SCHAEFFLER

9M

Mobility for tomorrow

Interim Financial Report as at September 30, 2017

Digitalization – A Key Opportunity for the Future

Schaeffler Group at a glance

	1st nine months			
Income statement (in € millions)	**2017**	**2016**		Change
Revenue	10,480	9,977	5.0	%
• at constant currency			5.0	%
EBIT	1,209	1,276	-5.3	%
• in % of revenue	11.5	12.8	-1.3	%-pts.
EBIT before special items [1]	1,196	1,276	-6.3	%
• in % of revenue	11.4	12.8	-1.4	%-pts.
Net income [2]	791	672	17.7	%
Earnings per common non-voting share (basic/diluted, in €)	1.19	1.02	16.7	%
Statement of financial position (in € millions)	**09/30/2017**	**12/31/2016**		Change
Total assets	11,536	11,564	-0.2	%
Shareholders' equity [3]	2,401	1,997	404	€ millions
• in % of total assets	20.8	17.3	3.5	%-pts.
Net financial debt	2,620	2,636	-0.6	%
• Net financial debt to EBITDA ratio before special items [1] [4]	1.1	1.1		
• Gearing Ratio (Net financial debt to shareholders' equity, in %)	109.1	132.0	-22.9	%-pts.
	1st nine months			
Statement of cash flows (in € millions)	**2017**	**2016**		Change
EBITDA	1,780	1,817	-2.0	%
• in % of revenue	17.0	18.2	-1.2	%-pts.
EBITDA before special items [1]	1,767	1,817	-2.8	%
• in % of revenue	16.9	18.2	-1.3	%-pts.
Cash flows from operating activities	1,116	1,305	-189	€ millions
Capital expenditures (capex) [5]	873	829	44	€ millions
• in % of revenue (capex ratio)	8.3	8.3	0.0	%-pts.
Free cash flow	244	479	-235	€ millions
	1st nine months			
Value Added	**2017**	**2016**		Change
ROCE before special items (in %) [1] [4]	20.5	22.6	-2.1	%-pts.
Schaeffler Value Added before special items (in € millions) [1] [4]	829	944	-12.2	%
Employees	**09/30/2017**	**12/31/2016**		Change
Headcount	89,359	86,662	3.1	%

[1] Please refer to pp. 18 et seq. for the definition of special items.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] EBIT/EBITDA based on the last twelve months.
[5] Capital expenditures on intangible assets and property, plant and equipment.

	1st nine months			
Automotive (in € millions)	**2017**	**2016**		Change
Revenue	8,098	7,707	5.1	%
• at constant currency			5.1	%
EBIT	1,002	1,097	-8.7	%
• in % of revenue	12.4	14.2	-1.8	%-pts.
EBIT before special items [1]	989	1,097	-9.8	%
• in % of revenue	12.2	14.2	-2.0	%-pts.
	1st nine months			
Industrial (in € millions)	**2017**	**2016**		Change
Revenue	2,382	2,270	4.9	%
• at constant currency			4.6	%
EBIT	207	179	15.6	%
• in % of revenue	8.7	7.9	0.8	%-pts.
EBIT before special items [1]	207	179	15.6	%
• in % of revenue	8.7	7.9	0.8	%-pts.

Prior year information presented based on 2017 segment structure.
[1] Please refer to pp. 18 et seq. for the definition of special items.

Highlights 9M 2017

Growth accelerated significantly in the 3rd quarter

Revenue at **EUR 10.5 bn**
(up 5.0 % at constant currency)

EBIT margin stabilized in the 3rd quarter

EBIT margin before special items at **11.4 %**
(prior year: 12.8 %)

Free cash flow clearly positive in the 3rd quarter

Free cash flow at **EUR 244 m**
(prior year: EUR 479 m)

Net income up significantly from prior year

Net income at **EUR 791 m**
(prior year: EUR 672 m)

Schaeffler on the capital markets

The Schaeffler share price trend for the first nine months of 2017 was primarily marked by the reduction in the earnings guidance for 2017 as a whole on June 26, 2017. Other significant events included Schaeffler AG's capital markets day in Bühl on July 20, 2017 and the announcement that the company had extended its Board of Managing Directors in early October 2017.

Recent events

Changes to the Executive Board

At its meeting on July 17, 2017, the Supervisory Board of Schaeffler AG appointed Mr. Dietmar Heinrich, Regional CEO Europe, to the Board of Managing Directors. On August 01, 2017, Mr. Heinrich took up his role as Chief Financial Officer of Schaeffler AG, replacing Dr. Ulrich Hauck. The Supervisory Board also decided to extend the contract of Dr. Stefan Spindler, CEO Industrial, for a term of five years ending on April 30, 2023. Mr. Heinrich's successor as a member of the Schaeffler Group's Executive Board and Regional CEO Europe is Mr. Jürgen Ziegler. Mr. Ziegler took up his new position on August 01, 2017.

Schaeffler sets up third division

At its meeting on October 05, 2017, the Executive Committee of the Supervisory Board of Schaeffler AG accepted the proposal of the Board of Managing Directors to separate the Automotive Aftermarket from the Automotive division of Schaeffler AG and to set it up as a stand-alone division as of January 01, 2018. As a consequence, the Schaeffler Group will divide its business into three divisions – Automotive OEM, Automotive Aftermarket, and Industrial.

On that basis, the Supervisory Board of Schaeffler AG decided to appoint Mr. Michael Söding to become Member of the Board of Managing Directors of Schaeffler AG effective January 01, 2018. He will assume responsibility for the Automotive Aftermarket business at board level. Mr. Söding has been Head of Automotive Aftermarket within the Automotive division since 2009.

The three divisions of the Schaeffler Group will in future be managed from divisional headquarters located in Bühl, Langen and Schweinfurt. The Automotive OEM division will be headquartered in Bühl. The new Automotive Aftermarket division will be managed from Langen. The Industrial division continues to be located in Schweinfurt. The corporate head office of Schaeffler Group will remain in Herzogenaurach.

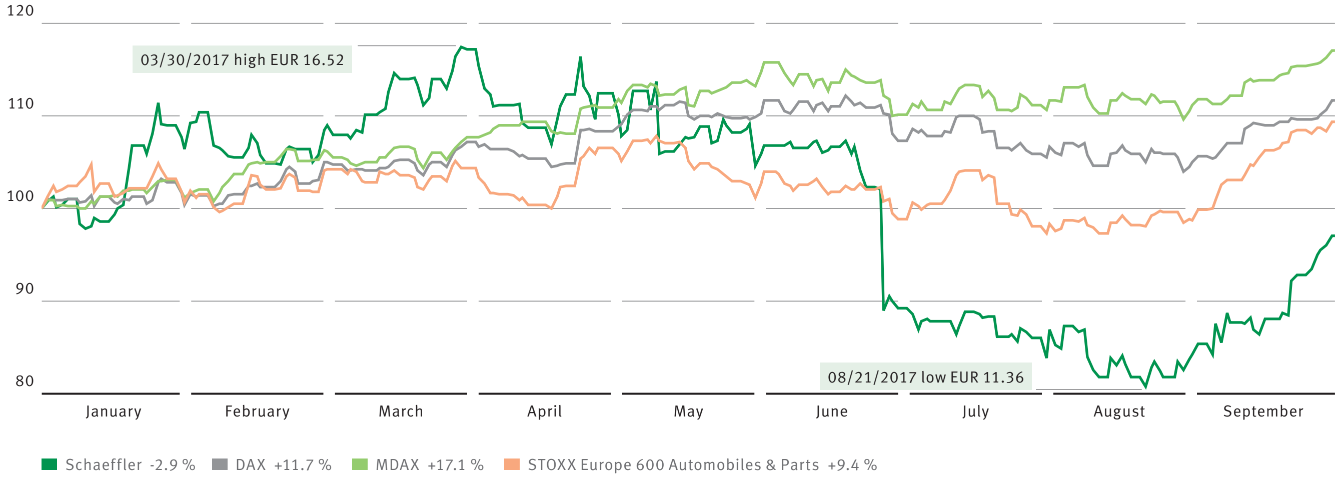
Schaeffler buys autinity systems GmbH

On October 04, 2017, Schaeffler Group concluded a purchase agreement for 100 % of the shares in autinity systems GmbH. The Chemnitz-based IT company specializes in digital machine data recording and evaluation. The acquisition represents another important step in implementing the Schaeffler Group's Digital Agenda and is part of the M&A strategy adopted by the company. This supports the strategy "Mobility for tomorrow" by providing additional technological capabilities for Industrial and Automotive in seven strategic focus areas.

Schaeffler combines Indian subsidiaries

On August 30, 2017, the Schaeffler Group announced its intention to merge its three subsidiaries in India – Schaeffler India Ltd. (previously FAG Bearings India Ltd.), INA Bearings India Private Ltd., and LuK India Private Ltd. The merger is subject to the required local regulatory approvals and the consent of the minority shareholders. The transaction is expected to close in the third quarter of 2018. The objective of the transaction is to simplify the existing structure, reduce complexity, and create a strong Schaeffler entity in India in order to better realize the potential for future growth in India. The company will be known as "Schaeffler India Limited" and remain listed. The transaction increases Schaeffler AG's indirect interest in Schaeffler India Ltd. from currently approximately 51 % to approximately 74 %.

Schaeffler share price trend 2017
in percent (12/31/2016 = 100)



Source: Bloomberg.

Capital market trends

In early 2017, the global capital markets were characterized by uncertainties driven by the U.S. elections, the elections in the Netherlands, and the debate surrounding the withdrawal of the United Kingdom from the EU. However, political uncertainty gradually declined in the European Union during the second quarter, resulting in an overall positive mood in the markets. This positive mood persisted into the third quarter, driven by positive macroeconomic data and robust company results. Rising geopolitical tension had a restraining effect on the capital markets at times.

While the Euro STOXX 50 gained 9.2 % in the first nine months of 2017, the Dow Jones Industrial was up 13.4 %, repeatedly rising to new all-time highs. The Nikkei 225 was up 6.5 % compared to the end of last year.

The Deutsche Aktienindex (DAX) rose 11.7 % in the first nine months of 2017. In March 2017, the DAX topped 12,000 points for the first time since April 2015. It rose to a new all-time high of 12,889 points in June, then nearly returned to its March 2017 level following a period of consolidation, closing the second quarter at 12,325 points. During the third quarter, the DAX fell to just above the 12,000-point mark, especially due to the strength regained by the Euro and uncertainties around the potentially imminent change in the European Central Bank's policy. Concerns in the capital markets abated again in September, resulting in the DAX entering a furious recovery which drove it to a third-quarter close of 12,829 points.

Schaeffler shares

Having substantially outperformed the benchmark indexes in the first quarter of 2017 and following a year-to-date high of EUR 16.52 on March 30, 2017, the price of Schaeffler shares dropped considerably late in the second quarter in response to the reduction in the earnings guidance for the business year 2017. The share price initially continued to drop in the third quarter, reaching its year-to-date low of EUR 11.36 on August 21, 2017. After that date, the shares recovered some of these losses.

On September 30, 2017, the common non-voting shares of Schaeffler AG were quoted at EUR 13.65, approximately 2.9 % less than on December 31, 2016. However, the shares gained 8.9 % over the end of the second quarter of 2017.

This overall performance lagged behind that of the benchmark indexes DAX (+11.7 % compared to December 31, 2016) and MDAX (+17.1 %) as well as that of the STOXX Europe 600 Automobiles & Parts sector index (+9.4 %) during the first nine months of 2017. In the third quarter of 2017, however, the shares outperformed the DAX (+4.1 %) and the MDAX (+6.3 %), but rose slightly less than the STOXX Europe 600 Automobiles & Parts sector index (+10.6 %).

The daily trading volume averaged 907,221 shares in the first nine months of 2017 (prior year: 697,531). The increase in trading volume compared to the prior year period is largely due to the placement of approximately 94.4 million common non-voting shares of Schaeffler AG on April 05, 2016. The free float amounted to approximately 24.9 % as at September 30, 2017.

