If you look into detail, you see outperformance in Q2, 130 basis points, slightly below the range we have for the full year. Don't forget, we never guided for a quarter, we always guided for a year. Strong growth in America, European growth despite the challenges and the strong Order Intake continues in Q2, what gives us confidence going forward.
Automotive Aftermarket, a continued positive market supporting self-development in particular in Americas but also in Asia/Pacific, shows how important that division is and how it also contributes to our top line growth. Industrial is clearly the outperformer here, we have exceeded another quarter with more than one billion, 14% growth and continued positive momentum. I'm happy to see what Stefan is achieving here. And it's good to know that this comes across the sectors and across the various divisions, subdivisions, so we are clearly demonstrating here that the Industrial division, despite a difficult environment, can outperform the market and is on a continued positive growth trend.
That leads then to the last point, you will also see this on the next page, being an Automotive and an Industrial supplier, we have said it on and on. With a diversified regional set up helps to cushion headwinds and we will continue on that path to go for more diversification as you also saw from the latest acquisition we announced.
On the negative side, geopolitical situation, macroeconomic, you all know this, it is unprecedented what we're seeing, and it requires a lot of caution and also foresight

to get this right. The supply chain headwinds are still there. Here and there we see some positive developments, COVID restrictions, hopefully we're not seeing any further lockdowns in China.
You just saw what the German government recommended for the fall. We clearly have cases in the company also here in Germany that don't help us get the maximum performance out of the plants. Trade logistic constraints, you all know this. Difficult but so far, we can say we have not been in a situation where we have interrupted a supply chain or negatively impacted a customer.
Input cost, yes. In particular in energy and some of the freight and logistics side. Still increasing numbers on the other side, raw material. If you look at the price for hot rolled coils, then this is pointing in the right direction. How this unfolds in the rest of the year we need to see. But we feel with what we have in our forecast we are on the more conservative side.
And again, I said it, the second half is clearly determined by uncertainty. So, let's stay calm and confident but clearly also focused on the most important levers to manage our performance.

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Q2 2022 Sales[1] development – All divisions were impacted by China lockdowns in Q2, even if to a different extent

	% of Group sales Q2 2022	Q2 Sales growth[1]	Automotive Technologies 59%	Automotive Aftermarket 13%	Industrial 28%
Europe	43%	+7.6%	+2%	+1%	+25%
Americas	23%	+16.3%	+20%	+12%	+9%
Greater China	20%	-12.5%	-15%	-10%	-8%
Asia/Pacific	14%	+6.6%	-1%	+33%	+20%

Q2 Sales growth[1]

[1] Q2 FX-adjusted sales growth, please refer to the Interim Report for further details

Page six now gives you for the second time a mix in terms of top line, both from a divisional point of view but also from a regional point of view.

The numbers speak for themselves. I don't have to comment more. If you just look at the darker blue boxes, minus 12.5% in China, a new experience for us. On the other side 16.3% growth in Americas, and good growth in Europe and Asia/Pacific tells you how important it is to not only be multidivisional, but also multiregional.

If you then look at the share of Sales by the divisions, the share of Industrial in the second quarter is further increased to 28% now. You see the growth rates here and you see how much it makes sense to be an integrated Automotive and Industrial supplier.

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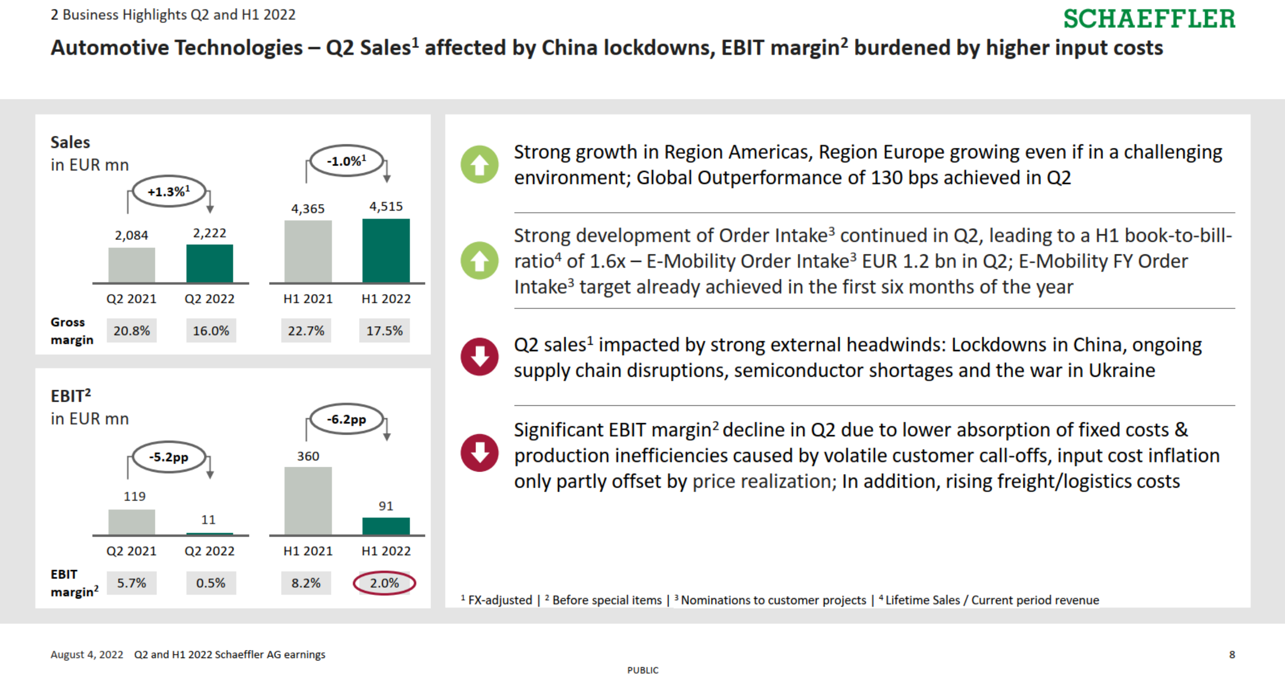
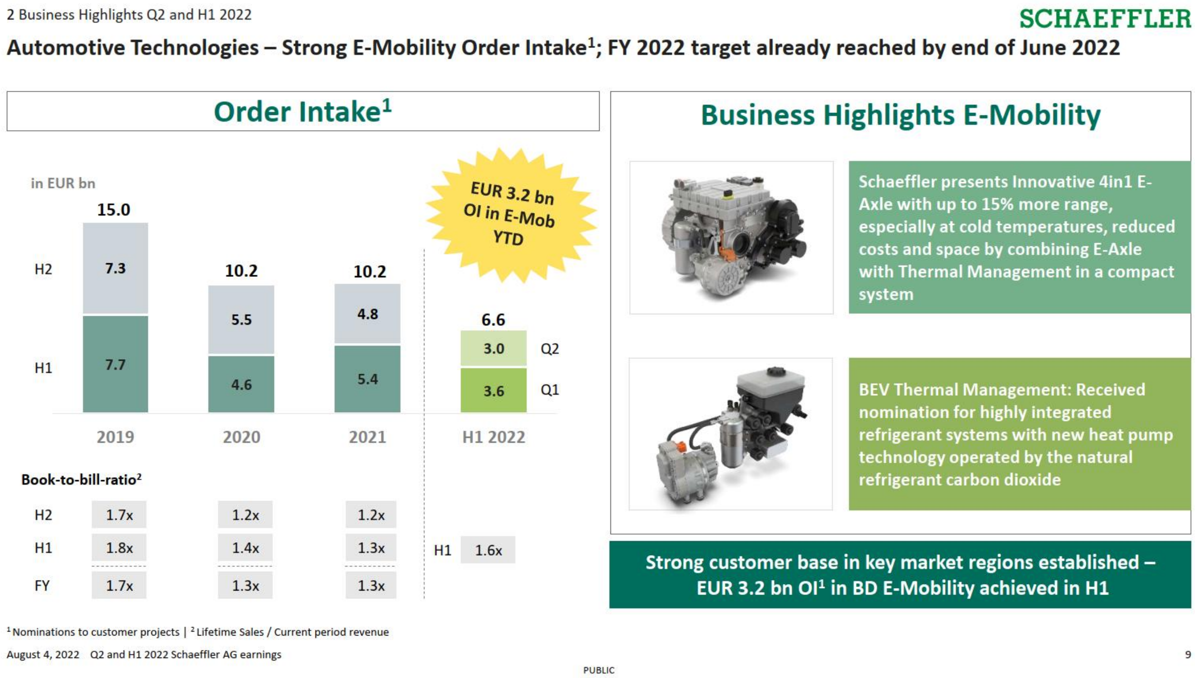
Agenda



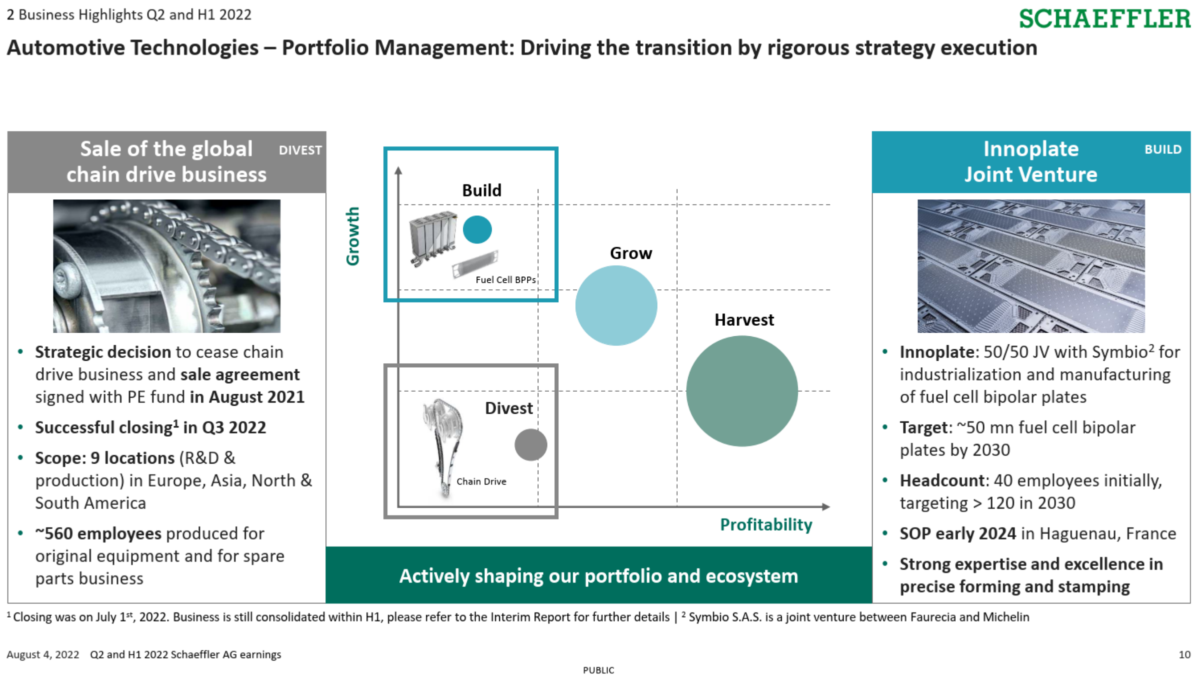
In terms of the business highlights, I will go through the pages with the key figures quickly because most of what is written down here, I've already said, and Claus will explain it in more detail.

You see the 2% EBIT for the first half, clearly disappointing when we think about H1 2021. But okay if we consider the environment, positive as I said the strong development of Order Intake in particular in E-Mobility.



And here, let me immediately go to the next page. You have it in more detail there. What drives all of this is the focus of Schaeffler on its solutions and product offerings. We are very happy with our 4in1 E-Axle that comes with up to 15% more range and is a very balanced and interesting offering, including the Thermal Management module and also the best Thermal Management module as such is a strong achievement. It received nominations for highly integrated systems with a new heat pump technology.

Also, something where we think in future CO2 emission reduction and green product will play a more important role. In terms of Automotive Technologies, apart from the product development and the new technologies, I would also like to say a word on the Portfolio Management.



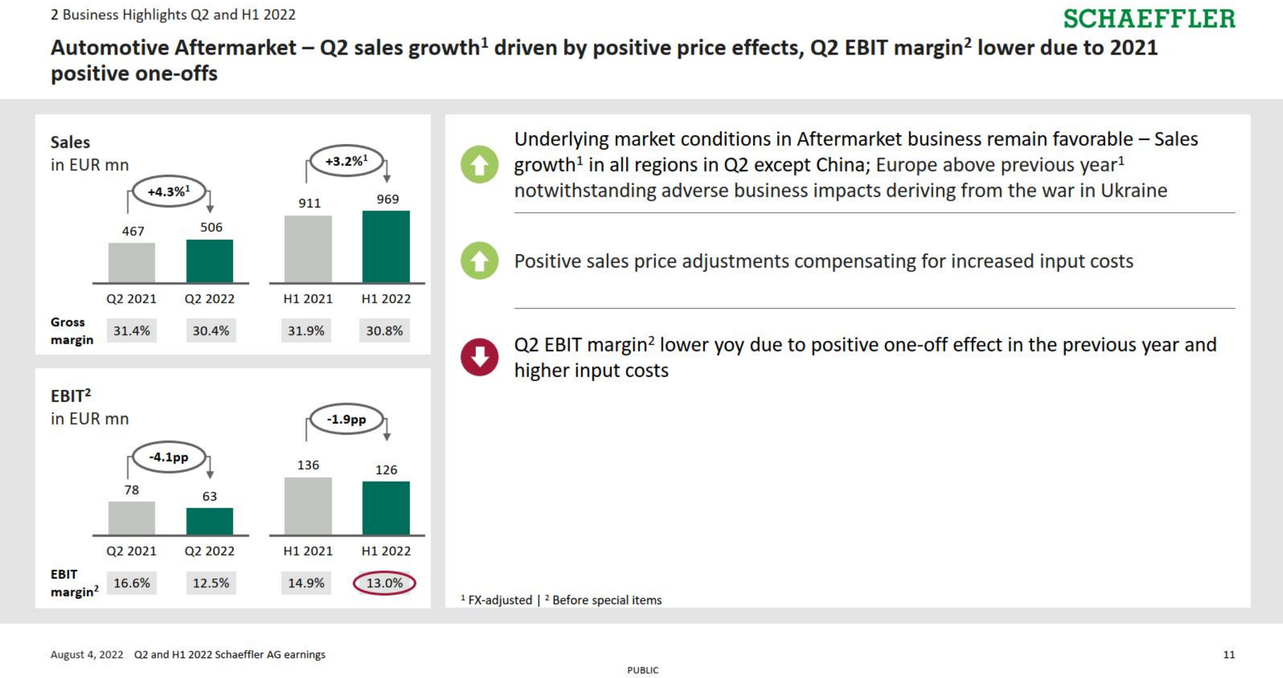
Please go to page ten and you see here that we are actively shaping our portfolio and further building the Ecosystems in which we're operating.

This is an interesting example, because you all know as part of SPACE, we announced to sell our global chain drive business that was already agreed with a PE fund in August 2021. And we successfully closed this now in the first days of July. Nine locations had been carved out, R&D input and production in Europe more or less seamlessly without any hiccup with customers. A complex transaction but very well executed.

