

**SCHAEFFLER**

**Report by CEO  
Klaus Rosenfeld**

Check against delivery.

**Annual General Meeting of Schaeffler AG  
on April 26, 2017  
in Nuremberg**

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Dear Shareholders,  
Dear Mrs. Schaeffler-Thumann,  
Dear Mr. Schaeffler,  
Members of the Supervisory Board,  
Ladies and Gentlemen,  
Guests,

On behalf of the whole Board of Managing Directors, welcome to the second Annual General Meeting of Schaeffler AG here in the Frankenhalle in Nuremberg.

This year our Annual General Meeting is again being broadcast live on the Internet. Greetings therefore to all those who are following our proceedings online.

Special greetings also to all former employees of the Schaeffler Group who have taken up our invitation to attend the meeting. The fact that so many of you have come back today is a sign of your ongoing loyalty to the Schaeffler Group, which is very much appreciated.

Schaeffler AG was first listed on the stock exchange on October 9, 2015, so this is my first report on a full financial year as a listed company. This task is made all the more pleasurable by the fact that we have enjoyed a successful year. We have grown, and continued on the successful path of the last few years. Our share price has risen, and we are now listed in the MDAX and the Euro Stoxx 600. We have moved a lot with major success.

I would now like to outline the key successes of the financial year as follows:

## Slide 1: Overview of the 2016 Financial Year

Overview of the 2016 Financial Year	
<b>Growth and net income</b>	<ul style="list-style-type: none"><li>▶ Revenue of 13.3 bn. Euro, a plus of 3.4%<sup>1)</sup></li><li>▶ Net income of 859 mn Euro, a plus of 45%</li></ul>
<b>Quality, technology, and innovation</b>	<ul style="list-style-type: none"><li>▶ 2,300 new registered patents</li><li>▶ 45 quality awards</li></ul>
<b>Capex and employees</b>	<ul style="list-style-type: none"><li>▶ 1.15 bn Euro invested</li><li>▶ Around 2,500 new jobs created</li></ul>
<b>Financial flexibility</b>	<ul style="list-style-type: none"><li>▶ Reduction of net debt of around 2.3 bn Euro</li><li>▶ Investment grade rating</li></ul>
<b>Strategic orientation</b>	<ul style="list-style-type: none"><li>▶ Strategy "Mobility for tomorrow"</li><li>▶ 4 focus areas, 8 strategic pillars, 16 initiatives</li></ul>

1) As constant currency

- We again recorded profitable growth in 2016, increasing consolidated revenue to EUR 13.3 billion. Our consolidated net income rose by 45 percent to EUR 859 million. This is the best consolidated net income amount ever achieved in the history of the Schaeffler Group.
- A total of over 2,300 new patent applications again put us in second place overall in the German patent statistics. We also take pride in the high number of quality awards obtained during the year 2016 - there were 45 in all. That works out at nearly one per week.
- To ensure this growth continues into the future, last year we invested approximately EUR 1.15 billion in capital expenditure around the world, creating around 2,500 new jobs. Our rankings as an attractive employer have further

improved and we have recruited around 700 new apprentices.

- We have also succeeded in further reducing debt. Our net financial debt decreased by a total of approximately EUR 2.3 billion in 2016. Since September 2016, we have an Investment Grade rating awarded by Moody's and since yesterday a second one by Fitch. There has been a significant and sustainable improvement in our financial flexibility.
- In addition, as promised in last year's report, our strategy "Mobility for tomorrow" has been finalized, endorsed by the Supervisory Board, and published for the first time. Our strategy includes 4 focus areas, 8 strategic pillars, and 16 initiatives. This gives us the foundation for leading Schaeffler successfully into the future.

All of the above demonstrates one thing: We deliver what we promise. Why is this so important for us? Because we want to be a reliable partner – not just for our customers and business partners, but also for you, our shareholders.

Yet we are well aware that none of these achievements would have been possible without the effort and commitment of our more than 86,000 employees all around the world.

*Slide 2: Many thanks to our employees*

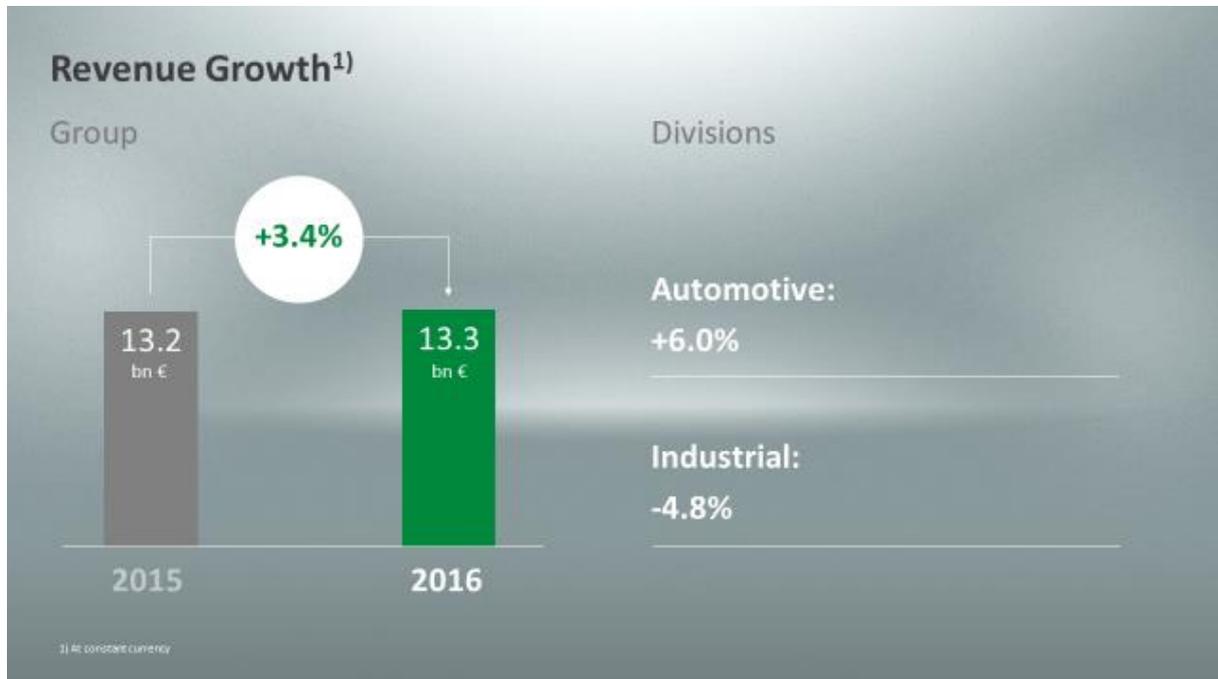


So right at the outset of this Annual General Meeting, I want to take this opportunity to express my gratitude to you, our employees all around the world, for your outstanding contribution and commitment to the Schaeffler Group. You, with your ideas, your creativity, and your loyalty to our company and our family shareholders, are our most vital asset. I would like to thank all of you and express our acknowledgment for your outstanding contribution.

