



Strategic Update and Financial Results H1 2015 Schaeffler Group

Analysts' Conference Call
August 20, 2015
Herzogenaurach

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- 1 Introduction
- 2 Strategic Update Schaeffler Group
- 3 Industrial Division
- 4 Financial Results H1 2015
- 5 Summary



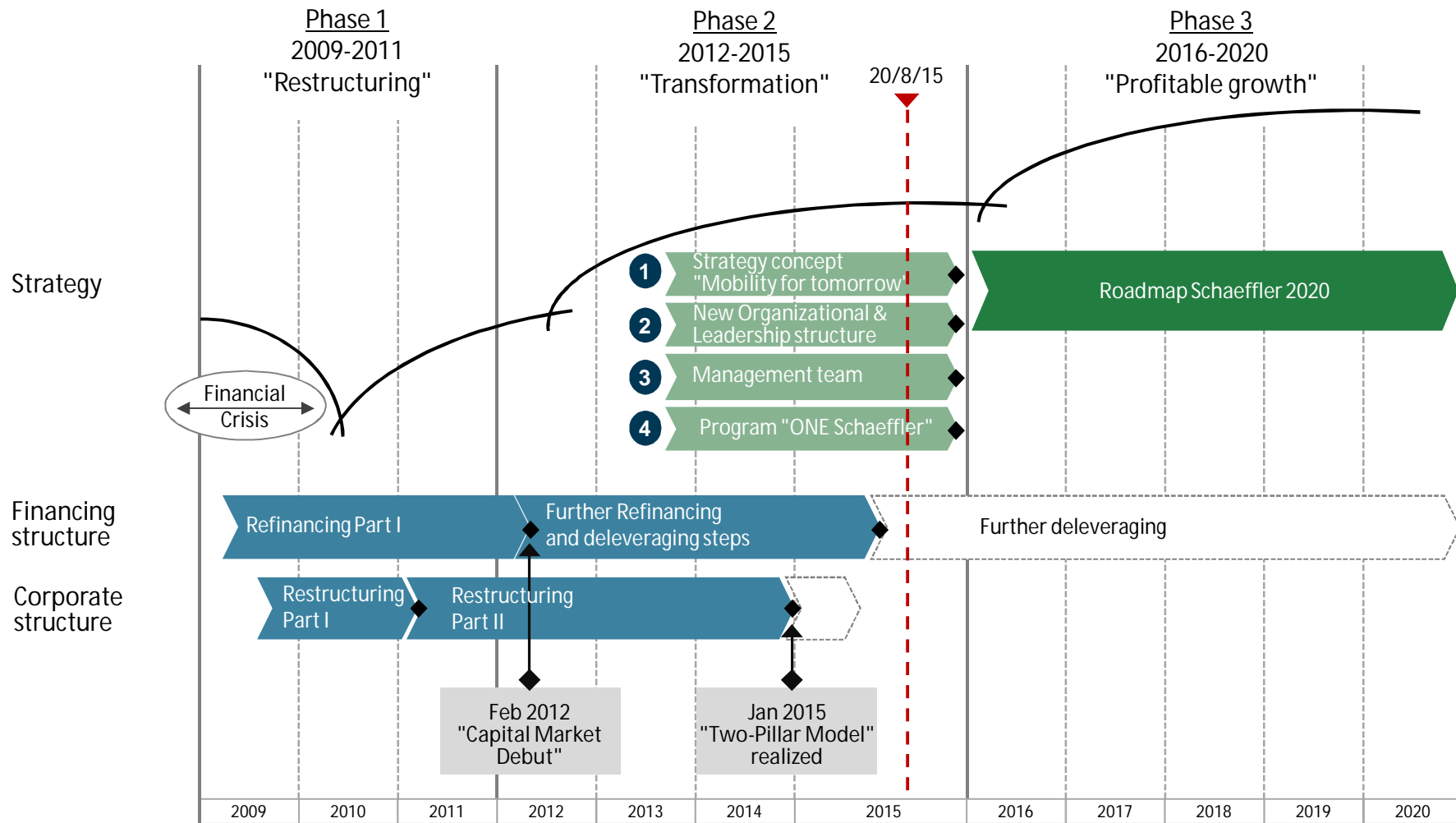
Klaus Rosenfeld
Chief Executive Officer
Schaeffler AG



Dr. Stefan Spindler
CEO Industrial
Schaeffler AG



Dr. Ulrich Hauck
Chief Financial Officer
Schaeffler AG



Foundations laid – Profitable growth to continue

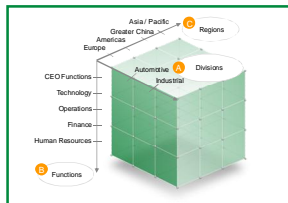


1 Strategy concept "Mobility for tomorrow"



- ▶ Strategy concept with 4 key focus areas
- ▶ "Mobility for tomorrow" covers both Automotive and Industrial

2 New organizational & leadership structure



- ▶ Global matrix organization with 2 divisions, 5 functions and 4 regions
- ▶ New structure enforces accountability and efficiency

3 Management team



- ▶ New CFO (April 1st) and new CEO Industrial (May 1st) on board
- ▶ Team spirit and performance culture refreshed

4 Program "ONE Schaeffler"

Initiative	Status	Completion Ratio
1 Governance & Digitalization	On Track	70%
2 Corporate Management System	On Track	70%
3 Program S&P	On Track	70%
4 Business Process Automation	On Track	70%
5 Long-term Strategy 2020	On Track	70%
6 Business Technology	On Track	70%
7 Business Process Innovation	On Track	70%
8 E&E	On Track	70%
9 R&D Management and Development	On Track	70%
10 Schaeffler Production System	On Track	70%
11 Schaeffler Quality	On Track	70%
12 Schaeffler Energy	On Track	70%
13 Business Process Management	On Track	70%
14 IT Strategy 2020	On Track	70%
15 Customer Experience	On Track	70%
16 Digitalization Initiatives	On Track	70%
17 Business Process Innovation	On Track	70%
18 Data Reporting	On Track	70%
19 Group Risk Management	On Track	70%
20 One Schaeffler HR	On Track	70%
21 Group Resource Management	On Track	70%

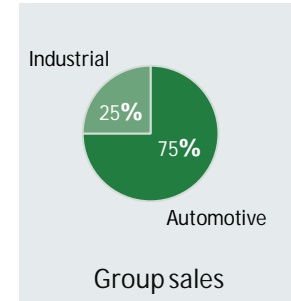
- ▶ Program with 20 initiatives to be finished by end of 2015
- ▶ Completion ratio to date above 70%

Strategic direction

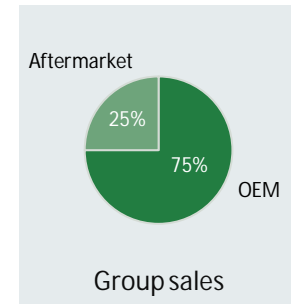
Strategic targets 2020



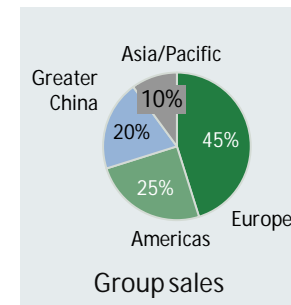
- 1 Continuation of a profitable growth strategy based on the key success factors "Quality, Technology and Innovation"
- 2 Balanced business portfolio with Top 3 market position
 - ▶ Automotive / Industrial
 - ▶ OEM / Aftermarket
 - ▶ Regional mix
- 3 Integrated business model using internal synergies and leveraging of superior production technology



Re-energize the Industrial Division



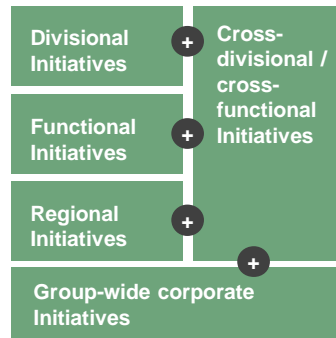
Grow the Aftermarket business



Extend global footprint towards attractive growth markets

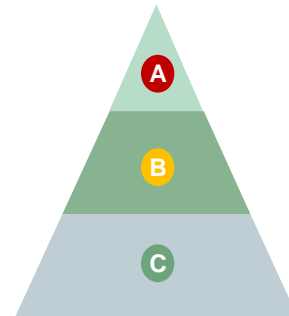
"Roadmap Schaeffler 2020" – 5 key elements