560 employees will leave the P&L. And we are clearly happy that this smaller divestment has happened now. It reduces risk, it reduces capital employed and it will help us to reshape the portfolio. On the positive side on growth and building the future, you all know about the joint venture Innoplate that we announced at the end of June, together with Symbio.

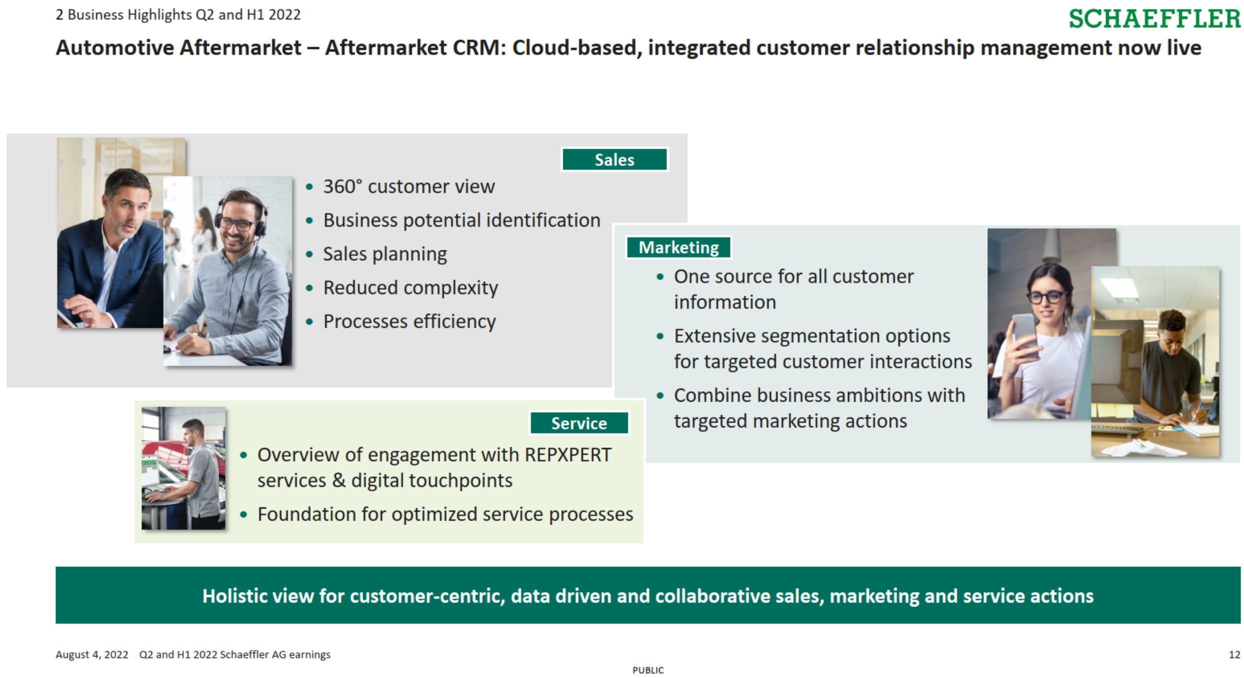
It's clearly something where we see increasing interest in fuel cell systems, the idea to focus on what we do best with fuel cell bipolar plates has clearly been the driving force here. And we are happy with this joint venture, it's progressing well, it's gained a lot of interest from customers. And we will exactly demonstrate here our top experience and excellence in precise forming and stamping.

So, two examples, not the biggest examples, but examples that show that we're driving the transition, that we are rigorous in terms of executing what we promise. And that gives me a lot of confidence, but also further steps will bring this company forward.



Automotive Aftermarket, I already said it all. In this environment where we may even see a situation where people will rethink buying cars but rather repair, it is exactly the right position for future growth.

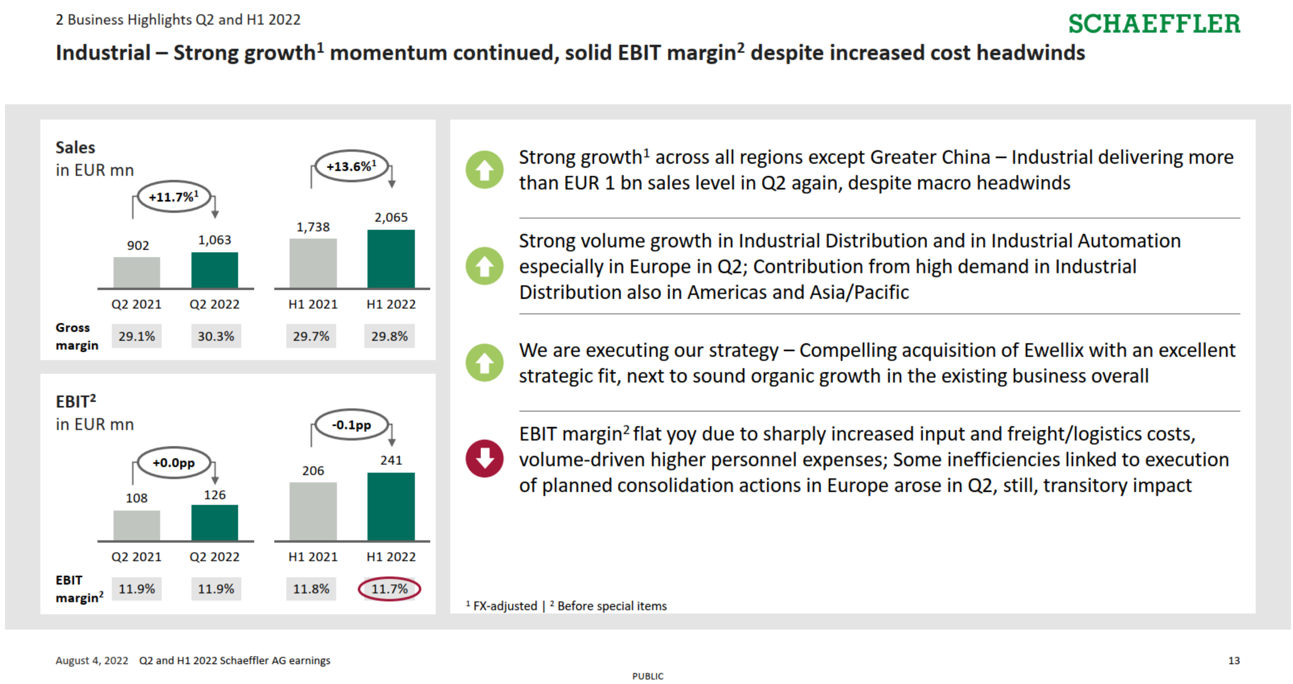
13% margin in H1 is a strong margin. Don’t forget the 14.9% in H1 2021 had a significant positive one-off that should be deducted. So, the margin is more or less in line with H1 2021.



Let me show one example here, what is important, we all said that Aftermarket is a division that has its own challenges and clearly digitalization, a more focused customer relationship management is of the essence.

And here I can say we're happy that we have now our new cloud-based integrated customer relationship management tool live. It shows a lot of activity, makes the life of our sales team much easier. And Jens is very much focused here on more customer-centric data driven marketing driven actions. And that will help us to continue to grow that business.

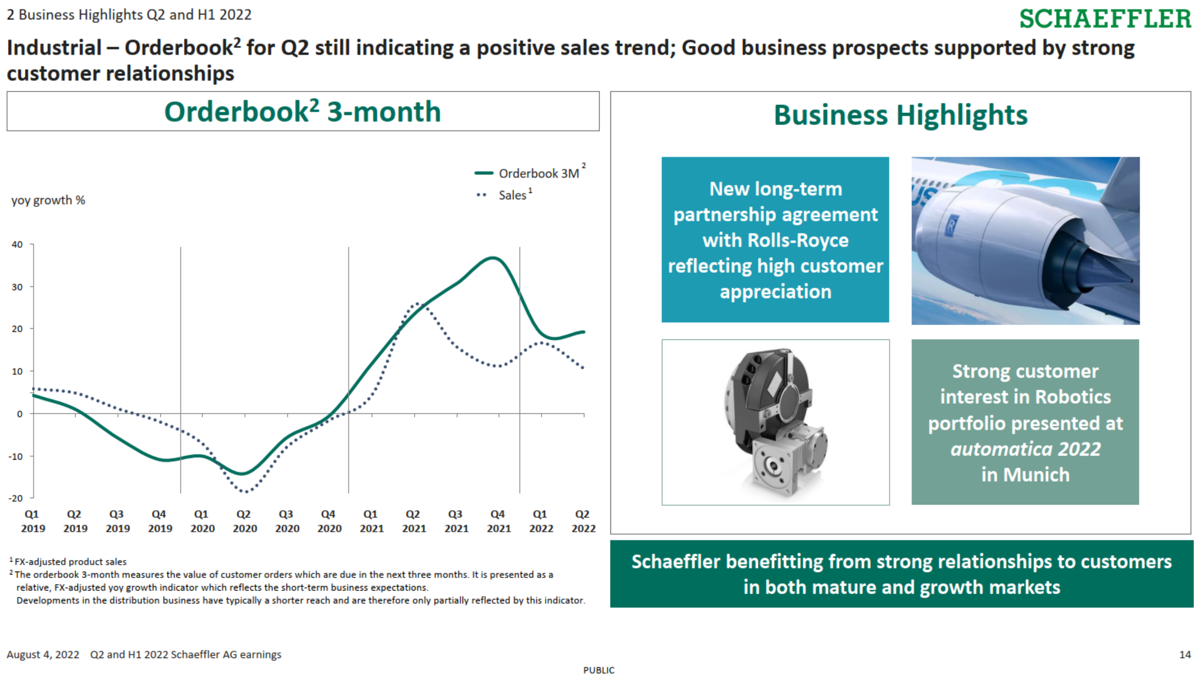
And Jens is now in his new role for some months, and I can say I'm happy to see how he manages the division and how he continues to show excellence in its operations.



Industrial, I think a little bit the star in the second quarter. Strong growth across all regions except China. Clearly strong volume growth in the Industrial division distribution area. But also, in areas like in Industrial Automation that we see as key growth drivers going forward.

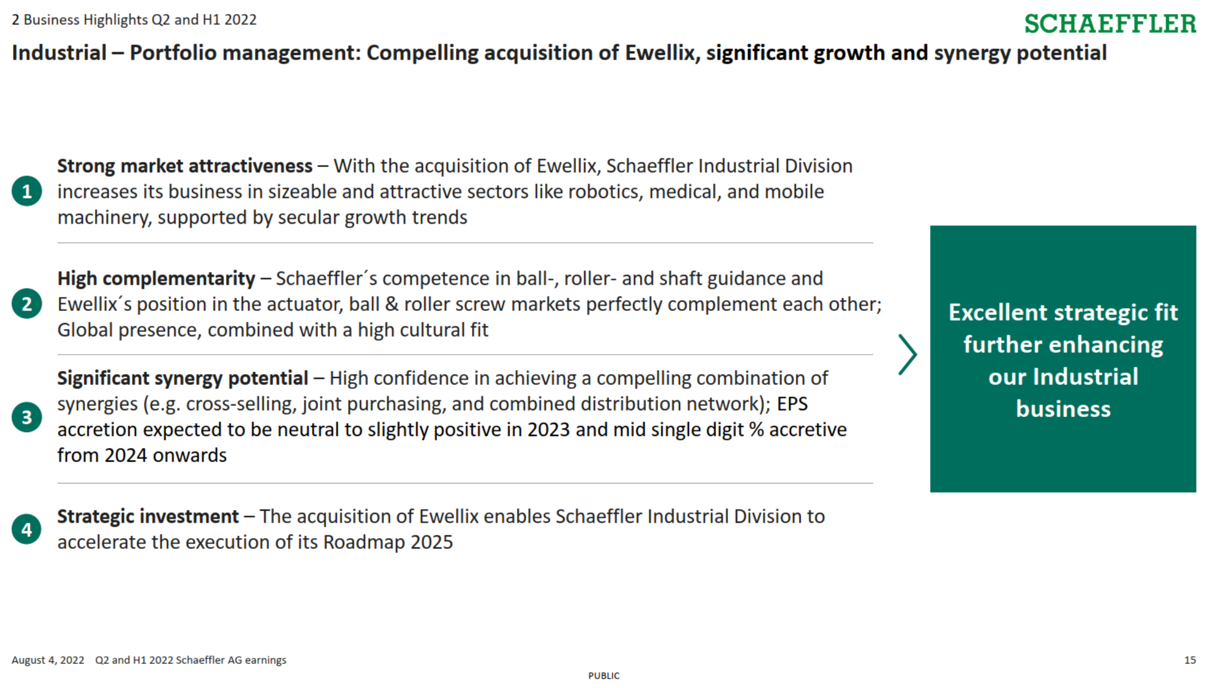
Regionally, a good mix that we observe. And all of that tells you that we are focused on driving this division forward. We're executing our strategy, you saw Ewellix with the excellent strategic fit. A pretty tough auction but an acceptable price that will help us to close certain strategic gaps and build in particular our linear business.

11.7% margin if you just see and look back it's now at a continuous level of solidly above 10%, even 11%. We are clearly committed to deliver the 12 to 14%.



And the next page, page 14, shows you that even in this environment, with an Orderbook that indicates further growth, we are positive also on the second half of 2022.

The key here is the customer relationship. I can say we have great examples here from the Aerospace, from the Robotics side and I could go on and share more of this. But the positive attitude towards Schaeffler, the competitiveness of our products and our solutions is really making great inroads also in terms of our market share.



Let me quickly just remind you, and those of you that were not part of the little call that we did some weeks ago, the portfolio addition we did here, Ewellix was announced end of July. It is from our point of view a compelling add-on to our portfolio mix, significant growth and significant synergy potential. We acquired in particular a strong team. I've been in touch with them after the acquisition and I'm impressed by the straightforward, no nonsense, we want to create value mentality of these Swedish colleagues. They will clearly deliver on what they've promised, and we are optimistic that the acquisition based on the excellent strategic fit will further enhance the value that our Industrial business will bring to the table.

Let me also add here, we know that this was a number that was bigger than the previous smaller acquisitions. We are clearly aware that our financial resources in this environment are limited, so there are no bigger other similar acquisitions in the pipeline. But we are clearly looking, as we did in the past, for smaller additive technologically driven acquisitions where it makes sense.
But nothing to be expected soon for the first priority we now need to digest and finalize the acquisition and then integrate it properly into our Schaeffler Group.

