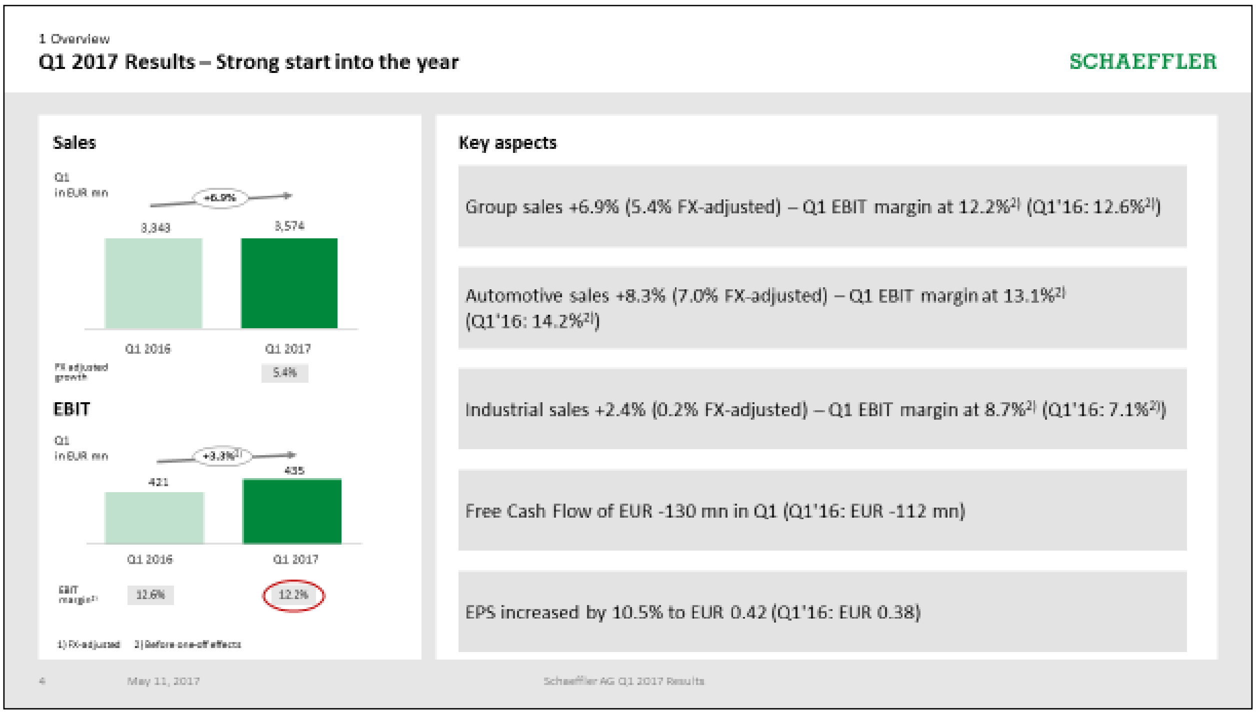
Operator

Ladies and gentlemen, welcome to the Schaeffler Q1 2017 results conference call. Please note that for the duration of the presentation, all participants will be in a listening-only mode, and the conference is being recorded. At any time during the conference, you can press 9* to enter the queue for the question and answer session. Before we begin, I would like to remind you that during the conversation today, you may hear forward-looking statements related to the future financial results, plans, and business operations. Actual results may differ materially from those projected or implied into a variety of factors. May I now hand over to Mr. Christoph Beumelburg, who will lead you through the conference? Please go ahead sir.

Christoph Beumelburg

Thank you, operator. Good morning also from my side; a very warm welcome to our Q1 conference call. With me in the room, as always, is Mr Klaus Rosenfeld, our CEO, and Mr. Ulrich Hauck, our CFO. You should've received the presentation, but it is also on the web on our IR website. So if you haven’t done so, please check that out. It will be the basis for the discussion this morning. And without further ado, I hand over to Klaus, who will lead you through the presentation.



