Commented Slides / Conference Call Q3 2017

Company Representatives

Klaus Rosenfeld, CEO
Dietmar Heinrich, CFO
Renata Casaro, Head of Investor Relations

Conference Call Participants

Kai Mueller, Bank of America
Tim Rokossa, Deutsche Bank
Julian Radlinger, UBS
Victoria A. Greer, Morgan Stanley
Henning Cosman, HSBC
José Asumendi, JP Morgan

Operator

Dear Ladies and Gentlemen. Welcome to the Q3 results 2017 of Schaeffler AG conference call. At our customers request this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press *(star-key) followed by 0 (zero) on your telephone key pad for operator assistance.

Renata Casaro

Thank you operator. Good morning to everyone participating to this third quarter 2017 early conference call for Schaeffler AG. With me and my team, in the room are Mr. Klaus Rosenfeld CEO and Mr. Dietmar Heinrich CFO. You should have received at 8am all the documents: the IR release, the quarterly reports and the presentation for this call. Mr Rosenfeld and Mr Heinrich will go through the main part of the presentation. We will be available for questions after that. With this short introduction, over to you Mr Rosenfeld.

Agenda

SCHAEFFLER

1 Overview

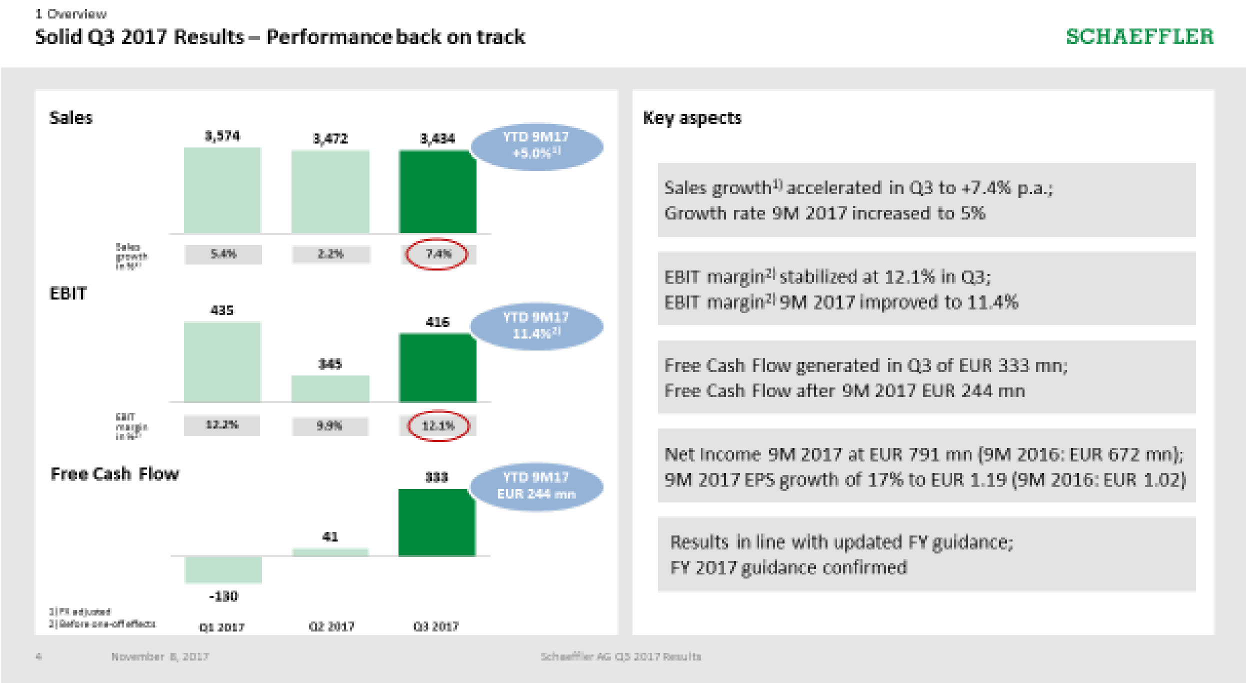
2 Business Highlights

3 Financial Highlights

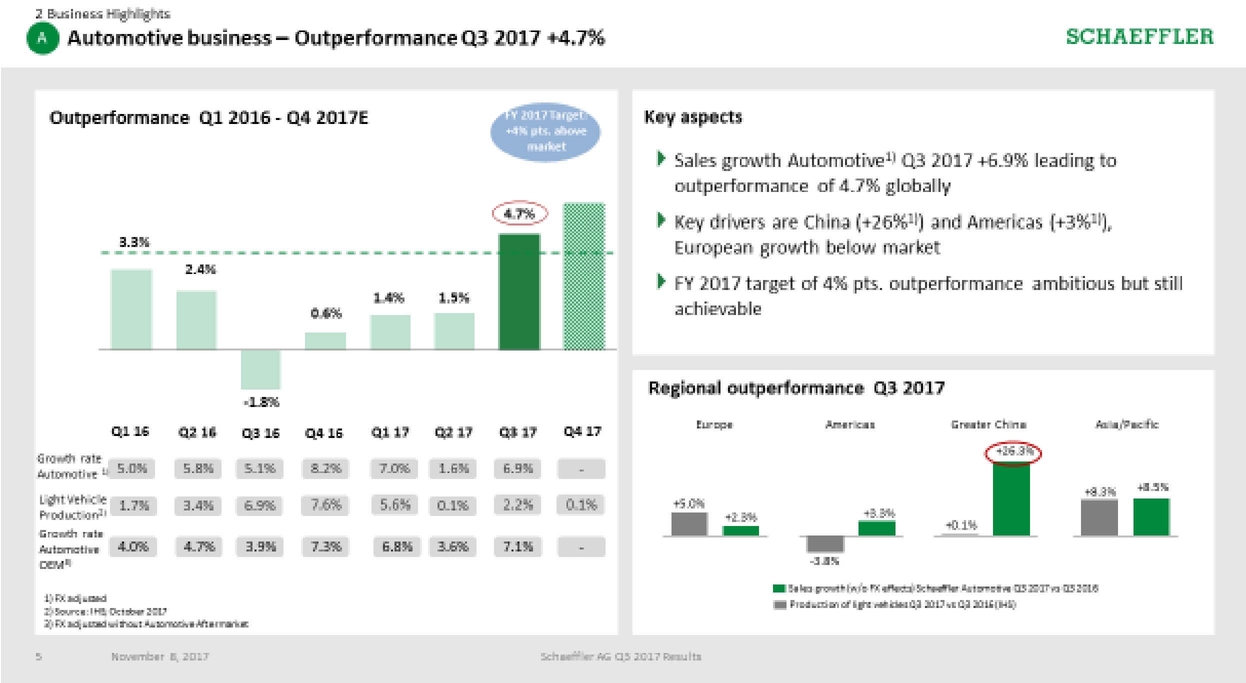
4 Summary and Outlook

Klaus Rosenfeld

Thank you very much, Renata. Ladies and gentlemen, good morning and good afternoon, welcome to our Q3 earnings call that I'll be doing together with my colleague Dietmar Heinrich. You have received this morning the presentation. Renata convinced us that we should share the representation from now on earlier with you, so that you can make yourself familiar with the key numbers. It also allows us to cut this presentation a little bit shorter because you have the basic information, and leaves a little bit more room for questions and answers at the end. The presentation is structured as you see on page number 3, in the usual parts: with a quick overview, the business highlights from my end and then Dietmar will go on with financial highlights and then summary and a short outlook.



If I may lead you to page number 4, where you have the basic numbers for the three main drivers that we guide on; sales, EBIT and free cash flow. You see that we are posting solid results for Q3 2017, with a 7.4% growth rate in the third quarter, FX-adjusted, leading to a 5% growth in the 9 month period, the upper end of our guidance, driven both by the Automotive and the Industrial business, a margin that is 12.1% and a quarter and 11.4% after the special affects for the 9 months. So, well within our revised guidance range. And a free cash flow of 333 million that also leads us to a 4th 9-month number of 244 million, which is also, as we expected, on track to achieve the guidance. I want to add this - the net income number EPS is up 17% to 1.19 Euros, a result of the positive financial development/ results, so overall, in line with the revised guide and on track.



Very quickly, on the key business highlights on the next page, page number 5 – you see the Automotive business: the outperformance in the quarter has now reached 4.7%. We have achieved a growth rate for the whole automotive division of 6.9%, again with a market growth of 2.2. That’s a positive development driven by China, once again very strong in the Americas. You also see on the slide that European growth was below market, let me give you the main explanation for this. This is basically driven out of Germany, where our growth is 11% negative, versus a more flattish market growth in that specific region. There are four main reasons for this; the sale of our Swiss entity and of the entity that we sold in Magdeburg. We have, as you know, as a second reason, a strong Aftermarket business in 2016 because of extra-ordinary all-year sales that could not be repeated in 2017, which explains another portion. Then we had two large projects which came to end of production: the CVT chain Audi and the BCT project for GM. And last but not least, we have significant transfers from Germany to China that also impact this number. So nothing that is a surprise, but clearly it makes that number look a little weak. But if you adjust for these numbers, we are definitely, in this German market region, in line with the market growth.

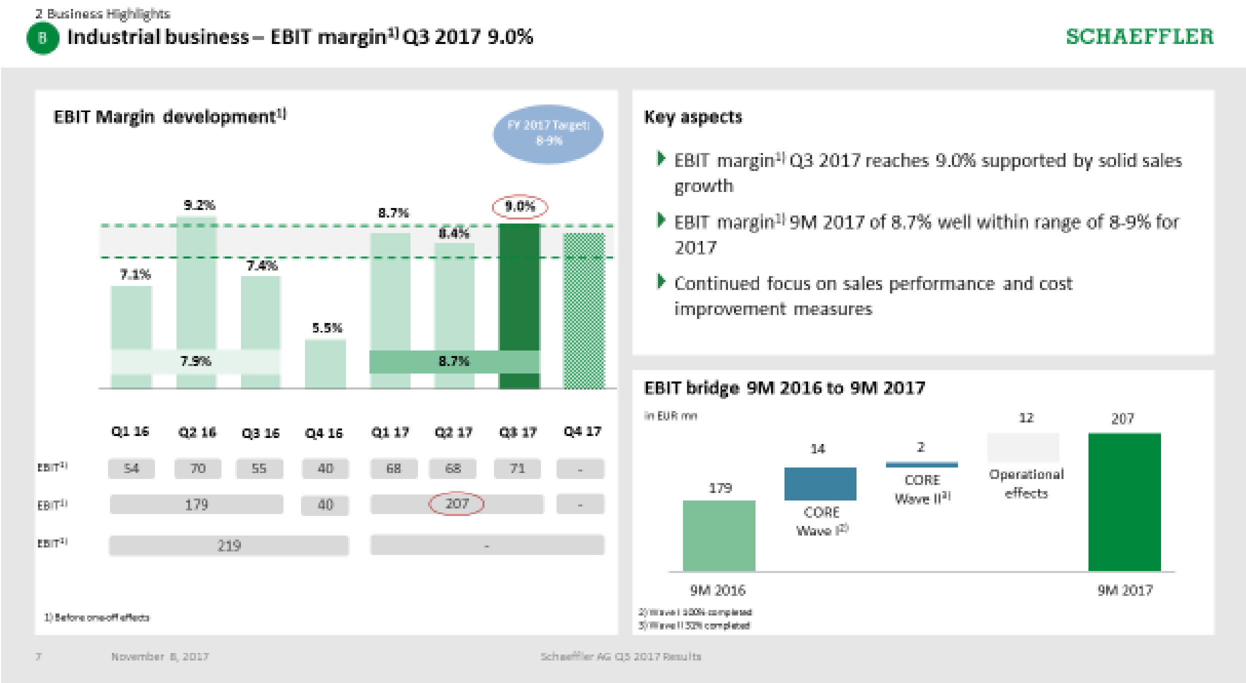
The other point that I want to make on this slide, as we have broken out for you: the implicit growth rate in our automotive division without the aftermarket business. You will have heard that we well established from January onwards a third division Aftermarket and you see here that if you take out the automotive aftermarket portion, that the outperformance would have been even slightly higher – 7.1% over 2.2. I do think that in future that'll probably be the better yard stick and as you will see later on, in future we will also guide separately on the Automotive Aftermarket business.