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Capital allocation – Capex prioritizing investments in growth business and regions, Capex ratio² of 4.6% in Q2

Investment¹ allocation | in EUR mn

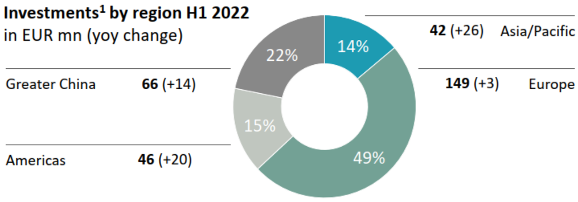
	FY 20	FY 21	Q2 21	Q2 22	H1 22
Automotive Technologies	378	428	84	117	198
Automotive Aftermarket	26	20	4	7	12
Industrial	234	223	43	50	93
Schaeffler Group	**639**	**670**	**131**	**175**	**303**
Capex	**632**	**671**	**136**	**175**	**331**
Capex ratio²	**5.0%**	**4.8%**	**3.9%**	**4.6%**	**4.4%**
Reinvestment Rate	**0.7**	**0.7**	**0.6**	**0.8**	**0.7**

¹ Additions to intangible assets and property, plant and equipment | ² Capex in % of sales

Key aspects Q2 2022

- Reinvestment Rate Target: Continued prioritization of Industrial Division and BD E-Mobility; <0.5 in BD Bearings and Engine & Transmission
- Automotive Technologies: Capacity expansion and machinery investments for E-Motor components in China and Mexico
- Industrial: Further investments in building a new Industrial production hall in India and capacity expansion in South Korea
- UPDATE Capex FY 2022: Around EUR 750 mn (previously: EUR ~800 mn)

Investments¹ by region H1 2022
in EUR mn (yoy change)



August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings 16

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Capital allocation is my last page, 1. We can say that Capex spend was still prioritized and will continue to be prioritized along the capital allocation logic that we have introduced. The idea of the Reinvestment rate pays off.

Those that grow get more than one, those that don't grow or will not grow in the future get less than one. That's an easy scheme. The 303 million you see is slightly less than what we wanted. It has to do with the fact that some of the projects cannot be realized in this environment as quickly as we wanted.

The plan is still to continue, maybe with some shift of Capex spend also into the new year. But we see that the execution of our plans is done properly. And we have, as you saw, updated our Capex indication for the rest of the year from around 800 to around 750. Let's see how that goes. In any case, we will not stop reasonable investment for customers and for growth.

But we will continue to be disciplined in overspending and spending in the wrong areas. With that, Claus, I will hand over to you. Thank you very much.

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Agenda

1 Overview

2 Business Highlights Q2 and H1 2022

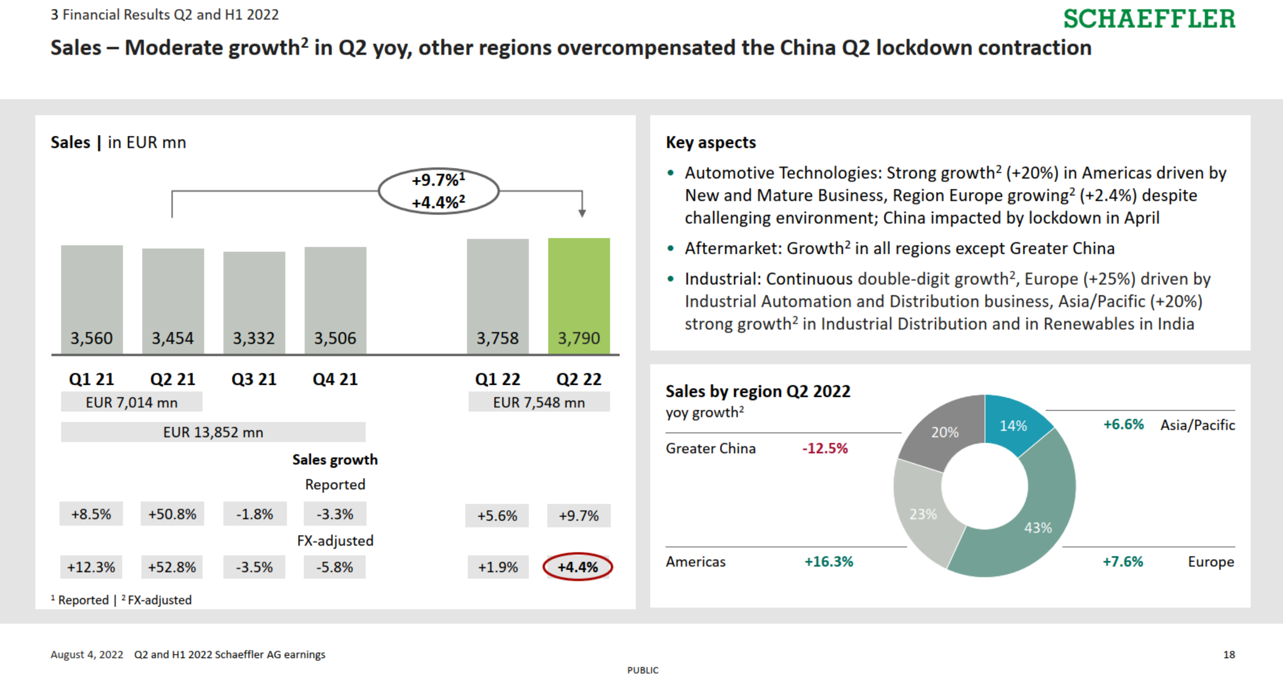
3 Financial Results Q2 and H1 2022

4 Outlook

August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings PUBLIC 17

Claus Bauer

Thank you, Klaus. The second quarter was certainly extraordinary. Go to the next page.



As you might remember, we reported already in our Q1 call that the second quarter was anticipated to be our most challenging due to the COVID induced lockdowns in China that Klaus already mentioned. It is worth to go into more detail. We talked to you about our campus in Taicang. And it may be different than other players in the market beside the indirect supply chain implications. We really were impacted with the shutdown of our biggest campus in China. Therefore, we lost around 60% of our production volume, and 50% of our sales in China for the month of April.

You see that also reflected in the pie chart on the lower right side. But where you see China with minus 12.5%, definitely a number that we have not been used to in the past. Nonetheless, as Klaus already mentioned, we achieved also for the quarter against a pretty good prior year still a slight sales increase of foreign exchange adjusted 4.4%. Which, and we will go into more detail also, is mainly driven by our pricing actions to recover the input cost inflation.

3 Financial Results Q2 and H1 2022

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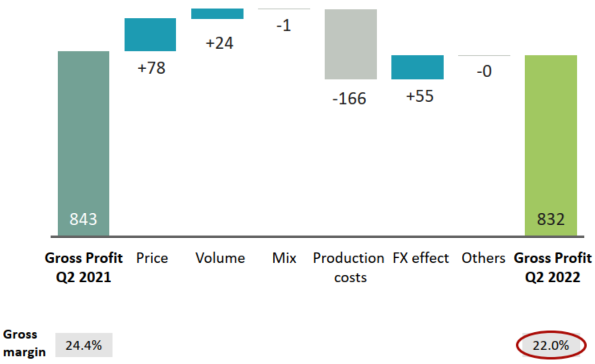
Gross Profit – Partial compensation of higher production costs thanks to overall positive pricing and increased volumes

Gross Profit Q2 2021 vs. Q2 2022 | in EUR mn



Key aspects

- Pricing realization: Sequentially further improved in all divisions even if to a different extent
- Volumes: Positive effect mainly due to strong development in Industrial in Europe, Americas and Asia/Pacific
- Production costs: Higher yoy in all three divisions due to continued higher raw material costs in Q2 and further increased energy and logistics costs; Production inefficiencies due to volatile customer call-offs and supply chain interruptions ("Stop & Go")

Gross margin

in % of sales	Q2 21	Q2 22	Q2 22 vs. Q2 21	H1 21	H1 22	H1 22 vs. H2 21
Automotive Technologies	20.8%	16.0%	-4.8pp	22.7%	17.5%	-5.2pp
Automotive Aftermarket	31.4%	30.4%	-1.0pp	31.9%	30.8%	-1.1pp
Industrial	29.1%	30.3%	+1.2pp	29.7%	29.8%	+0.1pp
Group	24.4%	22.0%	-2.4pp	25.7%	22.6%	-3.1pp

August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings 19

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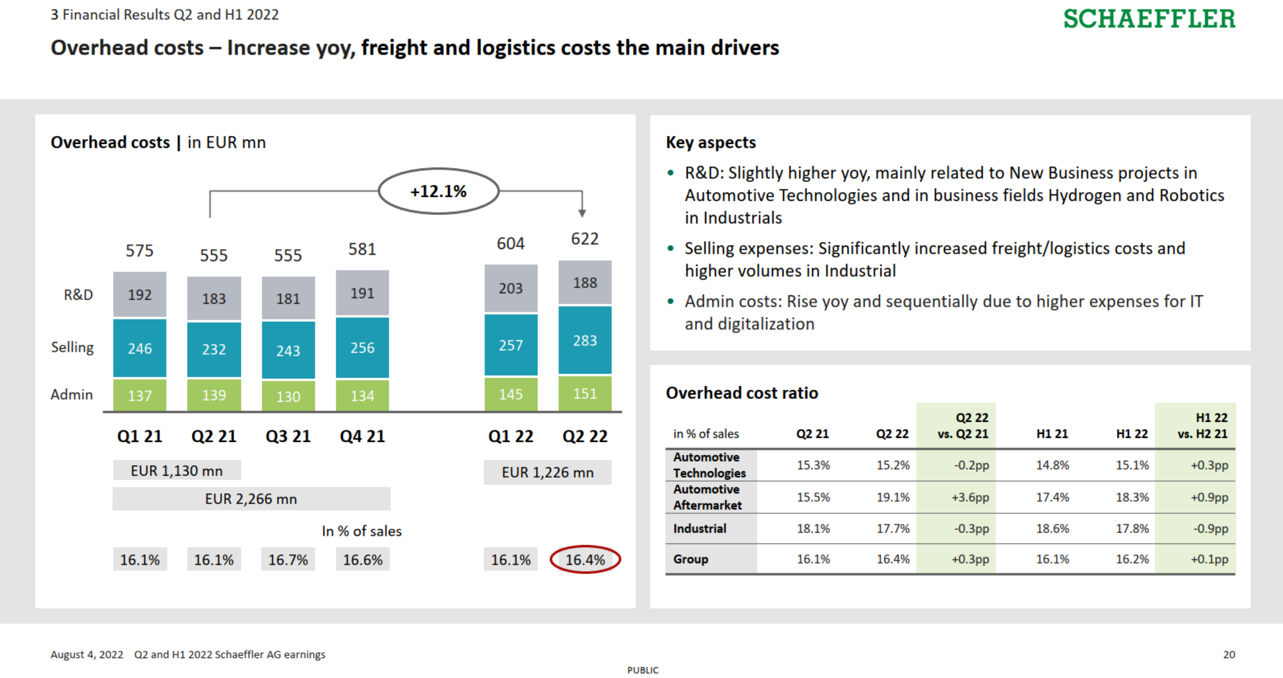
From a Gross Profit standpoint, the China lockdown, as you can imagine, since we were impacted with our most significant campus there, added to the production costs. You see that in the bridge in the middle. That's not just the material price inflation, that is also a significant fixed cost under-absorption contribution from our China lockdown.

And it's then, as we already explained to you in the Q1 call, we then had to ramp-up this campus in a so-called closed-loop production that caused additional costs and inefficiencies. What you also see here the plus € 78 million in price that I will break down more in the divisions.

Automotive Aftermarket and Industrial are close to a full recovery of the input cost inflations and Automotive Technologies, we are technically done with our negotiations with our customers. We have reached acceptable recovery ranges. The execution comes with a little bit of time delay, so you don't see that necessarily fully in Q2, but there will be a catchup impact then in Q3 and in Q4 due to this retroactive lump sum catchup for the first half of the year.

Other impacts on the production costs you see also mentioned here in the key aspects. Due to the very complicated supply chain circumstances, not just with the China lockdown but also volatile customer call-offs and other supply chain interruptions, semiconductors, to name only the most prominent ones, and the induced Stop & Go in our factories also cost some inefficiencies from a production cost standpoint.



If you go into the overhead cost, then you'll see an increase year-over-year. And if you look into the detail, you'll see that increase is mainly driven by selling expenses, there you see reflected unsurprisingly two things. First, our very significantly higher volume in Industrial.

Industrial sales come differently than Automotive OEM sales come with outgoing freight and logistic expenses. And therefore, with the increased volume, the selling expenses also increase. And secondly, you would see the significantly higher cost for freight and logistics reflected here. There is one other obvious number on that slide, you'll find on the lower right with the Automotive Aftermarket having a 3.6% higher overhead cost ratio and Klaus mentioned that already in his highlights. But that is mainly due to the positive one-time impact that we benefited from in Q2 of last year. Where we got a cost reimbursement from a service provider, a significant amount.

3 Financial Results Q2 and H1 2022

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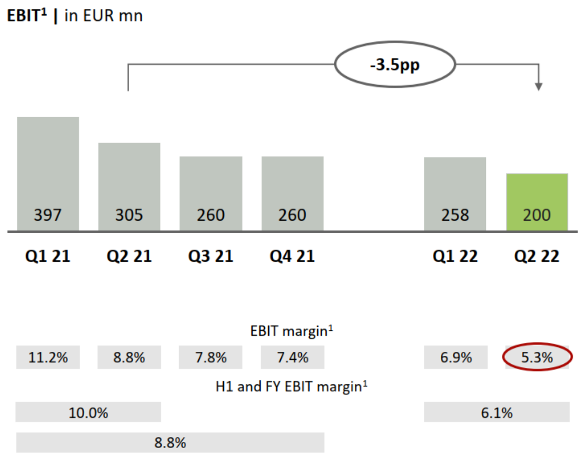
EBIT[1] – Solid margin in Industrial and Aftermarket, decline in Auto Technologies due to stronger headwinds



[1] Before special items

Key aspects

- AT margin: Significantly declined yoy driven by lower absorption of fixed costs, production inefficiencies caused by volatile customer call-offs & China lockdown, input cost inflation (incl. freight and logistics costs)
- AAM margin: Impacted by positive one-off effect in previous year and higher input costs
- Industrial margin: Flat yoy, sharply increased input costs offset by volume and price; Production inefficiencies due to footprint consolidation and supply chain interruptions

EBIT margin[1]

in % of sales	Q2 21	Q2 22	Q2 22 vs. Q2 21	H1 21	H1 22	H1 22 vs. H2 21
Automotive Technologies	5.7%	0.5%	-5.2pp	8.2%	2.0%	-6.2pp
Automotive Aftermarket	16.6%	12.5%	-4.1pp	14.9%	13.0%	-1.9pp
Industrial	11.9%	11.9%	0.0pp	11.8%	11.7%	-0.2pp
Group	8.8%	5.3%	-3.5pp	10.0%	6.1%	-3.9pp

August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings 21

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The EBIT pretty much follows what we discussed in Gross Profit and Overhead expenses, what you would see, and Klaus mentioned the 5.3% EBIT would have been more in the range of 6.1%, 6.2% if we didn't have the China impact in April mainly. So, we would be for the first half of the year in the range of 6.5%. But also interesting is Q2 with 200 million you see a significant drop. But if you add back the China impact, then from an absolute standpoint, you see both Q1 and Q2 we are nominally in euros at the same level as we have achieved in the second half of last year.

And with a 6.1%, so despite China and other challenges here, we are obviously in the middle of our guidance of 5% to 7%. I will not talk about the details in the division because I will talk to that on the next slides.