Klaus Rosenfeld

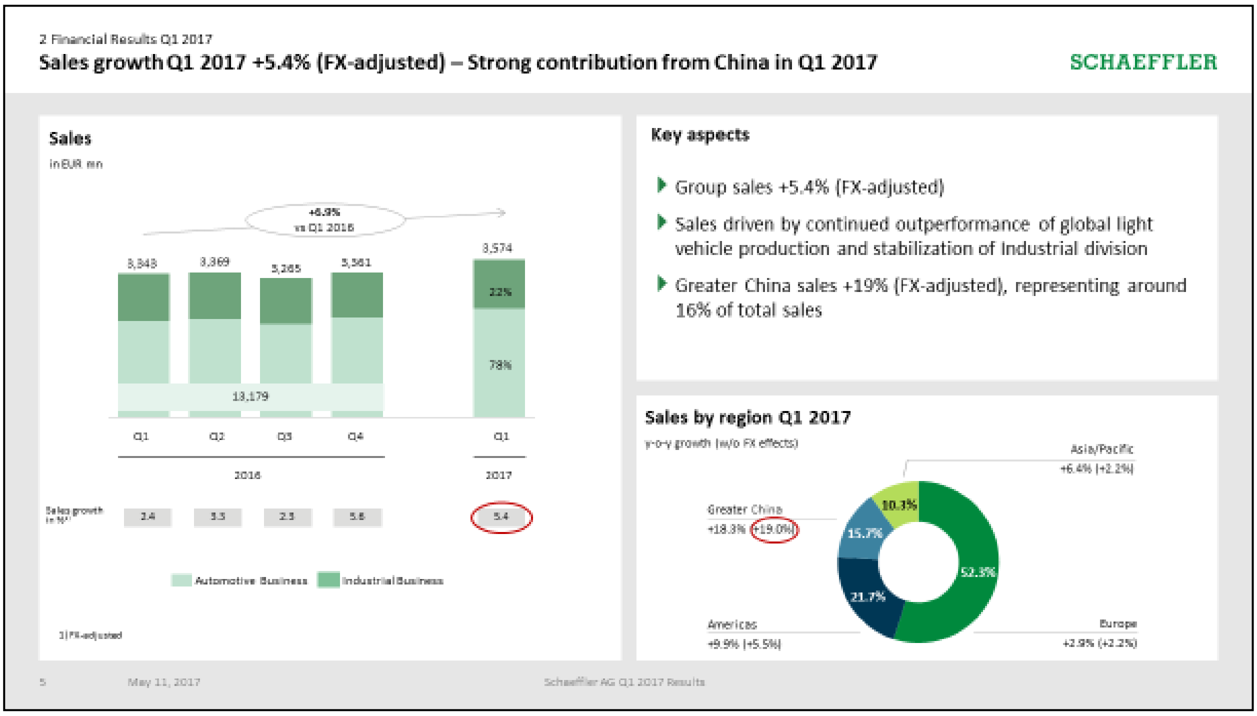
Thank you Chris, good morning ladies and gentleman. Thanks for participating in our conference call. We are here together to report about the Q1 results. I want to make one statement before we go into the numbers. As you saw from the press and IR release yesterday evening, Ulrich has decided not to extend his contract. The supervisory board yesterday accepted his wish. We have also said, and that is what we can say at the moment, there is no immediate successor available. We will report that to the market and to the outside world as soon as the decision has been taken. Until that decision is made, we will, as usual, do it together and cooperate, as we have done before. So no need to be worried here about anything. It is a personal and private decision of Ulrich that we all accepted. It has nothing to do with the company and nothing to do with the results.

Let me go through the results. We are moving through a pretty interesting environment, where we have seen interesting developments in the first quarter. If you move to page four, here are the key results. It is a good start and strong start into the year. Group sales up by 6.9%, if you adjust it for currency effects, as all our competitors have reported: currency is negative on the sales side, 5.4% FX-adjusted - that is slightly above the annual guidance we gave.