Schaeffler share performance (ISIN: DE000SHA0159)

	2017	2016
Schaeffler share price (Xetra, in €) 1)	13.65	14.08
Average trading volume (in units)	907,221	697,531
DAX 1)	12,829	10,511
MDAX 1)	25,994	21,584
STOXX Europe 600 Automobiles & Parts 1)	594	485
Average number of shares (in million units)		
• Common shares	500	500
• Common non-voting shares	166	166
Earnings per share (in €)		
• Common shares	1.18	1.01
• Common non-voting shares	1.19	1.02

1) As at closing on September 30, source: Bloomberg.

The company was covered by analysts representing a total of 17 banks as at October 30, 2017. Eight of these banks issued a recommendation of either buy or overweight on Schaeffler AG's common non-voting shares. Their average upside target was EUR 14.12.

Schaeffler bonds and ratings

The Schaeffler Group had four series of bonds outstanding as at September 30, 2017, three of them denominated in EUR and one in USD. All of the bonds were issued by Schaeffler Finance B.V., Barneveld, Netherlands.

Please refer to the chapter entitled "Financial position" – Financial debt for further detail on the company's bonds.

Bond prices remained stable in the first nine months of 2017. The bond series maturing in 2023 and 2025 rose slightly, which lowered their effective yield. The other two bond series, which mature in 2020 and 2022, declined slightly, approaching the contractual redemption price at which these bond series have been callable since May 15, 2017.

Compared to December 31, 2016, the premiums for Schaeffler AG 5-year credit default swaps decreased by 32 basis points to 85 basis points as at September 30, 2017. The benchmark indexes iTraxx CrossOver and iTraxx Europe declined by 35 and 16 basis points, respectively, over the same period.

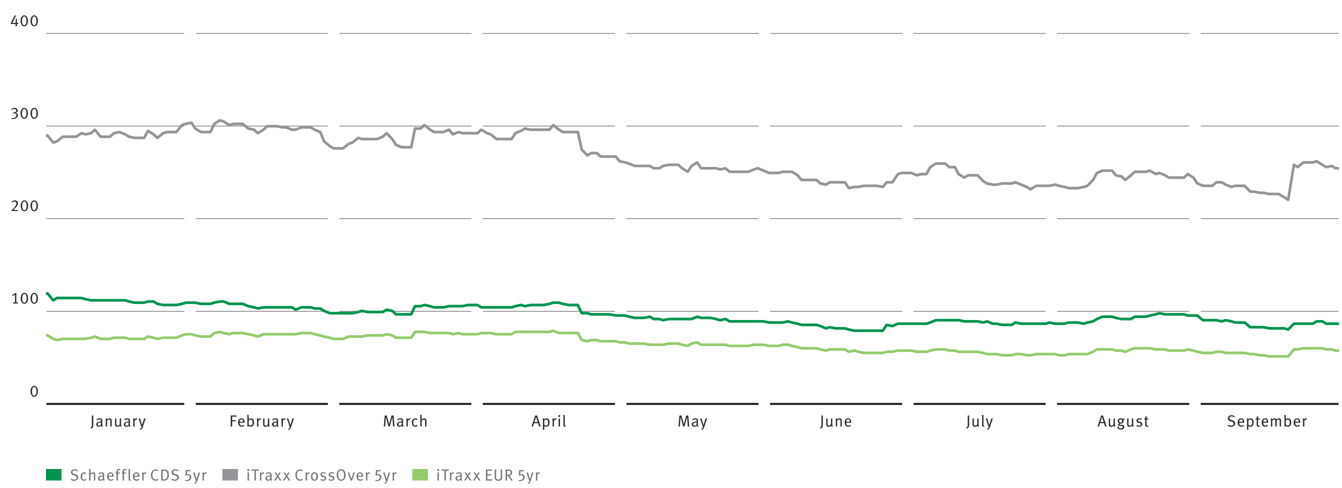
Standard & Poor's raised the outlook for the company's rating from stable to positive on September 27, 2017. The following summary shows the ratings currently assigned to the Schaeffler Group by the three rating agencies Fitch, Moody's, and Standard & Poor's as at September 30, 2017:

Schaeffler Group ratings
as at September 30, 2017

		Company	Bonds
Rating agency	Rating	Outlook	Rating
Fitch	BBB-	stable	BBB-
Moody's	Baa3	stable	Baa3
Standard & Poor's	BB+	positive	BB+

See back cover for financial calendar.

Credit default swap (CDS) price trend 2017
in basis points



Source: Bloomberg.

Contents

Special items
In order to facilitate a transparent evaluation of the company's results of operations, the Schaeffler Group reports EBIT, EBITDA, net income, debt to EBITDA ratio, ROCE, and Schaeffler Value Added before special items (=adjusted).

Impact of currency translation/constant currency
Revenue figures at constant currency, i. e. excluding the impact of currency translation, are calculated by translating revenue using the same exchange rate for both the current and the prior year or comparison reporting period.

References
Content of websites referenced in the group interim management report merely provides further information and is not part of the group interim management report.

Disclaimer in respect of forward-looking statements
This group interim management report contains forward-looking statements that are based on the Board of Managing Directors' current estimation at the time of the creation of this report. Such statements refer to future periods or they are designated by terms such as "estimate", "forecast", "intend", "predict", "plan", "assume", or "expect".
Forward-looking statements bear risks and uncertainties. A variety of these risks and uncertainties are determined by factors not subject to the influence of the Schaeffler Group. Therefore, actual results can deviate substantially from those indicated.

Navigation aid

Further details in the report

Further details online

1. Report on the economic position

1.1 Economic environment

The global economy continued to grow more dynamically in the first nine months of 2017. Compared to the prior year, global gross domestic product [1] increased by 3.6 % during the reporting period (Oxford Economics, October 2017). Following a once again weak start to the year, the U.S. economy perceptibly gathered momentum during the second quarter of 2017. Especially the damage caused by the two hurricanes temporarily weakened this momentum in the third quarter of 2017. The Euro region saw its robust and broad economic upturn continue during the reporting period. Following a surprisingly strong first half of 2017, China's momentum slowed slightly in the third quarter. Japan's economy expanded slightly overall during the reporting period.

In this context, the situation of the Schaeffler Group's regions during the reporting period was as follows: Gross domestic product in the Europe region increased by 3.4 %, and the economic output of the Americas region rose by 1.8 %. The Greater China region reported a growth rate of 6.6 %, while the Asia/Pacific region economy grew by 3.2 %.

In the currency markets, the Euro rose against the U.S. Dollar and the Chinese Renminbi, closing at USD 1.18 and CNY 7.86, respectively, on September 30, 2017 (December 31, 2016: USD 1.05 and CNY 7.32, respectively; September 30, 2016: USD 1.12 and CNY 7.45, respectively).

See Condensed notes to the consolidated financial statements, chapter entitled "Basis of preparation" – Foreign currency translation for further detail.

Global **automobile production**, measured as the number of vehicles up to six tons in weight produced, increased by 2.6 % during the reporting period (IHS, October 2017), with a strong first quarter of 2017 followed by a considerably lower growth rate during the remainder of the reporting period. The Europe region reported a growth rate of 3.4 %. While countries such as Turkey, France, and Russia generated above-average increases, Germany and Spain, especially, experienced declines. Growth in India, which is also part of the Europe region, remained relatively high despite momentum there declining. Production levels in the Americas region were down 0.3 % compared to prior year, since very significant increases in Brazil and Mexico did not fully offset the considerable contraction in Canada and particularly in the United States. Production in the Greater China region expanded by 2.7 %. The Asia/Pacific region grew by 4.7 %, primarily driven by the very strong first half of the year in Japan.

Global **industrial production**, measured as gross value added based on constant prices and exchange rates, grew by 3.7 % in the reporting period (Oxford Economics, September 2017). The Europe region reported a growth rate of 2.3 %. The increase in India was once more significantly above the regional average. Growth in the Americas region amounted to 2.0 %, with the increase in the U.S. slightly below the regional average. The Greater China region experienced a growth rate of 6.3 %. In the Asia/Pacific region, industrial production was up 3.8 % from the prior year, mainly driven by the positive trend in Japan.

[1] For gross domestic product and industrial production, quarterly data are available only for selected, representative countries. Furthermore, only preliminary projections are available for all indicators mentioned for the first nine months of 2017, including automobile production.

In the **procurement markets**, average prices for commodities and input materials significant to the Schaeffler Group exceeded the corresponding levels of the prior year period (Bloomberg, October 2017; IHS, October 2017). However, trends during the reporting period were mixed. The crude oil price declined during the first half of the year, only to increase again considerably during the third quarter, closing slightly higher at September 30, 2017, than at the beginning of the year. Price trends for hot- and cold-rolled steel varied across procurement regions and not all prices closed above their level at the beginning of the reporting period. Prices for the nonferrous metals aluminum and copper rose during the reporting period. Commodity market price trends affect the Schaeffler Group's cost to varying degrees and in some instances with some delay, depending on the terms of the relevant supplier contracts.

1.2 Course of business

Results of operations – first nine months 2017

The Schaeffler Group's **revenue** rose by 5.0 % to EUR 10,480 m in the reporting period (prior year: EUR 9,977 m). Excluding the impact of currency translation, revenue increased by 5.0 %, as well. The Automotive division contributed revenue growth of 5.1 % excluding the impact of currency translation, having considerably increased its revenue during the third quarter of 2017. The Industrial division continued and strengthened its growth in the third quarter of 2017. The division generated revenue growth of 4.6 % for the first nine months of 2017, excluding the impact of currency translation.

The Schaeffler Group generated EUR 1,209 m in **EBIT** for the reporting period (prior year: EUR 1,276 m), representing an EBIT margin of 11.5 % (prior year: 12.8 %). As EBIT was favorably affected by a special item [2] of EUR 13 m, the EBIT margin before special items amounted to 11.4 % (prior year: 12.8 %) during the reporting period. The Automotive division's EBIT margin before special items declined to 12.2 % (prior year: 14.2 %) in the first nine months, primarily due to the weak second quarter performance. The Industrial division's earnings continued to develop well in the third quarter of 2017. Its EBIT margin before special items rose to 8.7 % during the reporting period (prior year: 7.9 %).

Free cash flow for the first nine months of 2017 amounted to EUR 244 m, EUR 235 m below the high prior year amount of EUR 479 m. The decrease was primarily due to cash flow from operating activities declining from EUR 1,305 m to EUR 1,116 m; cash flow from operating activities for the reporting period was affected by factors including the weak earnings development in the second quarter of 2017 as well as additional non-persistent cash outflows. In addition, capital expenditures (capex) rose from EUR 829 m to EUR 873 m during the first nine months of 2017.

Schaeffler Value Added before special items (**SVA**) amounted to EUR 829 m during the reporting period (prior year: EUR 944 m), representing a return on capital employed (**ROCE**) before special items of 20.5 % (prior year: 22.6 %). The decline was the result of an increase in average capital employed as well as the weaker earnings development compared to the prior year period.

Major events – first nine months 2017

Second quarter 2017

On April 25, 2017, rating agency Fitch Ratings published its first rating of Schaeffler AG. Fitch assigned a rating of BBB- (investment grade) to Schaeffler AG with a stable outlook. The bonds were also rated BBB-.

On April 26, 2017, Schaeffler AG's annual general meeting passed a resolution to pay a dividend of EUR 0.49 per common share (prior year: EUR 0.34; special dividend EUR 0.15) and EUR 0.50 per common non-voting share (prior year: EUR 0.35; special dividend EUR 0.15) to Schaeffler AG's shareholders for 2016. This represents a dividend of 34.1 % of net income attributable to shareholders before special items.

On June 26, 2017, the Board of Managing Directors of Schaeffler AG decided to reduce its guidance for the EBIT margin before special items from previously 12 to 13 % to 11 to 12 % for the business year 2017. This was due to a substantially lower earnings development in the Automotive division in the second quarter 2017 compared to the prior year. At the same time, the guidance for free cash flow for 2017 as a whole was reduced from approximately EUR 600 m to approximately EUR 500 m. The company confirmed its revenue guidance for the full year 2017. The company continues to expect its revenue to grow by 4 to 5 % excluding the impact of currency translation for the business year 2017.