The further course of my report today falls into three main sections. I will begin with a brief review of the highlights of the past financial year, and our dividend proposal. In the second section I will highlight the trend in the 2017 year to date, and brief you on our current forecast for the year. And I will conclude by outlining the key elements of our strategy “Mobility for tomorrow” and the associated challenges and opportunities for the future.

And now to the **first section** of my report:

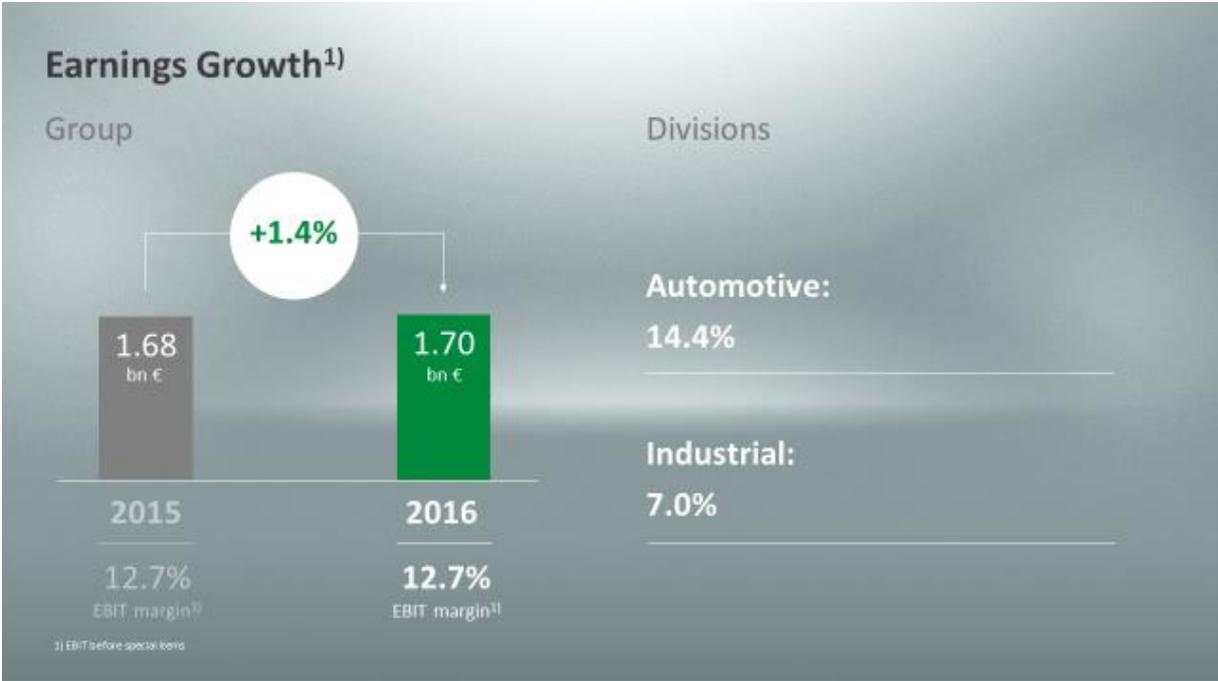
*Slide 3: Revenue Growth*



As already noted, consolidated revenue increased by 3.4 percent in 2016 in constant currency terms, to EUR 13.3 billion. This growth was again mainly driven by the Automotive division, whose revenue increased by 6.0 percent in constant currency terms. By contrast, worldwide passenger car production grew by 4.8 percent. In other words, we have once again grown by more than the market. To a significant extent this was thanks to excellent performance in China, where we boosted revenues with automotive customers by more than 24 percent. This can be seen as a just reward for our major commitment to the Greater China region over many years, where we now have more than 11,000 employees in eight soon to be nine plants and a large R&D center. But we have also had very positive results from our Automotive Aftermarket activities, with revenue growth of more than 10 percent.

In our Industrial division, on the other hand, market factors led to a revenue decrease of 4.8 percent in 2016 in constant currency terms. The rate of this trend flattened off during the year. We recorded slight growth in some sectors, in Aerospace and Wind for example, both key areas for the company. Yet we cannot be satisfied with this trend – more on this in the second section of this report. Let me begin with operating income:

*Slide 4: Earnings Growth*

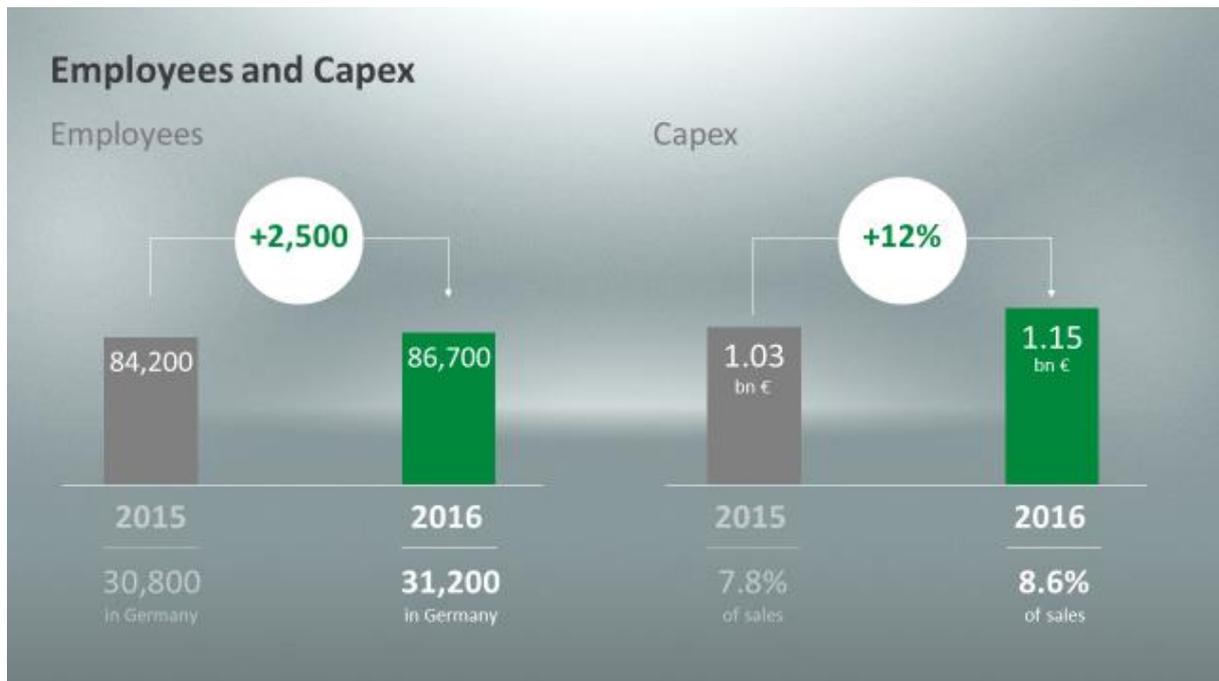


For many years now, the Schaeffler Group has been one of the world’s most profitable automotive and industrial suppliers. As a result, each year we face the challenge of maintaining our earnings quality at this high level. In 2016, we again succeeded in doing so: Before one-off effects we achieved earnings before interest and taxes of EUR 1.7 billion. This corresponds to a profit margin of 12.7 percent – the same as last year.