Strategic Initiatives



- ▶ Strategic Dialog held in July 2015 reviewing status quo, current performance and strategic targets
- ▶ Various strategic initiatives identified and analyzed

- ▶ Initiatives will be finalized and prioritized until year end
- ▶ Disciplined group-wide implementation with continuous monitoring



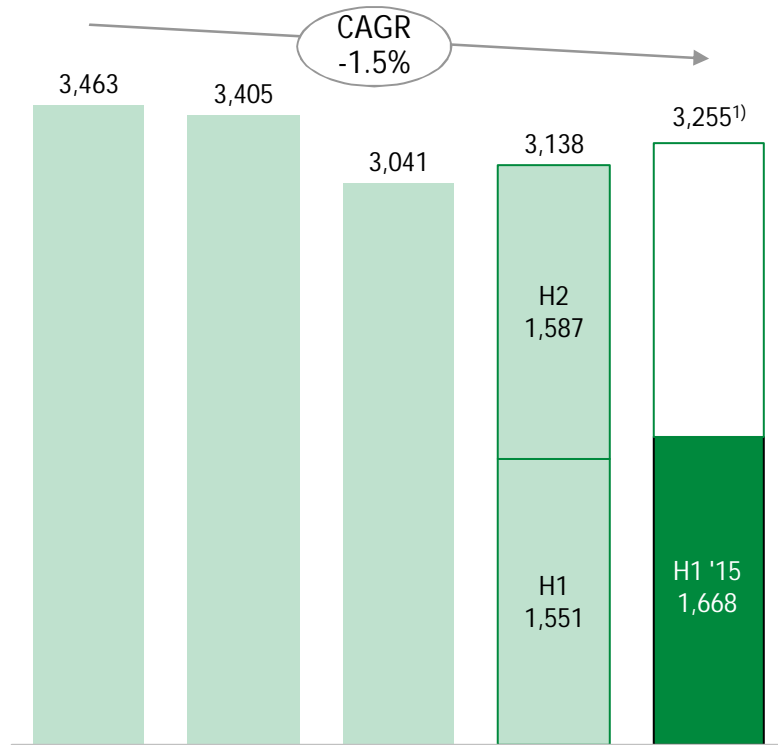
5 key elements



Industrial division – Sales development and profitability below expectation **SCHAEFFLER**

Sales

in EUR mn

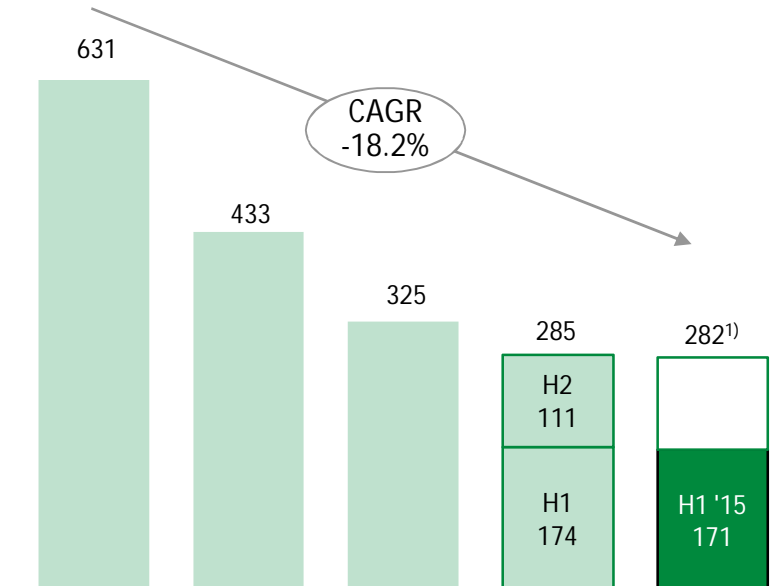


Year	2011	2012	2013	2014	2015
Growth rate	+15.4%	-1.7%	-10.7%	+3.2%	+7.5% ²⁾

1) LTM June 2015
2) Growth rate H1 2015 vs H1 2014

EBIT

in EUR mn



Year	2011	2012	2013	2014	2015
EBIT margin in %	17.8%	12.7%	10.7%	9.1%	10.3% ²⁾

1) LTM June 2015
2) H1 2015 EBIT margin in %

Key issues Industrial business

1

Sales development and profitability below expectation

2

Decreasing market share with high-volume products

3

Delivery performance with room for improvement

4

Production footprint geared towards Europe

5

Product and business portfolio very broad

6

Organizational structure with too much emphasis on central functions

Strategic target

Industrial business contributes 25% to Group sales by 2020

Re-energizing the Industrial business by Program CORE

Back to sustainable growth and increased profitability

Profitability target

Program CORE – Re-energizing the Industrial business

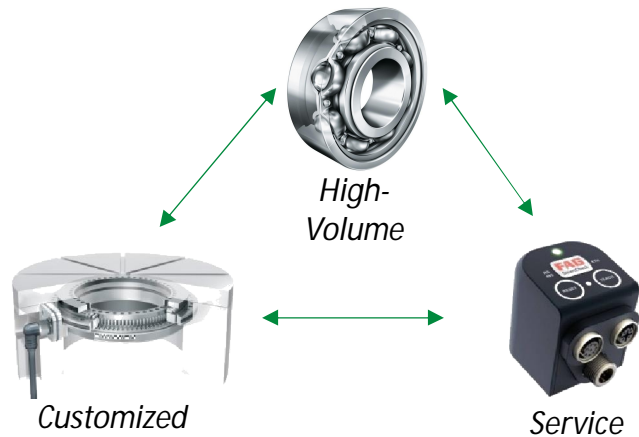
Key elements Program CORE

- 1 Increase sales growth through high-volume business and optimized product and service portfolio
- 2 Improve competitive position through enhanced delivery performance and service quality
- 3 Stronger customer orientation through strengthened regional sales organization and dedicated Global Key Account Management approach
- 4 Cost savings and efficiency improvements through leaner organization structures reducing workforce by up to 500 jobs, mainly in Germany and Europe

Key objectives

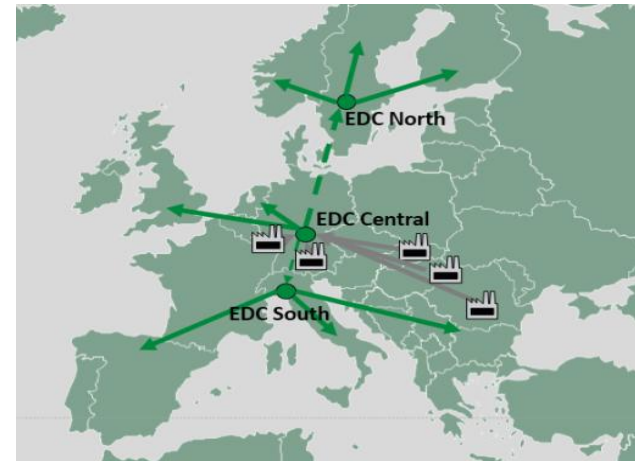
Sustainable sales growth and increased profitability with EBIT margin target of 13% by 2018

1 Sales growth



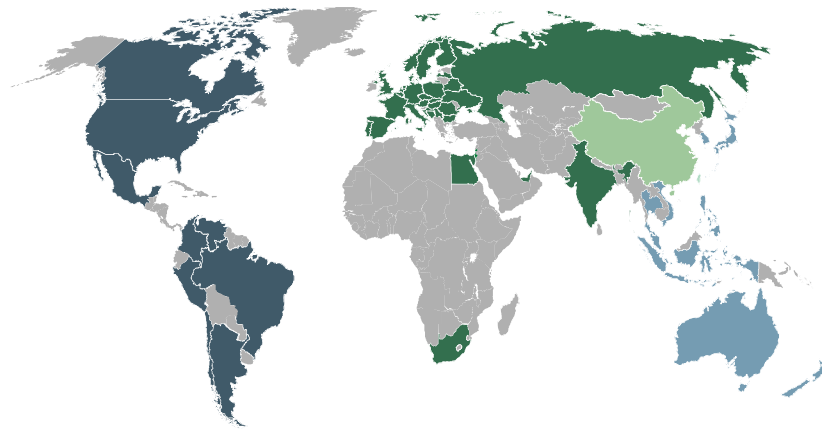
- ▶ Strengthen high-volume market sales (e.g. through re-launch of "GenC" ball bearings) and balance approach with customized product business and engineering solutions
- ▶ Enforce market penetration of service products (e.g. condition monitoring)
- ▶ Digitalization process started to further enhance customer value