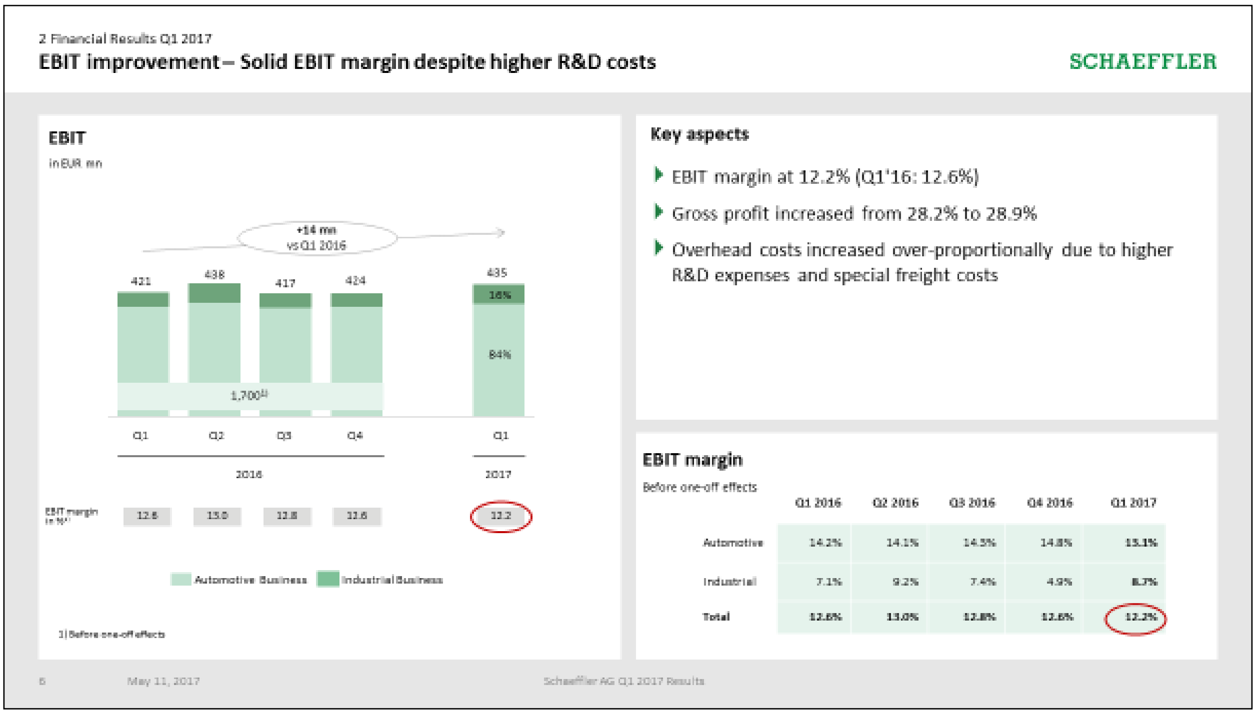
Q1 margin is a little lower than in the first quarter 2016: 12.6% to now, 12.2%. I will explain the main reasons for this throughout the presentation. When you look at the divisional mix, you see 7% FX-adjusted in Automotive - also here we will give you comparisons to the market and the outperformance. The margin is lower: 1.1 percentage points compared to Q1 2016. It is at the lower end of our bend that we always reiterated and that we confirm again: the margin should move somewhere between 13 and 14%. The exceptional margins of the year 2016, we always said, will be very difficult to repeat given the increasing R&D costs and also some increases on the raw material side. So, the 13.1% is in line with this bend.

On the Industrial side we see improvement. We see 2.4% nominal growth and a more or less flattish FX-adjusted growth number. To compare that to our biggest competitor that we have, their growth rate was clearly impressive. There may be reasons for this, but for us it is important that we are moving on a sustainable basis forward. We think we are back to growth now - what is the most important threshold. The margin improved from 7.1% to Q1 2016 to 8.7%. That is clearly the right direction. We once again confirm our target of 10-11% in 2018.