Very quickly in terms of some more business-related numbers and three main things that I want to mention on page 6 – we have, as you saw from the press communication, established a new center for E-Mobility in Wooster, Ohio. That is one of our most successful plans, and we have decided last week that it will become our US center for advanced E-Mobility development. We have, and will continue to invest in this center: the planned extension had an additional CAPEX of 60 million and this is clearly based on the good business that we have already generated for one of the leading Detroit 3 US OEMs, with a P2 Hybrid Module that will start production in Q4 2018. What is interesting here is that this project is a door-opener in terms of technology for our further customers. In Wooster we have significant interest from competitors of our main customer there, who are also interested in working with us on this new technology. Lifetime sales for the P2 Hybrid Module has further increased and is a large 3-digit million number and all of this is driven by, interestingly for all of you, by the competence we have since many, many years in the torque converter product, so once again it proves that you can expend technology that you have when you are close to your customer and develop with them.

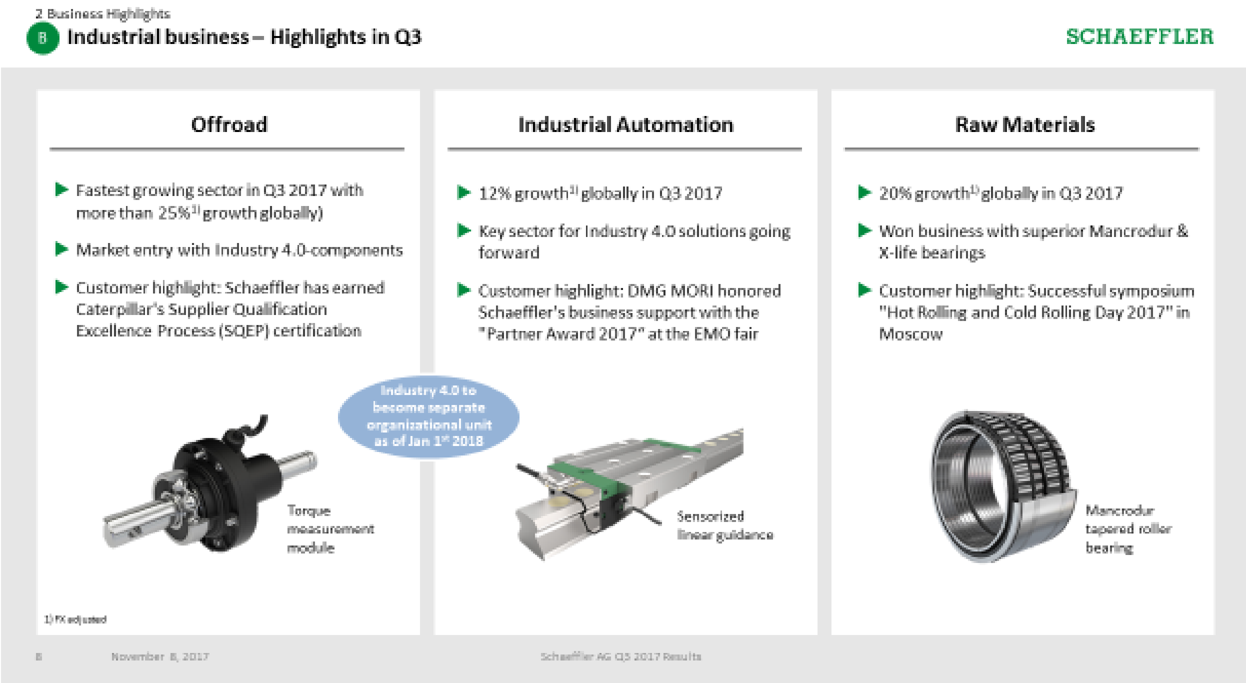
Second one, that's the first SOP on one of our series contracts, you remember, eight series contracts, and here in October 19th 2017, right on time for the Party Congress in China we have officially launched our first hybrid module with ChangAn. A successful launch, once again a significant 3-digit million Euro lifetime sales expected in the next 5-6 years. And what I can say, also this, because it was communicated in a very prominent way, has already led to increased interest from other local Chinese OEMs. The second SOP is expected, at the latest, at the beginning of next year - also a large existing customer and therefore we are very confident here in China. The first SOP is always interesting because you can learn a lot from it and if the second follows quickly, it tells you something about our activities.

To add to this, it's not only E-Mobility that counts, but you have, and you saw this as well, opened a new plant in October in Svitavy – a small town in the Czech Republic - it will become our new plant for thermal management modules; a product that is used both in combustion engines and also for battery-powered electric vehicles. Nothing from the transmission area. Something where we have already gathered 7 signed contracts with SOPs and between today and 2019 - 800 million lifetime sales that is not in the E-Mobility number, and a product that is right on time there to help carmakers to achieve CO_2 reductions of up to 4%.

A very quick update on the E-Mobility projects: you remember that when we talked to you last 28 projects of 8 series contracts and 20 projects that have not led to further contracts. The number of projects has increased from 28 to 33 - 5 new projects that have come out of Europe and out of Asia, and what is interesting here is that three of them include a second-generation 48V element on the P2 level, we are working on concept cars for this and we are enthusiastic that there is significant potential for future business in that area.

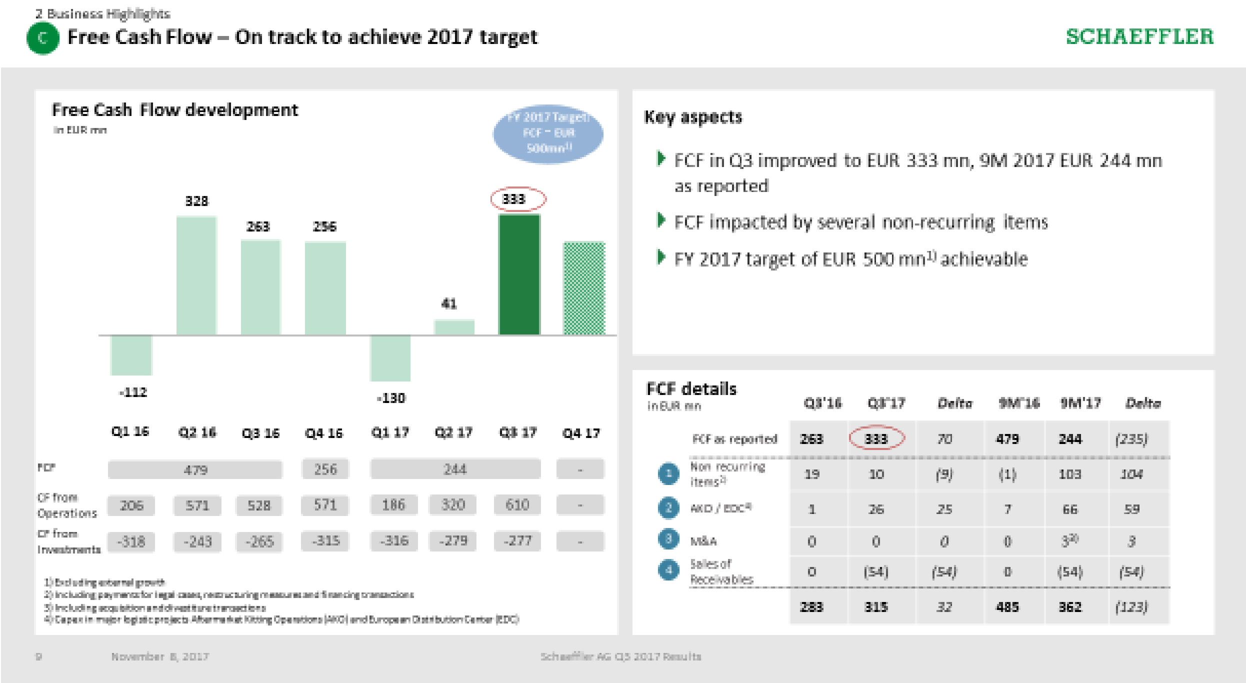


So that is on Auto, quickly to the Industrial side. You saw on the Industrial side that the margin reached 9% in the third quarter, so well in line with what we told you (8-9% target range). You also see that the margin level stabilized over the quarters, and that is, from our point of view, a positive sign that we will make what we promised on the Industrial side for the margin. This is only the year 2017. You all remember our promise of 10-11% in 2018. And for that it's very important that we focus on a continued basis on sales and also cost-improvement measures. You'll see on the little table that the Wave 1, which is more or less 100% executed comes now in, with 14 million in the first 9 months. CORE Wave 2, still a wave to go. But we clearly have support from the market, with significant growth and that makes us confident that the 10-11 will be achievable in 2018.