2 Delivery performance



- ▶ Establish state-of-the-art European distribution centers (EDC) to ensure immediate product availability
- ▶ Target investment of approx. EUR 200 mn; distribution center North already completed
- ▶ Increased level of standardization to further increase efficiency

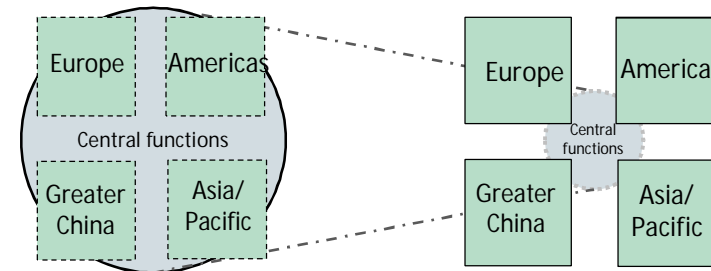
3 Customer orientation



- ▶ Transform sales responsibility from central business units to the regional sales organization
- ▶ Strengthen regional engineering and Schaeffler Technology Centers
- ▶ Establish dedicated global Key Account Management

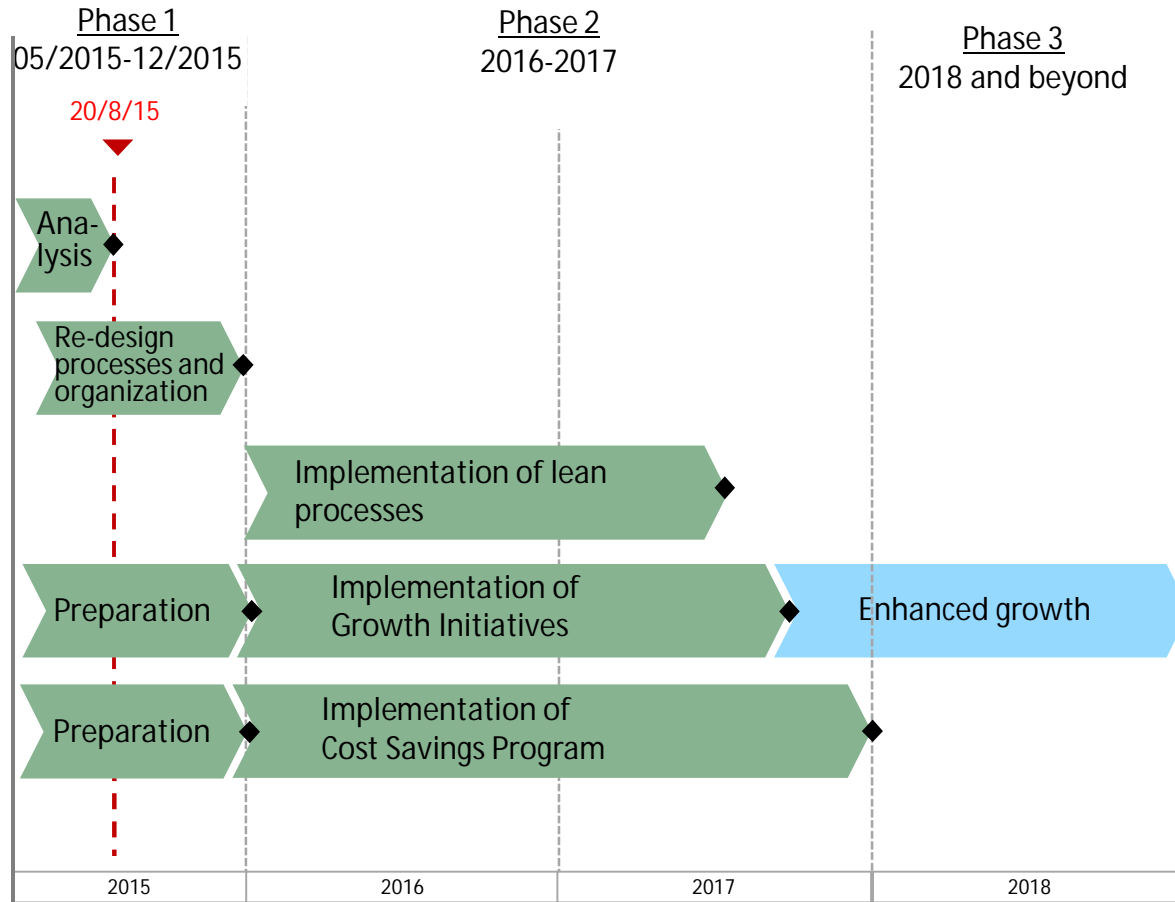
4 Cost savings and efficiency improvements

From Central steering... ...to Central support



- ▶ Re-dimension central departments as a consequence of localization in the regions
- ▶ Reduce up to 500 jobs, mainly in Germany and Europe, until 2017
- ▶ Drive cost saving program including material cost, efficiency gains and overhead reduction

Indicative timetable and key targets



Key targets

- ▶ New management and organizational structure in place by year-end 2015
- ▶ Workforce reduced by up to 500 jobs in Industrial division until 2017
- ▶ EBIT margin of 13% by 2018
- ▶ Industrial division with 25% of group sales in 2020

Financial highlights H1 2015

SCHAEFFLER



Schaeffler special large-size bearing used in the "London Eye"

Continued growth – H1 2015 Sales EUR 6,732 mn (+12.4%);
FX adjusted sales increased by 4.9%

Automotive sales +14.1% (FX-adjusted +6.9%)
Industrial sales +7.5% (FX adjusted -0.8%)

Profitability in line with target range – EBIT margin at 12.2%

Free cash flow impacted by refinancing costs – Operating cash
flow increased to EUR 422mn; Free Cash Flow EUR -72mn

Partial redemption (EUR 210 mn) of institutional term loans

Overview key financials H1 2015

SCHAEFFLER

in EUR mn	H1 14	H1 15	H1 15 vs. H1 14	Q2 14	Q2 15	Q2 15 vs. Q2 14
Sales	5,990	6,732	+12.4%	3,014	3,387	+12.4%
EBITDA	1,113	1,161	+4.3%	541	557	+3.0%
EBITDA margin	18.6	17.2	-1.4%-pts.	17.9	16.4	-1.5%-pts.
EBIT	801	818	+2.1%	383	384	+0.3%
EBIT margin	13.4	12.2	-1.2%-pts.	12.7	11.3	-1.4%-pts.
Net income	210	309	+99 mn	-10	142	+152 mn
Capex	298	501	+203 mn	143	257	+114 mn
Capex ratio	5.0	7.4	+2.4%-pts.	4.7	7.6	+2.9%-pts.
Free cash flow	-325 ²⁾	-72	+253 mn	-306 ²⁾	-12	+294 mn
Net debt ¹⁾	5,778	6,245	+467 mn	5,778	6,245	+467 mn
Leverage ratio ^{1) 3)}	2.7	2.8		2.7	2.8	-

1) Prior year figure as per December 31, 2014

2) Includes EU-antitrust fine of EUR 371 mn paid in June 2014

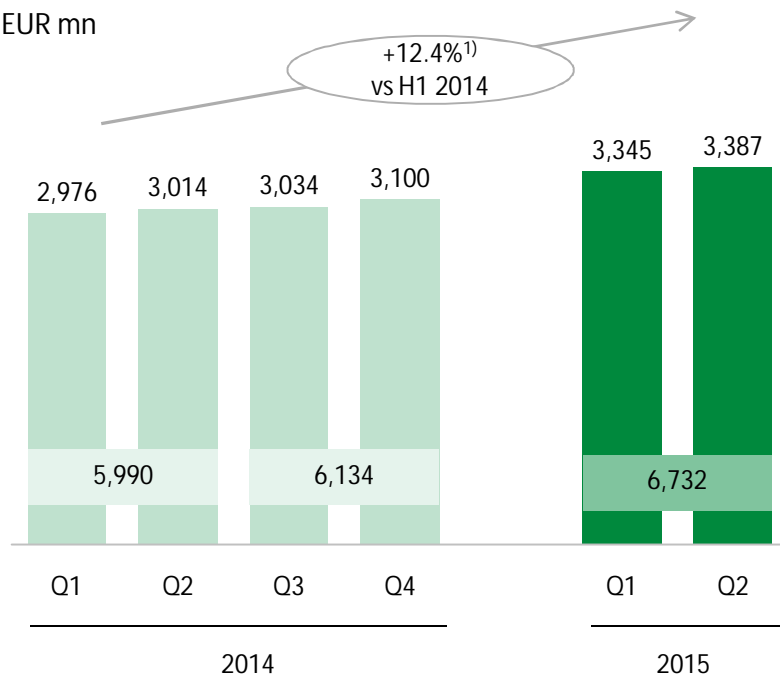
3) Net financial debt excl. shareholder loans to LTM EBITDA ratio