Particularly worthy of note is the excellent result of our Automotive division, with the adjusted EBIT margin of 14.4 percent. This is an outstanding achievement, for which I want to express my warmest thanks to you, Prof. Pleus and Mr. Zink, and through you to the entire Automotive team.

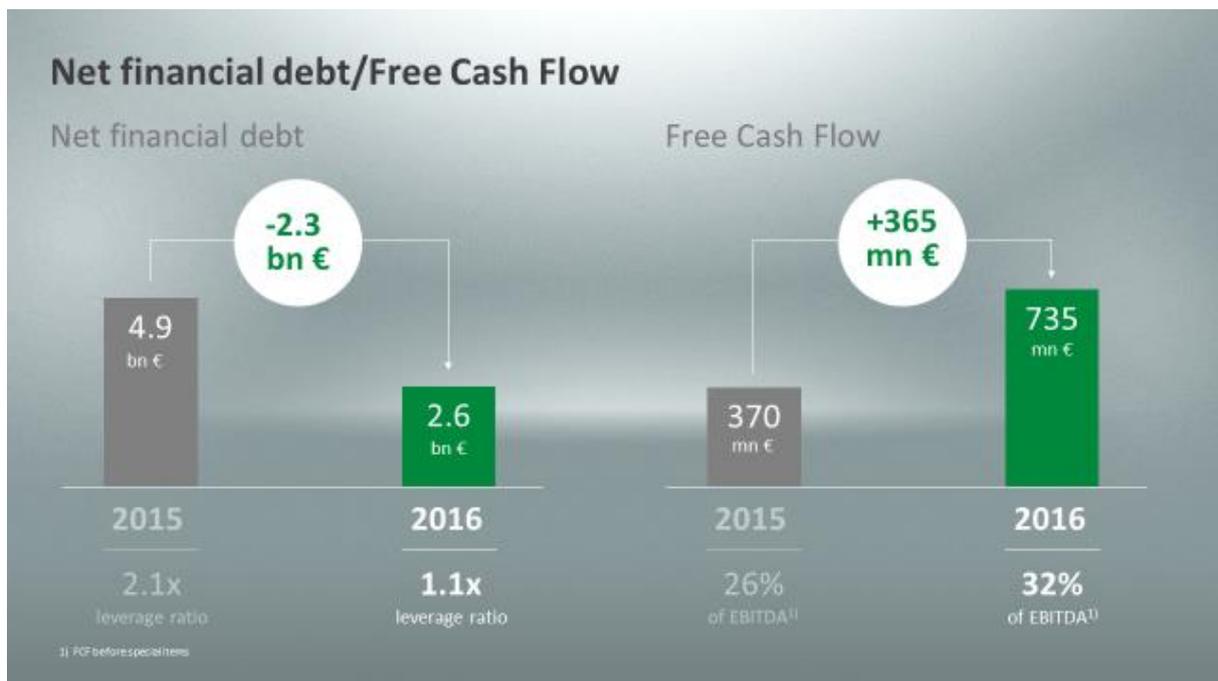
In contrast, the adjusted EBIT margin for the Industrial division was only 7 percent. This cannot be regarded as acceptable in the long term. We are therefore putting every effort into making our Industrial business more profitable again. The CORE program launched for this purpose in August 2015 is being vigorously implemented. Unfortunately this inevitably involves some radical measures. In 2016, for the first time, this included negotiations on the closure of a plant in Germany. As you will all be aware from press reports, the location is the Elfershausen plant. We have been able to reach a fair and socially responsible agreement with the employee representative's, and that agreement will be implemented in the course of 2017. A total of 265 jobs are affected by the agreement, although 180 new positions will be available for these employees at the neighboring Schweinfurt location. Negotiations were tough, intense but fair and characterized by mutual trust. And this is the most important thing in negotiations. And I would like to thank you, Mr. Wechsler, and you, Mr. Lenhard, on behalf of all employee representatives and works councils involved. We will need your trust also in the future.

## Slide 5: Employees and Capex



As mentioned at the beginning of this report, we made substantial investments in 2016 and created new jobs. More than EUR 1.1 billion investments – so 8.6% of our revenue – and more than 2,500 new jobs, around 400 of them in Germany: These figures speak for themselves. We also put a high priority on developing and training our employees for future tasks. Why is this, you ask? Simply because we want to continue to grow in the future.