Some business highlights on the next page, you see three sectors that have been very positive for us:

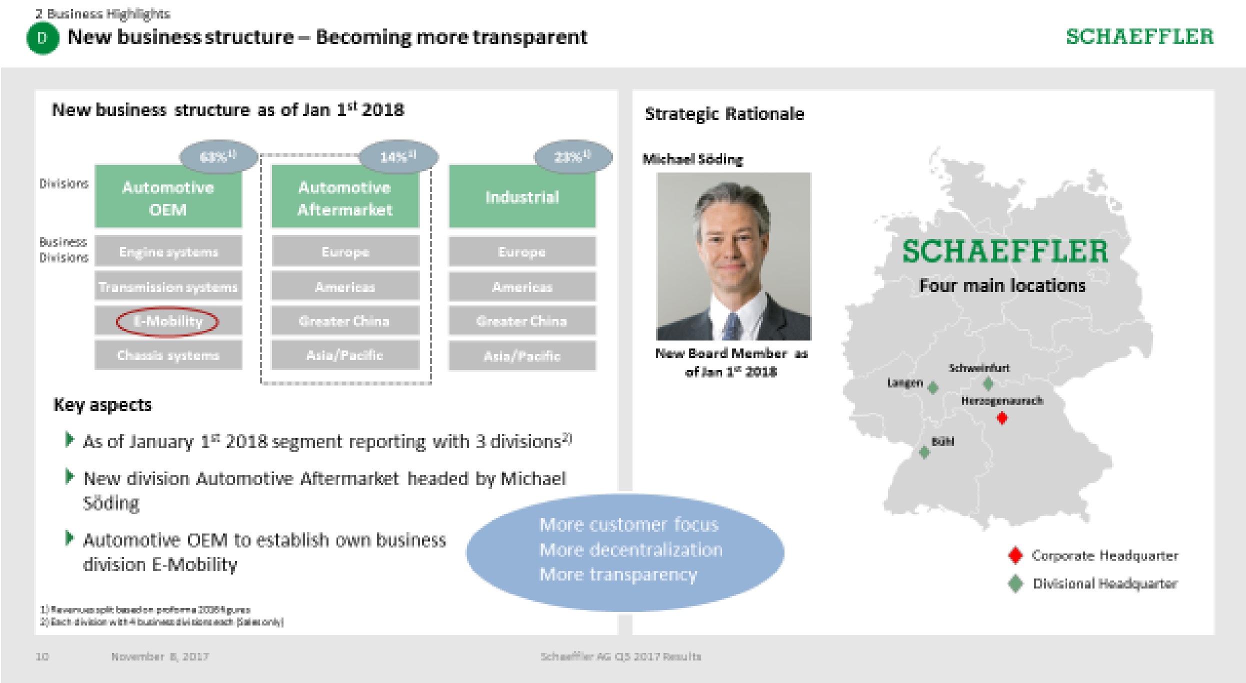
- Offroad, the fastest growing sector in Q3, with 25% growth globally. And here, the growth is, in particular, driven by the infrastructure investments, construction machinery, excavators, bulldozers and these kinds of things, also agriculture machinery – the little project that we're showing here, where we won an excellence award from Caterpillar, is a centralized torque measurement module that is used in fertilizers and it sort of makes the fertilizer-sprayer more accurate and helps the customer to save some fertilizer, or make the whole fertilizer machine more efficient, and is a very good example for our industry's 4.0 expansion plans.
- Same issue in Industrial Automation, also here a 2 digit growth in Q3, one of the key sectors for the industry 4.0 solutions, in particular driven by the machine tool industry and by the stride for more automation equipment. DMG MORI, one of the, I think, very well performing companies on our customer side has awarded us the Prestigious Partner Award, so we are also getting recognition here from our customer side.
- Raw Materials - the third sector that I want to mention here is particularly the mining area that drives the growth and also steel and cement production. The little example here is a tapered roller bearing with a specific type of steel called Mancrodur® - this is what we use for the high-performance bearings, and that's one of the drivers where we think we have a competitive advantage compared to others. This type of steel was last shown in Moscow where we also won an award for this.



Last part for the third element of the equity story - free cash flow, you see here the progression of the free cash flow by number, by quarter, page number 9 and you can see that the third quarter was a positive quarter, clearly stronger than Q3 2016.

What is important to understand is what this free cash flow is composed of, and you see on the little table on the right-hand side the same level of detail that we gave you for Q2. When you're there, see in the second column the 333, this includes ten million for non-recurring items; like payments for restructuring measures, payments for financing transactions or payments for legal cases. It also includes, in the second line, AKO and EDC, which as some of you may remember, EDC is one of the largest logistic projects we have ever achieved linked to the industrial segment and AKO is now something that we announced this morning and a contract that we signed with Neovia logistics as a general contractor, another 180 million investment in Saxony-Anhalt with 900 new jobs in that area. It's a large project and a state-of-the-art assembly and packaging centre for the aftermarket and we have decided to break out the CAPEX for these two projects because it has nothing to do with the on-going growth projects on the Automotive & Industrial side.

Both projects are investments into logistics and they clearly follow different patterns so we thought that it's right to give you that insight. If I take that out, 26 million on M&A nothing in the third quarter, you'll see that for the full year it was 3 million. Why 3 million? Because it includes the acquisition of the 50% share in Compact Dynamics and on the other hand we've divested to companies that I mentioned before in Switzerland and in Germany, so that makes it a math of 3 million. Then you see that the 333 is supported by a first time ever sale of the [*inaudible*] bonds, 54 million, we took this out to, sort of, flatten the number and explain what is the underlying free cash flow; it's here at 315 without these impacts compared to 283 in Q3 2016, and if you take the 9 months without it is 362 compared to 485. The key message I want to send here is, even without this, and you know that our guidance was always excluding any external growth; we believe that in the 4th quarter we will generate enough free cash flow like last year to achieve our full-year target of 500 million.



Last thing from my side, we indicated that to you, during the Capital Markets Day in Bühl, the board has now taken the formal decision to separate the Automotive Aftermarket as a new division so from the 1st of January onwards we will share with you three segments and three segment results. You saw Michael Söding, he's one of our best talents and he spoke at the Capital Markets Day and he will become a new Board Member as of January 1st 2018. The second thing, as part of this realignment, we have decided to also align the [*inaudible*], so the business division from our Automotive OEM division. You see here on the page that there will be, from the 1st of January 2018 onwards, a separate business division called E-Mobility. There will be more news out at the beginning of the year on this, but with this new business division we want to make sure that you get at least the adequate sales numbers to see our progression in this important field. This business division, that's what I can say today, will not only include axles and hybrid modules, but also other parts of our transmission business so that it forms a viable part of our business structure.

Let me finish by saying that it’s not only about becoming more transparent, not only becoming more clear on the two different distinct business models we have; but also, from my end, deserve different valuation approaches in your, some of the parts valuations but the driver behind this, or the key driver behind this is clearly that we want to become more customer focused, that we want to decentralize our organisation and to create more transparency. And that is what is indicated on the right-hand side of the page. So far, everything was managed out of Herzogenaurach, our main corporate headquarters and with the move into the third division, we have also decided to move the divisional headquarters out of Herzogenaurach into the main locations in Germany. That is Bühl, you have seen it, for the Automotive OEM where Matthias Zink is residing; it is Schweinfurt where Stefan Spindler *[IR note: for Industrial]* will take place and the new division Automotive Aftermarket, is managed out of Langen. So, more customer-focus, more decentralization, and hopefully better results: that’s the clear message here. With this, I hand over to Dietmar for the second part of the presentation.
Thank you very much.

3 Financial Highlights

Overview Financial Results

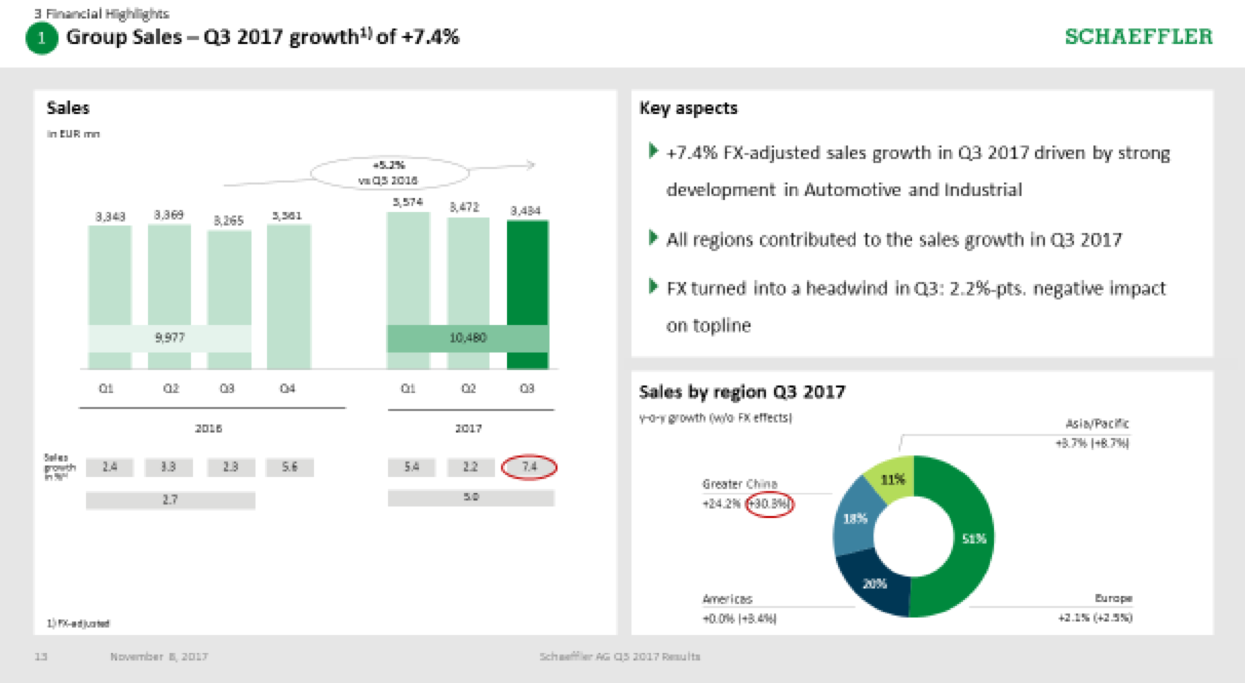
SCHAEFFLER

in EUR mn	Q3 2016	Q3 2017	y-o-y	9M 2016	9M 2017	y-o-y
1 Sales	3,265	3,434	+7.4%[1]	9,977	10,480	+5.0%[1]
2 EBIT [2]	417	416	-0.2%	1,276	1,196	-6.3%
EBIT margin [2]	12.8%	12.1%	-0.7% pts.	12.8%	11.4%	-1.4% pts.
3 Net income	178	306	+71.9%	672	791	+17.7%
EPS	0.27	0.46	+70.4%	1.02	1.19	+16.7%
4 Capex	268	279	+11	829	873	+44
5 Free Cash Flow	263	333	+70	479	244	-235
6 Gearing ratio	185%	109%	-76% pts.	185%	109%	-76% pts.