Sales H1 2015 up 12.4%



Sales

in EUR mn



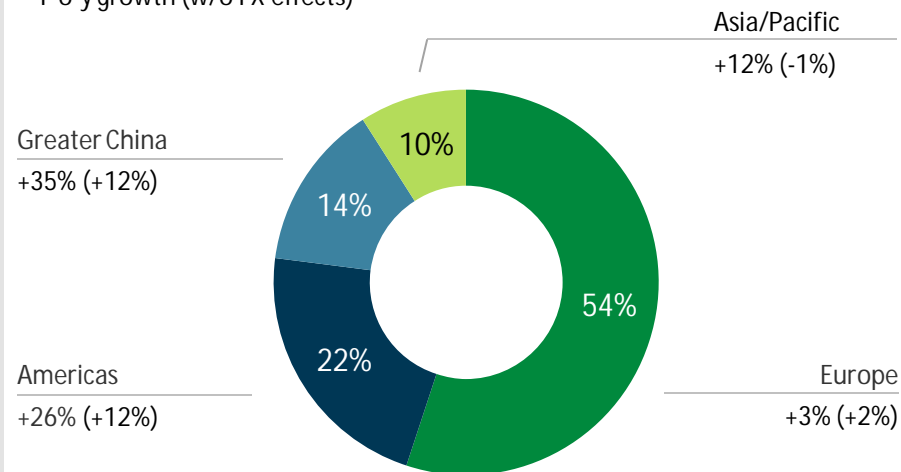
Gross profit margin in %

28.7	27.7	28.9	27.5	28.3	28.0
28.2				28.1	

1) Includes positive FX effects of 7.5%

H1 2015 sales by region

Y-o-y growth (w/o FX effects)



H1 2015 sales by division

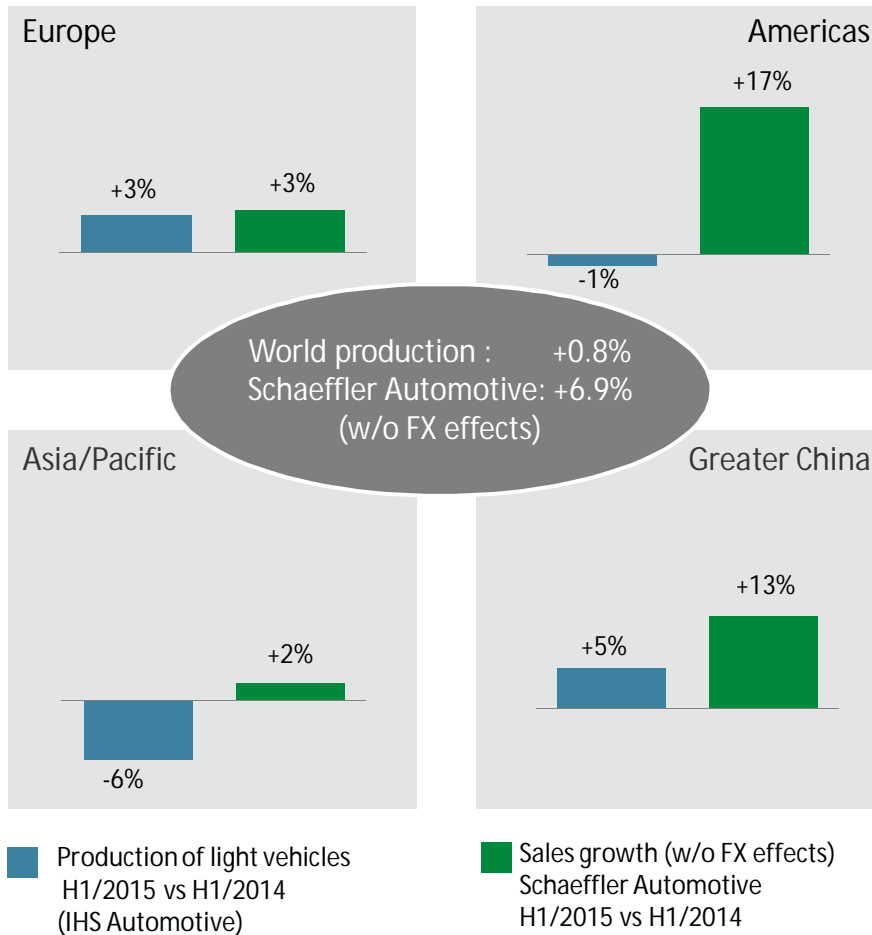
Y-o-y growth (w/o FX effects)

	H1 14	H1 15	Δ	Δ excl. FX effects
Automotive	4,439	5,064	14.1%	6.9%
Industrial	1,551	1,668	7.5%	-0.8%
Total	5,990	6,732	12.4%	4.9%

Automotive division again strongly outperforms market

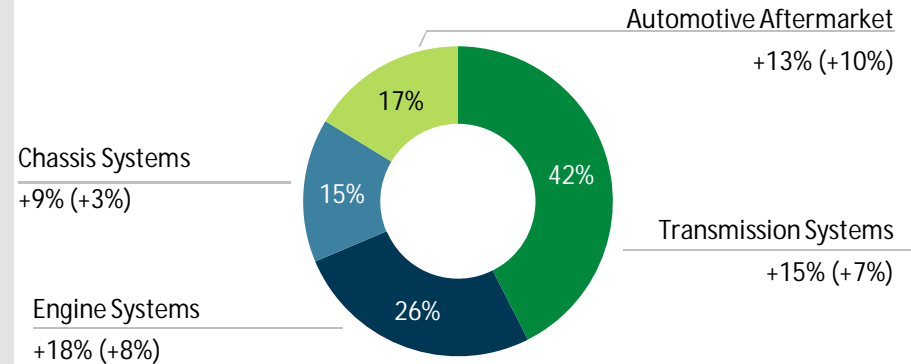


Sales development Automotive (w/o FX effects)



Sales split

Y-o-y growth (w/o FX effects)



Key aspects

- ▶ **Engine Systems:** Ramp-up of new Thermal Management Module; Strong demand for valve train components (e.g. for UniAir engine)
- ▶ **Transmission Systems:** Significant growth with Torque Converters (automatic transmission) and Dual Mass Fly Wheels
- ▶ **Chassis Systems:** Strong demand for 3rd generation of wheel bearings compensates weakness in South America and Asia/Pacific
- ▶ **Automotive Aftermarket:** Strong demand for service kits in Europe and Americas in second quarter

Industrial division with mixed development across sectors



Sales development Industrial

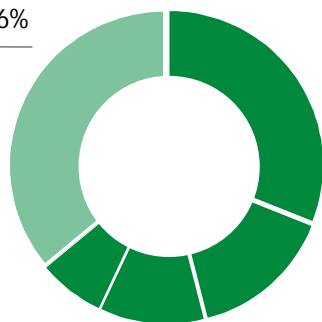
	H1 14	H1 15	Δ	Δ excl. FX effects
Industrial Applications	994	1,063	6.9%	-1.4%
Industrial Aftermarket	557	605	8.6%	0.2%
Total	1,551	1,668	7.5%	-0.8%

Key aspects

- ▶ Industrial OEM business with mixed development across sectors
- ▶ Mobility: FX-adjusted sales down
 - ▷ Organic growth in Railway and Motorcycle sector
 - ▷ Off-highway equipment (esp. agriculture) remains under pressure
- ▶ Production Machinery: FX-adjusted sales down
 - ▷ Slight decrease in tooling machinery
 - ▷ Textile and printing machinery remain weak
- ▶ Energy and Raw Materials: FX-adjusted sales up
 - ▷ Positive development in renewable energy sector (especially Wind) in Europe and Greater China
 - ▷ Stabilization in Heavy Industries on a low level but no quick recovery expected
- ▶ Aerospace: FX-adjusted sales slightly down
- ▶ Industrial Aftermarket: FX-adjusted sales slightly up