[2] Please refer to pp. 18 et seq. for the definition of special items.

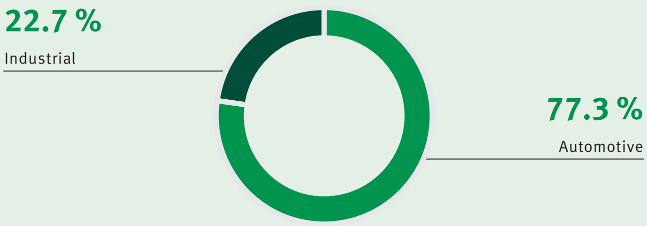
Third quarter 2017

At its meeting on July 17, 2017, the Supervisory Board of Schaeffler AG appointed Mr. Dietmar Heinrich, Regional CEO Europe, to the Board of Managing Directors. On August 01, 2017, Mr. Heinrich took up his role as Chief Financial Officer of Schaeffler AG, replacing Dr. Ulrich Hauck. The Supervisory Board also decided to extend the contract of Dr. Stefan Spindler, CEO Industrial, for a term of five years ending on April 30, 2023. Mr. Heinrich's successor as a member of the Schaeffler Group's Executive Board and Regional CEO Europe is Mr. Jürgen Ziegler. Mr. Ziegler took up his new position on August 01, 2017.

On August 30, 2017, the Schaeffler Group announced its intention to merge its three subsidiaries in India – Schaeffler India Ltd. (previously FAG Bearings India Ltd.), INA Bearings India Private Ltd., and LuK India Private Ltd. The merger is subject to the required local regulatory approvals and the consent of the minority shareholders. The transaction is expected to close in the third quarter of 2018. The objective of the transaction is to simplify the existing structure, reduce complexity, and create a strong Schaeffler entity in India in order to better realize the potential for future growth in India. The company will be known as "Schaeffler India Limited" and remain listed. The transaction increases Schaeffler AG's indirect interest in Schaeffler India Ltd. from currently approximately 51 % to approximately 74 %.

Schaeffler Group

Revenue EUR 10,480 m



EBIT margin before special items 11.4 %

Positive revenue trend continued – revenue growth at 5.0 % at constant currency; revenue increase in Q3 2017 plus 7.4 % at constant currency // Temporary adverse earnings impacts in Q2 2017 were partially recovered in Q3 2017 // Business growth in the Automotive division in Q3 2017 // Positive revenue and earnings development in the Industrial division continued – encouraging Q3 2017 // Double-digit growth in the Greater China region // R&D activities expanded considerably // Earnings per common non-voting share increased to EUR 1.19 (prior year: EUR 1.02).

Schaeffler Group earnings No. 001

	1st nine months			3rd quarter		
in € millions	2017	2016	Change in %	2017	2016	Change in %
Revenue	**10,480**	**9,977**	**5.0**	**3,434**	**3,265**	**5.2**
• at constant currency			5.0			7.4
Revenue by division						
Automotive	8,098	7,707	5.1	2,643	2,525	4.7
• at constant currency			5.1			6.9
Industrial	2,382	2,270	4.9	791	740	6.9
• at constant currency			4.6			9.2
Revenue by region 1)						
Europe	5,424	5,402	0.4	1,760	1,723	2.1
• at constant currency			0.2			2.5
Americas	2,225	2,120	5.0	702	702	0.0
• at constant currency			3.8			3.4
Greater China	1,735	1,430	21.3	610	491	24.2
• at constant currency			24.7			30.3
Asia/Pacific	1,096	1,025	6.9	362	349	3.7
• at constant currency			6.2			8.7
Cost of sales	-7,563	-7,125	6.1	-2,470	-2,333	5.9
Gross profit	**2,917**	**2,852**	**2.3**	**964**	**932**	**3.4**
• in % of revenue	27.8	28.6	-	28.1	28.5	-
Research and development expenses	-637	-566	12.5	-209	-188	11.2
Selling and administrative expenses	-1,052	-999	5.3	-337	-331	1.8
Earnings before financial result and income taxes (EBIT)	**1,209**	**1,276**	**-5.3**	**416**	**417**	**-0.2**
• in % of revenue	11.5	12.8	-	12.1	12.8	-
Special items 2)	-13	0	-	0	0	0.0
EBIT before special items	**1,196**	**1,276**	**-6.3**	**416**	**417**	**-0.2**
• in % of revenue	11.4	12.8	-	12.1	12.8	-
Financial result	-104	-320	-67.5	-1	-167	-99.4
Income taxes	-301	-275	9.5	-105	-69	52.2
Net income 3)	791	672	17.7	306	178	71.9
Earnings per common non-voting share (basic/diluted, in €)	1.19	1.02	16.7	0.46	0.27	70.4

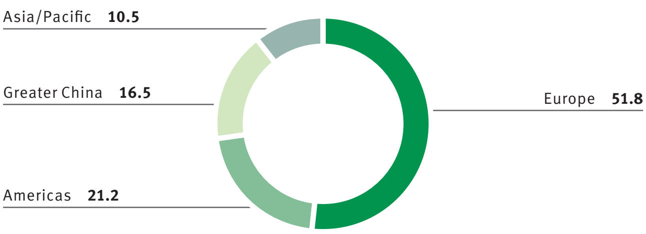
1) Based on market (customer location).
2) Please refer to pp. 18 et seq. for the definition of special items.
3) Attributable to shareholders of the parent company.

1.3 Earnings

Schaeffler Group earnings

The Schaeffler Group increased its revenue by 5.0 % to EUR 10,480 m (prior year: EUR 9,977 m) during the first nine months of 2017. Excluding the impact of currency translation, revenue grew by 5.0 %, as well. Automotive division revenue growth for the first nine months amounted to 5.1 % excluding the impact of currency translation. Thus, the business once again grew faster than global automobile production, which expanded by 2.6 % during the reporting period. The division considerably raised its revenue for the third quarter of 2017 by 6.9 %, excluding the impact of currency translation. The Industrial division continued and strengthened its revenue growth excluding the impact of currency translation in the third quarter of 2017. Industrial division revenue rose by a total of 4.6 % in the first nine months of 2017, excluding the impact of currency translation.

Schaeffler Group revenue by region No. 002
in percent by market view



The Schaeffler Group's revenue trend varied widely across regions. While revenue in the Europe region was approximately flat with prior year (+0.4 %; +0.2 % at constant currency), in the Americas region, revenue increased by 5.0 % (+3.8 % at constant currency). Growth in the Greater China region continued and strengthened in the third quarter of 2017. In total, revenue there rose by 21.3 % (+24.7 % at constant currency) during the first nine months, with both divisions generating double-digit growth rates. The Asia/Pacific region generated a 6.9 % revenue growth rate (+6.2 % at constant currency) with the support of both divisions.

Cost of sales increased slightly more than revenue, rising by 6.1 % to EUR 7,563 m (prior year: EUR 7,125 m) in the reporting period. Gross profit improved by 2.3 % or EUR 65 m to EUR 2,917 m (prior year: EUR 2,852 m). The company's gross margin declined by 0.8 percentage points to 27.8 % (prior year: 28.6 %). The margin was adversely affected by factors including the earnings development of the Automotive division in the second quarter of 2017. The impact of these factors was partially offset in the third quarter. As a result, the Automotive division's gross margin for the first nine months of 2017 amounted to 27.5 % (prior year: 28.5 %), while the gross margin of the Industrial division rose to 29.1 % (prior year: 28.8 %) driven by higher volumes.

Research and development expenses increased significantly by 12.5 % to EUR 637 m in the reporting period (prior year: EUR 566 m), representing an R&D ratio of 6.1 % (prior year: 5.7 %) of revenue. R&D expenses rose more rapidly than revenue mainly due to expanded project activities related to the strategic direction of the Automotive division's research and development activities and inflation-related cost increases.

Selling and administrative expenses totaled EUR 1,052 m, 5.3 % ahead of prior year (prior year: EUR 999 m), mainly due to higher selling expenses (+6.2 %). The higher expenses resulted from higher logistics expenses driven by increased volumes, due, among other things, to the significant expansion of the business in the Greater China region and inflation-related cost increases. Total functional costs rose by 7.9 % to EUR 1,689 m (prior year: EUR 1,565 m), growing to 16.1 % of revenue (prior year: 15.7 %).

The Schaeffler Group generated EUR 1,209 m in EBIT for the reporting period (prior year: EUR 1,276 m). Its EBIT margin amounted to 11.5 % (prior year: 12.8 %). EBIT was favorably affected by EUR 13 m in income from the reversal of a provision for legal cases during the second quarter of 2017. EBIT before special items declined to EUR 1,196 m (prior year: EUR 1,276 m) for the first nine months of 2017, and the corresponding EBIT margin to 11.4 % (prior year: 12.8 %). The decline was primarily due to the decrease in gross margin as described above and the significantly expanded R&D activities, primarily in the Automotive division. In addition, the EBIT margin was also affected by an adverse impact of currency translation.

The Schaeffler Group's financial result improved by EUR 216 m to EUR -104 m (prior year: EUR -320 m) in the first nine months of 2017.

Schaeffler Group financial result No. 003

	1st nine months	
in € millions	**2017**	**2016**
Interest expense on financial debt [1]	-99	-252
Interest income on shareholder loans	0	49
Gains and losses on derivatives and foreign exchange	-11	-42
Fair value changes on embedded derivatives	32	-47
Interest income and expense on pensions and partial retirement obligations	-29	-34
Other	3	6
Total	**-104**	**-320**

[1] Incl. amortization of transaction costs and prepayment penalties.

Interest expense on financial debt amounted to EUR 99 m in the first nine months of 2017 (prior year: EUR 252 m) and included prepayment penalties of EUR 13 m (prior year: EUR 48 m) and EUR 5 m (prior year: EUR 31 m) in deferred transaction costs derecognized.

In 2016, IHO Verwaltungs GmbH prepaid its loans payable to Schaeffler AG in full. As a result, the Schaeffler Group no longer earned any interest income on loans to shareholders in the first nine months of 2017 (prior year: EUR 49 m).

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to EUR 11 m (prior year: EUR 42 m). These include the impact of translating the financing instruments denominated in U.S. Dollar to Euro and hedges of these instruments using cross currency swaps.

Changes in the fair value of embedded derivatives, primarily prepayment options for external financing instruments, netted to EUR 32 m as at September 30, 2017 (prior year: net losses of EUR 47 m).

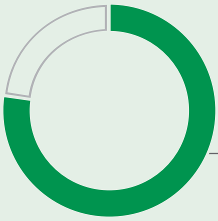
Income tax expense for the first nine months of 2017 totaled EUR 301 m (prior year: EUR 275 m), representing an effective tax rate of 27.2 % (prior year: 28.8 %).

Net income attributable to shareholders of the parent company for the reporting period was EUR 791 m (prior year: EUR 672 m).

Basic and diluted earnings per common share for the first nine months of 2017 amounted to EUR 1.18 (prior year: EUR 1.01). Basic and diluted earnings per common non-voting share amounted to EUR 1.19 (prior year: EUR 1.02).