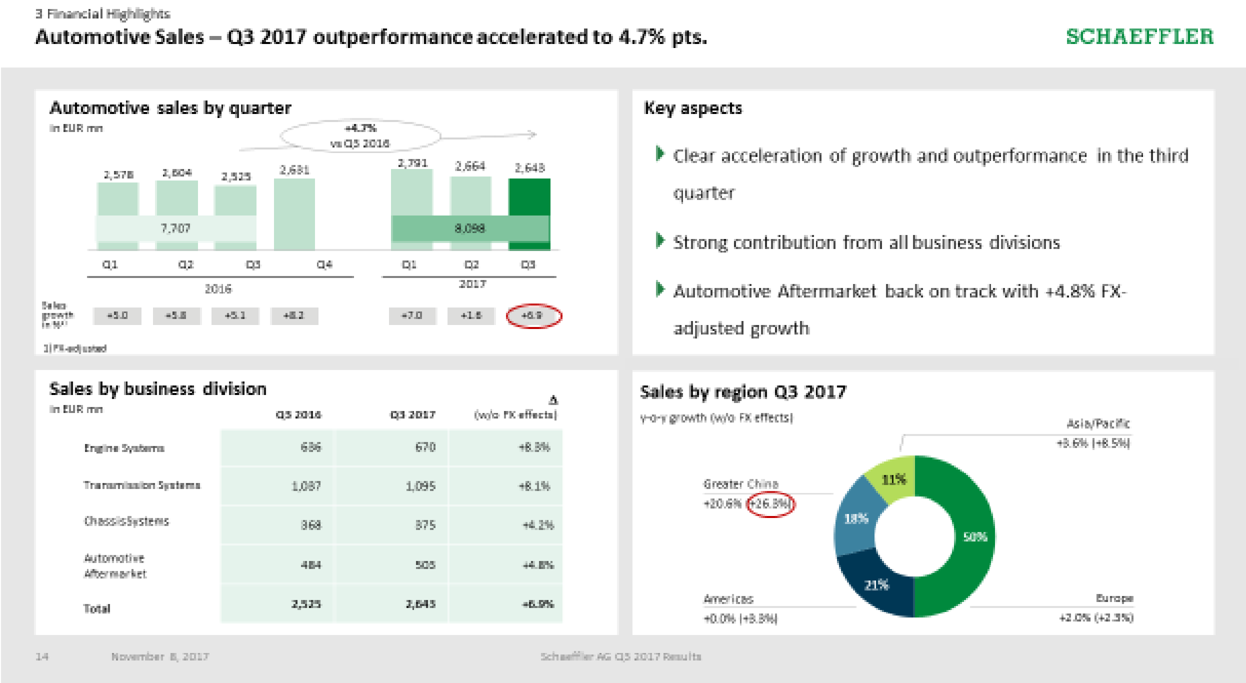
1) FX-adjusted 2) Before one-off effects

Dietmar Heinrich

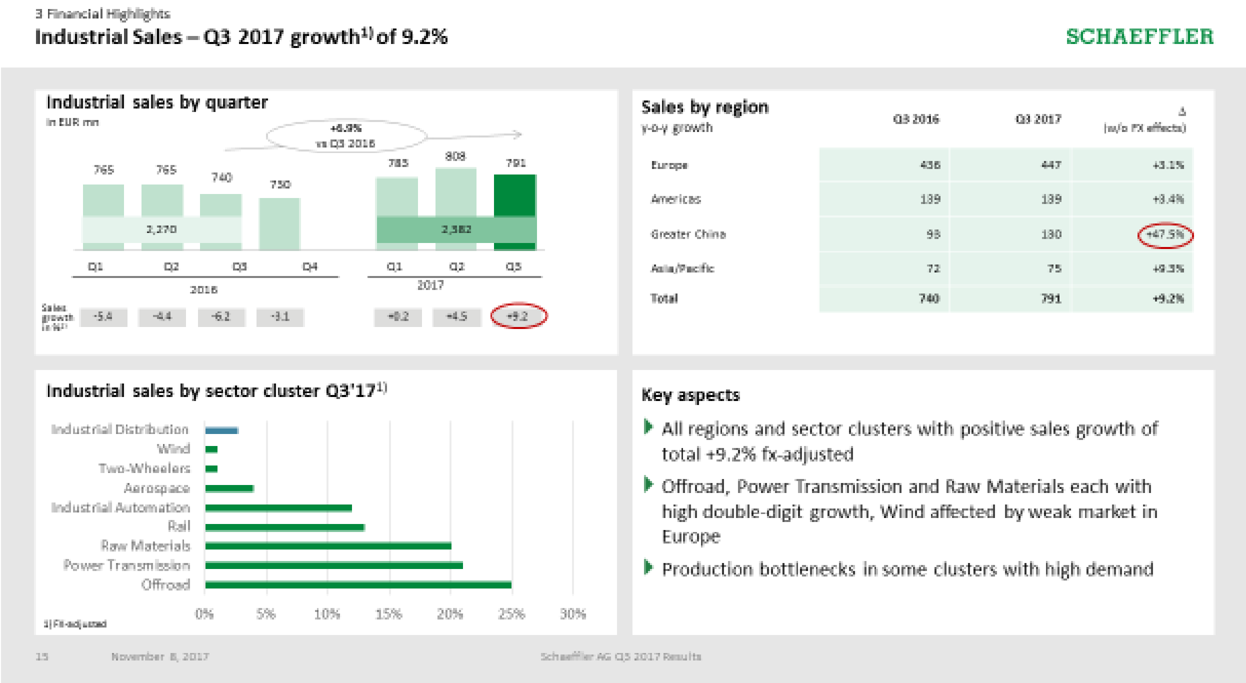
Thank you very much, good morning gentlemen and ladies also for singing in. I would like to highlight some information coming from the overview of the financial results, which will be on page 12, but focusing on the sales and EBIT development and the free cash flow development.



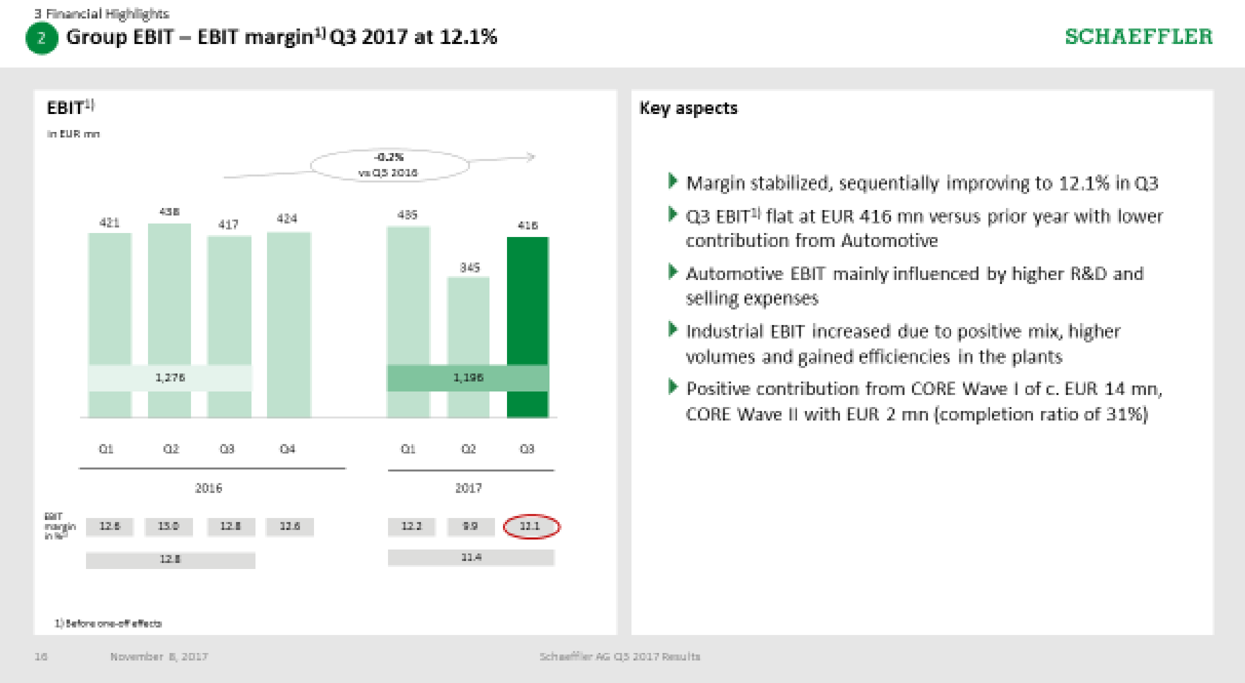
Moving to the next graph you can see, as Klaus already pointed out, the sales development, especially with a strong third quarter at 7.4% yoy, versus 5% year-to-date [*amended by IR*]. We had a good contribution from both divisions: Automotive and Industrial. And we can also see that all regions contributed. What we need to highlight as well is that we have favorable development coming from foreign exchange rate during the first half of the year that has turned now into headwind during the third quarter, which is having a negative impact of around a 2.2 percentage point on the top-line.



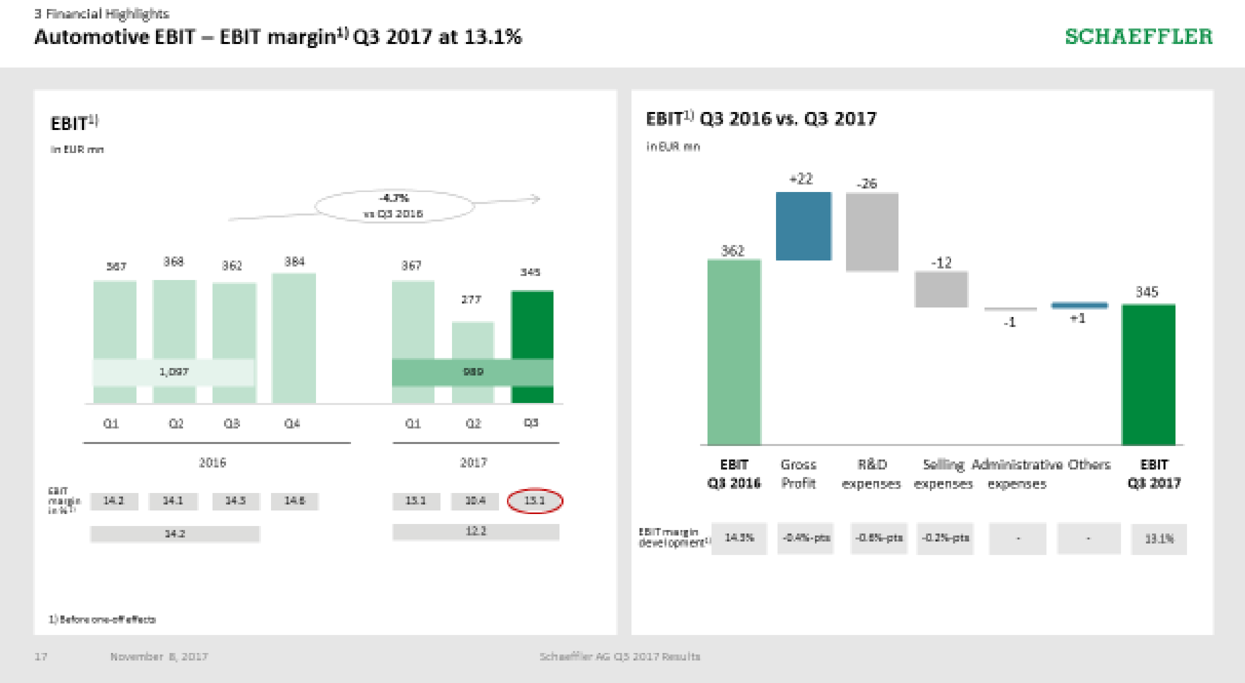
And then moving to the Automotive part, we can see that often that area received good development across all the business divisions you can see on the lower-left on page 14: and especially Engine Systems and Transmission Systems have been strong, both with 8% growth, around 8% growth overall. You can also see that the issues that we had in the second quarter with the Automotive Aftermarket have settled, that we had a good return now to a good growth level [*amended by IR*] in the third quarter on the Automotive Aftermarket which has also made a good contribution on the EBIT side.