Sales split

Industrial Aftermarket ~36%



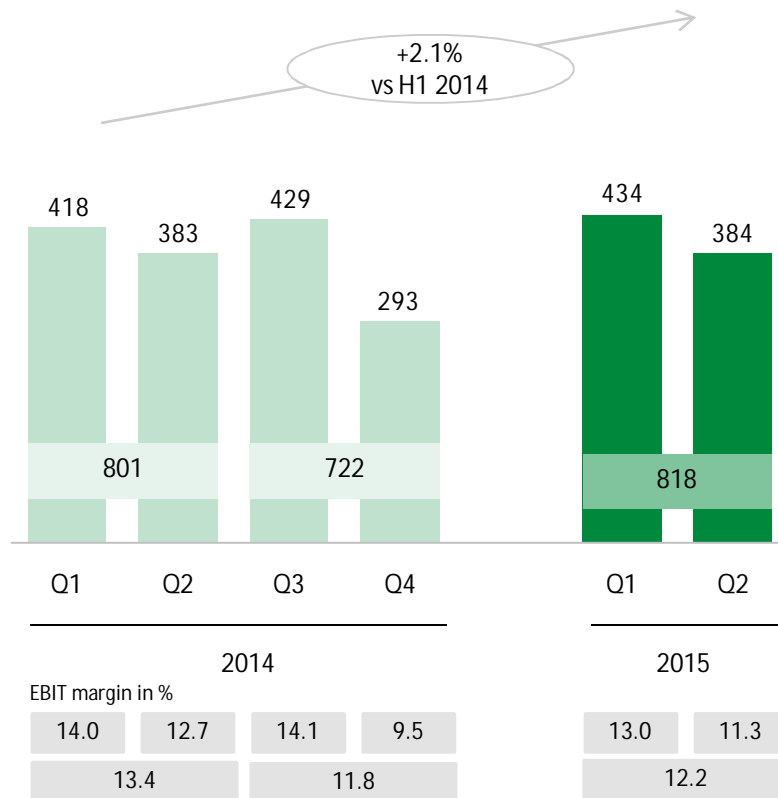
Industrial Applications ~64%

- Mobility
- Energy and Raw Material
- Production Machinery
- Aerospace

EBIT margin H1 2015 12.2%

EBIT

in EUR mn



Key aspects

H1 15 EBIT margin down by 1.2%-points mainly due to:

- ▶ Reduced gross profit margin in Industrial business (-0.5%-pts), mainly due to sales mix effects
- ▶ Increase in R&D and selling expenses on group level (-0.4%-pts)
- ▶ One-off items from antitrust cases (-0.4 %-pts)

EBIT by division

in EUR mn

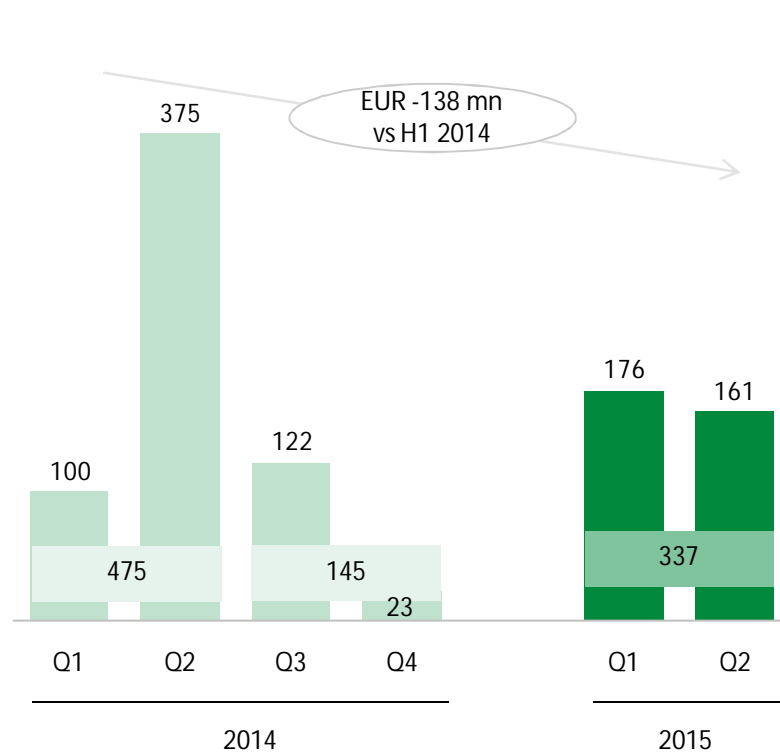
	H1 14	H1 15	Δ	H1 14 margin	H1 15 margin	Δ in %-pts.
Automotive	627	647	+3.2%	14.1%	12.8%	-1.3
Industrial	174	171	-1.7%	11.2%	10.3%	-0.9
Total	801	818	+2.1%	13.4%	12.2%	-1.2

Financial Result H1 2015 EUR -337 mn



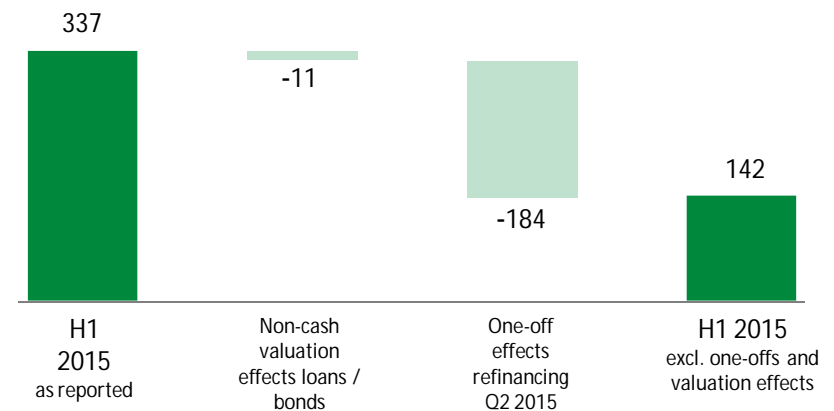
Financial result¹⁾

in EUR mn



Reconciliation Financial Result

in EUR mn



in EUR mn

	H1 14	H1 15	Δ
Cash interest	112	132	20
Accrued interest	54	33	-21
Other	74	-23	-97
Financial Result excl. one-offs and valuation effects	240	142	-98
Non-cash valuation effects	0	11	11
One-off effects refinancing	235 ²⁾	184	-51
Reported Financial Result	475	337	-138

1) For presentation purposes negative results are shown as positive figures

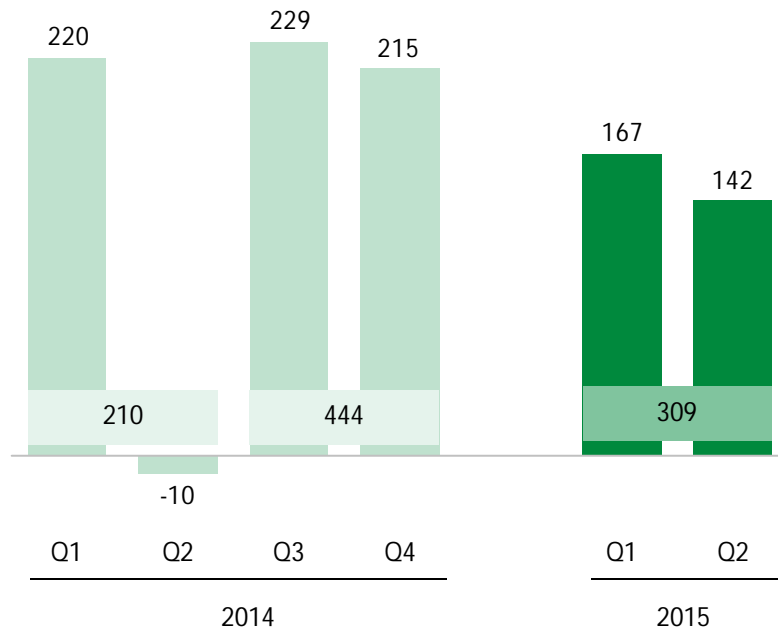
2) Including non-cash valuation effects of EUR 106 mn from refinancing transaction in Q2 2014