3 Financial Results Q2 and H1 2022

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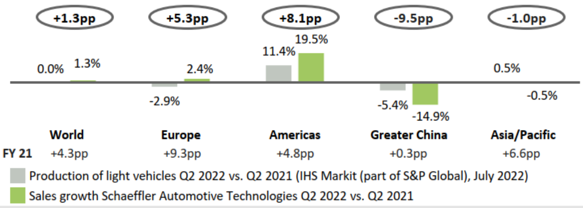
Automotive Technologies – Growth[1] in New Business, EBIT margin[2] sharply burdened by increased input costs, volatile customer call-offs and declined overall volumes

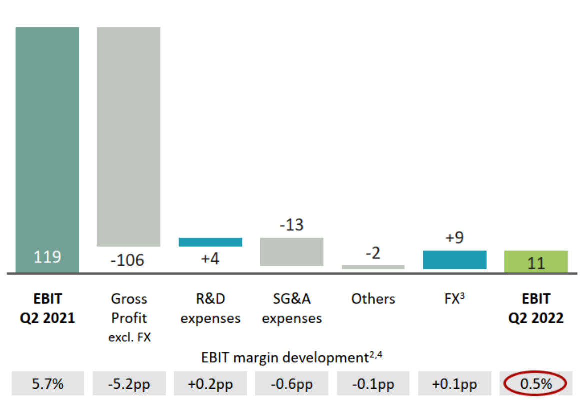
Sales by business division | yoy growth

	Q2 2021	Q2 2022	Δ[1]
E-Mobility	259	294	+7.9%
Engine & Transmission	1,143	1,211	-0.1%
Bearings	615	631	-1.7%
Chassis Systems	66	86	+27.4%
Total	**2,084**	**2,222**	**+1.3%**

Outperformance: Sales[1] vs. market development in Q2



EBIT[2] Q2 2021 vs. Q2 2022 | in EUR mn



[1] FX-adjusted | [2] Before special items
[3] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses
[4] Percentage values do not sum up due to isolated calculation of each individual effect

August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings 22

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Automotive Technologies, again, it became clear already in Klaus's section that most of the China impact and also other difficulties hit mainly Automotive in the second quarter. Automotive therefore had for sure a very challenging quarter. Nevertheless, you see on the top left that we grew significantly in our new business areas, E-Mobility and Chassis Systems. But as you see in Engine & Transmission and Bearings, and if you remember our Q1 calls, there was a significant negative number in these two mature business areas, but you see they almost break even with last year, adding to a beneficial mix this year. The EBIT bridge on the right side, what jumps to the eye immediately is the Gross Profit deterioration of 5.2%. Of this 5.2% deviation to the prior year Q2 around 50% would be a recovery gap that is still existent in the second quarter between input cost inflation and our recovery.

The recovery so far has mainly been achieved in avoidance of contractual price reductions. All the negotiations for positive price on top of it will mainly hit even with retroactive adjustments and lump sums in the second half of the year. Around 30% of that Gross Profit impact is related to the volume and fixed cost under-absorption impact of the Chinese lockdowns.

And around 20%, so 1 percentage point is attributable to the actions on the shop floor to adapt to the volatile environment. I almost don't want to call it inefficiencies because it's obviously very efficient to adjust flexibly to these situations but nevertheless you can also imagine that if you have to react ad hoc to a new situation that is jeopardising your optimal cost structure in the production.

If you look at the 0.5% EBIT for the second quarter and Klaus already said it, not what we aspire to. But if I now would add back the China impact and also the price recovery that is already negotiated but will only hit in the next half year, we would have been in the range of 3%, which then would also be safely above our guidance for this year and that supports our view for a recovery, also from a margin standpoint in the second half of the year. And therefore, also maintaining our guidance in every aspect. The outperformance on the left side if you read the outperformance for the entire quarter, the entire world with 130 basis points, clearly below our guidance that starts at the low end of 200 basis points, but we also indicated that for the total year we will be at the rather upper end of our guided overperformance. So, more in the 400 to 500 basis point range. But if you look at the detail, you see why. And you see healthy outperformance in Europe and Americas. Asia/Pacific it’s a break even. But from a volume standpoint not so significant for us.
And then you see the big underperformance in China. We will then see reflected our special situation in China where we also have been not indirectly but massively directly impacted by the lockdown in our Taicang campus. Klaus said it also, we never want to take too much attention to this metric on a single quarter basis, but rather on longer term and with the recovery in China, we see healthy volumes there. And therefore, still think that we will outperform the general market at the upper end of our guidance.

3 Financial Results Q2 and H1 2022

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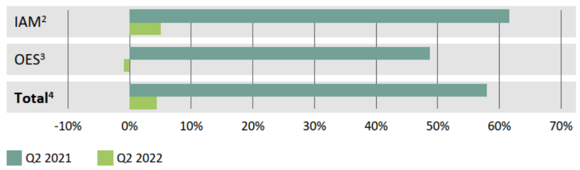
Automotive Aftermarket – Moderate growth[1] driven by Americas and Asia/Pacific, EBIT margin[5] down yoy due to positive one-off impact in Q2 2021

Sales by region | yoy growth

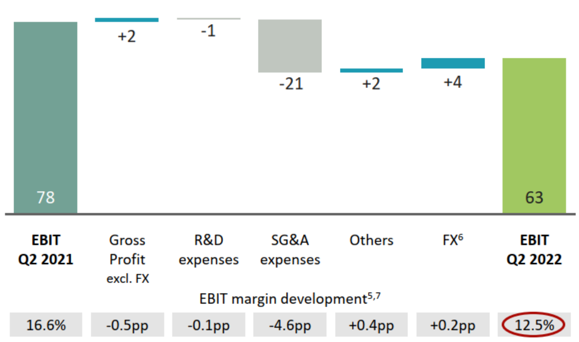
	Q2 2021	Q2 2022	Δ[1]
Europe	332	337	+1.2%
Americas	86	110	+12.4%
Greater China	26	26	-9.5%
Asia/Pacific	24	33	+32.7%
Total	**467**	**506**	**+4.3%**

Automotive Aftermarket sales growth by channel[1]



[1] FX-adjusted | [2] Independent Aftermarket | [3] Original Equipment Service | [4] Contains E-Commerce sales and sales to Automotive suppliers in addition to IAM and OES | [5] Before special items

EBIT[5] Q2 2021 vs. Q2 2022 | in EUR mn



[6] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses
[7] Percentage values do not sum up due to isolated calculation of each individual effect

August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings 23

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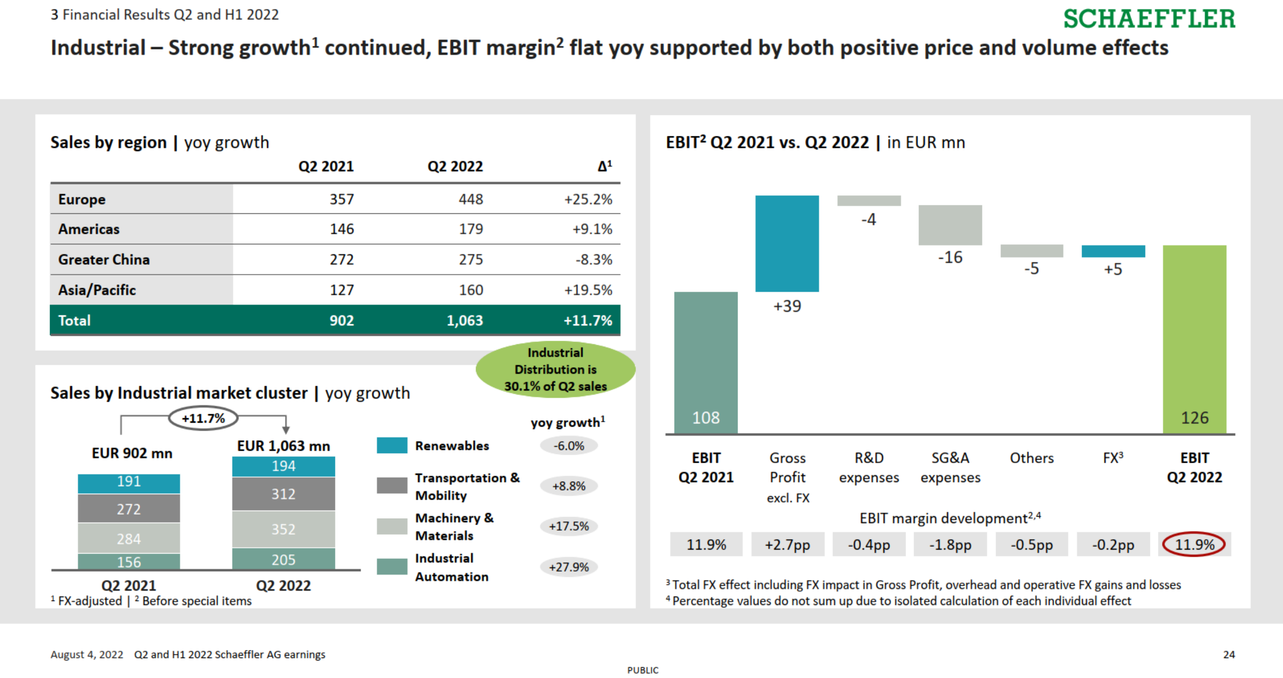
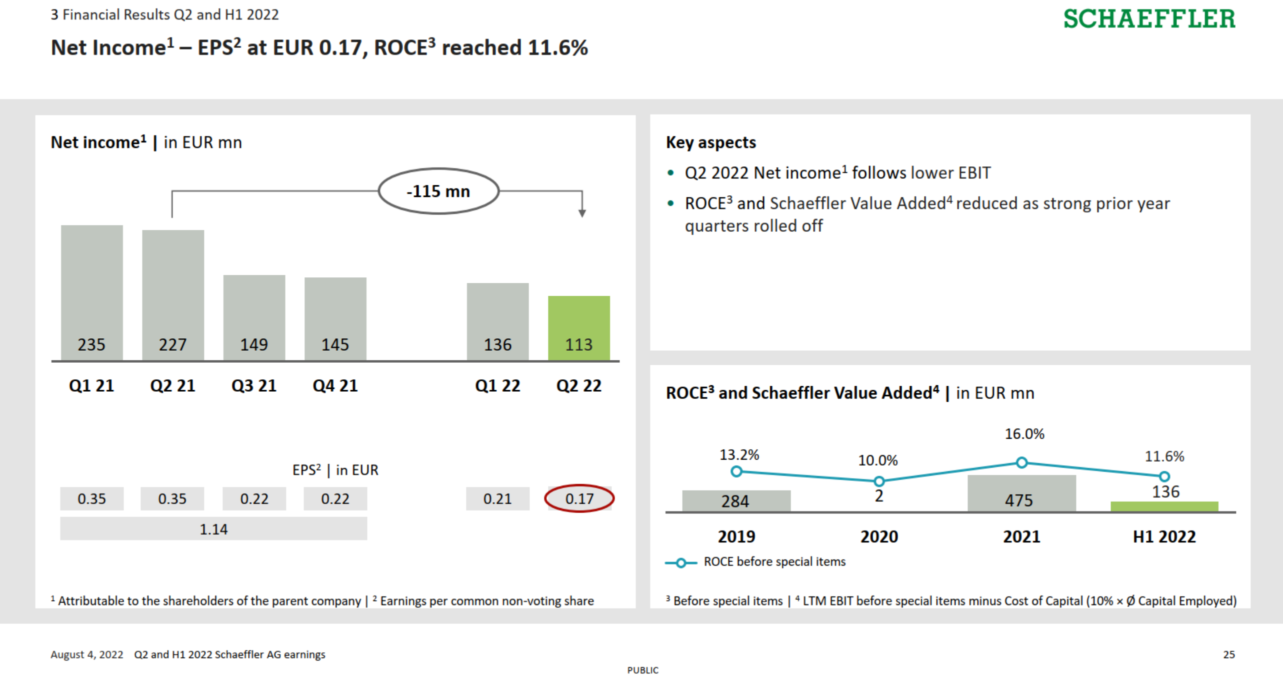
Automotive Aftermarket, on the next slide, you see a moderate growth, highly also driven by the price recovery in the top line.

China impacted also here, not as prominently as in Automotive Technologies but also a significant warehousing location was impacted by lockdowns and then you also have the supply chain impacts that all of us experienced, Industrial experiencing with the situation in China. But nevertheless, you see China also significantly down for that reason.

But the other regions break even or a significant growth as Klaus already said in the headlines, Americas and Asia/Pacific with significant growth. And on the EBIT bridge, you see here the minus € 21 million in SG&A expenses there. That is the significant one-time impact from the prior year that we didn’t have this quarter. It’s about half of that and then the rest is the increased logistic cost mainly due to price end rates in freight and other logistic services.



For the Industrial division you see the China impact here as well. It's almost tiresome to always mention China but it is an impact that we have. More logistically driven here, also here similar to the Automotive Aftermarket, not so much production driven. Our Taicang campus is highly related to Automotive production, but you see a healthy growth in our other regions. If you go down, then you see that also our market clusters reflect good growth rates, except Renewables, which then again is mainly in China and mainly a Wind impact here. If you look at the EBIT bridge on the right side, then you see here a significantly positive contribution in the Gross Profit or from Gross Profit, that reflects first of all a significant volume increase. But then also a satisfactory price recovery approaching almost full recovery of the input cost here. And then if you go to the right, you see SG&A expenses, that is the volume impacting higher outgoing freight. But also, the price impact for logistics that I already talked about.



If we then come back to the entire Group Net Income, nothing much to say here. That clearly follows everything that I talked already about and mainly the EBIT. The ROCE and Schaeffler Value Added is mathematically and logically reduced as prior year strong quarters roll off and are replaced, especially with this challenging Q2 and that we can leave and spend time on cash flow.

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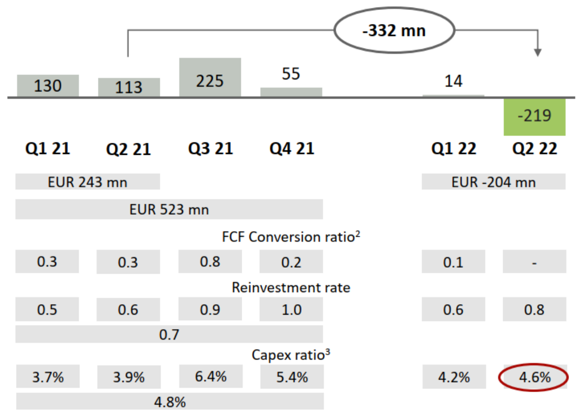
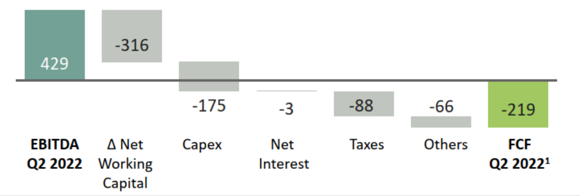
Free Cash Flow – Impacted by tactical increase in inventory and softer margins in Q2



[1] Before cash in- and outflows for M&A activities | [2] Ratio FCF before M&A to EBIT reported – Only applicable if FCF and EBIT positive | [3] Capex in % of sales



FCF Details | in EUR mn

	Q2 2021	Q2 2022	Δ Q2 22/21	H1 2021	H1 2022	Δ H1 22/21
FCF as reported	115	-218	-333	242	-265	-507
M&A	-2	-1	+1	1	61	+60
FCF before M&A	113	-219	-332	243	-204	-447
Legal cases	-5	-7	-2	-3	-9	-6
Restructuring	47	44	-2	201	204	+3
Others	6	0	-6	6	0	-6
Financing	0	19	+19	0	-16	-16
FCF bef. M&A and sp. items	160	-163	-323	447	-25	-472

In regard to cash flow, you see at minus € 219 million for the first half of the year, minus € 204 million. It's clearly driven by a softer result. But then mainly also by increase of working capital and here in that regards mainly an increase of inventory. We increased inventory in the first half of the year in the range of € 500 million.