## Slide 6: Net financial debt/Free Cash Flow

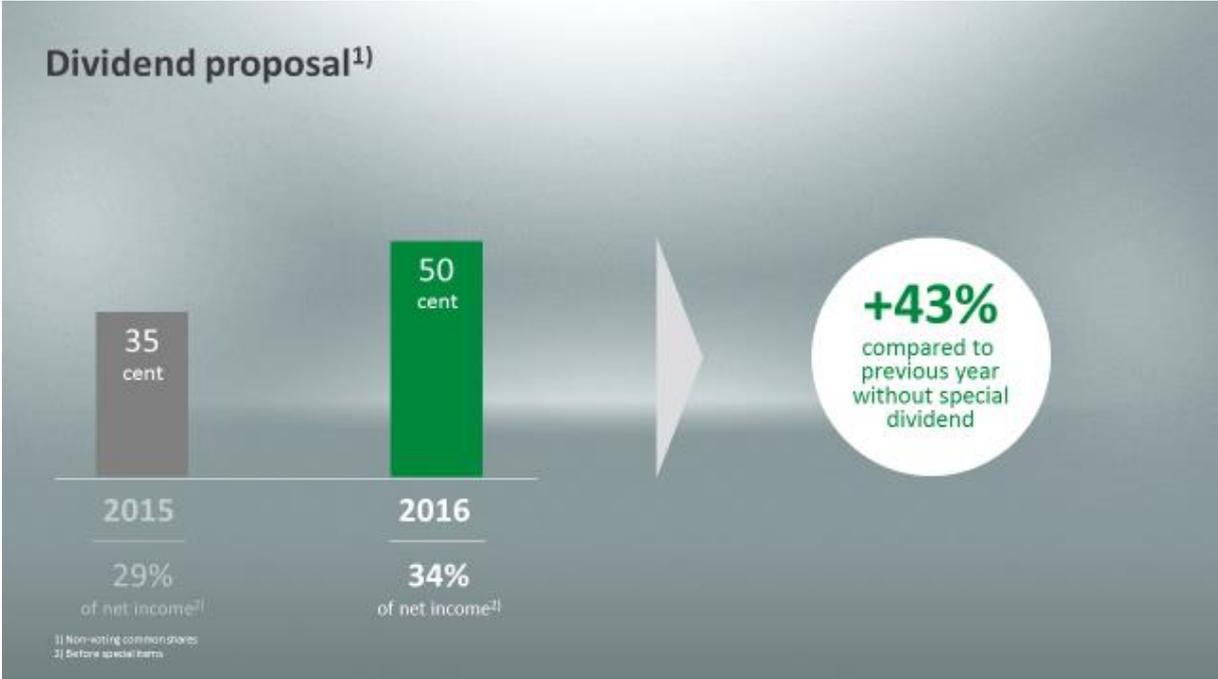


In order to grow, we need to have financial flexibility. In 2016, we reduced our net debt by EUR 2.3 billion. Accordingly, our goal of getting the Net debt-to-EBITDA ratio of the Schaeffler Group down to below 1.5 by the end of 2018 has been achieved more than two years ahead of schedule. Our equity has also increased by EUR 400 million to around EUR two billion. On this basis, our equity ratio at the end of 2016 was approximately 17.3 percent. Now that we have dealt with the debt issue, all efforts will be focused on further improving the balance sheet.

This task will be made easier by the fact that we are generating sustainably positive free cash flows. Our free cash flow in 2016 was EUR 735 million – almost double the figure in the prior year. This gives us the ability to fund a measure of external growth without having to increase gross debt.

That concludes my outline of the highlights of the consolidated financial statements. Now for a few brief comments on the single, new-consolidated financial statements of Schaeffler AG. Schaeffler AG operates as a management holding. It does not have any operational business and earns income in the form of investment returns. In the 2016 financial year, this represented a total of EUR 600 million. The surplus for the year on German HGB basis was therefore EUR 566 million. This provides the basis for our profit utilization and the following dividend proposal:

*Slide 7: Dividend proposal*

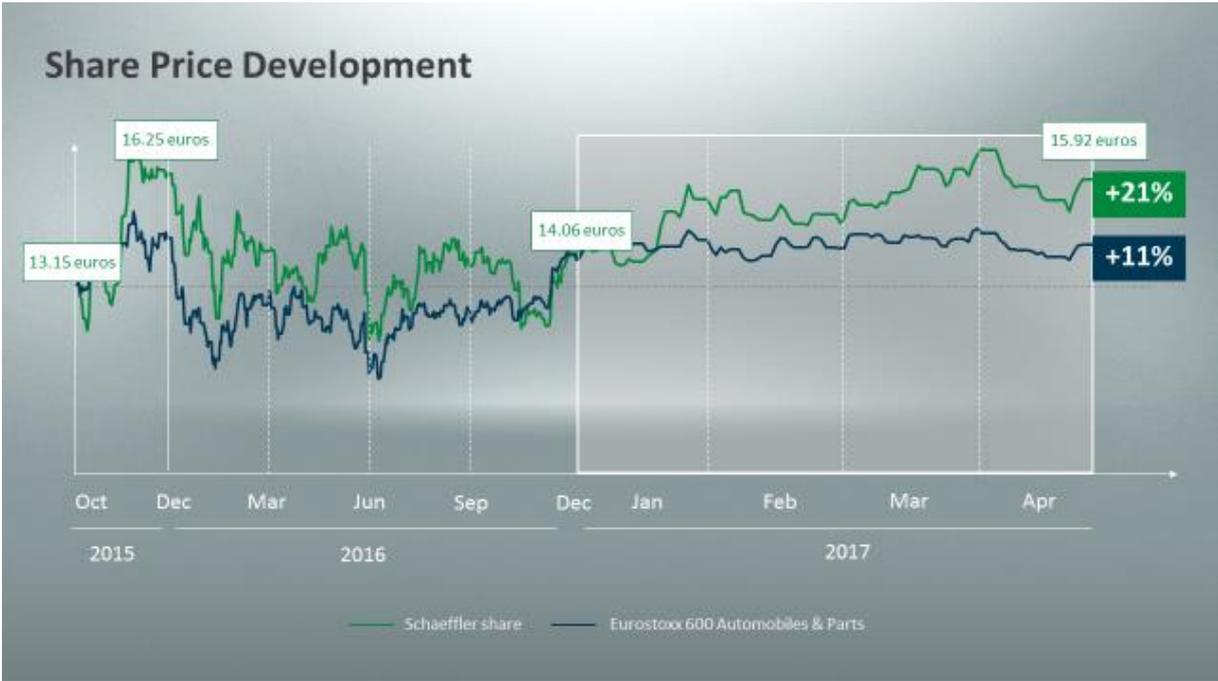


The Board of Managing Directors and Supervisory Board are proposing to the Annual General Meeting to increase the dividend per preference share by 15 cents to 50 cents. As in the prior year, the common stockholders would receive one cent less, 49 cents. Without the prior year's one-off special dividend, this represents an increase of 43 percent over the prior year. On the basis of the consolidated net income adjusted for one-off

effects, this corresponds to a dividend ratio of 34 percent. This places us at around the middle of our target range, which we raised in 2016 from 25-35 percent to 30-40 percent of the net income results. The dividend yield on the average share price for 2016 is 3.7 percent. These values stack up very well, particularly in comparison with our main competitors. As a company that takes a long-term view, we plan to keep raising our dividends, enabling you to further participate in the company's success.

Along with this dividend increase, the share price of Schaeffler AG has also risen.

*Slide 8: Share Price Development*



Yesterday the Schaeffler share price on the stock exchange was almost at EUR 16.00. This is an increase of around 21 percent on the initial closing price in October 2015. Following a market-driven decrease during the year 2016, our share price has risen by around 12 percent since January 1 this year. This means we

have outperformed the comparable index for automobile manufacturers and suppliers. The increasing interest in the Schaeffler stock is reflected in a rise in the number of analysts following the Schaeffler share. At this time last year we had 7 analysts following us – now there are 16. And 9 of them have a buy recommendation on our stock.