Net income H1 2015 EUR 309 mn



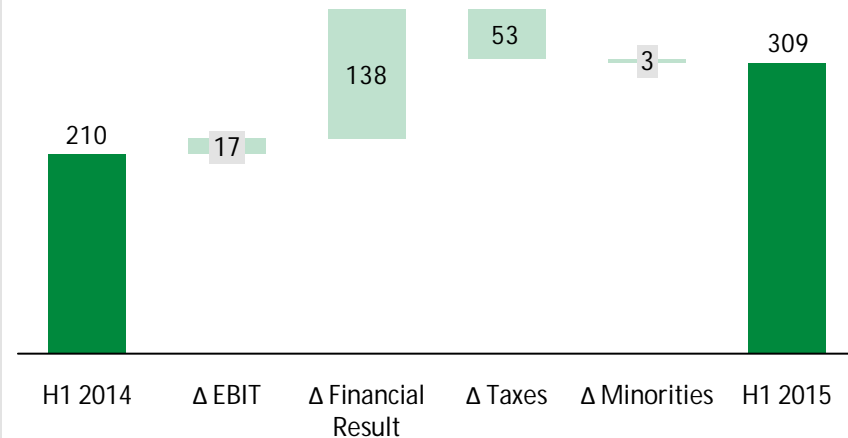
Net income¹⁾

in EUR mn



Reconciliation of net income

in EUR mn



Key aspects

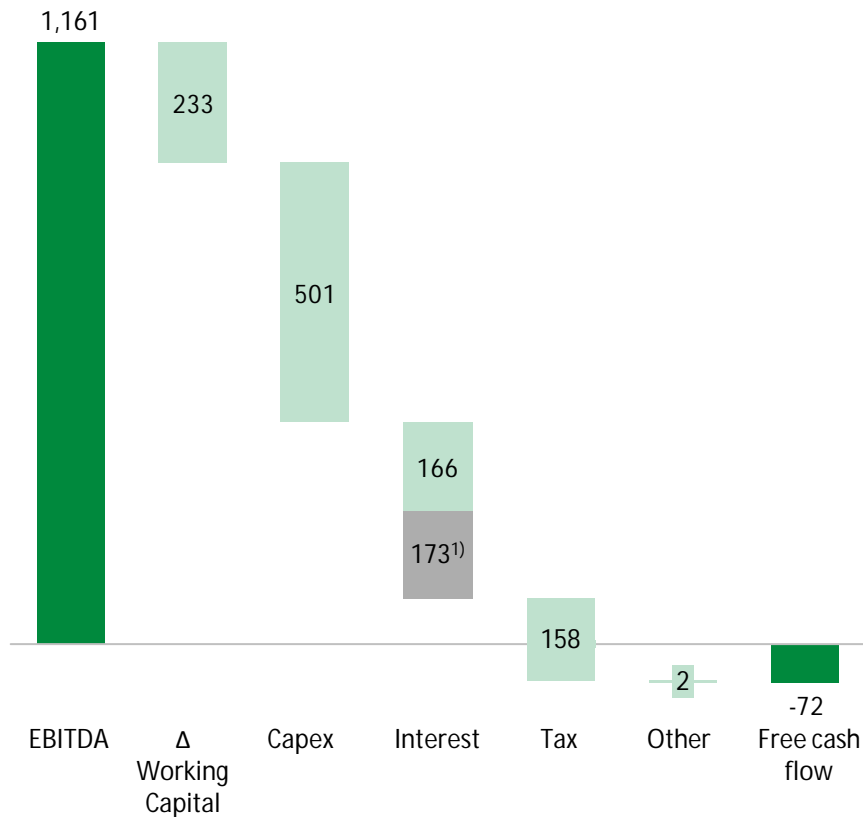
- ▶ Net income increased by EUR 99 mn vs H1 2014
- ▶ Improved financial result leads to higher net income

1) Attributable to the shareholders of the parent company

Free cash flow EUR -72 mn

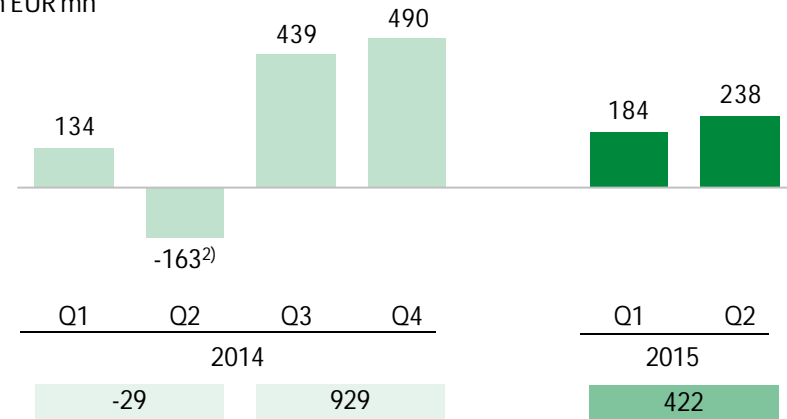


Free cash flow H1 2015
in EUR mn

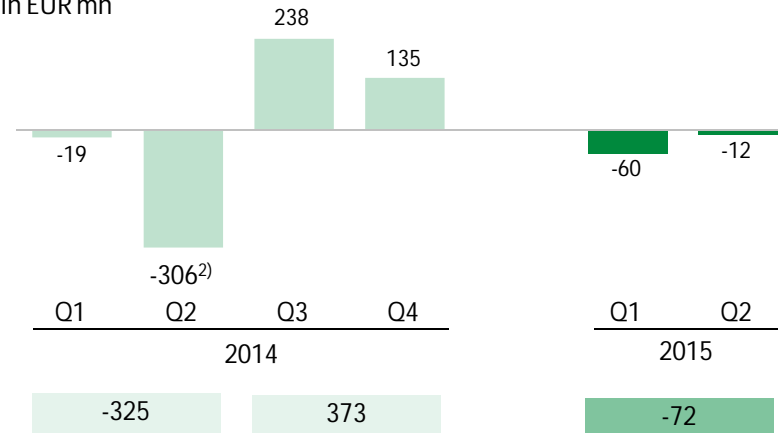


1) One-off effect from refinancing transaction in Q2 2015
 2) Includes EU-antitrust fine of EUR 371 mn paid in June 2014