Around half of that would be price, so value and FX impacts. But the other half is increased volumes in inventory that is due to that we wanted to be flexible and not cause further interruptions in our production due to missing inventory. So, there's some tactical safety net in that inventory, I have to say all of that is technically safety net.

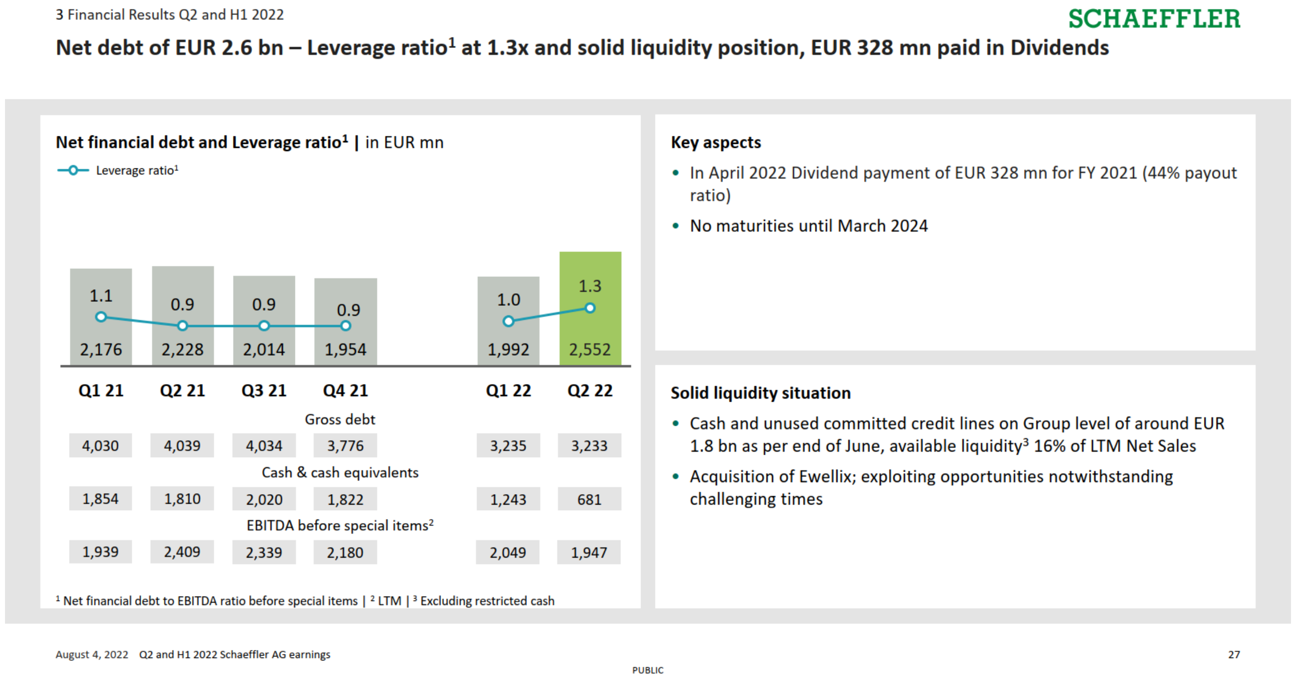
We think that we are at the end of the first half of the year, at an inflection point and will from now on be able to comfortably exploit all the opportunities that will come up in the second half. And if anything, then we will reduce inventory throughout the second half of the year.

That now maybe also is already if you followed my numbers, they are not explicitly written here, but if you follow them mathematically, that also explains to you how with a negative cash flow of minus € 204 million we still are confident to meet and beat our guidance of greater € 250 million. We increased, as I said, inventory, € 500 million in the first half of the year.

That increase will not happen in the second half of the year, it will rather be reduced. Let’s say, for example, € 100 million, maybe € 150 million, then you already have a swing of plus € 600 to 650 million. We have lower restructuring pay out in the second half of the year than we had in the first half of the year of around € 100 million.

Then if you read our document here, we also think that there will be slightly higher Capex, so I’ll deduct another € 100 million, just roughly speaking. But if you add all that together you are easily in the range of a € 600 to 700 million swing without any further actions of cash flow. We had minus € 200 million in the first half of the year. If you’re now at € 400 million or 500 million, then you’re between plus € 200 and 300 million for the total year. And add a bit of improved operation performance, no further China lockdown and I think all our peers and we also are rather optimistic that the second half of the year at least doesn’t get worse. And then you are in the range of our Guidance, greater than € 250 million.

Maybe one last comment on this slide on the lower right, you see what Klaus already alluded to, the restructuring pay out was exactly – it’s a coincidence € 204 million. So, if you now take that out then you can for the sake of defining the cash flow you can say the underlying cash generation is still close to break even, maybe even positive, even under the challenging circumstances that we faced, especially in the second quarter.



Let's come to Net Debt. The leverage ratio is at 1.3x. That is a function of the softer EBITDA and then also the dividend pay-out of 328 million that happened in April. So, clearly, as I also said in regard to where we see the second half of the year from cash generation but also profitability, a high point and approaching the 1.0 again towards the end of the year, excluding the acquisition of Ewellix.

Ewellix has an impact around 0.4 times on our leverage ratio. There are no maturities until March 2024. And our available liquidity with 16% of last 12 months net sales, let's say it's still comfortable and allowed us to be opportunistic about the acquisition of Ewellix.

With that, I'm at the end of my section and will hand over to you Klaus.

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Agenda

1 Overview

2 Business Highlights Q2 and H1 2022

3 Financial Results Q2 and H1 2022

4 Outlook

August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings

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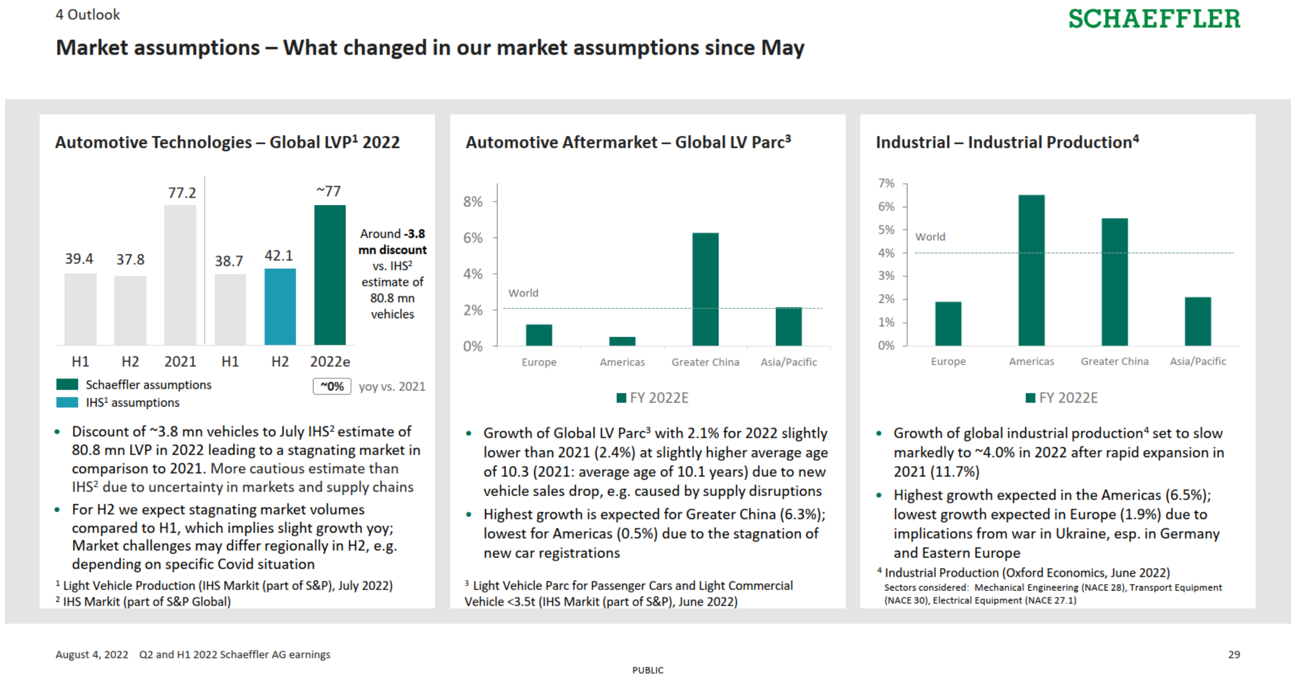
28

Klaus Rosenfeld

Yes, thank you Claus. Let me, before we come to the final page, quickly talk about the outlook and the guidance that we confirmed.



As you know, a guidance is only as good as its assumptions. You have the assumptions on page 29. And there are two main things that I would like to comment on. One is Automotive Tech. You know that in July, IHS figures rather point to 81 million. Our guidance is still more conservative on that than that. We think that it's rather in the 77, 77.5 million range. If you take that number and look at the chart, the blue number, the H2 number, is the IHS assumption. Our assumption would implicitly be lower, but still point to some market growth in H2.

The number is in the range of 38.7 million. And that's slightly above the 37.8 million in H2 21. So, a bit of growth but not a market assumption that we think is maybe too optimistic given the environment. That's the one thing I would like to mention. As I said, we all believe the challenges will continue and it's rather prudent to be on the conservative side.

The second thing is Automotive Aftermarket. You know that when we talked about our Mid-term Target, we rather used a global GDP gross figure. And Jens had a very convincing case here to say that's not really a good indication for where my growth is coming from. So, we introduce now what he calls the Global LV Parc, carpark growth. That's what we introduced here. It's also an IHS market figure. And that will be used going forward to indicate where he stands. And there, you see that at the moment this figure on a global basis is around 2%. Also, here, we are confident that this is prudently conservative, and we have a chance to outperform that number. And on Industrial logic, the metric has been unchanged.

Here you can clearly see that we are outperforming the global Industrial Production growth figure.

FY 2022 Guidance – Outlook for all metrics confirmed

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Group Guidance

	Actuals FY 2021	Guidance FY 2022
Sales growth[1]	10.2%	**6 - 8%**
EBIT margin[2]	8.8%	**5 - 7%**
Free Cash Flow[3]	EUR 523 mn	**> EUR 250 mn**

[1] FX-adjusted | [2] Before special items | [3] Before cash in- and outflows for M&A activities
[4] LVP (IHS Markit (part of S&P), July 2022)
[5] LV Parc for PC and LCV <3.5t (IHS Markit (part of S&P), June 2022)

Divisional Guidance

Automotive Technologies		Automotive Aftermarket		Industrial	
Actuals FY 2021	**Guidance FY 2022**	Actuals FY 2021	**Guidance FY 2022**	Actuals FY 2021	**Guidance FY 2022**
Out-performance 430 bps	**Out-performance 200 - 500 bps**	13.9%	**Moderate growth**	14.2%	**Consider-able growth**
6.4%	**> 2.5%**	13.9%	**> 12%**	11.8%	**> 11%**

Market assumptions for 2022

- Automotive Technologies: LVP growth stagnating yoy (~77 mn expected) vs. 4.7% growth in latest IHS estimate[4]
- Automotive Aftermarket: Growth of Global LV Parc[5] of 2.1%
- Industrial: Increase of relevant industrial production of ~4%

August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings 30

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On that basis, the guidance for 2022 is confirmed on all metrics. We have explained it now during the previous pages, both from my side and also from Claus's side. The focus is on the 2.5% floor for Automotive. We are confident that that is achievable. It's clearly a function of profitable growth. And I can say that the first figures that are coming in for July clearly indicate that we are on the right track when it comes to further growth in the second half.

The second focus is then on Free cash flow. And while the gap seems to be bigger than in the past with the situation of Working Capital that Claus defined, I'm confident that by the end of the year we will definitely be above the 250.

Let me also say here also its early days, don't forget our logic is we want to pay a dividend out of Free Cash Flow and therefore we clearly see that as something that needs to be taken into the equation when we manage towards the end of the year that there is a decent dividend possible. This gives me the opportunity to sum it all up.

4 Outlook

Conclusion & Outlook

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1. Despite unprecedented headwinds impacting our markets, solid Group performance in Q2 – Substantial progress in Order Intake in Automotive; Profit protection contribution from Aftermarket and Industrial, next to growth
2. Tackling the market headwinds – Proactive mitigation and adaptation to ensure highest effectiveness of our production facilities, while at the same time progressing in price realization on the commercial side
3. In Industrial, compelling acquisition of Ewellix, global manufacturer of actuators and linear motion solutions – Excellent strategic fit further enhancing our Industrial business
4. Staying the course – Secular growth drivers intact, clear transformation path in Automotive, preparedness in case of GDP/Industrial production headwinds – We execute our Roadmap 2025 priorities and will adapt to market conditions, cost discipline continuing
5. Uncertainty remains high on headwinds intensity for the remainder of the year – FY 2022 Guidance confirmed, supportive Automotive topline expected in H2, strong cash generation expected in the second part of the year

Solid Q2 2022 delivery, while coping with external headwinds

August 4, 2022 Q2 and H1 2022 Schaeffler AG earnings 31

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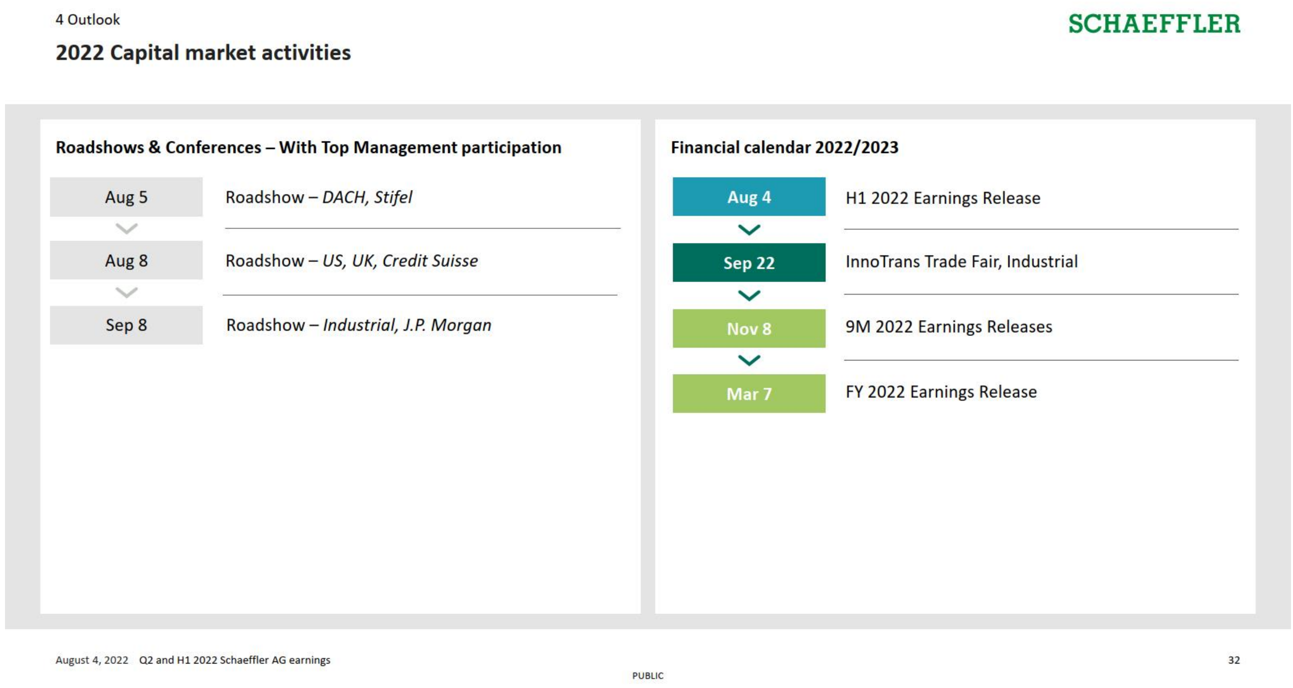
Page 31 is the conclusion page. I am not going to read all of this to you. You have it here. We have also put in the backup another slide that explains the qualifications. For sure we are not assuming a situation where all of a sudden there's a major setback in terms of energy availability. We are prepared for a situation where gas would be not ultimately available at the same levels. But this guidance is not based on a complete shutdown of the economy. You see the description of the external headwinds in page 34. On page two, let me say we are tackling these headwinds. We are for sure as usual managing with our eyes on the road and the hands upon the wheels. We are proactive in terms of mitigating, adapting what is possible in our production facilities. Claus talked about this. This is the core and one of the key strengths of Schaeffler, to manage its plans properly.