What I have said above about the dividend also applies to the share price: As a listed family company, we take the long-term view, rather than thinking from one quarter to the next. Our goal is to generate continuous increases in the Schaeffler share price, so that you, ladies and gentlemen, can look forward to a sustainable positive development in the value of your investment.

This brings me to the **second part** of my report: The business trends in the first few months of 2017 and the outlook for the financial year as a whole.

Our figures for the 1st quarter of 2017 are not due for publication until May 11, so, as I hope you will understand, I will only be able to make a few qualitative remarks at this point. One thing I can say quite definitely, however, is that we have made a good start to the financial year.

Our Automotive business is continuing to grow faster than the market in constant currency terms. There are also some clear signs of stabilization in our Industrial business. Revenue in this business has decreased in the last three years, but we expect to see this trend reversed in the 1st quarter of the current year. That means we are beginning to see the pay-off from measures we have implemented. The same applies to our standard business

in bearings. A good example is our new GenC bearing launched in 2016.

*Slide 9: Generation C Bearings*



GenC is an advanced deep groove ball bearing with enhanced product characteristics. The GenC bearing, now being produced at three of our locations, is attracting increasing customer interest. This shows that in our standard business we remain competitive, and, in spite of the increasing competition from China and Asia, we are in a position to win back market share. As you may remember, the video we screened last year described the GenC bearing as a “little crown jewel made out of steel”: Top manufacturing quality, 50 percent less noise, and 35 percent less friction than comparable bearings. Dear Mr. Jung, this is above all your success. One of many. And, of course, the success of your team. A very special thank you for that.

Even if revenues in our Industrial business are beginning to stabilize, there must still be no let-up in our implementation of the CORE program. In order to keep pace with the competition, we will have to significantly improve our margin. In view of the unexpected difficult market development in 2016, we have revised our goal for 2018. The target is now 10 to 11 percent. That target can be achieved with continuing vigorous and disciplined efforts to boost the operational performance of the Industrial division, seek profitable growth opportunities, and optimize our costs.

This becomes all the more important, given the expectation that the extraordinarily positive margin performance of our Automotive business is unlikely to be replicated in 2017. This reflects not only the tough competitive environment, but also the significant increases in steel prices – for the first time in some years – and constantly increasing R&D expenses.

For the full 2017 year we have nonetheless committed to 4 to 5 percent growth per annum in constant currency terms, and an EBIT margin of between 12 and 13 percent before special effects. We also plan to generate a free cash flow of around EUR 600 million before external growth.

We are optimistic that we will be able to reach these targets. Needless to say, performance is not a matter of luck. We manage the company in a forward-looking manner and take additional steps whenever required in order to reach our goals.

Which brings me, ladies and gentlemen, to the **third section** of my report, on what I see as the most significant highlights of the 2016 year: Our “Mobility for tomorrow” strategy.

## Slide 10: Strategy “Mobility for tomorrow”



The strategy “Mobility for tomorrow”, which I will now tell you about, was the outcome of an intensive process of discussion and debate, over several months, amongst the Board of Managing Directors, top management, and Members of the Supervisory Board, which was completed in November 2016.

The result was a strategy with four main elements: Our Vision and Mission, 4 focus areas, 8 strategic pillars, and 16 strategic initiatives, which were packaged into the “Agenda 4 plus One” program.

The elements of the strategy are as follows:

## Slide 11: Vision/Mission



The **vision** of the Schaeffler Group describes what we plan to achieve: "As a leader in technology, we combine a passion for innovation with the highest standards of quality to shape the future of mobility – for a world that will be cleaner, safer, and smarter." This is our goal. This is our commitment.

Our **mission** formulates the task we have set for ourselves. This is focused on three central concepts: Working together as true partners for our customers and business partners, best-in-class manufacturing technology, and superior systems expertise. These are the three factors through which we will develop competitive advantages. Because the only way to win is to be better. To achieve this, we will have to focus our efforts.

## Slide 12: 4 Focus areas



I commented in some detail on our **4 focus areas** at the last Annual General Meeting. They remain the same today, so at this point I will merely list them once again:

- Eco-friendly drives
- Urban Mobility
- Interurban Mobility, and
- Energy chain

What is new is that we now also have **8 strategic pillars**.

## Slide 13: 8 Strategic Pillars



Whereas the 4 focus areas describe the areas where we want to play in, the 8 strategic pillars state how we intend to succeed in each of these areas. They form the core of our strategy, describing the frame work in which we are operating and our strategic ambitions.

Let me begin with the 1st pillar. “We want to be the preferred technology partner for our customers.” That means a deliberate decision to place our customers at the center of what we do. We’re not aiming just to be “a” technology partner. No! We want to be their preferred technology partner.

The 2nd pillar is about our business portfolio: “We are an Automotive and Industrial supplier.” The emphasis here is on the “and”. Behind this lies one of the core statements of our strategy, which I already introduced last year: Our Industrial business is core business. It is an integral part of our business model. It is

not up for discussion or debate. Instead we will do everything in our power to make our Industrial business strong again. That is important for our customers, for management and for our employees. So at this point let me express my special thanks – and doubtless the thanks of us all – to Dr. Spindler and his team for all their efforts for our Industrial division. Dr. Spindler, you are not only a good sportsman, but more importantly a good team player. If you pick up the pace a little more, I have no doubt that we will catch up with the competition, including, but not only, in terms of margin.

The 3rd pillar formulates a proposition that initially appears to be self-evident. “We are a global company with a local presence throughout the world.” But this is easier said than done – because behind this pillar lies the idea that we will have to be even more global in future in order to keep up with the competition. That starts with management, and also applies to our operational day-to-day business, which is increasingly globally connected. And also, having a “local presence” will mean further increasing our localization level in our rapidly growing markets. Just think of China or India, for example.

And now for the 4th pillar. At last year’s meeting I said that the Schaeffler Group would increasingly become a systems supplier. During the process of finalizing our strategy, this statement has been slightly modified. For very good reasons, our 4th pillar reads now as follows: “We produce components and systems.” This expresses the point that the components business from which the company was first created is just as important as the systems business. This is even more important as the only reason we are able to fund the expansion in systems business is that we have a strong and highly profitable components business. Implicitly,

we are also saying that we are both a Tier 1 and a Tier 2 supplier. From our perspective, the component is just as “high-tech” as the complex system. What counts is the right mix and the profitability of the different products that are produced day by day in our plants.

The 5th pillar then describes our 3 core future opportunities, which I will now discuss in greater detail.

With all our future opportunities, we are well aware that we will only be successful in shaping the future if we have a clear understanding where we are coming from. We stand for quality, technology, and innovation. And that is not going to change. Hence the 6th pillar: “We strive for the highest possible quality, efficiency, and delivery performance.” This is a claim that we need to remind ourselves of every day. We know we can become even better than we already are.