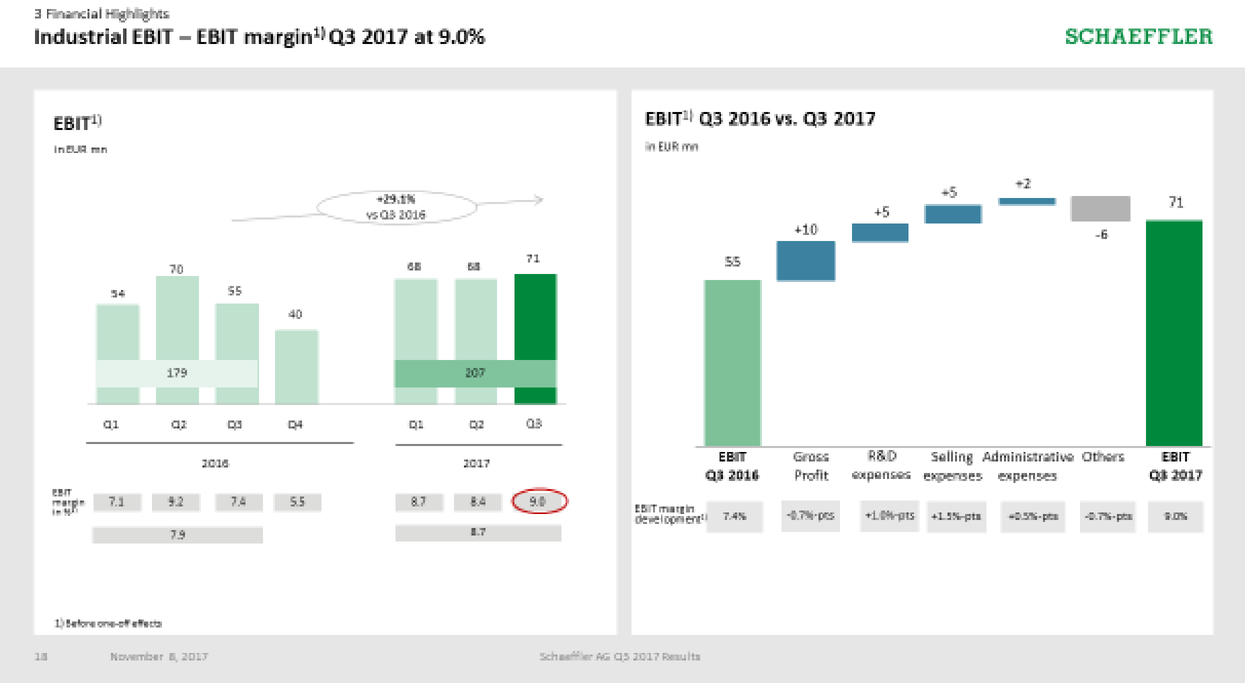
Then moving to the sales development of the Industrial side; we are at 9.2% in the third quarter so we gained continuously momentum quarter by quarter. You can see that actually China is adding a bit impact to this but it’s not just China, it’s also our home market, our European market and also America and Asia-Pacific contributed and it’s coming mainly from the sectors strongest here: Power Transmission and Offroad. We on the other side have an adverse effect that the Wind market in Europe developed weaker than last year so this also influenced, there was also an influence there, the strong flow in the Industrial area puts a strain on some production bottlenecks that we see in certain clusters, so it’s not across all the clusters but in certain clusters you’re having production bottlenecks where we initiated measures then to release these bottlenecks to be able to produce and finally to sell more.



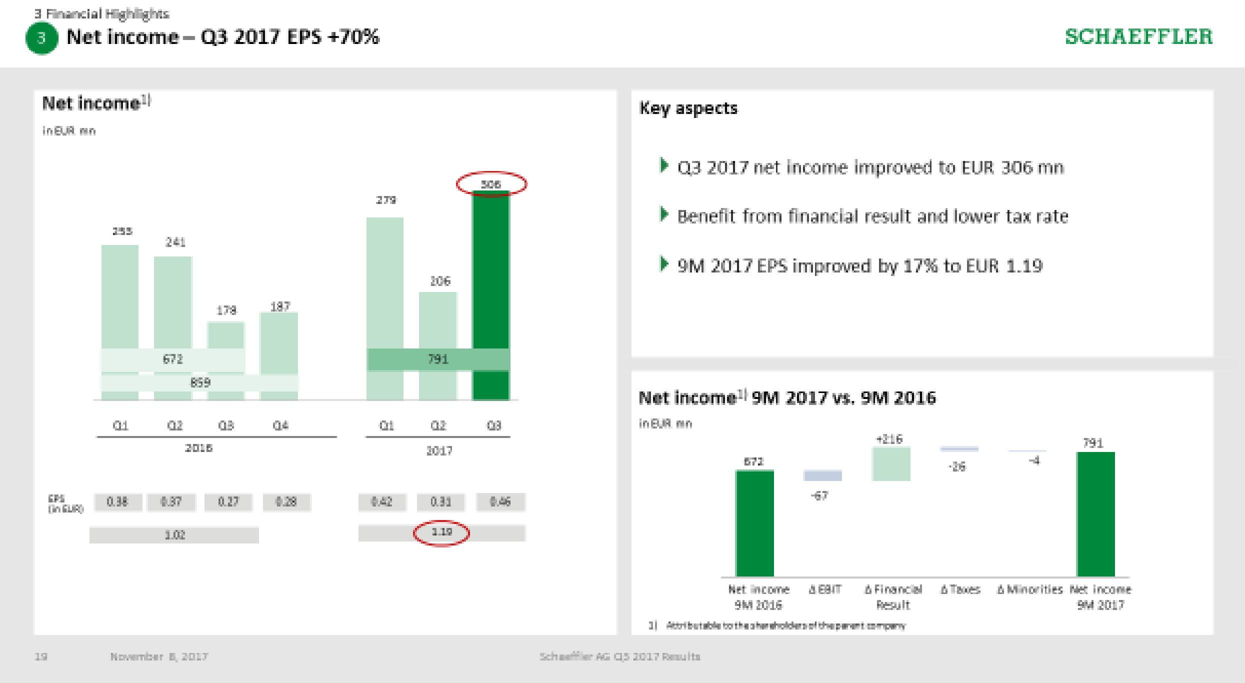
And then moving on to the profitability development - we can see that the margin has stabilized, we realized over more than 400 million Euros in EBIT now in the third quarter which is equal to 12.1% and helps us then to move to 11.4% year-to-date. [*inaudible*] so it's influence and results [*inaudible*] going ahead. From the Automotive side, there is, especially from the overhead side, and also by the positive development in the Industrial side where we also see the impact coming from our reorganization measures CORE Wave 1 and 2, which contributed now in [*inaudible*] overall in that regard.



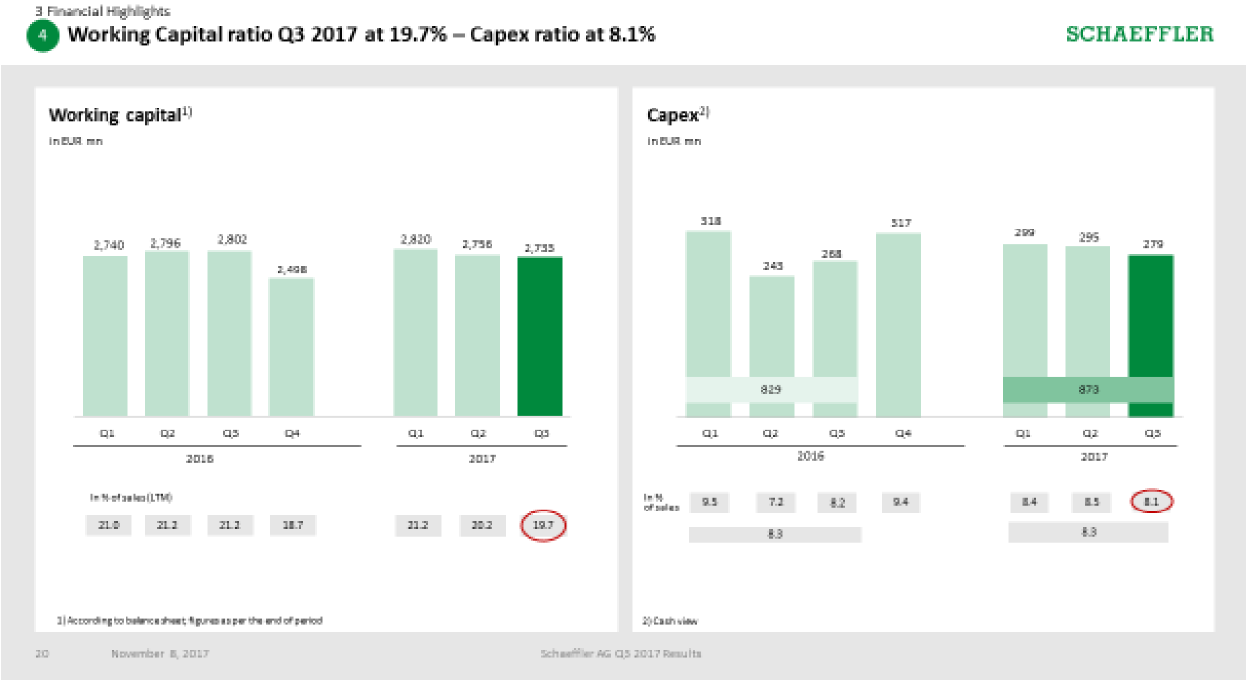
Now moving onto the Automotive – EBIT margin already highlighted, says here on recovery to quarter 1 level here as well, and you can see on the right side that actually our EBIT margin dropped from last year's third quarter 14.3 to 13.1% and you can see that half of the impact is caused by our increased efforts in regards to research and development, also caused by our E-Mobility *[inaudible] [IR note: focus]* actually, we are having investments into the future which are having an effect here on profitability.



On the Industrial side, moving down to page 18, and looking to the structure I already highlighted that shows the positive impacts from the CORE side and then you look to the EBIT development, you can see that overall, compared to the third quarter last year we have an increase of around 0.6 percentage points and you can see that actually we have 3 percentage points positive impact in the overhead costs. So this is clearly caused by our CORE implementation and the reorganization that we did there that is paying off on the cost side. And also highlights that we initiated the right measures because we can also follow also in regards to sales growth momentum.



With regards to the net income, after the weaker second quarter, we have now an improved net income to 306 million Euros. You can see on the lower-right side that we had a strong impact here from the financial side which actually compensated for falls on the EBIT side, this is caused by one-time impacts that we had last year in regard to refinancing measures, which did not actually appear in one-time impacts this year but also positive impacts coming from the lower interest rate, so this is *[inaudible]* development.



F

Now moving forward then to the working capital side and getting closer to the free cash flow development – you can see that actually we managed to lower our working capital to around 2.7 billion which is equal to 19.7% of the EBIT *[IR note: sales]*. This is supported by measures to review on one side our receivables and on the other side to increase our accounts payables for that, with the programs we have initiated there we are able to work more efficiently already in that part of our working capital. On the CAPEX side, which you can see on the right side, we are continuing our expenditure into accessories and as Klaus also mentioned regarding the AKO we have the European distribution concept already in implementation for the Industrial side, so we also continue there. We have the CAPEX ratio percentage to sales – in the third quarter 8.1% and year-to-date 8.3%. Overall with the 873 million in CAPEX we have an increase compared to the previous year of about 5%.