Industrial gives us also an excellent outlook going forward on a mid-term basis. We will stay the course, the secular growth drivers are intact. The transformation in Automotive is happening as we speak. We are focusing on our strategy and the Roadmap 2025 priorities.

Clearly, Sustainability is one of the key drivers. We will not cut back on that, but rather accelerate. And we have always shown that cost discipline without any radical programs is always possible. And therefore, I can say again, while there will be uncertainty, while it will continue to be tough probably also in 2023, we are confident that we can cope with these headwinds well.

And we'll demonstrate to you that we'll make the guidance, we'll generate strong cash flow in the second half and deliver what we promised.



You have the outlook also for the capital market activities, tough days, certainly will be available for Roadshows in the next days, Friday and Monday as well.

And then also have some interesting fair events in front of us. We look forward to talking to you again then on November 8th for the Q3 release. With that, we're at the end and I'm now happy to take your questions.

Q&A SESSION

Akshat Kacker, J.P. Morgan

Thank you. Good morning. Akshat from J.P. Morgan. Three from my side, please. The first one on cost inflation. You mentioned that inflationary pressures continue to rise through the P&L in the second quarter. Can you just remind us on your expectation for gross headwinds in 2022? And also, how do you expect this to evolve going into 2023 based on the situation today? Because you're seeing raw material prices come down, but you do have sustained energy, labor and other kinds of inflation. That's the first question, please.

The second one on OEM cost recoveries. Is it possible to quantify the euro amount recovered from the OEM in the first half of the year? And do you expect the net balance between inflation and OEM cost recoveries to turn positive from the third quarter onwards? There's some quantification around that would it be super helpful.

The third one on the €3.2 billion Order Intake in E-Mobility, you have previously mentioned that a large chuck of it is linked to battery electric vehicles, pure BEVs. Can you share more details on what components or systems dominate this Order Intake in the first half of the year specifically linked to BEVs, please? Thank you.

Klaus Rosenfeld

Okay, Akshat, let me start with the last one. We all know that you are very interested to know more about the Order Intake, and we appreciate this. But we have so far decided not to go into customer names. You know, other companies doing are doing that more, you know, I'm all outspoken on this, but we will stay our course here. I can tell you a significant share of the intake that came in the second quarter is BEV related.

But let me also reiterate, the black and white BEV or nothing is from our point of view, not the way forward. We still see, in particular in China, that there is still significant demand for hybrid solutions. We can debate for long how long this will last, but we also will take a profitable HEV project if it makes sense for us. I can also say that what's coming in is very much driven by our Schaeffler USPs and by our technology and therefore, I'm very happy about the quality of the Order Intake that we acquired.

In terms of OEM cost recovery, also here, you will understand that in a call like this that is transcripted and all our customers will look at what we say. We we're not going to quantify numbers we're not going to quantify numbers. What we can say Claus and then I think you alluded to this already. We are very happy with what we have achieved in the first half in terms of contractual arrangements with our customers without some very smaller exceptions where we are done with our negotiations. You know what we indicated and also by divisions, it's clearly inconceivable to assume that there is 100% sales recovery on the Automotive tax side, where we are at the moment and how this is flowing in clearly indicates to us that we are able to recover what we put in our forecast and on the Industrial and Automotive Aftermarket side it's clearly more geared towards 100% or we are happy what we are seeing in these two divisions. There is a time lag in this and whether it will lead to a net positive is something where I would say we should rather wait for Q3 until we indicate here a direction but let me stress again the work that has been done by our sales team in Automotive is really outstanding in managing this new phenomenon of sales recovery without any hiccups, without anything that is overdone. That's a great achievement by Matthias and his team.

In terms of cost inflation again, also not black and white, a mix. We don't have one steel category of numerous steel categories. If you think about the different needs for the future, then E-steel, for example, is something that has a different price development than the normal hot rolled coil. The hot rolled coil is definitely going down in the price. How this will continue remains to be seen. Production is up in particular in China. So, from the steel side we see a relaxed situation. On the other hand, energy is still high. What happens with labor is still not really clear. As long as inflation stays high, as long as unemployment is low, and we need people and that's clearly something that is different than in other years.

We need to see how we tackle this, but that's more a topic for 2023 than for 2022, Claus. But maybe that's the directional statement we can give you. Not sure whether you want to add something. For the rest of the year, I can only say again, we are confident that with what we are doing, a decent result in line with the guidance is definitely possible.

Claus Bauer

Maybe one addition here, we were very transparent in telling you in past calls that our sourcing strategy and price lock-in strategy for steel was a little bit different than in the past. Some of our steel contracts, we didn't lock in for the entire year, but only for half a year. And I think I reported in Q1 that that might be a risk for the second half of the year. Now that risk, as you said correctly, that is pretty much gone away because we see the relaxation in the steel price – in the steel market. However, I would also not see a lot of tailwinds in that regard because the prices peaked after we locked in for the first half of the year and are now coming and are close to the levels that we really have been locked in. So, I would say it's neutral for the second half of the year, but definitely the risk that we still have seen in Q1 for the second half of the year definitely went away. And now the biggest risk also then into, and you asked about 2023, the biggest risk that we are seeing right now for 2023 is gas and electricity. I mean, you are following the price peaks and spikes as we are, and we are not talking about plus minus 20%. We are talking about tripling one day, then going down by 30% the next days. So, the volatility in that market is unprecedented and despite the very small portion and I did some math also in the last quarterly call, I think based on our bill of material, if 2% of your cost structure triples in price, you still have a four-percentage point impact on your cost.

So, it has unprecedented levels that we are talking about. We are not seeing this impacting us in 2022 because we locked in early a very significant portion of our gas supply, but obviously that is only locked in for the calendar year. And therefore, it is a risk if markets will not calm down is a risk for 2023, but that's – we obviously are monitoring the situation and are tactically reacting to that. All that what I said also for 2022 obviously is under the condition that gas contracts and electricity contracts stay firm and are not opened up by an emergency three gas situation in Germany for example when we would have to free float and buy on the spot market again.

Akshat Kacker, J.P. Morgan
That's very helpful. Thank you both.

Klaus Rosenfeld
You're welcome.

Richard Carlson, Credit Suisse
Hi. Good morning, guys. Thanks for taking the questions. So, one: I actually just start off from where you left off on the gas question because I think that's the question a lot of investors have in mind right now and are worried that you guys might be in a bad position in the future. So, can you talk about your overall level of dependence to gas? Is there a way to minimize that? And then also within your own supply base, are there suppliers that you are worried about because of their gas situations?
And then second question for me, just back on the price recoveries from the OEMs, is this good news to your guidance that was not previously there that gives maybe a little bit of a cushion or was it something that's kind of been expected all year long and it's just probably finally getting to hit the numbers. Thank you.

Klaus Rosenfeld

Let me start with the last one. I would say, yes, there's a little bit of a tailwind in terms of the second half because we are you know well, expected because we have achieved what we wanted, but where we were a little bit more cautious in the first half. So, I would say it's delivered as promised, but with some headwind, with some tailwind excuse me, some tailwind for the second half. It's a function of how this comes in on the times – on the timing side.

In terms of gas, again, a situation where there is some dependency, the dependency is focused on Europe and on Germany. There is no real problem in China. There is no problem in Asia-Pacific and there is no problem in the US. But in Germany and in Europe we have a dependency on gas. I can tell you that's fully understood. That's always the first point that you need to make sure. And we have our own contingency plans, plant by plant, location by location in place. The strategy that we have articulated internally is a strategy that goes around, reduce and save. It goes about substitute and replace and also about prioritize. So, we think we can sustain a significant reduction of gas when it comes accidentally. I think we are not going to give you a number, but I give you an example. We have in particular in Germany, what is called "Blockheizkraftwerke". That's where gas is turned into electricity. If gas would be going into a shortage, we would simply go back to the authorities here and say we're not going to burn gas to produce electricity, we want the electricity from the local providers that can help us to save a significant portion of the gas that we are today using in Germany. On top of this, we have in every planned, short-term measures, but also mid-term measures. And gas dependency is typically associated with, you know, heating in winter. Some of that can be replaced by other energy sources.

Some of this we will need and that's Richard in particular when it comes to our heat treatment, their gas is not only used to create heat but also as a part of a process that it's a fraction of this. And again, if it's as long as it's not completely stopped and black and white, we think that we are on the safe side to continue production in more or less all our plants. Our contingency plans go as far that we can say if there would be a shortage that is bigger than we expected, how would we then support within the plant network with our more than 40 plants, plants among each other, because for us, the continuous or the continuity of production is important. If the German authorities would cut gas by the day and say you get five days out of seven, that would be for the whole industrial core of Germany, a problem that's fully understood. We are part of the working teams with the Ministry of Economics in Berlin to explain that

as long as we can rely on a continuous gas supply day-by-day, even if it's on a reduced basis, we are on the safe side.
On top of this, we will clearly see what we can do mid-term technology-wise to substitute gas by other, by other sources. Oil could be a source. Let me say this you loud and clear. We think that this is to some extent, although it's clearly bad for the overall situation, also a proof point. How can we go about our sustainability targets? This is exactly also a mindset problem where people can learn to say, how can we be creative in using other sources and not just go back to oil. Saving, replacing, substituting, reprioritizing. That's the nature of the game.

And I will hold another call just after this to push our key leaders to make sure that they follow that, that plan and with this having said, I am confident that we can sustain a situation where there's a shortage of gas. What would be difficult to say this also and what is not part of the guidance, if all of a sudden there's no gas available at all or all of a sudden, you know the whole supply chain stops because others can't supply their products to us anymore. That could become a problem. Do I expect this? No. Have we alerted all our, our suppliers with letters, with calls by a priority list of A, B, C, how important it is that they are still continuing to supply us with material, with rings whatsoever. That has happened. And with the, you know breadth of suppliers we have, with the understanding of our supply chains, I also feel comfortable that there is no immediate risk to be expected where there will be a complete disruption of a supply chain or a complete standstill in Germany after production. So we are, we're working through this, as I said with as a task force that is led by one of the board members for Europe. And I feel, I have to say much more confident in the middle of July than I felt in April or in May, how we are dealing with that situation. A long answer to a short question.

Richard Carlson, Credit Suisse
Very helpful. Thank you very much.

Klaus Rosenfeld
But this is not black and white. And it is a risk situation that we first need to understand and then learn to mitigate.

Richard Carlson, Credit Suisse
Very helpful, thank you.

Klaus Rosenfeld
You’re welcome.

Alexander Wahl, Stifel

Yes, good morning and thank you very much for taking my question. My first one is a follow-up on this part with the gas. First of all, can you just confirm my notes that roughly 90% of your gas supply for 2022 is locked in in terms of prices and then relate to this to your substitute and replace part of your contingency plan? I guess that's probably what you can do at this stage, but in general, if you were to switch from gas to electricity, this would basically mean you need to buy electricity at the spot market price. At this point in time, well, are there any contracts you can already agree to get a better grip on potential cost elements here? And then the second question is a follow-up on the recovery rates. I understand that you don't want to provide anything in terms of potential price tailwinds in the second half of the year. But could you elaborate a little bit on how we should think about general price tailwinds in Q3 and Q4 given that there will probably also be some components from retroactive price adjustment? Thank you.

Klaus Rosenfeld

Alexander, let me do the first one and then Claus can take the second one. If I understood you correctly, you asked whether how much of the gas supply is locked in and you mentioned 90%. That number is a good number, and it also tells us that we need to clearly when we go forward now for planning and budgeting purposes, see what that means for 2023. And the second one was a little bit difficult to understand if I got it right you said how do you go about substitution and what can you already lock in in electricity on a forward-looking basis? Without going into all detail here, that's more than a fair question. But we, what we would do is here we would not think about forward contracts like in a stock market, but you would – and that's that we have buying power. If you think about the locations where we are here in Herzogenaurach it's an easy one to go to the Stadtwerke and tell them we are about to change direction and we need this from you. Can you commit to this? So, it's more a purchasing thing that happens on a gradual case-by-case basis than a forward buying electricity in the stock market strategy.

Alexander Wahl, Stifel

Okay. Thank you.

Klaus Rosenfeld

But I can assure you, we have in particular in the rural areas where we are here in Herzogenaurach we employ 8,500 people, the mayor of this town and the ones the people that run the electricity supply companies here would be very wrong advised to not support us in our ability to manage the situation.

Claus Bauer
Klaus, I think you said I'm taking the second one. I think I have to admit, I was – were all your questions answered or is there anything open – if there's anything open, could you please repeat?

Alexander Wahl, Stifel
Yes, my second question was related to pricing tailwind on the second half. So, I understood that you don’t want to share with us any concrete figures in terms of how much tailwind you get. But in terms of modelling Q3 and Q4, could you shed some light on the retroactive price adjustment? There’s probably a component that is not sustainable, not reflective of the year, sustainable fighting tailwind.

So, could you just elaborate on how we should think of Q3 and Q4?

Claus Bauer
Yeah. So, I think if you look at the divisions, I think we were clear that for Automotive Aftermarket and for Industrial, we are there. So, I think it's safe to assume that it’s similar price recoveries as seen in Q2. For Automotive Technology, that's obviously a little bit more difficult. And as Klaus said before, especially in a public call like this, we have to be a little bit more cloudy to not give away any leverage that we would have. But I would say that there is on average a 1%-point margin improvement due to higher price recovery in the second half of the year versus the first.

Alexander Wahl, Stifel
Okay, that’s helpful, thank you.