Automotive division

Revenue EUR 8,098 m



EBIT margin before special items 12.2 %

Revenue up 5.1 % at constant currency // Strong Q3 2017: Revenue at constant currency up 6.9 % over prior year // Growth once again exceeds global automobile production // China business maintains highly dynamic growth // Earnings quality increasing in Q3 – adverse earnings impacts in Q2 were partially offset in the third quarter // Expansion of R&D activities aimed at optimizing the drive train based on an internal combustion engine and in the field of E-mobility

Automotive division earnings No. 004

in € millions	1st nine months 2017	1st nine months 2016	Change in %	3rd quarter 2017	3rd quarter 2016	Change in %
Revenue	**8,098**	**7,707**	**5.1**	**2,643**	**2,525**	**4.7**
• at constant currency			5.1			6.9
Revenue by business division						
BD Engine Systems	2,069	1,960	5.6	670	636	5.3
• at constant currency			5.9			8.3
BD Transmission Systems	3,428	3,216	6.6	1,095	1,037	5.6
• at constant currency			6.9			8.1
BD Chassis Systems	1,173	1,143	2.6	375	368	1.9
• at constant currency			2.5			4.2
BD Automotive Aftermarket	1,428	1,388	2.9	503	484	3.9
• at constant currency			2.2			4.8
Revenue by region [1]						
Europe	4,056	4,050	0.1	1,313	1,287	2.0
• at constant currency			0.0			2.3
Americas	1,785	1,698	5.1	563	563	0.0
• at constant currency			4.1			3.3
Greater China	1,385	1,151	20.3	480	398	20.6
• at constant currency			23.8			26.3
Asia/Pacific	872	808	7.9	287	277	3.6
• at constant currency			7.4			8.5
Cost of sales	-5,874	-5,509	6.6	-1,904	-1,808	5.3
Gross profit	**2,224**	**2,198**	**1.2**	**739**	**717**	**3.1**
• in % of revenue	27.5	28.5	-	28.0	28.4	-
Research and development expenses	-537	-462	16.2	-177	-151	17.2
Selling and administrative expenses	-677	-616	9.9	-216	-203	6.4
EBIT	**1,002**	**1,097**	**-8.7**	**345**	**362**	**-4.7**
• in % of revenue	12.4	14.2	-	13.1	14.3	-
Special items [2]	-13	0		0	0	
EBIT before special items	**989**	**1,097**	**-9.8**	**345**	**362**	**-4.7**
• in % of revenue	12.2	14.2	-	13.1	14.3	-

Prior year information presented based on 2017 segment structure.
[1] Based on market (customer location).
[2] Please refer to pp. 18 et seq. for the definition of special items.

Automotive division earnings

The performance of the Automotive division regained considerable momentum in the third quarter of 2017. Revenue growth compared to the third quarter of 2016 amounted to 6.9 %, excluding the impact of currency translation. Thus, the division partially offset the weaker revenue growth it had experienced in the second quarter of 2017, which was attributable, in particular, to the considerably lower growth in global automobile production and temporary supply chain shortages in the Aftermarket business. As a result, revenue increased by a total of 5.1 % to EUR 8,098 m (prior year: EUR 7,707 m) in the first nine months of 2017. Excluding the impact of currency translation, the growth rate was 5.1 %, as well. Thus, the business once again expanded faster than global production volumes for passenger cars and light commercial vehicles, which grew by 2.6 % during the reporting period. This expansion was largely driven by growth in the OEM business in the Greater China region.

Revenue for the reporting period in the Europe region was flat with prior year (0.1 %; 0.0 % at constant currency), while regional production volumes grew by an average of 3.4 %. The Americas region reported 5.1 % (+4.1 % at constant currency) in additional revenue, growing faster than regional vehicle production, which declined by 0.3 %. The Automotive division once again significantly expanded its revenue in the Greater China region, generating 20.3 % (+23.8 % at constant currency) in additional revenue while that region's vehicle production rose by 2.7 %. The reasons for the increase in Asia/Pacific region revenue of 7.9 % (+7.4 % at constant currency) included product ramp-ups in the Transmission Systems business division, with vehicle production there rising by 4.7 %.

The Automotive division business is organized in the Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket business divisions (BD), all of which reported growing revenue in the first nine months of 2017.

The **Engine Systems BD** generated revenue growth of 5.6 % (+5.9 % at constant currency) during the reporting period, largely driven by the valve train product groups. The camshaft phasing units product group also saw significant increases, especially for electric phasing systems. In addition, the innovative heat management module also performed very well, having experienced a strong third quarter of 2017.

Transmission Systems BD revenue rose by 6.6 % (+6.9 % at constant currency), with revenue from components for automated transmissions, such as torque converters and dual clutches, generating double-digit increases. Revenue in the dual-mass flywheel product group was up significantly, as well. The business division's growth was primarily driven by the Greater China region.

The **Chassis Systems BD** generated revenue growth of 2.6 % (+2.5 % at constant currency) mainly based on the solid growth in revenue from the newest generation of wheel bearings in the Greater China region.

Having experienced a decline in revenue in the second quarter of 2017, primarily due to the temporary supply chain shortages in the Europe region, the **Automotive Aftermarket BD** returned to revenue growth by partially recovering this decline in the third quarter. The business division generated 2.9 % in additional revenue during the first nine months of 2017 (+2.2 % at constant currency), mainly due to increased requirements in the independent aftermarket in the Americas region.

Cost of sales increased by 6.6 % to EUR 5,874 m (prior year: EUR 5,509 m) in the first nine months of 2017, growing faster than revenue. Gross profit amounted to EUR 2,224 m (prior year: EUR 2,198 m). The gross margin declined by one percentage point to 27.5 % (prior year: 28.5 %), mainly due to adverse pricing effects, which could not be compensated by corresponding production cost optimization. The temporary adverse earnings impacts in the second quarter of 2017 were partially recovered in the third quarter of 2017.

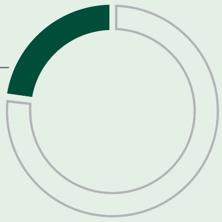
Functional costs increased by 12.6 % to EUR 1,214 m (prior year: EUR 1,078 m), rising to 15.0 % of revenue (prior year: 14.0 %). The main driver of this increase was the rise in research and development expenses by 16.2 % to EUR 537 m (prior year: EUR 462 m) or 6.6 % (prior year: 6.0 %) of revenue. Apart from the increased activities in the field of E-mobility, which has already won several volume production orders, the higher research and development expenses also reflect the activities aimed at further optimizing the drive train based on an internal combustion engine. Selling and administrative expenses of EUR 677 m were ahead of prior year (+9.9 %; prior year: EUR 616 m). The increase is primarily the result of higher logistics expenses driven by higher volumes, due, among other things, to significantly expanded business in the Greater China region.

EBIT for the reporting period amounted to EUR 1,002 m (prior year: EUR 1,097 m), and the division's EBIT margin was 12.4 % (prior year: 14.2 %). EBIT was favorably affected by EUR 13 m in income from the reversal of a provision for legal cases during the second quarter of 2017. EBIT before this special item amounted to EUR 989 m (prior year: EUR 1,097 m), and the corresponding EBIT margin was 12.2 % (prior year: 14.2 %). The decrease in EBIT was the result of the decline in gross margin and higher R&D cost and other expenses, for instance in the field of E-mobility. In addition, the EBIT margin was also affected by an adverse impact of currency translation. In the third quarter of 2017, however, the Automotive division's EBIT improved over that of the second quarter due to increased gross profit resulting from the recovery of temporary adverse earnings impacts and lower selling and administrative expenses as a percentage of revenue.

Industrial division

Revenue EUR 2,382 m

22.7 %
of group revenue



EBIT margin before special items 8.7 %

Revenue increases by 4.6 % at constant currency // Growth continued and strengthened in Q3 2017 // Largely driven by higher volumes in the power transmission, industrial automation, and offroad sectors // Significant additional revenue in the Greater China region // Margins stabilized further – gross and EBIT margins increased over prior year // Cost and efficiency measures are consistently executed and proving effective

Industrial division earnings No. 005

	1st nine months			3rd quarter		
in € millions	2017	2016	Change in %	2017	2016	Change in %
Revenue	**2,382**	**2,270**	**4.9**	**791**	**740**	**6.9**
• at constant currency			4.6			9.2
Revenue by region 1)						
Europe	1,368	1,352	1.2	447	436	2.5
• at constant currency			0.8			3.1
Americas	440	422	4.3	139	139	0.0
• at constant currency			2.9			3.4
Greater China	350	279	25.4	130	93	39.8
• at constant currency			28.3			47.5
Asia/Pacific	224	217	3.2	75	72	4.2
• at constant currency			1.9			9.3
Cost of sales	-1,689	-1,616	4.5	-566	-525	7.8
Gross profit	**693**	**654**	**6.0**	**225**	**215**	**4.7**
• in % of revenue	29.1	28.8	-	28.4	29.1	-
Research and development expenses	-100	-104	-3.8	-32	-37	-13.5
Selling and administrative expenses	-375	-383	-2.1	-121	-128	-5.5
EBIT	**207**	**179**	**15.6**	**71**	**55**	**29.1**
• in % of revenue	8.7	7.9	-	9.0	7.4	-
Special items 2)	0	0	0.0	0	0	0.0
EBIT before special items	**207**	**179**	**15.6**	**71**	**55**	**29.1**
• in % of revenue	8.7	7.9	-	9.0	7.4	-

Prior year information presented based on 2017 segment structure.
1) Based on market (customer location).
2) Please refer to pp. 18 et seq. for the definition of special items.

Industrial division earnings

The Industrial division continued and strengthened its growth course from the first half of 2017 with an encouraging third quarter. As a result, Industrial division revenue increased by a total of 4.9 % to EUR 2,382 m (prior year: EUR 2,270 m) in the first nine months of 2017. Excluding the impact of currency translation, the division grew by 4.6 %, with the power transmission, offroad, and raw materials sectors generating double-digit growth rates. Industrial automation also significantly increased its revenue, while aerospace and Industrial Distribution revenue grew slightly. The wind, railway, and two wheelers sectors, on the other hand, reported revenue declines.

The Industrial business is primarily managed based on regions. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets; trends varied across these markets in the first nine months of 2017.

In the **Europe region**, revenue rose slightly by 1.2 % (+0.8 % at constant currency), mainly due to strong demand in the raw materials sector. This sector's revenue experienced a double-digit growth rate compared to the weak prior year period, mainly as a result of higher demand in the mining sector. The power transmission and offroad sectors reported a positive trend, as well, as revenue rose considerably, especially in the industrial gears and fluids as well as in the mobile transmission and agricultural engineering sectors. Industrial Distribution and the industrial automation sector also saw their revenue increase slightly. Revenue in the wind, aerospace, and railway sectors, however, declined from the prior year period. The two wheelers sector was flat with prior year due to the favorable impact of currency translation.

The **Americas region** reported an increase in revenue of 4.3 % (+2.9 % at constant currency) during the reporting period. Along with the offroad, power transmission, and aerospace sectors, significantly higher demand in the raw materials sector – particularly in the third quarter of 2017 – also contributed to the growth in revenue. Industrial Distribution also increased its revenue slightly, while revenue in the industrial automation sector remained approximately at the prior year level. The railway, wind, and two wheelers sectors experienced revenue declines in the first nine months of 2017.

The favorable revenue trend in the **Greater China region** continued and strengthened in the third quarter of 2017. This region generated a total of 25.4 % in additional revenue (+28.3 % at constant currency) during the first nine months of 2017. This double-digit growth over a weak prior year was primarily attributable to significantly higher demand in the power transmission, industrial automation, and wind sectors. The power transmission sector mainly profited from stabilized demand in the industrial gears and electric motors sectors. The increase in industrial automation revenue was attributable to additional revenue in the machine tools and textile machinery sectors. The favorable revenue trend in the wind sector was largely due to a very strong third quarter of 2017. The raw materials and railway sectors also made considerable contributions to the region's revenue growth.

In the **Asia/Pacific region**, revenue increased by 3.2 % (+1,9 % at constant currency), driven, in particular, by a strong third quarter of 2017 in the offroad, aerospace, and power transmission sectors. Revenue in Industrial Distribution and in the industrial automation sector was nearly flat with prior year, while the raw materials sector reported a significant decline in revenue.

Industrial division cost of sales rose 4.5 % to EUR 1,689 m (prior year: EUR 1,616 m). In total, the Industrial division improved its gross profit by EUR 39 m or 6.0 % to EUR 693 m (prior year: EUR 654 m). The division's gross margin of 29.1 % was 0.3 percentage points ahead of the prior year level (prior year: 28.8 %). The division offset price reductions as well as cost increases, primarily due to collectively bargained wage and salary increases, with operational improvements in costs and economies of scale.