5 Free Cash Flow – EUR 333 mn in Q3 2017

SCHAEFFLER

Free Cash Flow
in EUR mn

	9M '16	9M '17	Δ	Q3 '16	Q3 '17	Δ
EBITDA	1,817	1,780	(37)	600	605	+5
Interest paid	(181)	(106)	+75	(74)	(29)	+45
Interest received	94[1]	7	(87)	21	3	(18)
Income taxes paid	(234)	(247)	(13)	(73)	(66)	+7
Working capital change	(303)	(340)	(37)	(16)	(43)	(27)
Others	112	22	(90)	70	140	70
CF from Operations	1,305	1,116	(189)	528	610	82
Capex	(829)	(873)	(44)	(268)	(279)	(11)
in % of Sales	*8.1%*	*8.5%*	+0.4	*8.2%*	*8.1%*	(0.1)
Others	3	1	(2)	3	2	(1)
CF from Investments	(826)	(872)	(46)	(265)	(277)	(12)
Free Cash Flow reported	479	244	(235)	263	333	(70)

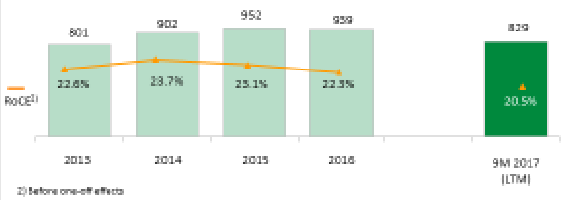
	9M '16	9M '17		Q3 '16	Q3 '17
Cash & cash equivalents	2,565	719		2,565	719

1) Includes annual cash interest on loan notes receivable (+87 EUR m)

Key aspects

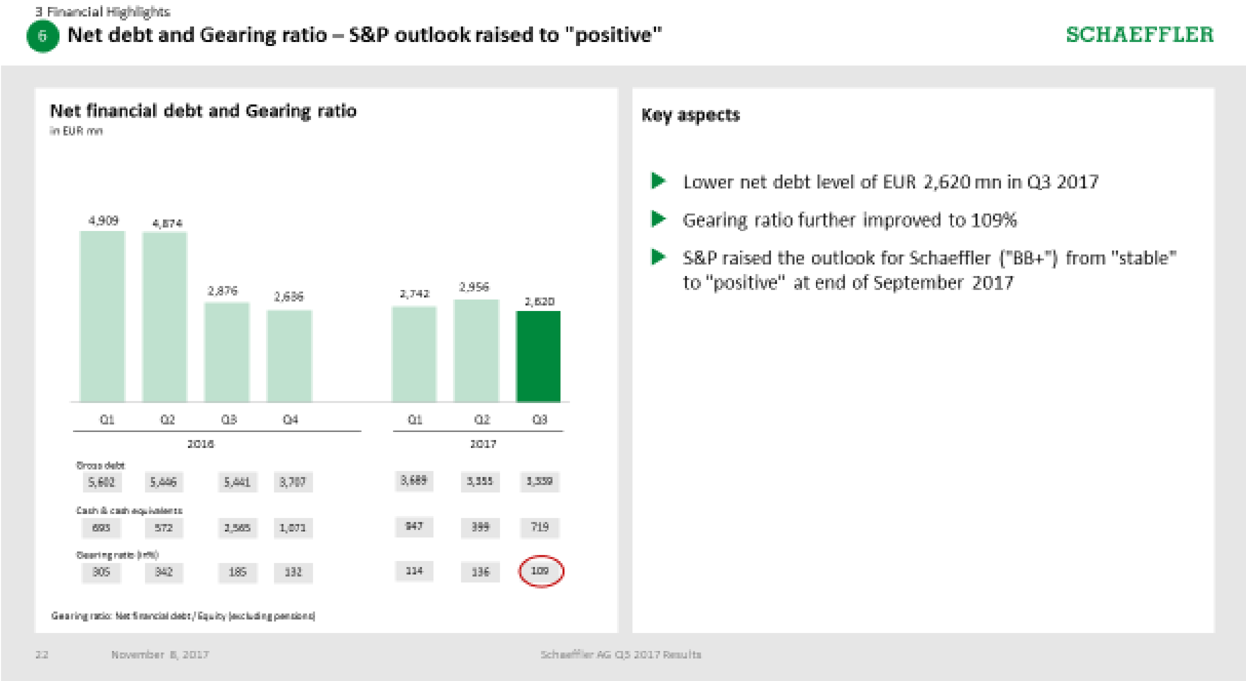
- Solid Free Cash Flow generation in Q3 with EUR 333 mn
- Q3 FCF impacted by several non-recurring items
- Schaeffler Value Added at EUR 829 mn

Schaeffler Value Added[2]
in EUR mn



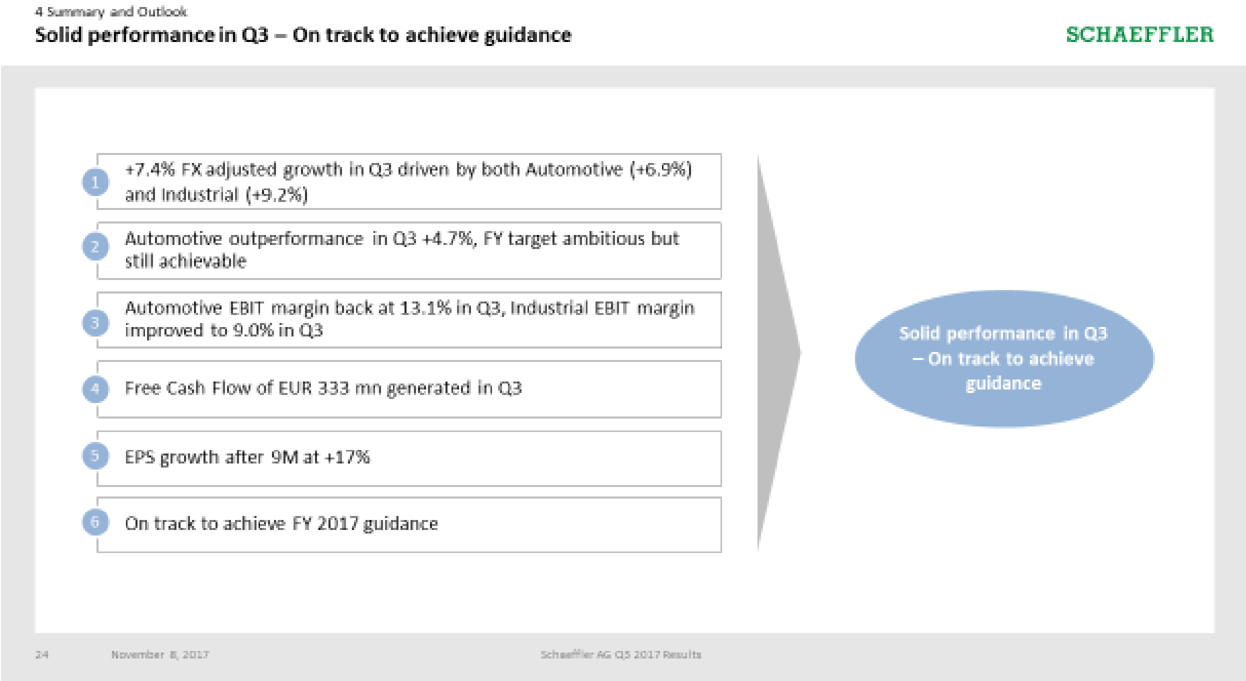
2) Before one-off effects

Then moving to the free cash flow, we had for the first half of the year, a negative development and with a strong third quarter, which is up to 333 million Euros beyond our year-to-date at around 250 million Euros. We are also expecting a good cash development for the fourth quarter, such that actually, we are foreseeing here to develop in line with our guidance.



And coming from the good cash flow development you can also see that our net financial debt developing positively and with the increase in the net income and in the free cash flow that we managed, actually our gearing ratio, compared to last year's third quarter was reduced significantly and we are also moving forward in this regard in the right direction.

And then, I would like to hand back to Klaus.



Klaus Rosenfeld

Thank you Dietmar, for the additional information. Let me jump, ladies and gentlemen, directly to the last page, page 24. You have a summary here, I'm not going to read all these numbers again to you, but just to put the quarter in perspective we think it's a solid result, we are clearly back to a level of Q1 and on track to achieve our guidance for 2017. On the Auto outperformance, this is after 6 quarters, the first time we are reaching on a quarterly basis the 4% threshold, whether the first quarter will be good enough to make up for the weaker two quarters at the beginning of the year we'll need to see but we clearly stick with our logic that the second half of the year 2017 will be stronger than the first half and also, so far in October it looks promising, so we see here a continued positive trend in the growth rate. Yes, as we said, we have some support from the market on the Industrial side, the swing to the qualitative side came quicker than we expected. You'll also remember that we initiated a little bit some price increases at the end of the second quarter, and at the beginning of the second quarter. That will come through step-by-step, sequentially and will give us a little bit of positive impact.

However, the year-end in industrial is always difficult to predict so… we think as a second part of the equity story, an 8-9% margin is a safe range for the time being. And on free cash flow, yes there are always also here certain things - one-offs, but the 500 million ex-external growth should be achievable. I know from the previous conversations that you're all very interested in what does it mean for 2018, please understand that we first want to see what the fourth quarter is now going to bring and we can't give you any guidance for 2018 before we issue and announce our full year results. But what I can say is that we are definitely on track to deliver our strategy, it's the long-term ambition that counts. You see that we are making good progress on E-Mobility, we are setting the right structure here, we're doing the same with Industry 4.0; what will also become a separate segment within the Industrial division, and therefore we think long-term, we are well on track to deliver on what we promised there.

Guidance for FY 2017 confirmed

SCHAEFFLER

	Actual 9M 2017	Guidance for 2017 as of January 24, 2017	Guidance for 2017 as of June 26, 2017
Sales growth	**5.0%** FX-adjusted	4-5% FX-adjusted	4-5% FX-adjusted
EBIT margin	**11.4% of sales** before one-off effects	12-13% of sales before one-off effects	11-12% of sales before one-off effects
Free Cash Flow	**EUR 244 mn**	~ EUR 600 mn w/o external growth	~ EUR 500 mn w/o external growth

Market assumptions

- Automotive: Global Light Vehicle production growth of around 2%
- Industrial: Slight volume growth of global Industrial production at constant prices

Q AND A SESSION

Kai Mueller, Bank of America

Hello, thank you very much for your time. Just three questions if I may. So first of all, the organic growth we have seen obviously also picking up strongly also on the OE side, the aftermarket is still somewhat lower than the run rate was but when we see the margin level you've now printed, the 13%, is that something you can do going forward again, so it really was a large one-off in Q2, is that the sustainable level you reckon you can deliver going forwards? And can you give us some granularity in possibly understanding the margins between the Aftermarket and the other business going forwards, especially in light of you separating those two? In Industrial, we have now seen that very strong organic growth, can you clarify a little bit how of that organic growth in Q3 was already pricing? And you show that the capital markets faces up to order book trajectory, can you give us a bit of colour what that suggests going into Q4 and also into next year? And thirdly, on the M&A side, I remember you mentioned that you would possibly be interested in Aftermarket M&A now separating the business out makes it possibly a better proposition. Can you give us a little bit of colour in terms of what you are looking at and if there is something in the pipeline for that, especially also what region you are focusing on?