Operating cash flow
in EUR mn



Free cash flow
in EUR mn

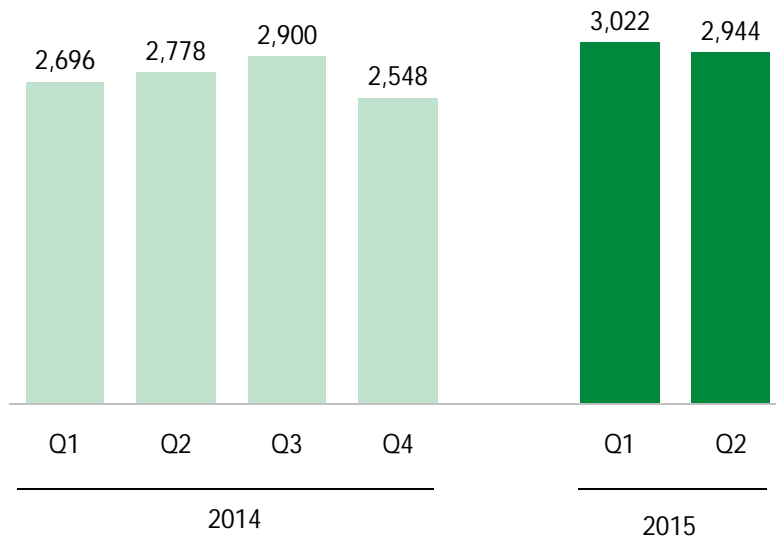


Working Capital improved – Capex on track



Working capital

in EUR mn

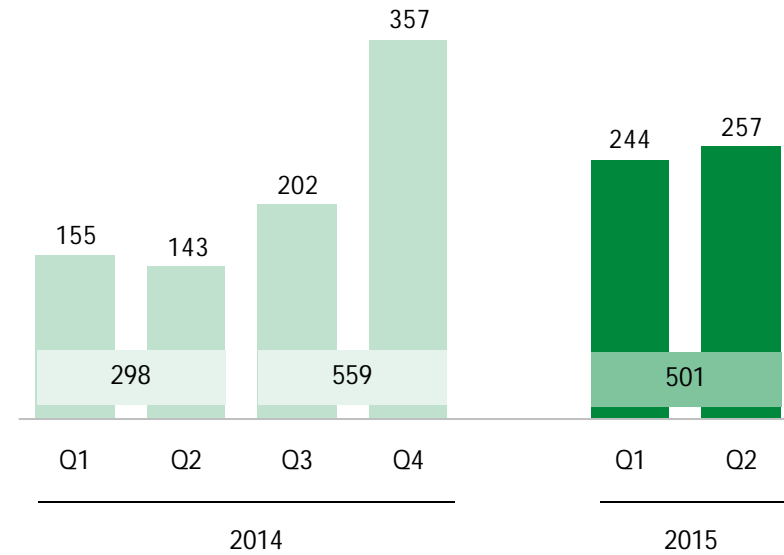


In % of sales

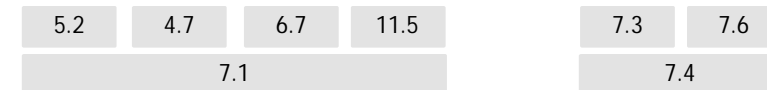


Capex¹⁾

in EUR mn



In % of sales



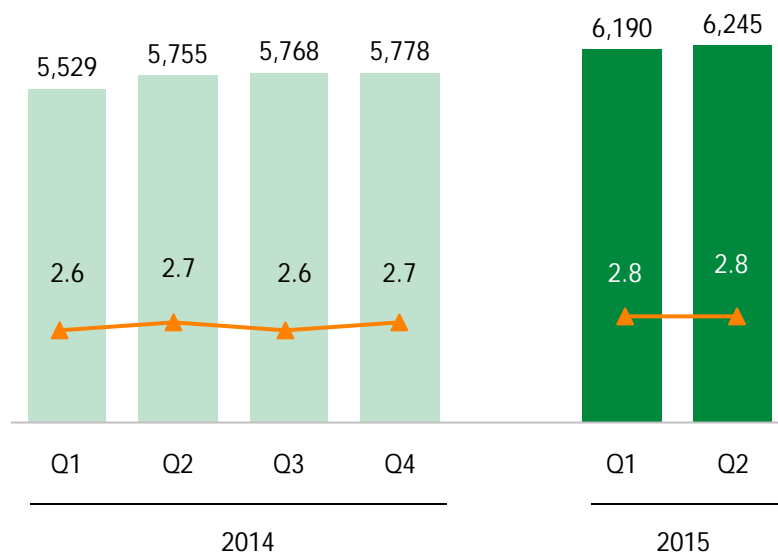
1) Cash view

Leverage ratio as of June 30, 2015 2.8x



Net financial debt

in EUR mn



— Leverage ratio (Net financial debt w/o shareholder loans / LTM EBITDA)

Gross debt

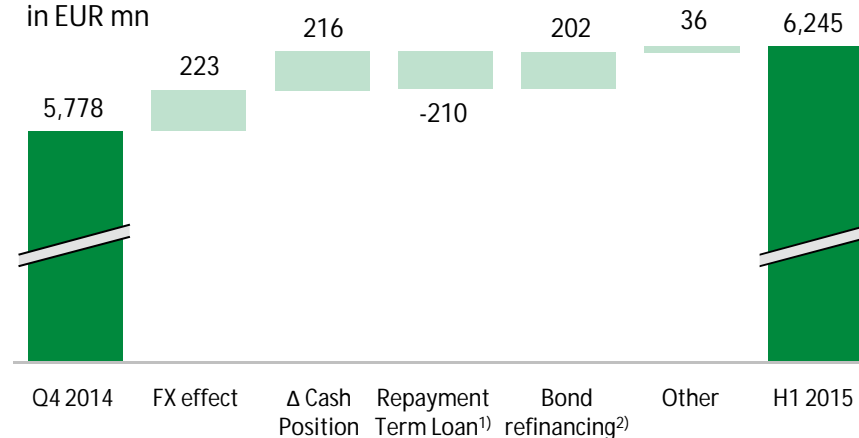
5,751	6,226	6,443	6,414	6,799	6,665
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Cash & cash equivalents

222	471	675	636	609	420
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Change in net financial debt

in EUR mn



Key aspects

- ▶ Net financial debt significantly impacted by FX effects (high portion of US denominated debt)
- ▶ Partial repayment of institutional loans (USD and EUR tranche) on June 30, 2015
- ▶ Leverage ratio stable

1) EUR 210 m voluntary prepayment of institutional term loans (EUR 125 m for OpCo and EUR 85 m for Intercompany loan to HoldCo)

2) The value of the bonds issued in April exceeds the value of the redeemed bonds.

Guidance 2015 unchanged



Growth

Sales growth	5-7% ¹⁾
Capex	6-8% of sales

1) At constant currency

Profitability

EBIT margin	12-13%
Free cash flow	Sustainably positive

Quality

Quality policy	Further improve
Employees	~3,000 new jobs

Innovation

R&D expenses	5% of sales
Innovation	Maintain leading position in patent applications

1

Foundations laid to develop Schaeffler Group successfully in the future; transformation phase to be completed by year-end 2015

2

Roadmap Schaeffler 2020 in preparation with 5 key elements focusing on long-term competitiveness and value creation

3

Industrial business to achieve 25% of global sales in 2020

4

Program 'CORE' launched to address key issues and bring Industrial business back to sustainable sales growth and increased profitability with EBIT margin target of 13% by 2018

5

Successful first half-year 2015 with 12.4% sales growth and 12.2% EBIT margin (including one-off effects)