Functional costs of EUR 475 m (prior year: EUR 487 m) were slightly below the prior year level. The cost reduction measures of the program "CORE" more than offset inflation-related cost increases, particularly in personnel expenses, as well as higher group overheads. Functional costs as a percentage of revenue fell to 19.9 % (prior year: 21.5 %). Research and development expenses amounted to EUR 100 m (prior year: EUR 104 m), and selling and administrative expenses were EUR 375 m (prior year: EUR 383 m).

EBIT for the first nine months of 2017 amounted to EUR 207 m (prior year: EUR 179 m), while the division's EBIT margin stabilized further, improving by 0.8 percentage points to 8.7 % (prior year: 7.9 %). As there were no special items during either the current or the prior year reporting period, the EBIT margin before special items amounted to 8.7 % (prior year: 7.9 %), as well. The increase was the result of an increase in gross profit as described above and the success of the program "CORE", with cost and efficiency measures consistently executed and beginning to prove effective for the long-term. Currency translation had an adverse effect on the EBIT margin, however.

Performance indicators and special items

Reconciliation No. 006

	Total		Automotive		Industrial	
	1st nine months		1st nine months		1st nine months	
in € millions	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
EBIT	**1,209**	**1,276**	**1,002**	**1,097**	**207**	**179**
• in % of revenue	11.5	12.8	12.4	14.2	8.7	7.9
Special items	**-13**	**0**	**-13**	**0**	**0**	**0**
• Legal cases	-13	0	-13	0	0	0
• Restructuring	0	0	0	0	0	0
• Other	0	0	0	0	0	0
EBIT before special items	**1,196**	**1,276**	**989**	**1,097**	**207**	**179**
• in % of revenue	11.4	12.8	12.2	14.2	8.7	7.9
EBITDA	**1,780**	**1,817**				
Special items	**-13**	**0**				
• Legal cases	-13	0				
• Restructuring	0	0				
• Other	0	0				
EBITDA before special items	**1,767**	**1,817**				
Net income [1]	**791**	**672**				
Special items	**-13**	**0**				
• Legal cases	-13	0				
• Restructuring	0	0				
• Other	0	0				
– Tax effect [2]	4	0				
Net income before special items [1]	**782**	**672**				
Net financial debt [3]	2,620	2,636				
/ EBITDA LTM	2,256	2,293				
Debt to EBITDA ratio [3]	**1.2**	**1.1**				
Net financial debt [3]	2,620	2,636				
/ EBITDA before special items LTM	2,387	2,437				
Debt to EBITDA ratio before special items [3]	**1.1**	**1.1**				
EBIT LTM	1,489	1,427				
/ Average capital employed	7,914	7,503				
ROCE (in %)	**18.8**	**19.0**				
EBIT before special items LTM	1,620	1,694				
/ Average capital employed	7,914	7,503				
ROCE before special items (in %)	**20.5**	**22.6**				
EBIT LTM	1,489	1,427				
– Cost of capital	791	750				
Schaeffler Value Added	**698**	**677**				
EBIT before special items LTM	1,620	1,694				
Cost of capital	791	750				
Schaeffler Value Added before special items	**829**	**944**				

LTM = Based on the last twelve months.
[1] Attributable to shareholders of the parent company.
[2] Based on the group's effective tax rate for the relevant year.
[3] Amounts as at September 30, 2017, and December 31, 2016, respectively.

In order to make the evaluation of the company's results of operations as transparent as possible, the Schaeffler Group reports EBIT, EBITDA, net income, debt to EBITDA ratio, ROCE, and Schaeffler Value Added before special items (=adjusted).

Special items are items which the Board of Managing Directors considers to render the financial indicators less meaningful for evaluating the sustainability of the Schaeffler Group's profitability due to their nature, frequency, and/or size. Net income attributable to shareholders of the parent company before special items in EBIT is also presented in order to facilitate calculating the payout ratio. Special items are categorized as legal cases, restructuring, and other.

ROCE corresponds to EBIT in relation to average capital employed. Average capital employed is calculated as the sum of property, plant and equipment, intangible assets, and working capital, which in turn comprises trade receivables and inventories net of trade payables. The average is determined as the mathematical average of the balance at the end of each of the most recent four quarters. Schaeffler Value Added is calculated as EBIT less the cost of capital. Cost of capital is calculated by applying the minimum return of 10 % p.a. (before tax) set by the Board of Managing Directors and the Supervisory Board to average capital employed.

In addition to presenting special items, the company also aims to make the evaluation of the company's results of operations as transparent as possible by presenting its revenue figures excluding the impact of currency translation. Revenue figures at constant currency, i.e. excluding the impact of currency translation, are calculated by translating functional currency revenue using the same exchange rate for both the current and the prior year or comparison reporting period. Please refer to page 48 of the Schaeffler Group's annual report 2016 for a detailed discussion.

1.4 Financial position

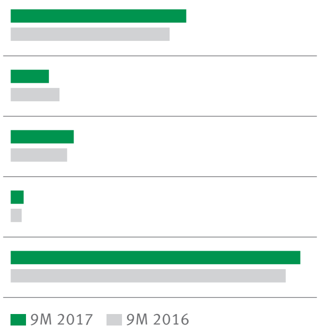
Cash flow and liquidity

Cash flow No. 007

	1st nine months			3rd quarter		
in € millions	**2017**	**2016**	Change in %	**2017**	**2016**	Change in %
Cash flows from operating activities	1,116	1,305	-14.5	610	528	15.5
Cash used in investing activities	-872	-826	5.6	-277	-265	4.5
Free cash flow	**244**	**479**	**-49.1**	**333**	**263**	**26.6**
Cash provided by (used in) financing activities	-567	1,291	-	1	1,729	-99.9
Net increase (decrease) in cash and cash equivalents	**-323**	**1,770**	**-**	**334**	**1,992**	**-83.2**
Effects of foreign exchange rate changes on cash and cash equivalents	-29	-4	> 100	-14	1	-
Cash and cash equivalents as at beginning of period	1,071	799	34.0	399	572	-30.2
Cash and cash equivalents as at September 30	**719**	**2,565**	**-72.0**	**719**	**2,565**	**-72.0**

Cash flow from operating activities for the first nine months of 2017 declined by EUR 189 m to EUR 1,116 m (prior year: EUR 1,305 m); reasons include the weak earnings trend in the second quarter of 2017. Non-persistent cash outflows related to legal cases and restructuring also affected cash flow from operating activities. In addition, the prior year period included interest for a twelve months period received on a loan receivable from IHO Verwaltungs GmbH; the loan was prepaid in full in 2016. As a result, no such interest was received in the first nine months of 2017.

Capital expenditures by region (capex) No. 008



	in € millions	Change in € millions
Europe	**529** 479	+50
Americas	**115** 147	-32
Greater China	**190** 170	+20
Asia/ Pacific	**39** 33	+6
Schaeffler Group	**873** 829	+44

Regions reflect the regional structure of the Schaeffler Group.

Cash outflows of EUR 37 m to expand working capital were above the comparable prior year amount, mainly due to the significant increase in inventory levels. On the other hand, the company sold trade receivables with a face value of EUR 54 m as part of a program during the reporting period.

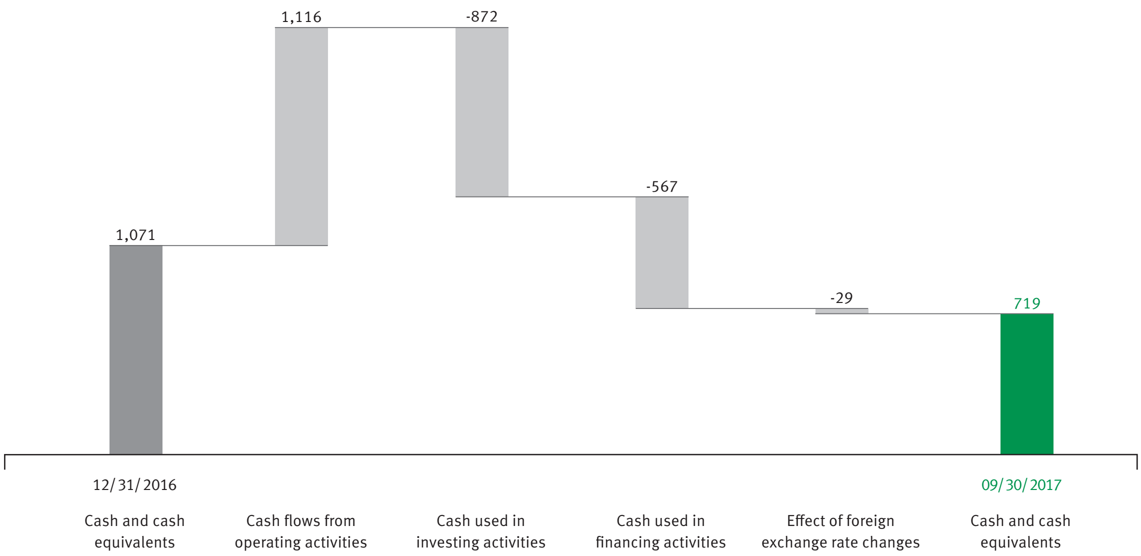
Capital expenditures on property, plant and equipment and intangible assets (capex) amounted to EUR 873 m (prior year: EUR 829 m) in the reporting period. The capex ratio was 8.3 % (prior year: 8.3 %) of revenue.

Of the significant capital expenditures made during the reporting period, EUR 529 m (prior year: EUR 479 m) related to the Europe region and EUR 190 m (prior year: EUR 170 m) to the Greater China region. In order to strengthen its competitive position and enhance its delivery performance, the Schaeffler Group primarily invested in expanding capacity and in equipment and machinery for product start-ups, as well as in the European Distribution Center (EDC).

In addition, the acquisition of Compact Dynamics GmbH resulted in a cash outflow of EUR 23 m, while the disposals of Schaeffler Motorenelemente AG & Co. KG and the fine blanking activities in Switzerland led to a cash inflow of EUR 20 m.

These developments resulted in **free cash flow** of EUR 244 m (prior year: EUR 479 m).

Change in cash and cash equivalents No. 009
in € millions



EUR 567 m in cash was used in **financing activities** (prior year: cash provided of EUR 1,291 m) during the reporting period. EUR 328 m of the EUR 330 m in dividends paid during the reporting period represented the dividends paid to Schaeffler AG's shareholders. A total of EUR 587 m in cash was used to redeem a USD bond and to terminate the related cross-currency derivatives in May 2017. Cash of EUR 350 m was provided by utilizing a portion of the Revolving Credit Facility.

Cash and cash equivalents decreased by EUR 352 m to EUR 719 m as at September 30, 2017 (December 31, 2016: EUR 1,071 m).

At September 30, 2017, cash and cash equivalents consisted primarily of bank balances. EUR 265 m (December 31, 2016: EUR 325 m) of this amount related to countries with foreign exchange restrictions and other legal restrictions. In addition, the Schaeffler Group has a Revolving Credit Facility of EUR 1.3 bn (December 31, 2016: EUR 1.3 bn), of which EUR 350 m were utilized at September 30, 2017, as a result of the redemption of the USD bond. Another EUR 12 m (December 31, 2016: EUR 13 m) of the Revolving Credit Facility were also utilized, primarily for letters of credit.

Financial debt

The group's net financial debt amounted to EUR 2,620 m as at September, 2017 (December 31, 2016: EUR 2,636 m).

The debt to EBITDA ratio, defined as the ratio of net financial debt to earnings before financial result, income taxes, depreciation and amortization and impairment losses (EBITDA), amounted to 1.2 at September 30, 2017 (December 31, 2016: 1.1). The debt to EBITDA ratio before special items was 1.1 (December 31, 2016: 1.1).

The gearing ratio, the ratio of net financial debt to equity, decreased to 109.1 % as at September 30, 2017 (December 31, 2016: 132.0 %).