Klaus Rosenfeld

Ok, let me start with the last one, we shared with you the main focus areas of our M&A strategy, there is nothing new to report. The only thing that I can say is that, since we are doing smaller things, and you saw the little acquisition that is more in the digital agenda area, helps both our internal production but also the customer side. We would see much more interest and much more different cases and on the other market side, as always that strategic area. On my wish list would clearly be something in the Chinese area or Asian-pacific area that is not that easy because it's a very fragmented market there and an area which many others are looking at but that would be my first priority.

But nothing to report there, other than the feet are on the ground and looking at different ways to enter this market. It could well be that it only works with some sort type of corporate or joint venture, we need to see but that is the long term goal on the aftermarket side. If I may add, the investment that we are now doing in logistics here in Germany is one of the important signs that we strongly believe in the strategic importance of our Automotive Aftermarket business. In terms of the Industrial growth, Q3 is not really impacted by pricing, Dietmar can explain this in more detail but we always said that the price impact that will come from catalogue prices being increased will phase in from the first quarter onwards. It's not a big driver, why we saw the particular volume growth is still and it is not one sector it is many sectors, there is still the normal price pressure that we are used to. On the organic routes, OEM and the margin that clearly one of the key questions nothing new to say here and again I need to refrain from any guidance on something here, we have always said that the autumn business is very strong business. It can make 13% we have seen it make 14% in very good years, it fluctuates between 12 and 14, I want to be a little bit reduced here today because we need to see what the fourth quarter is going to bring to stabilise this further. What is clear in the long term, we accept this on and on with the more intensive activity in the E-Mobility area, the margin will be also impacted by mix but at the end of the day it's not the margin that counts but the [incomprehensible] value edit and return on capital employed, we will see how that is going to enfold. Yes we are going to give you more granularity when we separate out the Automotive business and Automotive Aftermarket business, to give you guidance here because that will also impact a little bit cost, location and these kinds of things. Please be patient will us, we will come back at the beginning of the year with this.

Kai Mueller, Bank of America

Thank you very much.

Renata Casaro

We have received another question from Tim Rokossa, Deutsche Bank, your line is now open.

Tim Rokossa, Deutsche Bank

Thank you very much and good morning Klaus. I would have a first question around your performance in Automotive because I think that is one of the most positive points that we have seen in this very positive release today. You have a very nice acceleration in the out performance as you promised when we looked at the subdivisions of the regions it looks fairly balanced, you have pretty much grown in every single subdivision in every single region. It is always tough to say the next internal why that really is the case, are there any specific product ramp ups for example in engine systems, also that cost is federation again. Also as a second question to that, I appreciate that you don't want to talk about 2018 but if it is to certain product ramp ups, how do those ramp ups look in the coming quarters is it more balanced picture? Or should we be prepared for the kind of swings that we have seen in the out performance here? And as a third question, when we think about Q2 and what that did to your stock price, have you changed anything with respect to monitoring systems and how you project the business development? I will have another question but I will raise it afterwards if that's ok

Klaus Rosenfeld

I will answer the last one. We've had a change of CFO and that has already started to pay off if I may say so. He is much closer to the plans and the operating performance that we have been before as we told you last time we have established a much closer monitoring of cost development. I'm not saying that that explains why we are back to 12.1% but that will clearly help us going forwards to make sure that we don't have these situations like in the second quarter.

It’s not only monitoring but a sense of urgency that won’t happen again, and as we said, parts of this was temporary and parts of this was more structural. We tried to explain it as good as we can and we came out now to improve the temporary elements can be overcome by constant measures. In terms of your observation, our performance is more balanced, I can only confirm that it’s not a single customer or a single product that is going to drive it. The order book indicates that this is coming out of a variety of things, you also see that, I think it’s obvious and with that it’s on and on, that the significant growth out of china. The Chinese development is almost at 20% growth which is exceptional, it is not unusual, we have seen this over many quarters now that this business can grow at that pace. But we need to be clear that that’s a significant challenge for the organisation to make that happen and therefore, yes, we like to go fast, but if it’s too fast then it can also cause pain and that is the concern I would like to highlight here. If we need to be a little bit more cautious then I don’t think you see that that often from other suppliers, that’s a significant growth rate but we need to see how further that can be balanced. 2018, as I said I want to stick with my statement, let’s wait for the beginning of the year and we’ll give you hopefully a proper guidance for 2018.

Tim Rokossa, Deutsche Bank

Ok great. And if we move on, industrial market support clearly must have helped you. We already see the impact as well, can you just update us on the Core Wave 2 programme and what the cadence of that would look like? From one of the slight 31% completed and how would that play out for next year? Thank you.

Klaus Rosenfeld

Well, quorum remember the slides from last year that we have not updated for the quarter but we will update them for the full year, core 2 is more complicated than core 1 because there are more transfers between plans and countries. That normally requires some one-off cost that you cannot book as restructuring provisions therefore in that area you only see a small impact in 9 months but we are confident that we will get to the full 49 million that we projected there. Thank you.

Renata Casaro
The next question comes from Julian Radlinger. Your line is now open.

Julian Radlinger, UBS
Yes, thank you. Good morning, Gentlemen for taking my questions. It is Julian from IBS, just two from me really. The first one, operating leverage in both divisions was still negative in Q3, even though organic growth was very strong. Can you just explain what factors drove down EBIT despite of that very solid growth? I can see that from the EBIT bridges it appears to be cost of goods sold and higher RND but maybe you could be more specific? And the second question, with a look to free cash flow in Q4, Klaus you told me in the Q2 conference call that CAPEX is going to be back and loaded this year most the [incomprehensible, 40:41] going to EDC will happen in Q4, is that still the case? Are we seeing an uptick in X in Q4 or has something changed there? Thank you.

Klaus Rosenfeld
[incomprehensible] is going to be happy with your operating leverage because that can't be either we don't calculate [incomprehensible], when I look at the numbers you calculate operating leverage I think you need to look at the nine month period. In the nine-month period you see that there is 4 point something % growth, if that's adjusted, and 15% growth in the margin. You see on this table that I had on page number 7 from 179 million in 2016 to 207, it's clearly more profit growth than in the sales line. Yes, you see that, and that's a fair point that the growth rate in the third quarter was 9.2% higher than the previous quarter, so there's good amount of positive support from the market and don't forget the EBIT line also has here and there things like warranty provisions, and these kinds of things that don't come evenly across the three quarters so if you look at the first nine months I think that gives you an indication that we are benefiting definitely from the goods sales growth in the industrial.

Now on CAPEX, if I may refer you to the table that is on page number 9, you see here that the money we're spending for AKO was 66 million in the nine month 2017 period, 26 of which were Q3, and we're expecting that number to further increase because it is said that at the end of the investment period and AKO will start now with first payments in the first quarter so that number will go up. If you lease that within the CAPEX 9, I think you will see a further increase of CAPEX, on the other hand, we are seeing a more balanced split on the normal growth CAPEX, I say with my statement on AKO and ADZ what's going to happen in the fourth quarter with the normal CAPEX, maybe you want to add something there. In any case, the 4 or 500 million ex-M&A are from my point of view safe.

Julian Radlinger, UBS

That's right, mentioned there was an increase in the capital indicator, you can see on page 20 that it has happened also last year and the year before. We have a new production lines at the beginning of the year so we are preparing for this increase in the fourth quarter.

Kai Mueller, Bank of America Merrill Lynch

Thanks guys. If I could just follow up on the operating leverage question one more time, if you let me rephrase my question at this time, not on Industrial but really on the Automotive business. I'm looking at your bridge then the cost of goods sold obviously has a negative effect on your margin, that's potentially what I'm seeing when I look at operating leverage here, maybe you could explain it. Is that raw materials that hit the margin negatively or is it still a pricing issue? Similar to what happened in Q2, obviously to a lesser extent now. If you could just give some colour on that, that'd be great. Thanks.

Klaus Rosenfeld

You mentioned the pricing, I would not say it's an issue, we explained that we have an impact there, an impact that is going to continue. So we are working on the recovery, Klaus explained that that time we are working on the cost reduction, we have agreed with our customers that we are interested to realise them. It was also mentioned before that, in line with the bills increase by some new product launches that we had and everybody is aware when the product launches, we do not realise the optimum level of efficiency from the beginning. So, we need some time to overcome this, which we do in line with our plans so there is nothing that we did not expect there and then other impacts that we are having in there is on the raw materials side, so we could control the raw material costs in a good way, in line with our expectation. But you can see there, there was a good bit of increase in the first quarter as well, and what we also have in the margin as well, we mentioned the force impact on the top line coming from the exchange, so that also has an impact on the operational margin.

Kai Mueller, Bank of America Merrill Lynch

Ok, thanks for clarifying.

Renata Casaro
The next question comes from Victoria Grear, Morgan Stanley. Your line is now open.

Victoria Greer, Morgan Stanley
Morning, two questions from me please. First of all, the Industrial thanks for the comments around your performance that we should think about more driven by volume for you than pricing. Could you talk a bit about what you see in the market please, have you seen your pricing coming through for competitors and that's giving you the confident to put your prices up towards the end of Q2? What's been going on in the market for Industrial there? And then secondly, to think about ongoing margins in a different way, I understand you don't want to comment on 2018 yet, but if I think about the one-off effect you talk about for Q2 you were expecting about two thirds of that to be one-off, it looks like maybe you recovered even a bit more than that, and into 2018 you guided us to say that we should think about some ongoing challenges in offsetting the pricing pressure. Is this really a function of the top line growth? Which is obviously in Q3, what do you think about that?

Klaus Rosenfeld
I think, Victoria, you described it very well. Let me comment on the last point, yes we said that the best possible estimation at the time 2/3rd 1/3rd and I think your observation is right that we probably recovered more than the 2/3 not because of the temporary nature of the effect but due to the development in industrial. If you look at the whole group, the challenges we mentioned that could come from material prices, could come from FX, from the ramp up and speed of the transformation process, we just said it also here internally, we said it to the press, we're speeding up. We know that we have to gain traction in certain areas and that will cost some extra money, we are thinking about further cost optimisation on an ongoing basis for the industrial division that will cost some one-off costs that you cannot book as provisions. The challenges remain, what counts for me is the long term ambition and that is what we have confirmed and it is something that we work towards.

Long term ambition and financial ambition are a guidance but it is our ambitious goal that we meet all of the 6 key indicators that we gave you, and if I just make one observation, the EPS number is a typical number but there you see the good financial without development it gets in the right direction.

In terms of what we see in the industrial market, also here your observation is correct, as I said it's volume driven and the price doesn't really make a big difference, so far the price increase. It is typically price pressure in the industrial market somewhere around the percentage point and what we're seeing at the moment from my point of view is with this steep sales growth that can also to us a little bit as a surprise in the third quarter, we are seeing some bottlenecks to the supply chain because customers want delivery and to certain areas we cannot deliver in time. That is more a problem in the classical X market areas, not so much in the high performance bearings that are special bearings and that is a question of who has the capacity available. We are seeing situations where customers are frustrated that they are going to do that business with someone else and that limits also the ability to increase prices. From my point of view it's a situation that I shouldn't call it over but 9% growth in a quarter although the basis was weak there, because it was one of the x developments of the last year, it's something that we need to monitor closely. Don't expect that we can continue to growth with 9% in a quarter, October looks strong but then again there is a little bit of too positive development at the moment and I think that will come back on the industrial side, we need to see what that means for price increase possibilities. At the moment, our key concern is to make sure that we can deliver to customers and that they get the product that they want.