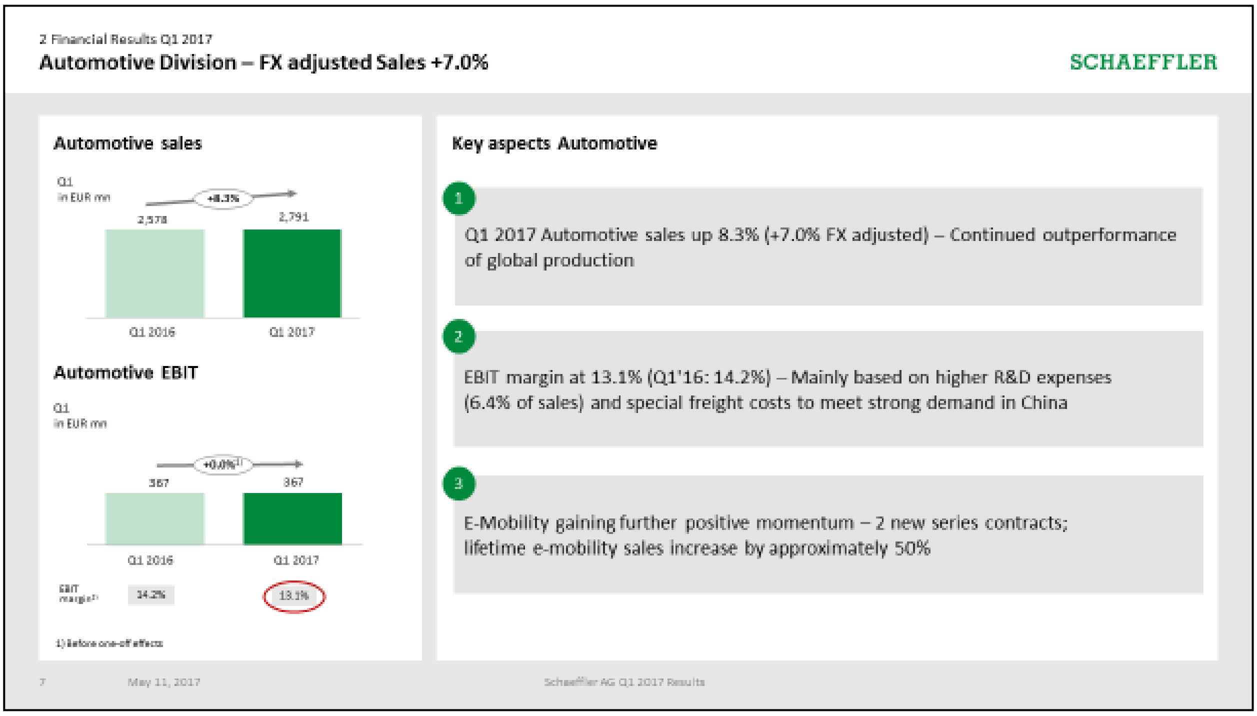
Free cash flow was €-130 million negative, normal effect in the first quarter - that is seasonally negative. It is a little bit more negative than in Q1 2016. The main reason for this is that we had to pay the first branch of the purchase price for a Compact Dynamics. If you deduct that, you see a number that is slightly better than Q1 2016. You all know that we are all also paying our dues with respect to the (? 05:50) issues and some of the restructuring provisions. So if you normalise that, we think that the free cash flow is absolutely pointing in the right direction. EPS is up by 10.5%. So for the US colleagues on the call, also here we are in line with our overall financial ambitions.