Net financial debt No. 010

in € millions	09/30/2017	12/31/2016	Change in %
Bonds	2,001	2,719	-26.4
Facilities Agreement	1,333	982	35.7
Other financial debt	5	6	-16.7
Total financial debt	**3,339**	**3,707**	**-9.9**
Cash and cash equivalents	719	1,071	-32.9
Net financial debt	**2,620**	**2,636**	**-0.6**

On May 24, 2017, the Schaeffler Group fully redeemed the bond with a principal of USD 700 m, a coupon of 4.25 %, and an original maturity of May 2021. The redemption was funded using available liquidity and by utilizing EUR 350 m of the Revolving Credit Facility.

On April 25, 2017, rating agency Fitch Ratings published its first rating of Schaeffler AG. Fitch assigned a rating of BBB- (investment grade) to Schaeffler AG with a stable outlook. The bonds were also rated BBB-.

Standard & Poor's raised the outlook for the company's rating from stable to positive on September 27, 2017.

At September 30, 2017, the Schaeffler Group's Facilities Agreement comprised the following tranches:

Facilities Agreement Schaeffler Group No. 011

		09/30/2017	12/31/2016	09/30/2017	12/31/2016	09/30/2017	12/31/2016	
Tranche	Currency	Face value in millions		Carrying amount in € millions		Coupon		Maturity
Senior Term Loan	EUR	1,000	1,000	991	992	Euribor [1] + 1.20 %	Euribor [1] + 1.20 %	07/18/2021
Revolving Credit Facility [2]	EUR	1,300	1,300	342	-10	Euribor [1] + 0.80 %	Euribor [1] + 0.80 %	07/18/2021
Total				**1,333**	**982**			

[1] Euribor floor of 0.00 %.
[2] EUR 362 m were drawn down as at September 30, 2017, including EUR 12 m primarily in the form of letters of credit (December 31, 2016: EUR 13 m).

In addition, the Schaeffler Group had further local lines of credit in the equivalent of approximately EUR 157 m (December 31, 2016: EUR 160 m), of which the equivalent of EUR 36 m were utilized at September 30, 2017, primarily in the form of letters of credit.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at September 30, 2017. All bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange.

Schaeffler Group bonds No. 012

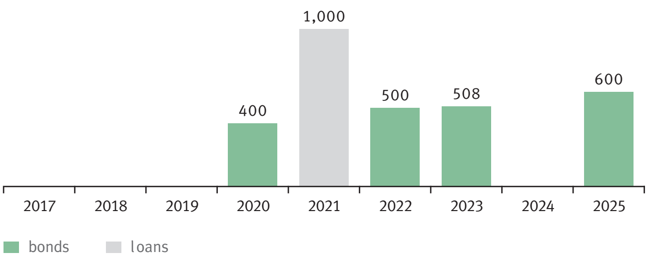
		09/30/2017	12/31/2016	09/30/2017	12/31/2016		
ISIN	Currency	Face value in millions		Carrying amount in € millions		Coupon	Maturity
XS1212469966	EUR	400	400	398	397	2.50 %	05/15/2020
US806261AJ29 [1]	USD	0	700	0	658	4.25 %	05/15/2021
XS1067864022	EUR	500	500	498	498	3.50 %	05/15/2022
US806261AM57	USD	600	600	509	571	4.75 %	05/15/2023
XS1212470972	EUR	600	600	596	595	3.25 %	05/15/2025
Total				**2,001**	**2,719**		

[1] Redeemed in full on May 24, 2017.

The company's maturity profile, which consists of the Senior Term Loan and the bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, was as follows as at September 30, 2017:

Maturity profile No. 013

Principal outstanding as at September 30, 2017, in € millions



Revolving Credit Facility not shown.

1.5 Net assets and capital structure

The Schaeffler Group's **total assets** decreased by EUR 28 m or 0.2 % to EUR 11,536 m as at September 30, 2017 (December 31, 2016: EUR 11,564 m).

Consolidated statement of financial position (abbreviated) No. 014

in € millions	09/30/2017	12/31/2016	Change in %
Total non-current assets	5,977	5,979	0.0
Total current assets	5,559	5,585	-0.5
Total assets	**11,536**	**11,564**	**-0.2**
Total shareholders' equity	2,401	1,997	20.2
Total non-current liabilities	5,503	6,361	-13.5
Total current liabilities	3,632	3,206	13.3
Total shareholders' equity and liabilities	**11,536**	**11,564**	**-0.2**

Non-current assets amounted to EUR 5,977 m at September 30, 2017 (December 31, 2016: EUR 5,979 m). Deferred tax assets decreased by EUR 80 m during the reporting period, primarily due to a slight increase in the discount rate for pension obligations. The termination of the cross-currency swaps in connection with the bond redemption as well as negative changes in the fair value of the remaining non-current derivatives also contributed to the decrease in non-current assets. The decrease was partially offset mainly by property, plant and equipment increasing by EUR 118 m. Additions to intangible assets and property, plant and equipment amounted to EUR 832 m (prior year: EUR 733 m) and were primarily invested in expanding capacity and in equipment and machinery for product start-ups in the Automotive division. The Automotive division accounted for approximately 81 % of total additions for the reporting period.

Current assets fell by EUR 26 m to EUR 5,559 m (December 31, 2016: EUR 5,585 m) during the first nine months of 2017. The decrease was largely attributable to the reduction in cash and cash equivalents (see Cash flow and liquidity, pages 20 et seq.), partially offset by higher inventories and trade receivables as well as favorable changes in the fair value of derivatives used to hedge currency risk.

Shareholders' equity including non-controlling interests rose by EUR 404 m to EUR 2,401 m as at September 30, 2017 (December 31, 2016: EUR 1,997 m), mainly due to net income of EUR 804 m which was partially offset by EUR 328 m in dividends paid to Schaeffler AG's shareholders. The adverse impact of foreign currency translation on accumulated other comprehensive income contrasted with the favorable impact of discount rate-driven adjustments to pensions and similar obligations. The equity ratio was 20.8 % at September 30, 2017 (December 31, 2016: 17.3 %).

Non-current liabilities declined by EUR 858 m to EUR 5,503 m as at September 30, 2017 (December 31, 2016: EUR 6,361 m). The decline was largely due to the redemption of the USD bond. The decrease in provisions for pensions and similar obligations by EUR 99 m resulting primarily from a slight increase in the average discount rate to 2.3 % (December 31, 2016: 2.1 %) also contributed to the decline.

Current liabilities increased by EUR 426 m to EUR 3,632 m as at September 30, 2017 (December 31, 2016: EUR 3,206 m), largely due to the utilization of EUR 350 m of the Revolving Credit Facility in connection with the bond redemption referred to above. Higher balances of accrued vacation and overtime accounts, in particular, also contributed to the rise in current liabilities, partially offset mainly by a decline in current provisions.

2. Supplementary report

At its meeting on October 05, 2017, the Executive Committee of the Supervisory Board of Schaeffler AG accepted the proposal of the Board of Managing Directors to separate the Automotive Aftermarket from the Automotive division of Schaeffler AG and to set it up as a stand-alone division as of January 01, 2018. As a consequence, the Schaeffler Group will divide its business into three divisions – Automotive OEM, Automotive Aftermarket, and Industrial. On that basis, the Supervisory Board of Schaeffler AG decided to appoint Mr. Michael Söding to become Member of the Board of Managing Directors of Schaeffler AG effective January 01, 2018. He will assume responsibility for the Automotive Aftermarket business at board level.

No other material events expected to have a significant impact on the results of operations, financial position, or net assets of the Schaeffler Group occurred after September 30, 2017.

3. Report on opportunities and risks

The Schaeffler Group’s opportunities and risks have not changed significantly compared to the statements made in the annual report 2016. However, concrete risks from increased pricing pressure in the Automotive business and rising purchase prices are affecting the earnings situation, which is apparent in the reduced earnings guidance for the business year 2017.

The Schaeffler Group’s risks are limited, both individually and in combination with other risks, and do not jeopardize the continued existence of the company. Please refer to pages 61 et seq. of the Schaeffler Group’s annual report 2016 for a discussion of Schaeffler’s risk management system and potential opportunities and risks.

4. Report on expected developments

4.1 Expected economic and sales market trends

In its current forecast (October 2017), the International Monetary Fund expects the global economy to grow by 3.6 % this year. Oxford Economics (October 2017) anticipates the same growth rate. In light of these forecasts, the Schaeffler Group now expects a global economic growth rate of approximately 3.5 % in 2017.

Please refer to the discussion in the 2016 annual report regarding risks potentially affecting the development of the global economy.

Given the positive trends in the Europe and Asia/Pacific regions, the Schaeffler Group now believes that automobile production will grow by just under 2 % in 2017. The Schaeffler Group continues to expect industrial production to grow somewhat more rapidly than originally anticipated at the beginning of the year.

4.2 Schaeffler Group outlook

On June 26, 2017, the Board of Managing Directors of Schaeffler AG decided to reduce its guidance for the EBIT margin before special items from previously 12 to 13 % to 11 to 12 % for the business year 2017. This was due to a substantially lower earnings development in the Automotive division in the second quarter of 2017 compared to the prior year. At the same time, the guidance for free cash flow was reduced from previously approximately EUR 600 m to approximately EUR 500 m.

Outlook 2017 No. 015

	Outlook 2017 issued 01/24/2017	Outlook 2017 issued 06/26/2017	Actual 9M 2017
Revenue growth [1]	4 to 5 %	4 to 5 %	5.0 %
EBIT margin before special items [2]	12 to 13 %	11 to 12 %	11.4 %
Free cash flow	~ EUR 600 m	~ EUR 500 m	EUR 244 m

[1] Compared with prior year; excluding the impact of currency translation.
[2] Please refer to pp. 18 et seq. for the definition of special items.

Based on these considerations, the company continues to expect to generate an EBIT margin before special items of 11 to 12 % and free cash flow of approximately EUR 500 m for 2017 as a whole.

The company confirms its revenue guidance for the full year 2017. The Schaeffler Group continues to expect its revenue to grow by 4 to 5 % excluding the impact of currency translation for the business year 2017.

Herzogenaurach, October 30, 2017

The Board of Managing Directors

Consolidated income statement

No. 016

in € millions	1st nine months 2017	1st nine months 2016	Change in %	3rd quarter 2017	3rd quarter 2016	Change in %
Revenue	10,480	9,977	5.0	3,434	3,265	5.2
Cost of sales	-7,563	-7,125	6.1	-2,470	-2,333	5.9
Gross profit	**2,917**	**2,852**	**2.3**	**964**	**932**	**3.4**
Research and development expenses	-637	-566	12.5	-209	-188	11.2
Selling expenses	-719	-677	6.2	-234	-227	3.1
Administrative expenses	-333	-322	3.4	-103	-104	-1.0
Other income	47	20	> 100	5	5	0.0
Other expenses	-66	-31	> 100	-7	-1	> 100
Earnings before financial result and income taxes (EBIT)	**1,209**	**1,276**	**-5.3**	**416**	**417**	**-0.2**
Financial income	125	230	-45.7	38	118	-67.8
Financial expenses	-229	-550	-58.4	-39	-285	-86.3
Financial result	**-104**	**-320**	**-67.5**	**-1**	**-167**	**-99.4**
Earnings before income taxes	**1,105**	**956**	**15.6**	**415**	**250**	**66.0**
Income taxes	-301	-275	9.5	-105	-69	52.2
Net income	**804**	**681**	**18.1**	**310**	**181**	**71.3**
Attributable to shareholders of the parent company	791	672	17.7	306	178	71.9
Attributable to non-controlling interests	13	9	44.4	4	3	33.3
Earnings per common share (basic/diluted, in €)	1.18	1.01	16.8	0.46	0.27	70.4
Earnings per common non-voting share (basic/diluted, in €)	1.19	1.02	16.7	0.46	0.27	70.4