To achieve that aspiration, we need highly motivated and highly qualified employees. To this aim, we want and need to be – in the words of the 7th pillar – an “attractive employer”.

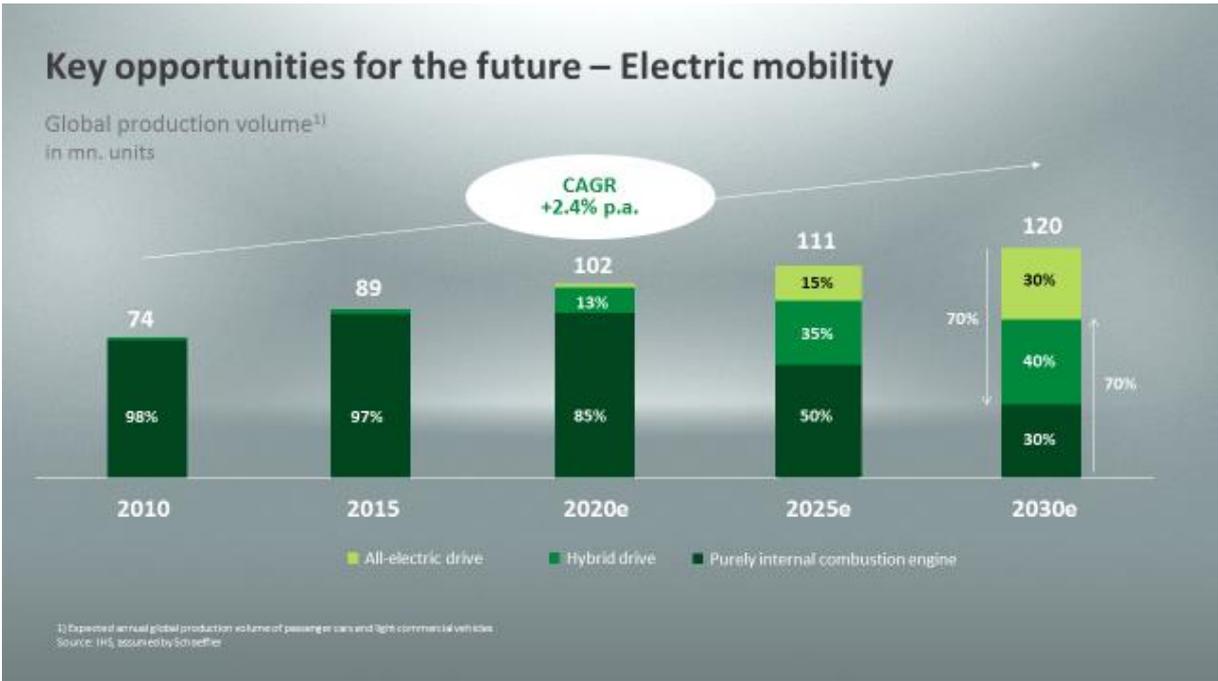
And that will only be possible if we can consciously make our values a reality each day at the workplace. Which is where our 8th pillar comes into the picture: “We live by the values of a global family business”. This can be described as the foundation of our 8 strategic pillars, binding the past and future together.

We are now a listed company, but we do not see that as any kind of contradiction with who we are. We remain a family company as before. So at this point, please allow me to address a few words to you, Mrs. Schaeffler-Thumann and Mr. Schaeffler, in

your capacity as family shareholders, on behalf of all members of the Board of Managing Directors: We are proud and grateful to have been entrusted with further developing what you have built successfully over so many years for you and on your behalf, in the interest of all shareholders. This is a big responsibility. Please be assured that we will do our best and everything within our power to ensure the successful performance of this task, as you and the founders of this outstanding company would wish, and in the interest of all shareholders. Accordingly I want to thank you, on behalf of all my colleagues on the Board of Managing Directors, and also personally on my own behalf, for the excellent working relationship we have with you, for your support, and for the trust you have placed in us.

Now for a more detailed discussion of the fifth pillar: “We view Electric Mobility, Industry 4.0, and Digitalization as key opportunities for the future.”

*Slide 14: Key opportunities for the future – Electric mobility*



Let's start with the **electric mobility** trend itself, which has gained pace immensely over the past year. The big questions here are: How fast will electrified vehicles have their breakthrough? How is the regulatory environment evolving? Will there actually be a mass market for electrified vehicles? To answer these questions, we developed two scenarios:

- At the beginning of 2016 we started with our basic scenario. The basic scenario assumes that by 2030, about 10 percent of the 120 million new vehicles registered worldwide that year will be electrically powered. Hybrid drivetrain vehicles comprising an electric propulsion system and an internal combustion engine will have 37 percent. 53 percent of all newly produced vehicles will be equipped with an internal combustion engine.
- However, in the course of 2016 it became clear that drivetrain electrification was gaining pace and that our major customers were devoting much more attention to electrification than we initially assumed.
- Against this background we anticipate an accelerated scenario. The accelerated scenario assumes that, with the same production figures, as many as 30 percent of all new cars will have purely electric drivetrains by 2030. Only 30 percent would thus still be powered purely by internal combustion, and 40 percent would have hybrid drives.

As with all scenarios, the real situation probably lies somewhere in between. Whatever we do it is most important to prepare and respond to the new requirements in a timely manner. We must pursue electric mobility boldly so that we don't miss the trend, but

at the same time, we have to make sure we keep up with the development and refinement of internal combustion engine and transmission technology. Our accelerated scenario suggests that by 2030, 70 percent of cars will have an electric drive. But by the same token, it also suggests 70 percent will still have internal combustion engines.

Of course, electric mobility is not really a new area for us because we have been busy developing new drive train concepts for over ten years. Our electric mobility product range is meanwhile highly diversified, ranging from electrically operated clutches at the mild hybridization end of the spectrum and high-voltage hybrid solutions right up to complete electric drive axles for hybrid and electric vehicles. We are currently working on more than 20 customer projects, four of which are volume production orders for electric axles. Volume production of the first of these is due to start in the fourth quarter of this year – in China, which is increasingly becoming the lead market for electric mobility.