Klaus Rosenfeld
Let me add something on this topic. You saw from other competitors the positive remarks and we are the best in terms of sales recovery. This is also a question of long-term customer relationship. And clearly of buying power and negotiation power. We have always said we want to be fair; we have a new world with inflation that we never had for the last ten years. We want to work with our customers, not only for one year but for many years. And it’s important to find the right balance here. We’re not going to overdo certain things if it’s not in the long-term interest of the company by squeezing and outsmarting customers because we may know better or we have an opportunity here that may be short-term and short-sighted.
So, think about this more like a new world where you have to be able to convince customers that this is a long-term relationship where the pain that comes in somehow

needs to be shared. But where, at the end of the day, the joint value creation story is the overarching principle. This is how we're approaching it.
You will see maybe in the next quarter it will be interesting to look at this in more detail, but I can tell you 2023 will be probably the most decisive year whether the customers come back and say and now we want the opposite direction again. Or whether they say, no, that was a fair deal in 2022 and we'll be supportive again on further price increases or more gradual developments if necessary.
It's wrong to be too short-term on this. It's important to see the whole holistic thing and be balanced. I'm not saying that we have not been aggressive, we have been exactly on the spot what we wanted to achieve, it's done for the two smaller divisions. And in Automotive we'll see how it comes in. I can only reiterate there is a bit of tailwind here as we feel for the guidance. But let's wait and see what the third quarter's going to bring. Hopefully that's a bit more colour for all of you.

Alexander Wahl, Stifel
Thank you.

Edoardo Spina, HSBC
Good morning. Thanks for taking my questions. The first one is on the tax rate. I calculate about 20% for the second quarter. The first quarter was much higher. I was wondering if this is due to their currency mix or if there's any other impact there. And if you can give us an indication for the full year tax, maybe next year as well.
Second question is on the financial cost. There was a big decline in 2021 compared to 2020. Can you highlight guidance and indication for 2022 and also if there is any stronger sensitivity to the interest rates?
And the final question is more on the Order Intake for the E-Mobility. If you can give us an indication if the number of customers that you are selling to now or ordering from now is higher or lower than in the past? Do you see like an expansion of the customer base, or do you see the OEMs more concentrated than the number of suppliers or in your case, the number of customers? That would be helpful. Thank you.

Klaus Rosenfeld
Let me do the last one. And I can say the customer spectrum is broad. We have some since many, many years, more or less every customer, every carmaker in our portfolio. And here I can say in the intake in the second quarter, there are some very interesting, you know, customers in that we had as customers on the combustion engine side, but they've now become new customers on the E-mobility side. So, it's not broadening

the spectrum from a company perspective, but from E-Mobility perspective, we have we have always said we don't want to be a company that only serves combustion engine components for one customer. We are – and that's what Matthias is doing – always trying for those customers that are long term to say we want to have in both areas in the mature and in the new a fair share. And that's happening at the moment. Claus?

Claus Bauer

So, in regard to the tax rate, the, the tax rate is always little bit frontloaded in our circumstances because we receive higher portion of dividends into our parent company in the first quarter. And this dividend then causes withholding taxes that are not deductible from our taxation or tax base here in Germany. So therefore, and you, I think you are aware that our normal expected tax corridor is between 28% and 32% that is over the entire year. Right now, we are at the low end, 28 point something for the total half year. And again, that is almost exactly in line with our expectations, although if you look at it quarter by quarter, there is some distortion due to, mainly due to the effect that I just described.

From interest rate or interest result, financial result, of course, there's some dependency on the general interest in the market. We have defined our spreads and therefore are dependent on the base rate. But at this point, a lot of this, as you know, is financed in Europe with not as much dynamic in the base rate as we would see in the US market. So, there will be an impact. But I mean it's definitely watched by us and managed accordingly.

Edoardo Spina, HSBC

Thank you.

Sanjay Bhagwani, Citi

Hi. Thank you very much for taking my question as well. I have just two questions left. My first one is on China, China sales. So, Auto Tech was 15% down, but LV production in China around 5% for Q2? So, I think just touched upon the reason for this underperformance of 10% that was a specific campus lock down. So, could you maybe elaborate a bit more on that? And can we expect this to be significantly high outperformance in China, because you also recovered last part of this 10% underperformance that's my first question. And my second question is going back to energy costs, I think maybe could you just remind us of what percentage of your sales or costs is energy costs. I think in your example scenario when you're mentioning you touched upon somewhere around 2%. Is that a fair number to go with? That would be very helpful. Thank you.

Claus Bauer

I start with the last portion. The 2% is indeed a fair number as it relates to our bill of material. So, I think I mentioned that already in past calls also the not so sure that I understood all your components of your prior questions. I think one was about the outperformance in China. And again, I think we always were clear that an outperformance is really a measurement over a long period of time, sometimes even longer than a calendar year, but definitely longer than one quarter. I think we were heavily impacted with our impaired situation on our main Automotive production hub in Taicang in that specific quarter. And I would assume that normalizes itself over time, whether it will be now in the next quarter or for the rest of the calendar year or including then next year. But we will definitely not, or an underperformance of 10 percentage points in China is definitely not what is the long-term situation.

Klaus Rosenfeld

Let me add to this I mean you all saw that the lockdown was not a complete lockdown of the country. It was a lockdown in particular in the Shanghai area. China is a large country and there are other factories that could you know run as normal. We had this in our industrial plants. They were running as normal. And therefore, the Automotive part was definitely over-proportionately hit by also by the location. And then if you think about the Shanghai port you've all seen this pictures that was also one of the reasons where the supply chain was really squeezed. And therefore, again don't look at this as a quarter and try to draw conclusions from this for the overall Chinese business, this was to some extent a reflection of what Claus said we were hit in our main production hub you know differently than others that were producing closer to Beijing or somewhere in the west of China.

Sanjay Bhagwani, Citi

Thank you. That is very clear and helpful.

Klaus Rosenfeld

Okay. One more?

Operator

Our last question comes from the line of Oleksiy Soroka from ING Bank. Please go ahead.

Oleksiy Soroka, ING Bank

It's Oleksiy Soroka, ING. Most of my questions have been answered, but can you elaborate a little bit on your M&A strategy of this to make some acquisitions? What do you have in mind?

Klaus Rosenfeld

Thanks for that last question. Clearly, the M&A strategy that we followed in the last years is intact. We have always said we look at smaller additive additions to the portfolio that must be technological driven, that must show a strong strategic logic. What is smaller? We always said in the in the past, somewhere around up to 500. Now, if Ewellix was in total financing terms, a little bit above this, but it clearly ticks all the boxes when it comes to strategic logic, when it comes to synergies, when it comes to integration risk, when it comes to addition to the portfolio and so on. So that's another proof point that what we have done in the past is clearly along the lines of what I just explained, and this is will also guide us going forward. We don't see any major transformational acquisitions at the moment in this environment possible. Also, as Claus said, we have to some extent used our financial firepower. We are in this environment clearly very much focused on balance sheet strength. Equity is going up. Leverage ratio is definitely okay, and we don't want to overdo anything. So, we will be careful now with further acquisitions.

But the general logic, this M&A radar with the different segments, with the different areas of the business is – will be continued. We will continue to be disciplined. And I'm also proud to say we have always said we want to strengthen our Industrial business and with Ewellix that has now happened. It doesn't mean that we will exclude anything on the other two divisions. There are opportunities here and there, but we will be selective and disciplined and clearly value oriented when it comes to also the financials of a potential acquisition.

Oleksiy Soroka, ING Bank

Thank you. Actually, if I may have a follow up, do you have any outlook on your rating?

Klaus Rosenfeld

Can you say it again?

Oleksiy Soroka, ING Bank

Do you have any views and outlook on your rating agency ratings?

Klaus Rosenfeld
Well, we are in constant conversations with rating agencies. We updated them on Ewellix. I think Claus has just spoken to them yesterday. We think our rating is firm and again, we can't speak for them, but I can tell you that both of us have a strong financial background. And we are happy with what we have. We know their parameters and I don't see any need for a rating reaction.

Oleksiy Soroka, ING Bank
Okay, that's not what I meant. I meant maybe with a positive angle. But maybe in the current environment.

Klaus Rosenfeld
Well, let's wait and see. I think it will be a function of the delivery in the second half. But the rating is firm when it comes to the downside and that there's upside it remains to be seen. But that's a function of how we manage through this complex environment.

Oleksiy Soroka, ING Bank
Okay.

Operator
There are no more questions at this time I head back to Mr. Rosenfeld for closing remarks.

Klaus Rosenfeld
Yeah, I think we have said it all. Thanks a lot for joining us. We know it's a hectic day, too, for most of you because there's so many companies reporting. And we thank you for the participation. We look forward to our further interaction and thank you for your interest in the Schaeffler company. All the best. Enjoy the rest of the week and stay cool. Bye, bye.

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External headwinds

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- The macroeconomic, geopolitical and political situation remains exceptionally severe, complex and unprecedented
- Supply chain constraints may intensify, impacting on the availability and price developments of raw materials and energy
- The inflationary pressure on companies and households, the interest rates developments, the higher uncertainty of the GDP trajectory may compress purchasing power of end consumers and hence distort demand in the value chain
- Lastly, the still lingering pandemic risk adds to the uncertainties for the remainder of the year

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Equity Story – Positioning Schaeffler for long-term value creation

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1. Roadmap 2025 in execution – Focus on capital allocation, portfolio management and FCF generation
2. Automotive Technologies – Conquer leadership positions in New Business for electrified Powertrains and Chassis applications
3. Automotive Aftermarket – Maintain a high margin level, expand our share of wallet and reach
4. Industrial – Enter attractive growth fields, further enhance profitability
5. Financial Framework – Strict performance orientation based on Mid-term Targets
6. Sustainability – Fully committed to activate all impact levers to achieve sustainability goals

Creating long-term value and generating Free Cash Flow

Backup

Ancillary comments to support the Equity Story

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Update

Additional KPIs	FY 2022	Comments
Order Intake E-Mobility	EUR 2 - 3 bn	Starting from 2022 the new target of EUR 2 - 3 bn applies
Capex	Around EUR 750 mn	Focus areas include Digitalization, Sustainability, Innovation & Technology and investments in New Business
Restructuring cash-out	Up to EUR 300 mn	Significant portion of extraordinary restructuring expenses in 2022 expected leading to prudent FCF guidance
Dividend Payout Policy	30 - 50%	Dividend payout ratio[2]; In April 2022 dividend payment of EUR 328 mn for FY 2021 (44% payout ratio)
Leverage ratio[1]	1.25x - 1.75x	Leverage ratio 2022 in line with Mid-term Targets
Average Tax rate	28 - 32%	Overall effective tax rate in line with pre-Covid years
FX rates		EUR/USD, Chinese Renminbi and Mexican Peso are the main exposures

[1] Net financial debt to EBITDA ratio before special items | [2] in % of Net income attributable to shareholders before special items

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Key figures Q2 and H1 2022

in EUR mn	Q2 2021	Q2 2022	Q2 2022 vs. Q2 2021	H1 2021	H1 2022	H1 2022 vs. H1 2021
Sales	3,454	3,790	+9.7% / +4.4%[1]	7,014	7,548	+7.6% / +3.1%[1]
Gross Profit	843	832	-11 mn	1,800	1,703	-97 mn
Gross margin	*24.4%*	*22.0%*	*-2.4pp*	*25.7%*	*22.6%*	*-3.1pp*
EBIT[2]	305	200	-105 mn	702	458	-244 mn
EBIT margin[2]	*8.8%*	*5.3%*	*-3.5pp*	*10.0%*	*6.1%*	*-3.9pp*
Net income[3]	227	113	-114 mn	463	249	-214 mn
EPS[4] (in EUR)	0.35	0.17	-0.18	0.70	0.38	-0.32
Schaeffler Value Added[5]	606	136	-470 mn	606	136	-470 mn
ROCE[6]	17.4%	11.6%	-5.8pp	17.4%	11.6%	-5.8pp
Free Cash Flow[7]	113	-219	-332 mn	243	-204	-447 mn
Capex	136	175	+39 mn	268	331	+64 mn
Net financial debt	2,228	2,552	+324 mn	2,228	2,552	+324 mn
Leverage ratio[8]	0.9x	1.3x	+0.4x	0.9x	1.3x	+0.4x
Headcount	83,945	82,790	-1.4%	83,945	82,790	-1.4%

[1] FX-adjusted | [2] Before special items | [3] Attributable to shareholders of the parent company | [4] Earnings per common non-voting share | [5] Defined as EBIT before special items LTM minus Cost of Capital (10% × Ø Capital Employed) | [6] Before special items, LTM | [7] Before cash in- and outflows for M&A activities | [8] Net financial debt to EBITDA ratio before special items

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H1 2022 Sales[1] development – All divisions were impacted by China lockdowns in Q2, even if to a different extent

	% of Group sales H1 2022	H1 Sales growth[1]	Automotive Technologies 60%	Automotive Aftermarket 13%	Industrial 27%
Europe	42%	+6.0%	+0%	+0%	+26%
Americas	23%	+9.5%	+9%	+12%	+10%
Greater China	21%	-8.0%	-10%	+0%	-5%
Asia/Pacific	14%	+3.4%	-5%	+24%	+21%

[1] H1 FX-adjusted sales growth, please refer to the Interim Report for further details

H1 Sales growth[1]

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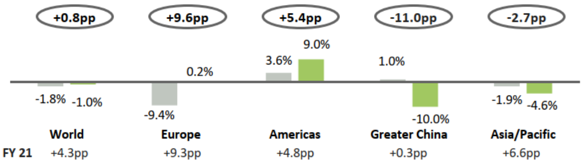
Automotive Technologies – Growth[1] in New Business, EBIT margin[2] sharply burdened by increased input costs

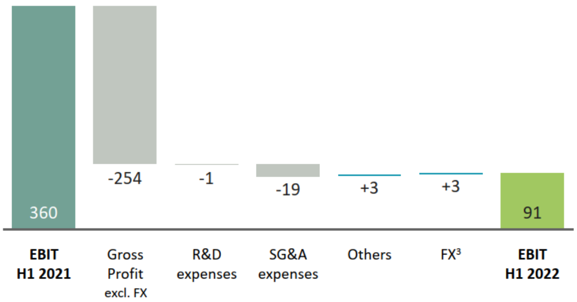
Sales by business division | yoy growth

	H1 2021	H1 2022	Δ[1]
E-Mobility	506	601	+13.0%
Engine & Transmission	2,426	2,468	-3.2%
Bearings	1,291	1,273	-4.8%
Chassis Systems	142	172	+19.0%
Total	**4,365**	**4,515**	**-1.0%**

Outperformance: Sales[1] vs. market development in H1



EBIT[2] H1 2021 vs. H1 2022 | in EUR mn



EBIT margin development[2,4]

8.2%	-5.7pp	-0.0pp	-0.5pp	+0.1pp	-0.3pp	2.0%

[1] FX-adjusted | [2] Before special items
[3] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses
[4] Percentage values do not sum up due to isolated calculation of each individual effect

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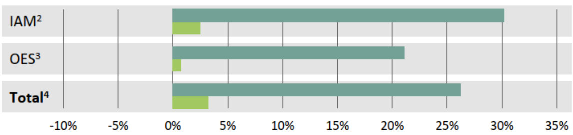
Automotive Aftermarket – Moderate growth[1] driven by Americas and Asia/Pacific, EBIT margin[5] down yoy due to positive one-off impact in Q2 2021