6

Guidance for 2015 confirmed



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Financial calendar 2015

Results H1 2015 August 20, 2015

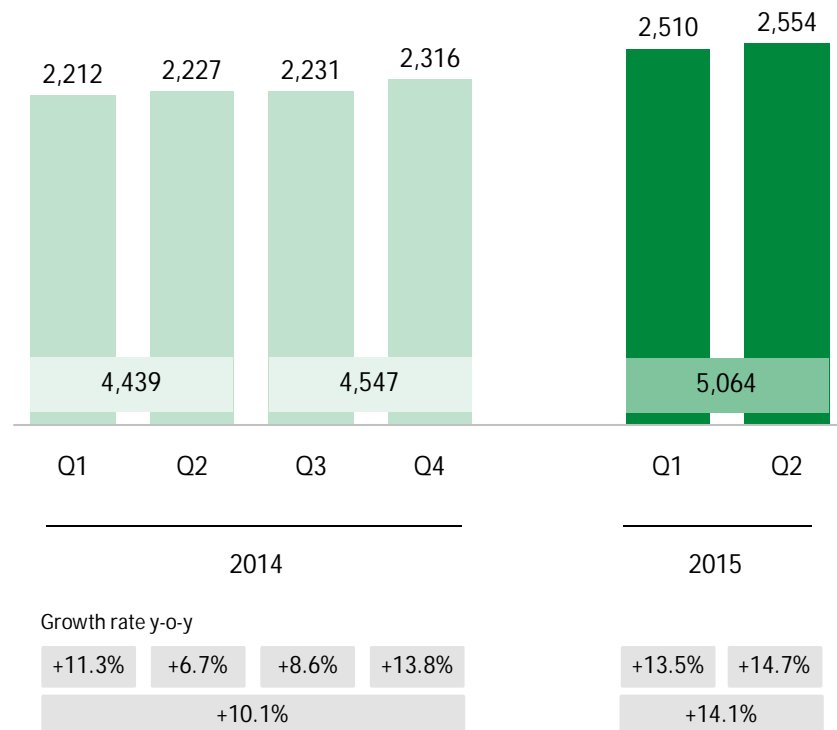
Results 9M 2015 November 19, 2015

Results FY 2015 March 15, 2016

Sales per division

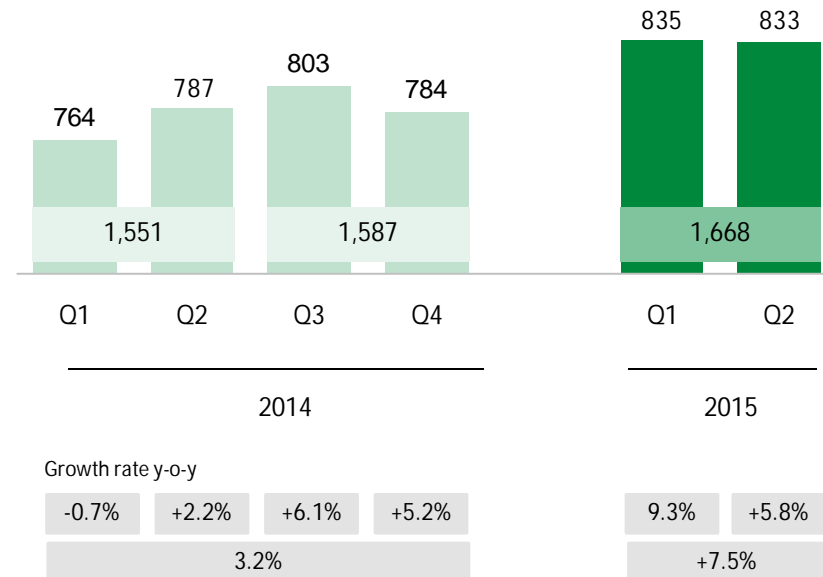
Sales Automotive division

in EUR mn



Sales Industrial division

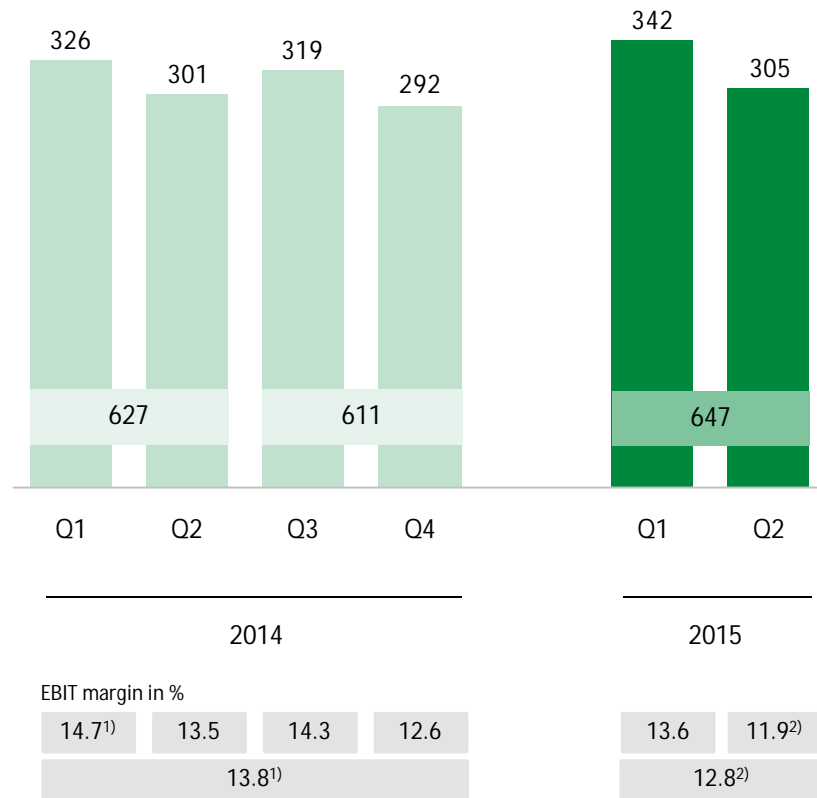
in EUR mn



EBIT per division

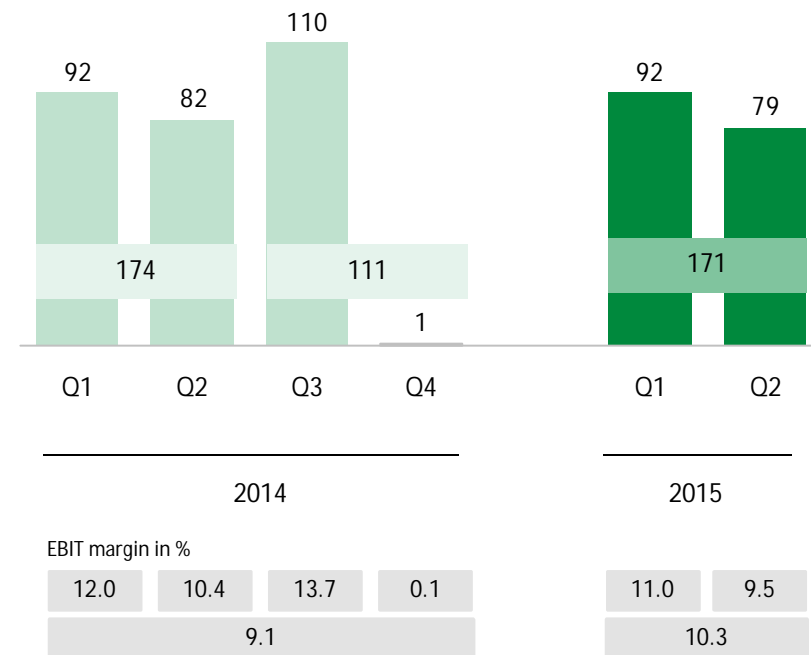
EBIT Automotive division

in EUR mn



EBIT Industrial division

in EUR mn

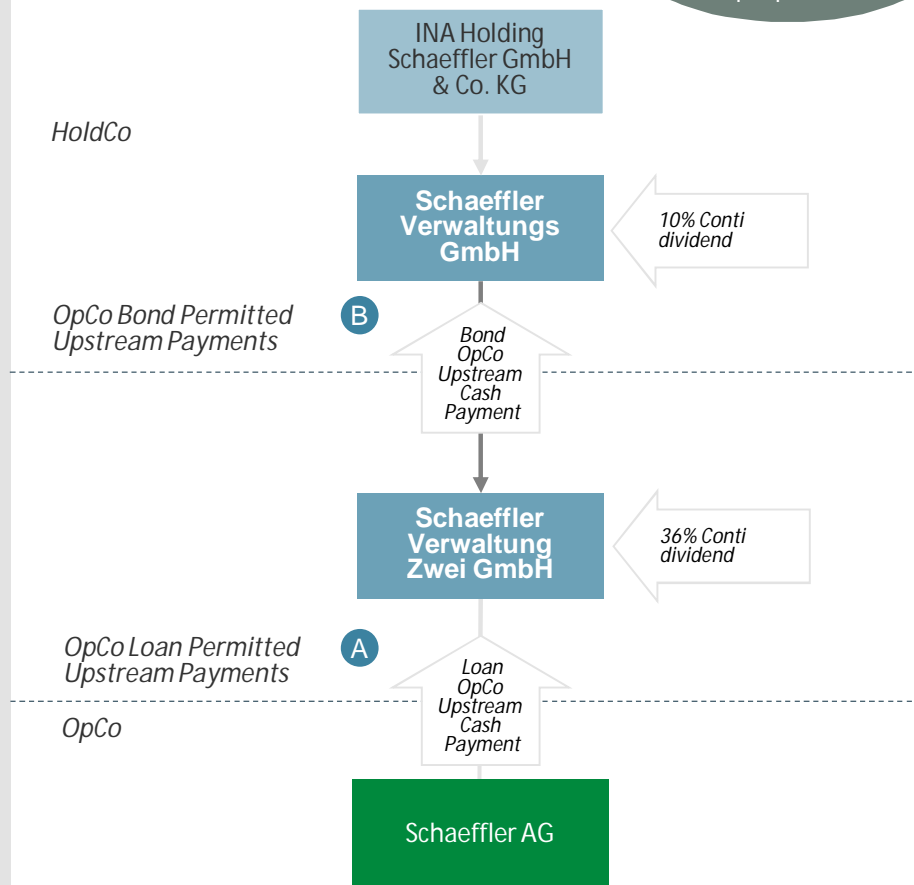


1) Includes positive effect of EUR 10 mn from release of EU antitrust provision
 2) Includes negative effect of EUR 20 mn from antitrust cases

Overview permitted upstream payments

Chart simplified for illustration purposes

Current structure



Financing structure (as of June 2015)¹⁾

- ▶ Permitted Upstream Payments in OpCo loan and bond documents allow OpCo cash to be upstreamed each year, providing material cash interest coverage on HoldCo level
- ▶ Different restricted groups for OpCo loans and OpCo bonds define different permitted upstream payments
- ▶ HoldCo has access to dividends from 46.0% of all Continental shares
- ▶ As per 30 June 2015, the cash balance at Schaeffler Verwaltungs GmbH was EUR 3.1 mn

OpCo upstream cash payments

in EUR mn	Q1	Q2	H1 2015
Free Cash Flow OpCo	-60	-12	-72
Cash upstream payments Schaeffler AG	16	254	270
Permitted upstream payments 2015 ¹⁾			325
Cash upstream payments Schaeffler Verwaltung Zwei GmbH	30	31	61
Permitted upstream payments 2015 ²⁾			425

1) Annual Floor Amount for the financial year 2015 pursuant to Schaeffler AG loan agreement dated 27 October 2014 without carry forward amount. 2) Permitted Upstream Payments for the financial year 2015 pursuant to the bond indentures of Schaeffler AG.