Consolidated statement of comprehensive income

No. 017

	1st nine months						3rd quarter					
	2017			2016			2017			2016		
in € millions	before taxes	taxes	after taxes	before taxes	taxes	after taxes	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Net income	**1,105**	**-301**	**804**	**956**	**-275**	**681**	**415**	**-105**	**310**	**250**	**-69**	**181**
Foreign currency translation differences for foreign operations	-270	0	-270	-27	0	-27	-94	0	-94	3	0	3
Net change from hedges of net investments in foreign operations	31	-9	22	17	-5	12	6	-2	4	3	-1	2
Effective portion of changes in fair value of cash flow hedges	89	-26	63	44	-13	31	5	-3	2	40	-12	28
Net change in fair value of available-for-sale financial assets	0	0	0	0	0	0	0	0	0	0	0	0
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**-150**	**-35**	**-185**	**34**	**-18**	**16**	**-83**	**-5**	**-88**	**46**	**-13**	**33**
Remeasurement of netdefined benefit liability	157	-42	115	-529	147	-382	12	-1	11	-116	31	-85
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**157**	**-42**	**115**	**-529**	**147**	**-382**	**12**	**-1**	**11**	**-116**	**31**	**-85**
Total other comprehensive income (loss)	**7**	**-77**	**-70**	**-495**	**129**	**-366**	**-71**	**-6**	**-77**	**-70**	**18**	**-52**
Total comprehensive income (loss) for the period	**1,112**	**-378**	**734**	**461**	**-146**	**315**	**344**	**-111**	**233**	**180**	**-51**	**129**
Total comprehensive income (loss) attributable to shareholders of the parent company	1,101	-372	729	450	-141	309	343	-109	234	175	-50	125
Total comprehensive income (loss) attributable to non-controlling interests	11	-6	5	11	-5	6	1	-2	-1	5	-1	4

Consolidated statement of financial position

No. 018

in € millions	09/30/2017	12/31/2016	09/30/2016	Change in %
ASSETS				
Intangible assets	629	632	584	-0.5
Property, plant and equipment	4,625	4,507	4,319	2.6
Other financial assets	165	217	169	-24.0
Other assets	66	51	29	29.4
Income tax receivables	0	0	0	0.0
Deferred tax assets	492	572	610	-14.0
Total non-current assets	**5,977**	**5,979**	**5,711**	**0.0**
Inventories	2,061	1,905	1,958	8.2
Trade receivables	2,323	2,218	2,250	4.7
Other financial assets	96	55	97	74.5
Other assets	254	218	203	16.5
Income tax receivables	106	93	78	14.0
Cash and cash equivalents	719	1,071	2,565	-32.9
Assets held for sale	0	25	0	-100
Total current assets	**5,559**	**5,585**	**7,151**	**-0.5**
Total assets	**11,536**	**11,564**	**12,862**	**-0.2**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital	666	666	666	0.0
Capital reserves	2,348	2,348	2,348	0.0
Other reserves	60	-404	-591	-
Accumulated other comprehensive income (loss)	-775	-713	-962	8.7
Equity attributable to shareholders of the parent company	**2,299**	**1,897**	**1,461**	**21.2**
Non-controlling interests	102	100	93	2.0
Total shareholders' equity	**2,401**	**1,997**	**1,554**	**20.2**
Provisions for pensions and similar obligations	2,083	2,182	2,471	-4.5
Provisions	88	96	114	-8.3
Financial debt	2,985	3,704	3,636	-19.4
Income tax payables	145	163	224	-11.0
Other financial liabilities	33	86	11	-61.6
Other liabilities	5	6	5	-16.7
Deferred tax liabilities	164	124	108	32.3
Total non-current liabilities	**5,503**	**6,361**	**6,569**	**-13.5**
Provisions	281	354	421	-20.6
Financial debt	354	3	1,805	> 100
Trade payables	1,651	1,625	1,406	1.6
Income tax payables	210	176	127	19.3
Other financial liabilities	720	696	607	3.4
Other liabilities	416	344	373	20.9
Liabilities held for sale	0	8	0	-100
Total current liabilities	**3,632**	**3,206**	**4,739**	**13.3**
Total shareholders' equity and liabilities	**11,536**	**11,564**	**12,862**	**-0.2**

Consolidated statement of cash flows

No. 019

in € millions	1st nine months 2017	1st nine months 2016	Change in %	3rd quarter 2017	3rd quarter 2016	Change in %
Operating activities						
EBIT	1,209	1,276	-5.3	416	417	-0.2
Interest paid	-106	-181	-41.4	-29	-74	-60.8
Interest received	7	94	-92.6	3	21	-85.7
Income taxes paid	-247	-234	5.6	-66	-73	-9.6
Depreciation, amortization and impairments	571	541	5.5	189	183	3.3
(Gains) losses on disposal of assets	1	2	-50.0	0	1	-100
Changes in:						
• Inventories	-242	-161	50.3	-81	-49	65.3
• Trade receivables	-203	-256	-20.7	-29	8	-
• Trade payables	105	114	-7.9	67	25	› 100
• Provisions for pensions and similar obligations	37	-37	-	11	-18	-
• Other assets, liabilities and provisions	-16	147	-	129	87	48.3
Cash flows from operating activities	**1,116**	**1,305**	**-14.5**	**610**	**528**	**15.5**
Investing activities						
Proceeds from disposals of property, plant and equipment	4	4	0.0	1	3	-66.7
Capital expenditures on intangible assets	-19	-16	18.8	-5	-6	-16.7
Capital expenditures on property, plant and equipment	-854	-813	5.0	-274	-262	4.6
Aquisition of subsidiaries	-23	0	-	0	0	0.0
Proceeds from disposal of subsidiaries	20	0	-	0	0	0.0
Other investing activities	0	-1	-100	1	0	-
Cash used in investing activities	**-872**	**-826**	**5.6**	**-277**	**-265**	**4.5**
Financing activities						
Dividends paid to shareholders and non-controlling interests	-330	-329	0.3	0	0	0.0
Receipts from loans	351	1,001	-64.9	1	1,000	-99.9
Repayments of loans [1]	-588	-1,153	-49.0	0	-945	-100
Other financing activities	0	1,772	-100	0	1,674	-100
Cash used in financing activities	**-567**	**1,291**	**-**	**1**	**1,729**	**-99.9**
Net increase (decrease) in cash and cash equivalents	**-323**	**1,770**	**-**	**334**	**1,992**	**-83.2**
Effects of foreign exchange rate changes on cash and cash equivalents	-29	-4	› 100	-14	1	-
Cash and cash equivalents as at beginning of period	1,071	799	34.0	399	572	-30.2
Cash and cash equivalents as at September 30	**719**	**2,565**	**-72.0**	**719**	**2,565**	**-72.0**

[1] Incl. EUR 38 m in cash inflows from cross-currency derivatives terminated early in connection with the redemption of the USD bonds.

Consolidated statement of changes in equity

No. 020

in € millions	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss): Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasurement reserve	Subtotal	Non-controlling interests	Total
Balance as at January 01, 2016	**666**	**2,348**	**-935**	**-79**	**-29**	**0**	**-491**	**1,480**	**88**	**1,568**
Net income			672					672	9	681
Other comprehensive income (loss)				-12	31	0	-382	-363	-3	-366
Total comprehensive income (loss) for the period			**672**	**-12**	**31**	**0**	**-382**	**309**	**6**	**315**
Dividends			-328					-328	-1	-329
Total amount of transactions with shareholders			**-328**					**-328**	**-1**	**-329**
Balance as at September 30, 2016	**666**	**2,348**	**-591**	**-91**	**2**	**0**	**-873**	**1,461**	**93**	**1,554**
Balance as at January 01, 2017	**666**	**2,348**	**-404**	**-27**	**-35**	**0**	**-651**	**1,897**	**100**	**1,997**
Net income			791					791	13	804
Other comprehensive income (loss)				-240	63	0	115	-62	-8	-70
Total comprehensive income (loss) for the period			**791**	**-240**	**63**	**0**	**115**	**729**	**5**	**734**
Dividends			-328					-328	-2	-330
Other changes			1					1	-1	0
Total amount of transactions with shareholders			**-327**					**-327**	**-3**	**-330**
Balance as at September 30, 2017	**666**	**2,348**	**60**	**-267**	**28**	**0**	**-536**	**2,299**	**102**	**2,401**

Consolidated segment information

(Part of the condensed notes to the consolidated interim financial statements)

No. 021

	Automotive		Industrial		Total	
	1st nine months		1st nine months		1st nine months	
in € millions	2017	2016	2017	2016	2017	2016
Revenue	8,098	7,707	2,382	2,270	10,480	9,977
Cost of sales	-5,874	-5,509	-1,689	-1,616	-7,563	-7,125
Gross profit	2,224	2,198	693	654	2,917	2,852
EBIT	1,002	1,097	207	179	1,209	1,276
• in % of revenue	12.4	14.2	8.7	7.9	11.5	12.8
Depreciation, amortization and impairments	-434	-397	-137	-144	-571	-541
Inventories [1)]	1,321	1,258	740	700	2,061	1,958
Trade receivables [1)]	1,820	1,764	503	486	2,323	2,250
Property, plant and equipment [1)]	3,594	3,256	1,031	1,063	4,625	4,319
Additions to intangible assets and property, plant and equipment	670	593	162	140	832	733

	Automotive		Industrial		Total	
	3rd quarter		3rd quarter		3rd quarter	
in € millions	2017	2016	2017	2016	2017	2016
Revenue	2,643	2,525	791	740	3,434	3,265
Cost of sales	-1,904	-1,808	-566	-525	-2,470	-2,333
Gross profit	739	717	225	215	964	932
EBIT	345	362	71	55	416	417
• in % of revenue	13.1	14.3	9.0	7.4	12.1	12.8
Depreciation, amortization and impairments	-145	-135	-44	-48	-189	-183
Inventories [1)]	1,321	1,258	740	700	2,061	1,958
Trade receivables [1)]	1,820	1,764	503	486	2,323	2,250
Property, plant and equipment [1)]	3,594	3,256	1,031	1,063	4,625	4,319
Additions to intangible assets and property, plant and equipment	233	218	61	47	294	265

Prior year information presented based on 2017 segment structure.
[1)] Amounts as at September 30.

Condensed notes to the consolidated interim financial statements

Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. The company was founded on April 19, 1982 and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The condensed consolidated interim financial statements of Schaeffler AG as at September 30, 2017 comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). The Schaeffler Group is a global automotive and industrial supplier.

Basis of preparation

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union and effective at the end of the reporting period and in accordance with the Interpretations by the IFRS Interpretations Committee (IFRIC).

The consolidated interim financial statements of Schaeffler AG, Herzogenaurach, for the reporting period ended September 30, 2017 have been compiled in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". They do not include all information necessary for a complete set of consolidated financial statements.

The accounting policies used in these consolidated interim financial statements are largely based on the accounting policies used in the 2016 consolidated financial statements, where the latter are discussed in detail. These accounting policies have been applied consistently in these consolidated interim financial statements.

The amendments to and new requirements of IFRS effective starting in 2017 do not have a significant impact on these consolidated interim financial statements. Please see the discussion on IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, which are applicable effective January 01, 2018, in the notes to the consolidated financial statements contained in the 2016 annual report for information on the impact these standards' initial application is currently expected to have. To date, the ongoing implementation projects have not led to any significant changes to the assessments set out in that discussion.

In compiling financial statements in accordance with IFRS, management exercises judgment in making estimates and assumptions. Such estimates and judgments are unchanged from the matters described in the consolidated financial statements of the Schaeffler Group as at and for the year ended December 31, 2016. The only change relates to the assumptions regarding the discount rate used to measure the company's pension obligations. These assumptions were adjusted to reflect current market trends. The adjustment has led to a reduction in pension obligations and an increase in shareholders' equity. Please refer to "Provisions for pensions and similar obligations" below for more detailed information.

Processes and systems of group companies ensure appropriate recognition of income and expenses on the accrual basis. Due to the nature of the Schaeffler Group's business, the comparability of its consolidated interim financial statements is not significantly affected by seasonality.

Income taxes were determined based on best estimate.

As amounts (in EUR m) and percentages have been rounded, rounding differences may occur.