Sales by region | yoy growth

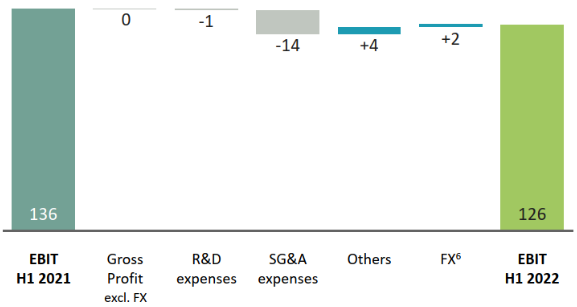
	H1 2021	H1 2022	Δ[1]
Europe	644	642	-0.3%
Americas	169	209	+11.9%
Greater China	51	56	-0.1%
Asia/Pacific	48	62	+24.1%
Total	**911**	**969**	**+3.2%**

Automotive Aftermarket sales growth by channel[1]



[1] FX-adjusted | [2] Independent Aftermarket | [3] Original Equipment Service | [4] Contains E-Commerce sales and sales to Automotive suppliers in addition to IAM and OES | [5] Before special items

EBIT[5] H1 2021 vs. H1 2022 | in EUR mn



EBIT margin development[5,7]

14.9%	-0.5pp	-0.1pp	-1.5pp	+0.4pp	-0.2pp	13.0%

[6] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses
[7] Percentage values do not sum up due to isolated calculation of each individual effect

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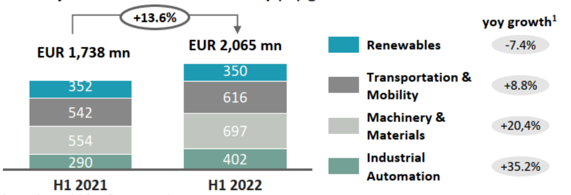
Industrial – Strong growth[1] continued, EBIT margin[2] at prior-year level supported by positive price and volume effects

Sales by region | yoy growth

	H1 2021	H1 2022	Δ[1]
Europe	699	877	+25.7%
Americas	285	347	+10.0%
Greater China	507	531	-4.6%
Asia/Pacific	247	310	+21.0%
Total	**1,738**	**2,065**	**+13.6%**

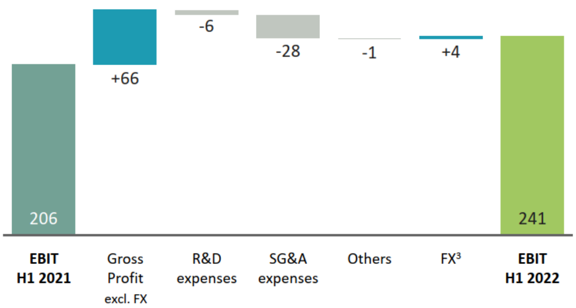
Sales by Industrial market cluster | yoy growth

Industrial Distribution is 30.3% of H1 sales



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

EBIT[2] H1 2021 vs. H1 2022 | in EUR mn



EBIT margin development[2,4]

11.8%	+2.2pp	-0.3pp	-1.6pp	-0.1pp	-0.4pp	11.7%

[3] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses
[4] Percentage values do not sum up due to isolated calculation of each individual effect

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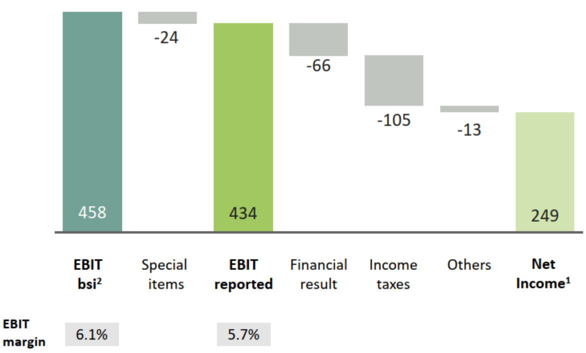
Net Income[1] – EBIT reconciliation and special items

Reconciliation H1 2022 | in EUR mn



[1] Attributable to the shareholders of the parent company | [2] Before special items

Key aspects

- Special items amounted to EUR 24 mn in H1, mainly related to the consolidation of the Footprint in Europe within "Roadmap 2025"
- Financial Result EUR -22 mn below prior year mainly driven by FX effects (devaluation EUR vs. USD) and interest on pensions slightly increased due to the rise in discount rates
- Lower income tax expense is mainly due to a year-on-year decrease in EBT, an increase in tax credits and tax income from the previous year

Special items by division | in EUR mn

	Q2 21	Q2 22	Q2 22 vs. Q2 21	H1 21	H1 22	H2 22 vs. H2 21
EBIT Reported	341	186	-155	723	434	-289
Automotive Technologies	-21	+10	+31	-13	+13	+26
Automotive Aftermarket	-11	0	+11	-10	+1	+11
Industrial	-4	+3	+7	+2	+10	+8
Group	-37	14	+51	-22	24	+46
EBIT bsi[2]	305	200	-105	702	458	-244

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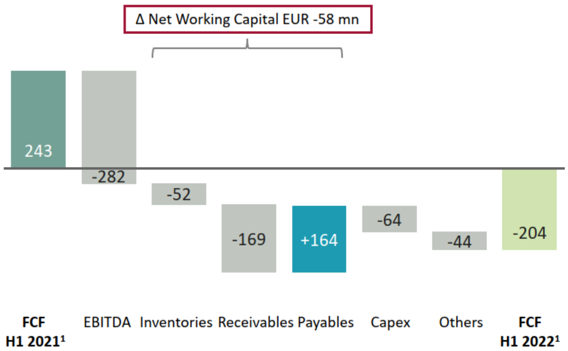
Free Cash Flow[1] details H1 2022 – FCF hampered by lower EBITDA and Working Capital outflow

FCF[1] H1 2021 vs. H1 2022 | in EUR mn



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

Key aspects

- Negative EBITDA development yoy mainly due to challenging conditions
- Net Working Capital negative with EUR -58 mn driven by increased inventories and receivables
- Others included cash outs for the Restructuring Program announced in September 2020

Net Working Capital details | in EUR mn

Change in	Q2 2021	Q2 2022	*Δ Q2 22/21*	H1 2021	H1 2022	*Δ H1 22/21*
Inventories	-173	-157	+16	-367	-419	-52
Receivables	+41	-125	-165	-98	-267	-169
Payables	-46	-34	+12	+110	+274	+164
Δ Net Working Capital	**-178**	**-316**	**-137**	**-354**	**-412**	**-58**
Working Capital ratio[2]	*19.4*	*22.1*	-	*19.4*	*22.1*	-

[2] in % of sales (LTM)

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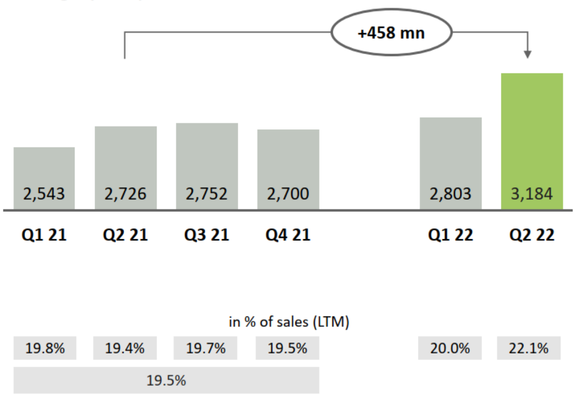
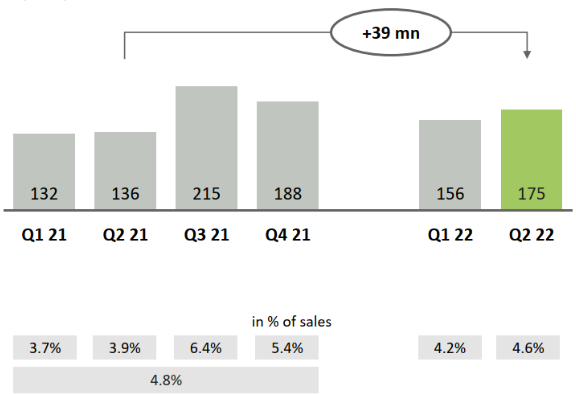
Working Capital[1] ratio 22.1% – Capex ratio[2] 4.6% in Q2

Working capital[1] | in EUR mn



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

Capex[2] | in EUR mn



[2] Cash view

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Automotive Technologies (AT) outperformance by quarters

YTD
Outperformance: +0.8pp

	Q1 22			Q2 22		
	IHS[1]	AT[2]	Outper-formance	IHS[1]	AT[2]	Outper-formance
World	-3.4%	-3.2%	+0.2pp	0.0%	+1.3%	+1.3pp
Europe	-15.0%	-1.9%	+13.1pp	-2.9%	+2.4%	+5.3pp
Americas	-3.3%	+0.3%	+3.6pp	+11.4%	+19.5%	+8.1pp
Greater China	+7.3%	-5.3%	-12.6pp	-5.4%	-14.9%	-9.5pp
Asia/Pacific	-3.9%	-8.3%	-4.4pp	+0.5%	-0.5%	-1.0pp

FY 21
Outperformance: +4.3pp

	Q1 21			Q2 21			Q3 21			Q4 21		
	IHS[1]	AT[2]	Outper-formance	IHS[1]	AT[2]	Outper-formance	IHS[1]	AT[2]	Outper-formance	IHS[1]	AT[2]	Outper-formance
World	+15.9%	+17.0%	+1.1pp	+48.2%	+67.5%	+19.3pp	-19.1%	-13.1%	+6.0%	-10.2%	-12.5%	-2.3%
Europe	+2.3%	+3.3%	+1.0pp	+81.2%	+120.4%	+39.2pp	-28.7%	-16.3%	+12.4%	-21.7%	-16.4%	+5.3%
Americas	-2.8%	+6.7%	+9.5pp	+146.9%	+137.2%	-9.7pp	-24.5%	-16.0%	+8.5%	-13.4%	-16.0%	-2.6%
Greater China	+78.0%	+74.8%	-3.2pp	-4.3%	+3.1%	+7.4pp	-13.9%	-16.1%	-2.2%	-1.1%	-6.0%	-4.9%
Asia/Pacific	+5.2%	+14.0%	+8.8pp	+82.1%	+63.9%	-18.2pp	-10.8%	+7.3%	+18.1%	-8.8%	-9.3%	-0.5%

[1] Light Vehicle production growth according to IHS Markit (part of S&P Global), July 2022 | [2] FX-adjusted sales growth of Automotive Technologies Division

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Key figures by Group and Division

Adjusted comparative figures 2021

Group | in EUR mn

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
Sales	3,560	3,454	3,332	3,506	3,758	3,790
Sales Growth[1]	*+12.3%*	*+52.8%*	*-3.5%*	-5.8%	*+1.9%*	*+4.4%*
EBIT Reported	382	341	266	231	247	186
EBIT bsi	397	305	260	260	258	200
EBIT bsi margin	11.2%	8.8%	7.8%	7.4%	6.9%	5.3%

Automotive Aftermarket | in EUR mn

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
Sales	444	467	500	437	463	506
Sales Growth[1]	*+4.9%*	*+57.9%*	*+9.0%*	-2.1%	*+2.1%*	*+4.3%*
EBIT Reported	57	89	80	48	62	63
EBIT bsi	58	78	72	49	63	63
EBIT bsi margin	13.1%	16.6%	14.3%	11.2%	13.6%	12.5%

Automotive Technologies | in EUR mn

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
Sales	2,281	2,084	1,921	2,150	2,293	2,222
Sales Growth[1]	*+17.0%*	*+67.5%*	*-13.1%*	-12.5%	*-3.2%*	*+1.3%*
EBIT Reported	232	141	96	110	77	1
EBIT bsi	240	119	77	107	80	11
EBIT bsi margin	10.5%	5.7%	4.0%	5.0%	3.5%	0.5%

Industrial | in EUR mn

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
Sales	836	902	911	919	1,002	1,063
Sales Growth[1]	*+4.7%*	*+25.4%*	*+15.8%*	+12.0%	*+15.7%*	*+11.7%*
EBIT Reported	92	112	89	74	108	123
EBIT bsi	98	108	112	104	115	126
EBIT bsi margin	11.8%	11.9%	12.3%	11.3%	11.4%	11.9%

[1] FX-adjusted

Overview Corporate and Financing Structure

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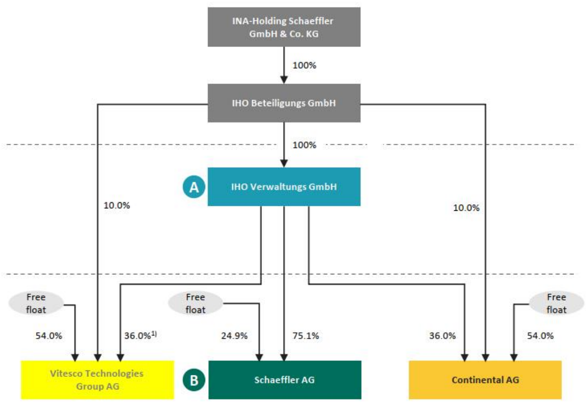
Corporate structure (simplified) | as of June 30, 2022



[1] On July 4, 2022, IHO Verwaltungs GmbH announced to increase its stake in Vitesco Technologies Group AG to 39.99%.

Financing structure | as of June 30, 2022

A IHO Verwaltungs GmbH

	Debt instrument	Nominal (USD m)	Nominal (EUR[1] m)	Interest	Maturity	Rating (Fitch/Moody's/S&P)
Loans	RCF (EUR 800 m)	-	260	E+3.25%	Dec-24	Not rated
Bonds	3.625% SSNs 2025 (EUR)	-	800	3.625%	May-25	BB/Ba2/BB-
	3.75% SSNs 2026 (EUR)	-	750	3.750%	Sep-26	BB/Ba2/BB-
	4.75% SSNs 2026 (USD)	500	482	4.750%	Sep-26	BB/Ba2/BB-
	3.875% SSNs 2027 (EUR)		500	3.875%	May-27	BB/Ba2/BB-
	6.00% SSNs 2027 (USD)	450	433	6.000%	May-27	BB/Ba2/BB-
	6.375% SSNs 2029 (USD)	400	385	6.375%	May-29	BB/Ba2/BB-
	Total IHO Verwaltungs GmbH		**3,610**	**Ø 3.98%[2,3]**		

B Schaeffler AG

	Debt instrument	Nominal (USD m)	Nominal (EUR m)	Interest	Maturity	Rating (Fitch/Moody's/S&P)
Loans	RCF (EUR 1,800 m)	-	-	E+0.80%	Sep-24	Not rated
	Schuldschein Loans (EUR)	-	298	Ø 2.13%	May-23, 25, 28 & 30	Not rated
CP	Commercial Paper Program (EUR)	-	-	-	-	Not rated
Bonds	1.875% SNs 2024 (EUR)	-	800	1.875%	Mar-24	BB+/Ba1/BB+
	2.750% SNs 2025 (EUR)	-	750	2.750%	Oct-25	BB+/Ba1/BB+
	2.875% SNs 2027 (EUR)	-	650	2.875%	Mar-27	BB+/Ba1/BB+
	3.375% SNs 2028 (EUR)	-	750	3.375%	Oct-28	BB+/Ba1/BB+
	Total Schaeffler Group		**3,248**	**Ø 2.80%[3]**		

[1] EUR/USD = 1.0387| [2] After cross currency swaps | [3] Incl. commitment and utilization fees