Victoria Greer, Morgan Stanley
Great thank you, that's really helpful. From your competitors, what do you think your competitors are doing on pricing in Industrial?

Klaus Rosenfeld
Well, that question we normally cannot answer on such a call but in our industry, the industrial bearing business, it's a big market leader that starts with something. I am not going to talk about SKF, the situation that we have is a very unusual situation also for the others. Please accept that I can't say more.

Victoria Greer, Morgan Stanley
Great, thank you very much.

Klaus Rosenfeld
You're welcome.

Renata Casaro
The next question comes from Henning Cosman, HSBC. Your line is now open.

Henning Cosman, HSBC
Hi, good morning. Thank you for taking my question. Mine are actually all centred around order intake, or order backlog when it comes to Industrial. Can I please clarify as a first point, I thought that the capital market we, or I at least, understood that this order, rolling order backlog is actually a very good leading indicator and gives us fairly good visibility. I had also understood from the discussions that you were quite hopeful for this generation and growth which has now materialised. So if you could just clarify, I think you said a couple of times that it was a surprise to some extent, the strong development, can you talk about that a little bit? That is my first question.

Klaus Rosenfeld
Well, again, maybe the word surprise is a bad word. It was a positive development that maybe in the first quarter of 2017 that I would not have expected. But you're right, with this new indicator we have been using, also internally, this hasn't come out of the blue. It is something that was becoming visible clearly in the beginning of the quarter, that this will be a strong development. It doesn't change our perception as before, these bigger swings make it always a little difficult to manage the supply chain. If you ask me today, my key concern that we have to fight with these bottle necks, and it's always a question how do you adjust capacity, how do you prioritise certain products and customers. All in all, I think we see a positive trend here, after years of movement in the industrial we feel good about our new set up, our new sales structure that we have established and we see a particularly in these areas that are important for the future in industry 4.0. We are regarded as one of the main players in that area where we also establishing competitive advantages compared to the more midsized players. What I can say here is, it's not only the in channel management of resources, it's also the logistical side and therefore the EDF, what is a large project since years, will be a difficult factor to gain traction here and to win more compared to our main competitors. Maybe that gives you a little bit more colour.

Henning Cosman, HSBC

Thank you. So, if I just take that together then let's assume you have decent visibility on your industrial side and the automotive side, guidance with respect to the automotive performance for further acceleration. How do I contextualise it with the guidance which remains at 45% of the runway is no size but we should see an acceleration in Q4. My question is, is that a conscious caution because you do have visibility or have you chosen to remain conservative for other reasons like you say, because of supply chain issues and so on?

Klaus Rosenfeld

Well, we have chosen to be on the safe side here, don't forget we had an unfortunate event in the second quarter and on the growth side, you could argue that we're safety cruising at the upper end of the guidance to see whether you further cruising there but don't forget it's an overall package with margins, free cash flow and growth. We want to stay with the guidance we have, that is the decision we have made and we need to see how the fourth quarter is going to unfold. Don't forget there is also a December month that is typically very difficult to project as we said October looks definitely ok, let's wait and see what's happening for the fourth quarter and then let's talk about the next year. That's more important.

Henning Cosman, HSBC

Ok thank you and finally, can I just confirm that from the full year now and then on a quarterly basis you will be giving us order intake and the rolling order backlog for industrial on a quarterly basis. Is that what you're going to do?

Klaus Rosenfeld

No, no, no. Don't get this wrong. We have said we're going to share with you, when we publish our full year results for 2017, also the order intake and also the rolling indicator for industrial, are going to be shared on a half year basis. As we said, we have still work to do, this is a new measure for us to make sure that it is safety generated from the systems, we are continuously working on this for the time being it is a half year figure that we are going to share with you on a half year basis.

Henning Cosman, HSBC

Thank you very much.

Klaus Rosenfeld

You're welcome.

Operator
The last question comes from José Asumendi, J.P. Morgan Cazenove.

José Asumendi, JP Morgan
R&D expenditure, if you could just give us some guidance for the fourth quarter and then I just want to think about next year and how we should just think about, you know overall R&D expenditure and overall levels, sales as you are looking to form the company and [intelligible, 56:01] and also if you could comment a little on bit on whether there are some elements of the R&D expenditure that were spent in 2017 that will be nonrecurring in 2018, I know it's a tough one to for next year but at least you know fourth quarter for this year and nonrecurring items for next year on the R&D front.

Klaus Rosenfeld
Well that is a tough one, I'm going to leave it to Dietmar.

Dietmar Heinrich
Well, thank you for your question. In regards to the fourth quarter first of all, we expect a continuation of ascending on the same level. We had not refused projects on the E-Mobility side going into production, you know from the capital market that we are working on the position side we also expect for next year to maintain or to stay on such a level and that actually now to disappear because we go into production will then finally be compensated by new projects that are requiring us to do more effort from that side. So that's what I would say in regards to the outlook in such a development.

José Asumendi, JP Morgan
Thank you very much, take care.

Operator
There are no further questions now.

Klaus Rosenfeld

Okay. Ladies and gentlemen, thank you very much for joining us. We look forward to the next meetings with you. Renata and Dietmar are going on the road I think tomorrow to meet some of you. And I think the next bigger conference we are is the Goldman Sachs Conference in London. We look forward to an interesting finish of the year and then clearly to continue to work with you in 2018. Thank you very much. Bye-bye.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.

IR Contact

SCHAEFFLER

Contacts

Renata Casaro	+49 9132 82 88125	renata.casaro@schaeffler.com
Niels Fehre, CFA	+49 9132 82 85805	niels.fehre@schaeffler.com
Jens-Philipp Briemle	+49 9132 82 86377	jens-philipp.briemle@schaeffler.com

www.schaeffler.com/ir

Backup

Sales by region, business division and sector cluster

SCHAEFFLER

Automotive sales growth[1] by region

	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2' 17	Q3' 17
Europe	+6.6%	+0.2%	+3.9%	+3.5%	-5.8%	**+2.3%**
Americas	+2.9%	-1.2%	+1.6%	+7.0%	+1.9%	**+3.3%**
Greater China	+11.6%	+38.9%	+29.9%	+21.9%	+23.2%	**+26.3%**
Asia/Pacific	0.7%	+3.7%	+6.8%	+3.7%	+10.2%	**+8.5%**
Total	**+5.8%**	**+5.1%**	**+8.2%**	**+7.0%**	**+1.6%**	**+6.9%**

Industrial sales growth[1] by region

	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17
Europe	+1.5%	-2.4%	-2.3%	-1.6%	+0.6%	**+8.1%**
Americas	-7.1%	-4.7%	+1.5%	+0.1%	+5.1%	**+8.4%**
Greater China	-21.6%	-21.1%	-13.7%	+10.8%	+26.3%	**+47.5%**
Asia/Pacific	-6.0%	-6.3%	+0.0%	-3.5%	+0.1%	**+9.3%**
Total	**-4.3%**	**-6.2%**	**-3.2%**	**+0.2%**	**+4.5%**	**+9.2%**

Sales growth[1] by Automotive business division

	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2' 17	Q3' 17
Transmission Systems	+3.4%	+4.4%	+8.3%	+6.4%	+6.3%	**+8.1%**
Engine Systems	+4.6%	+2.4%	+6.1%	+8.1%	+1.6%	**+8.3%**
Chassis Systems	+8.4%	+5.3%	+6.7%	+4.2%	-0.7%	**+4.2%**
Aftermarket	+11.3%	+9.8%	+12.4%	+9.9%	-7.5%	**+4.8%**
Total	**+5.8%**	**+5.1%**	**+8.2%**	**+7.0%**	**+1.6%**	**+6.9%**

Industrial Distribution sales growth[1]

	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17
Industrial Distribution	-7.8%	-4.2%	-3.6%	+0.9%	+4.6%	**+2.7%**
Industrial Total	**-4.3%**	**-6.2%**	**-3.2%**	**+0.2%**	**+4.5%**	**+9.2%**

1) FX-adjusted

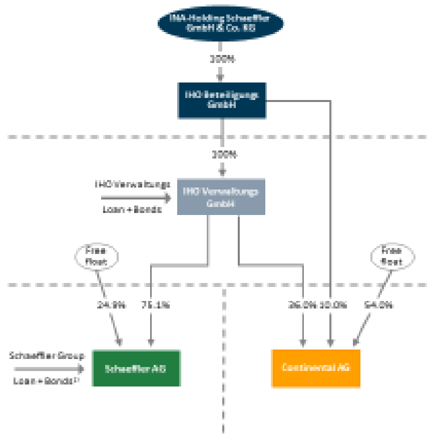
Backup

Overview Corporate and Financing Structure

SCHAEFFLER

Corporate structure (simplified)

as of September 30, 2017



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

Financing structure

in EUR[2] mn, as of September 30, 2017

IHO Verwaltungs GmbH

	Debt instrument	Nominal (USD mn)	Nominal (EUR mn)	Interest	Maturity	Rating (F/M/S)[4]
Loans	Term loan (EUR)	-	600	E+2.75%	Sep-21	not rated
	RCF (EUR 200 mn)	-	-	E+2.75%	Sep-21	not rated
Bonds	2.75% SSNs 2021 (EUR)	-	750	2.75%	Sep-21	BB+/Ba1/BB-
	4.125% SSNs 2021 (USD)	500	423[2]	4.125%	Sep-21	BB+/Ba1/BB-
	3.25% SSNs 2023 (EUR)	-	750	3.25%	Sep-23	BB+/Ba1/BB-
	4.50% SSNs 2023 (USD)	500	423[2]	4.50%	Sep-23	BB+/Ba1/BB-
	3.75% SSNs 2026 (EUR)	-	750	3.75%	Sep-26	BB+/Ba1/BB-
	4.75% SSNs 2026 (USD)	500	423[2]	4.75%	Sep-26	BB+/Ba1/BB-
	Total		**4,120**	**Ø 3.51%[3]**		

Schaeffler Group

	Debt instrument	Nominal (USD mn)	Nominal (EUR mn)	Interest	Maturity	Rating (F/M/S)[4]
Loans	Term loan (EUR)	-	1,000	E+1.20%	Jul-21	not rated
	RCF (EUR 1,300 mn)	-	350	E+0.90%	Jul-21	not rated
Bonds	2.50% SSNs 2020 (EUR)	-	400	2.50%	May-20	BBB-/Baa3/BB+
	3.50% SSNs 2022 (EUR)	-	500	3.50%	May-22	BBB-/Baa3/BB+
	4.75% SSNs 2023 (USD)	600	508[2]	4.75%	May-23	BBB-/Baa3/BB+
	3.25% SSNs 2025 (EUR)	-	600	3.25%	May-25	BBB-/Baa3/BB+
	Total		**3,358**	**Ø 2.85%[3]**		

2) EUR/USD = 1.1814.
3) Incl. RCF commitment fee.
4) Fitch Ratings / Moody's Investor Services / Standard & Poor's.