Foreign currency translation

The exchange rates between the group's most significant currencies and the Euro are as follows:

Selected foreign exchange rates No. 022

		Closing rates			Average rates	
Currencies					1st nine months	
1 € in		09/30/2017	12/31/2016	09/30/2016	2017	2016
CNY	China	7.86	7.32	7.45	7.57	7.34
INR	India	77.05	71.45	74.56	72.60	74.91
KRW	South Korea	1,349.90	1,270.57	1,233.29	1,267.00	1,296.20
MXN	Mexico	21.44	21.79	21.75	21.00	20.41
USD	U.S.A.	1.18	1.05	1.12	1.11	1.12

Scope of consolidation

The consolidated financial statements of Schaeffler AG as at September 30, 2017 cover, in addition to Schaeffler AG, 153 subsidiaries (December 31, 2016: 152); 51 entities are domiciled in Germany (December 31, 2016: 51) and 102 in other countries (December 31, 2016: 101).

The scope of consolidation of Schaeffler AG did not change significantly compared to December 31, 2016.

In the consolidated financial statements as at September 30, 2017, five investments, including two joint ventures, are accounted for at equity (December 31, 2016: five investments including two joint ventures).

Trade receivables

Trade receivables increased by EUR 105 m to EUR 2,323 m (December 31, 2016: EUR 2,218 m) in the first nine months of 2017, largely due to the Schaeffler Group's operational growth. At September 30, 2017, trade receivables with a face value of EUR 54 m had been sold as part of a program (December 31, 2016: EUR 0 m).

Current and non-current financial debt

Financial debt (current/non-current) No. 023

	09/30/2017			12/31/2016		
in € millions	Total	Due in up to 1 year	Due in more than 1 year	Total	Due in up to 1 year	Due in more than 1 year
Bonds	2,001	0	2,001	2,719	0	2,719
Facilities Agreement	1,333	350	983	982	0	982
Other financial debt	5	4	1	6	3	3
Financial debt	**3,339**	**354**	**2,985**	**3,707**	**3**	**3,704**

The decrease in financial debt compared to December 31, 2016 resulted primarily from the early redemption of the USD bond with a principal of USD 700 m, a coupon of 4.25 %, and an original maturity of 2021 in full on May 24, 2017. The redemption was funded using available liquidity and by utilizing EUR 350 m of the Revolving Credit Facility.

Provisions for pensions and similar obligations

Interest rate levels as at September 30, 2017, have increased slightly compared to December 31, 2016. As a result, the Schaeffler Group has adjusted the discount rate used to value its key pension plans as at the reporting date. The Schaeffler Group's average discount rate as at September 30, 2017, amounted to 2.3 % (December 31, 2016: 2.1 %). The resulting remeasurement of the company's obligations under defined benefit pension plans resulted in actuarial gains of EUR 157 m as at September 30, 2017, which were recognized in the consolidated statement of comprehensive income and are reported under accumulated other comprehensive income net of deferred taxes.

Financial instruments

The carrying amounts and fair values of financial instruments by class of the consolidated statement of financial position and by category per IFRS 7.8 are summarized below. Investments in associated companies and derivatives subject to hedge accounting are also shown, although they do not fall into any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

The carrying amounts of trade receivables, miscellaneous other financial assets and cash and cash equivalents, trade payables, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments.

Other investments include investments (shares in incorporated companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in the first nine months of 2017, and no (partial) disposals are planned in the foreseeable future. Marketable securities consist almost entirely of equity instruments in the form of money market fund units.

The fair values of financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes to the consolidated interim financial statements were determined using the following valuation methods and inputs:

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities as well as bonds payable included in financial debt.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Embedded derivatives are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates (CDS rates).
  The fair value of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The Schaeffler Group does not have any financial instruments in this level.

Financial instruments by class and category in accordance with IFRS 7.8 No. 024

			09/30/2017		12/31/2016		09/30/2016	
in € millions	Category per IFRS 7.8	Level per IFRS 13	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class								
Trade receivables	LaR		2,323	2,323	2,218	2,218	2,250	2,250
Other financial assets								
• Investments in associates [1]	n.a.		3	-	3	-	3	-
• Other investments [2]	AfS		14	-	14	-	14	-
• Marketable securities	AfS	1	17	17	17	17	16	16
• Derivatives designated as hedging instruments	n.a.	2	77	77	63	63	61	61
• Derivatives not designated as hedging instruments	HfT	2	120	120	141	141	120	120
• Miscellaneous other financial assets	LaR		30	30	34	34	52	52
Cash and cash equivalents	LaR		719	719	1,071	1,071	2,565	2,565
Financial liabilities, by class								
Financial debt	FLAC	1, 2 [3]	3,339	3,440	3,707	3,820	5,441	5,573
Trade payables	FLAC		1,651	1,651	1,625	1,625	1,406	1,406
Other financial liabilities								
• Derivatives designated as hedging instruments	n.a.	2	9	9	40	40	8	8
• Derivatives not designated as hedging instruments	HfT	2	32	32	35	35	35	35
• Miscellaneous other financial liabilities	FLAC		710	712	707	707	575	575
Summary by category								
Available-for-sale financial assets (AfS)			31	-	31	-	30	-
Financial assets held for trading (HfT)			120	-	141	-	120	-
Loans and receivables (LaR)			3,072	-	3,323	-	4,867	-
Financial liabilities at amortized cost (FLAC)			5,700	-	6,039	-	7,422	-
Financial liabilities held for trading (HfT)			32	-	35	-	35	-

[1] Equity-accounted investees.
[2] Investments accounted for at cost.
[3] Level 1: EUR 2,084 m (December 31, 2016: EUR 2,813 m; September 30, 2016: EUR 4,567 m); Level 2: EUR 1,356 m (December 31, 2016: EUR 1,007 m; September 30, 2016: EUR 1,006 m).

The company reviews its financial instruments at the end of each reporting period for any required transfers between fair value levels. No transfers between levels were made during the period.

Contingent liabilities and other obligations

The statements made in the annual report 2016 with respect to contingent liabilities are largely unchanged.

Open commitments under fixed contracts to purchase property, plant and equipment amounted to EUR 391 m as at September 30, 2017 (December 31, 2016: EUR 320 m).

Segment reporting

The allocation of customers and products to segments and the allocation of indirect expenses are reviewed regularly and adjusted where necessary. To ensure that the information on the Automotive division and Industrial division segments is comparable, prior year information is also presented using the current year's customer and product structure.

Reconciliation to earnings before income taxes No. 025

	1st nine months	
in € millions	**2017**	**2016**
EBIT Automotive 1)	1,002	1,097
EBIT Industrial 1)	207	179
EBIT	**1,209**	**1,276**
Financial result	-104	-320
Earnings before income taxes	**1,105**	**956**

1) Prior year information presented based on 2017 segment structure.

Related parties

The extent of transactions with related persons and entities remained largely unchanged compared to the 2016 consolidated financial statements.

On April 26, 2017, the Schaeffler AG annual general meeting passed a resolution to pay a total dividend of EUR 328 m in respect of 2016, including EUR 245 m on the common shares held by IHO Verwaltungs GmbH.

Transactions with associated companies and joint ventures in the first nine months of 2017 were insignificant.

Events after the reporting period

At its meeting on October 05, 2017, the Executive Committee of the Supervisory Board of Schaeffler AG accepted the proposal of the Board of Managing Directors to separate the Automotive Aftermarket from the Automotive division of Schaeffler AG and to set it up as a stand-alone division as of January 01, 2018. As a consequence, the Schaeffler Group will divide its business into three divisions – Automotive OEM, Automotive Aftermarket, and Industrial. On that basis, the Supervisory Board of Schaeffler AG decided to appoint Mr. Michael Söding to become a Member of the Board of Managing Directors of Schaeffler AG effective January 01, 2018. He will assume responsibility for the Automotive Aftermarket business at board level.

No other material events expected to have a significant impact on the results of operations, financial position, or net assets of the Schaeffler Group occurred after September 30, 2017.

Herzogenaurach, October 30, 2017

The Board of Managing Directors

List of figures

Forward-looking statements

This document contains forward-looking statements that reflect management’s current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond Schaeffler AG’s ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies, and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. Schaeffler AG does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

Rounding differences may occur.

This English version of the interim financial report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.

For better readability, this report generally uses only the masculine form when referring to groups of persons. Unless indicated otherwise, these statements should not be construed to refer to a specific gender.

Summary – 1st quarter 2016 to 3rd quarter 2017

				2016			2017
Income statement (in € millions)	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter
Revenue	3,343	3,369	3,265	3,361	3,574	3,472	3,434
EBIT	421	438	417	280	435	358	416
• in % of revenue	12.6	13.0	12.8	8.3	12.2	10.3	12.1
EBIT before special items 1)	421	438	417	424	435	345	416
• in % of revenue	12.6	13.0	12.8	12.6	12.2	9.9	12.1
Net income 2)	253	241	178	187	279	206	306
Earnings per common non-voting share (basic/diluted, in €)	0.38	0.37	0.27	0.28	0.42	0.31	0.46
Statement of financial position (in € millions)							
Total assets	12,607	12,554	12,862	11,564	11,941	11,120	11,536
Shareholders' equity 3)	1,609	1,425	1,554	1,997	2,400	2,168	2,401
• in % of total assets	12.8	11.4	12.1	17.3	20.1	19.5	20.8
Net financial debt	4,909	4,874	2,876	2,636	2,742	2,956	2,620
• Net financial debt to EBITDA ratio before special items 1) 4)	2.1	2.0	1.2	1.1	1.1	1.2	1.1
• Gearing Ratio (Net financial debt to shareholders' equity, in %)	305.1	342.0	185.1	132.0	114.3	136.3	109.1
Statement of cash flows (in € millions)							
EBITDA	598	619	600	476	624	551	605
• in % of revenue	17.9	18.4	18.4	14.2	17.5	15.9	17.6
EBITDA before special items 1)	598	619	600	620	624	538	605
• in % of revenue	17.9	18.4	18.4	18.4	17.5	15.5	17.6
Cash flows from operating activities	206	571	528	571	186	320	610
Capital expenditures (capex) 5)	318	243	268	317	299	295	279
• in % of revenue (capex ratio)	9.5	7.2	8.2	9.4	8.4	8.5	8.1
Free cash flow	-112	328	263	256	-130	41	333
Value Added							
ROCE before special items (in %) 1) 4)	22.8	23.2	22.6	22.3	22.1	20.7	20.5
Schaeffler Value Added before special items (in € millions) 1) 4)	928	973	944	939	938	837	829
Employees							
Headcount (at end of reporting period)	85,016	85,225	86,029	86,662	87,341	87,937	89,359

1) Please refer to pp. 18 et seq. for the definition of special items.
2) Attributable to shareholders of the parent company.
3) Including non-controlling interests.
4) EBIT/EBITDA based on the last twelve months.
5) Capital expenditures on intangible assets and property, plant and equipment.

				2016			2017
Automotive (in € millions)	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter
Revenue	2,578	2,604	2,525	2,631	2,791	2,664	2,643
EBIT	367	368	362	276	367	290	345
• in % of revenue	14.2	14.1	14.3	10.5	13.1	10.9	13.1
EBIT before special items 1)	367	368	362	384	367	277	345
• in % of revenue	14.2	14.1	14.3	14.6	13.1	10.4	13.1
Industrial (in € millions)							
Revenue	765	765	740	730	783	808	791
EBIT	54	70	55	4	68	68	71
• in % of revenue	7.1	9.2	7.4	0.5	8.7	8.4	9.0
EBIT before special items 1)	54	70	55	40	68	68	71
• in % of revenue	7.1	9.2	7.4	5.5	8.7	8.4	9.0

Prior year information presented based on 2017 segment structure.
1) Please refer to pp. 18 et seq. for the definition of special items.

Financial calendar

November 08, 2017

Publication of results for the first nine months 2017

March 07, 2018

Publication of annual results 2017

May 07, 2018

Publication of results for the first three months 2018

All information is subject to correction and
may be changed at short notice.

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