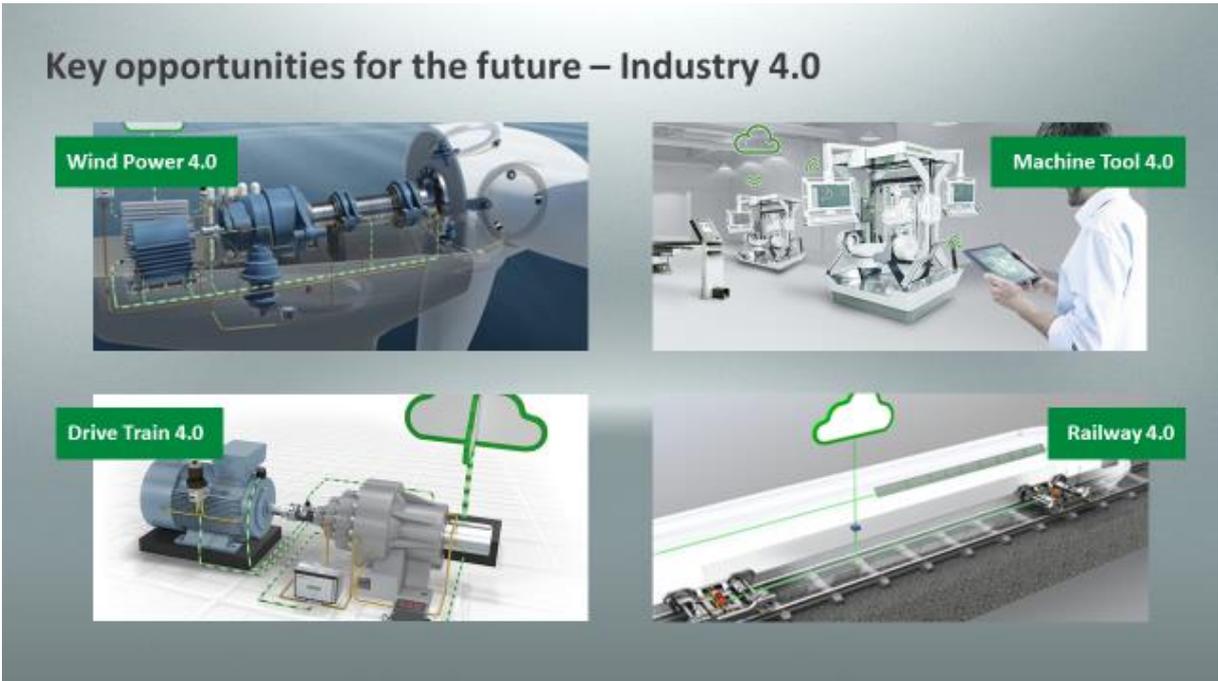
What is an electric axle, and what does it do?

*Video: Electric Axles*

An electric axle is a drive unit in which all key components are integrated directly into or onto the axle. The drive unit comprises an electric motor, power electronics and high-precision mechanical components. This includes the necessary speed-reducing gearbox, which can be single-stage or two-stage, as well as a differential – both new product areas. We supply these electric axles as components or fully assembled systems, depending on what the customer wants.

Success in this segment requires considerable competence and systems expertise. And we certainly have that. But, at the same time, we need to further strengthen our capability. And to that end, we made a strategic acquisition in December 2016. I am referring to the purchase of Compact Dynamics GmbH, a manufacturer of high-performance electric motors. We also entered into a power electronics cooperation agreement with SEMIKRON, based in Nuremberg. Together, the acquisition and cooperation agreement extend our capabilities in electric motors and power electronics. These steps are a key part of positioning Schaeffler as one of the world's leading suppliers in the electric mobility sector.

*Slide 15: Key opportunities for the future – Industry 4.0*



**Industry 4.0** plays a similar role in our Industrial division to that which electric mobility plays in our Automotive division: It is both a major disruptor and a major opportunity for fresh ideas. Today, Schaeffler components are ubiquitous in industry, hard at work

wherever there is motion of any kind. Enhancing these components – our bearings, for example – by equipping them with additional sensor technology allows our customers to continuously collect data on the operating states of their machines. At the same time, we are developing the electronics and software necessary for decentralized data analysis and communication and now offer industry-specific solutions for the digital integration of wind turbines, machine tools, rail vehicles, and drives of all kinds. But we're not stopping at the hardware, because we have the technical expertise to offer more: By establishing so-called “digital twins” in the newly-created Schaeffler cloud, we can record and evaluate operating, wear, overload, and maintenance scenarios in our customers' machines in far greater detail than was previously possible. What does this mean in practical applications?

- With wind turbines, remote monitoring makes it possible to detect problems before they cause damage. This avoids unscheduled – and enormously costly – repairs. At the same time, reserves of unused capacity can be identified and then used to increase the turbine's output.
- For safety reasons, rail vehicles were previously subject to fixed maintenance intervals, but these can now also be extended or made more flexible.
- Machine tools use sensors to collect data on forces, temperatures, vibrations and other factors during production. One way of continually improving the production process is to correlate these data with downstream data from quality control.

We are writing our own Industry 4.0 story at our Höchststadt plant, where we have been using an intelligent, sensor-enabled “Machine Tool 4.0” system for the volume production of precision bearings since the fall of 2015. In this way, our own manufacturing systems are becoming increasingly integrated and are already yielding sustained productivity gains as a result. And that, ultimately, is the point of all Industry 4.0 technologies: To maximize plant capacity utilization while reducing lifecycle costs. By remaining steadfastly committed to this approach, we will generate additional growth opportunities for our Industrial division.

That brings us to our third core future opportunity – **digitalization**. For us, digitalization means more than just Industry 4.0. Digitalization is affecting not just our business with our customers; it is also radically changing our own internal processes and machines. Big data can enable us to identify new potential for efficiency gains. It can also open up new business models based on the generation and analysis of data. But it is only worthwhile if it also enables us to create sustained value for our customers.

Against this background, we have developed our own Digital Agenda, which comprises four core components.

## Slide 16: Key opportunities for the future – Digitalization



- **Products and Services:** We are supplementing our diverse portfolio of high-precision machine elements with intelligent components and systems that comprise sensor, electronic, and actuator technologies. We are leveraging the Schaeffler cloud and our systems expertise to develop new products and services. By 2020, we aim to be generating some 10 percent of our added value from digitally enhanced products and services.
- **Machines and Processes:** If you want to sell a technology to someone else, the best endorsement is to use that technology yourself. And that is precisely what we are doing in our own production processes, as I mentioned earlier. But we are also systematically digitalizing all of our supporting processes and thereby enhancing overall quality and productivity.

- Analysis and Simulation: Raw, unstructured data are not especially useful. It is only through the use of new digital analysis methods that data become valuable information. At Schaeffler, we have turned data analysis into a fine art, creating a feedback loop that we use to continually optimize our own product development processes. In the fall of 2016, we entered into a strategic partnership with IBM that has expanded our analysis technology base and opened up new capabilities, such as in the field of artificial intelligence.
- User Experience and Customer Value: The ability to continually capture and analyze data in real time creates added value for our customers. Clearly visualizing analyses and alternative courses of action on mobile devices is a new challenge for Schaeffler – a challenge that we are pleased to set ourselves, because online condition monitoring is a business area we want to expand.

Our Digital Agenda is one of the 16 strategic initiatives that we use to give effect to our strategy. Since the start of 2016, it has been coordinated by a Chief Digital Officer, who reports to you, dear Professor Gutzmer. In terms of digitization, and also, I may say, in shaping the future, you are, dear Professor Gutzmer, one of our most important boosters. With a team of digital experts, you ensure that Schaeffler recognizes and exploits the opportunities arising from digitalization.

In 2016, we made good progress on this front and as a result already have more than 100 employees working on more than 25 projects for the implementation of our Digital Agenda. Just on half of these employees were recruited from outside our organization, meaning we are leveraging synergies by matching

new digital talent with our in-house experts. By 2020, we aim to have more than 600 experts working on digitalization.

Of course, speed and innovative strength are extremely important to the successful implementation of digitalization. Which is why we are working very closely with partner companies, research institutions, universities and startups on the implementation of our Digital Agenda.

This brings us to the 4th main element of our strategy – namely the **16 strategic initiatives** that we have combined into our program “Agenda 4 plus One”.

*Slide 17: 16 Strategic Initiatives*



The logic behind these strategic initiatives is that a strategy is only as good as its implementation. And effective implementation requires a program. We have such a program – it is called “Agenda 4 plus One”. Why that name? Because – as you can

see from the slide behind me – the 16 initiatives in the program are grouped into 4 plus one areas. And because we want to implement the program in one plus 4 years – that is, by the end of 2020.

It would go beyond the scope of this Annual General Meeting to explain all 16 initiatives in detail. Nevertheless, I would like to highlight one of the initiatives, which sounds like a matter of course, but is in my view of great importance for the sustainability of the Schaeffler Group. By this, I mean initiative no. 11, “Qualification for Tomorrow”.

As a family-owned company, we have always been very committed to providing our employees with vocational and advanced training. We have been successfully practicing integrated training and advanced training for many years. We also want to do this in the future. At the same time, we are experiencing enormous change: Just think about the explained future fields electric mobility, Industry 4.0, and digitalization! These are all issues that will not only change the content of our work in a sustainable manner, but will also change how we will work in the future. New tasks will be created and existing tasks will be eliminated or replaced. As a company, we must adapt to this change, and also enable our employees to prepare themselves for it. This is not only necessary if we are to stay competitive, but is also part of our social responsibility as an employer.

The program Agenda 4 plus One can only succeed if it is properly implemented. Each of the initiatives has its own project manager. Each initiative is under the oversight and control of a member of the Board of Managing Directors. All initiatives have clearly

defined, quantifiable targets. And all the initiatives have one thing in common: They all play a role in making the Schaeffler Group stronger, more competitive, and more future-proof.

To ensure that you, too, are able to measure and follow our progress towards implementing our initiatives, we have formulated a number of financial ambitions that we aim to achieve by 2020.

*Slide 18: Financial Ambitions 2020*



Our financial ambitions are grouped into two main parts. First, we want to grow our revenue organically by 4 to 6 percent annually, we want to achieve an annual EBIT margin in the 12 to 13 percent range, and we want to increase our free cash flow to over 900 million euros by 2020. Second, we have set ourselves the target of significantly improving the structure of our balance sheet by reducing our gearing ratio to below 75 percent, increasing earnings per share to over EUR 2.00 by 2020, and paying a

dividend of about 30 to 40 percent of our net income after special items.

These are all ambitious targets, and they are all geared towards achieving one overarching objective: Profitable growth and sustainable value creation of the Schaeffler Group.

We will achieve our targets if our strategy is well understood and supported both within and outside our organization. And that means communication! My fellow Members of the Board of Managing Directors and I have therefore undertaken considerable efforts to communicate our strategy “Mobility for tomorrow” to our business partners and to our employees. The strategy was not only developed in partnership with managers and employees at all levels of the company. Furthermore, it has now been explained, discussed, and taught in more than 120 workshops at around 60 locations worldwide. Other communication measures include various press events, the Schaeffler 2016 Annual Report that you have in front of you right now, and a special video that you can view via our new AGM app – available for the first time this year – download, or watch on our Internet website.

We are confident that our strategy provides a sound basis for the future. The task before us now is to follow through and realize it – sustainably, with unwavering determination and the necessary care. Because, as I said at the start: We want to deliver what we promise!

That brings me to the end of my report.

Ladies and gentlemen, dear shareholders: 2016 was a successful year for us. We have made a great progress. We achieved a financial result we can be proud of. Our strategy is in place. And we are now firmly focused on the future. We also know that we will continue to prosper only if we combine long-term thinking and our proven success factors with innovativeness and a forward-looking attitude. We want to shape the “Mobility for tomorrow” in partnership with our customers and for our customers. That is our commitment.

Having said that, we know that we are living in challenging times – times of great technological change and great uncertainty. I am referring here to the macroeconomic environment and the industries in which we operate, obviously. But equally, I am referring to the current geopolitical climate, which is undeniably cause for concern. What direction will our political environment take? How will we deal with the problems caused by global migration, climate change, growing social inequality, and demographic change? What do rapid technological change, digitalization, and automation mean for the future of work, particularly in the case of a classic manufacturing enterprise like the Schaeffler Group? These are all important questions – and ones for which we currently do not have definite answers.

And yet despite this, my fellow Members of the Board of Managing Directors and I are optimistic about the future. We are approaching the future from a position of strength. We are committed to taking an active role in shaping the changes that are affecting the markets and regions in which we operate. We are committed to making the Schaeffler Group even stronger. We will continue to invest and to create new jobs – jobs that have a viable, long-term future. We are committed to being innovative.

And we are committed to creating value and building values over the long term – for the benefit of our customers, our business partners, our many employees and, of course, for each and every one of you here today.

Among all of this, we believe that it's not necessarily the biggest companies that will be the best at adapting to the changes that lie ahead. Nor indeed the fastest, or those with the most spectacular-sounding claims. No, we believe that those companies will be the most successful at making the necessary changes and adaptations which focus on what they do best, which think in the long term, and which have a strong culture and strong values.

We have all of them. We are a family business, and we live the values of a family business.

*Slide 19: Our Values*



Sustainable, innovative, excellent, and passionate. These values are what we stand for: In our Automotive and Industrial divisions. Globally and locally. Now and future.

On that note, I thank you for your attention and hand the microphone back to the Chairman of the Supervisory Board of Schaeffler AG, Mr. Georg Schaeffler, who will guide you through the rest of this Annual General Meeting.