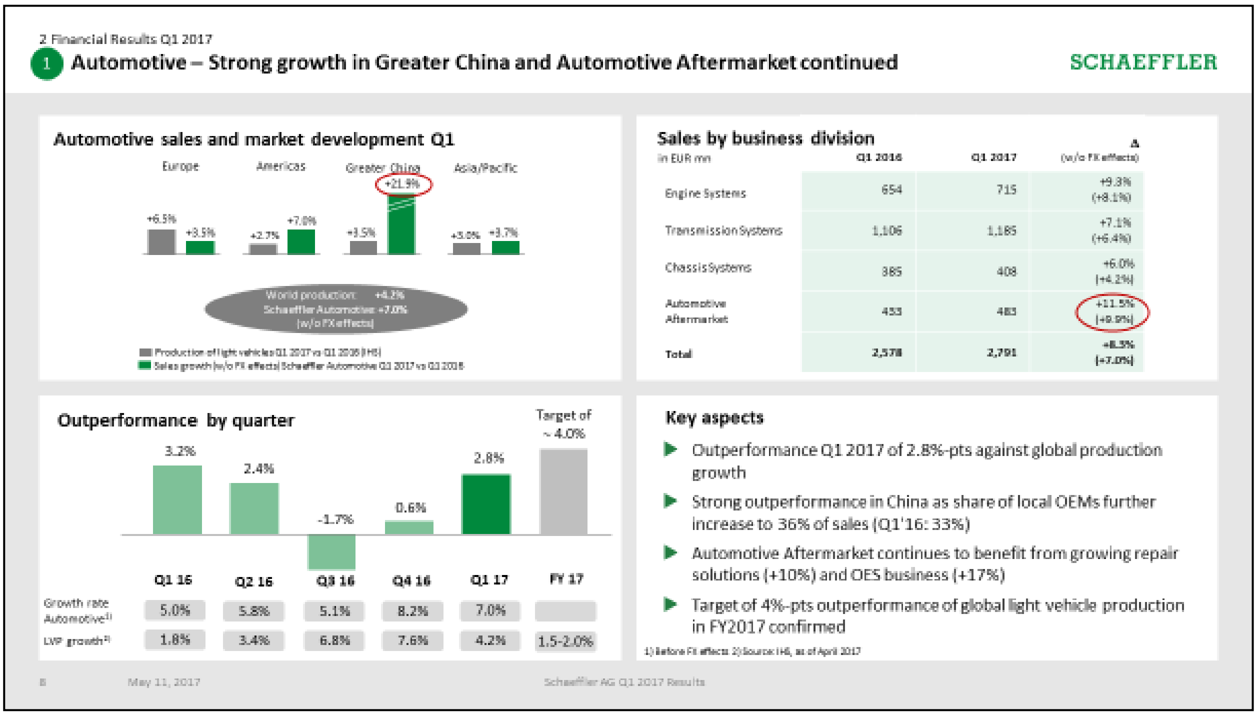
Let me shed a little bit more light on sales. You see here on the next page the regional split, as usual. It was a quarter again, where China was clearly the biggest growth driver - now close to 16% of our sales come from China. 19% growth. What is remarkable here is that it is not only Automotive growth, but it is also Industrial growth that contributed to this. All the other regions grew as well - certainly on a smaller scale.



On the EBIT side, I already mentioned the key drivers that led to this slight margin increase. €435 million is €40 million more than in Q1. What is on the positive side is that gross profit increased to 28.9%. On the other hand, overhead cost increased over-proportionally, and that has two main reasons. It is the R&D expenses on the Auto side, and it is the special freight costs. I think you remember that we had it sometime ago because of stress within the supply chain with the United States. This quarter it was stress within the supply chain with China. The special freight costs that came in addition here to the normal freight cost that we have are somewhere in the lower two-digit million range. That explains a significant part of the EBIT margin reduction. We also have - we explain this in the Q&A session - an effect that many others have, while the currency… we hedged the currency. There is slight negative effect on EBIT, because the hedging impact does not fully compensate for the negative currency effect on the cost side that then negatively impacted the margin.



Let’s go to Auto FX Sales, as I said, adjusted up 7%.



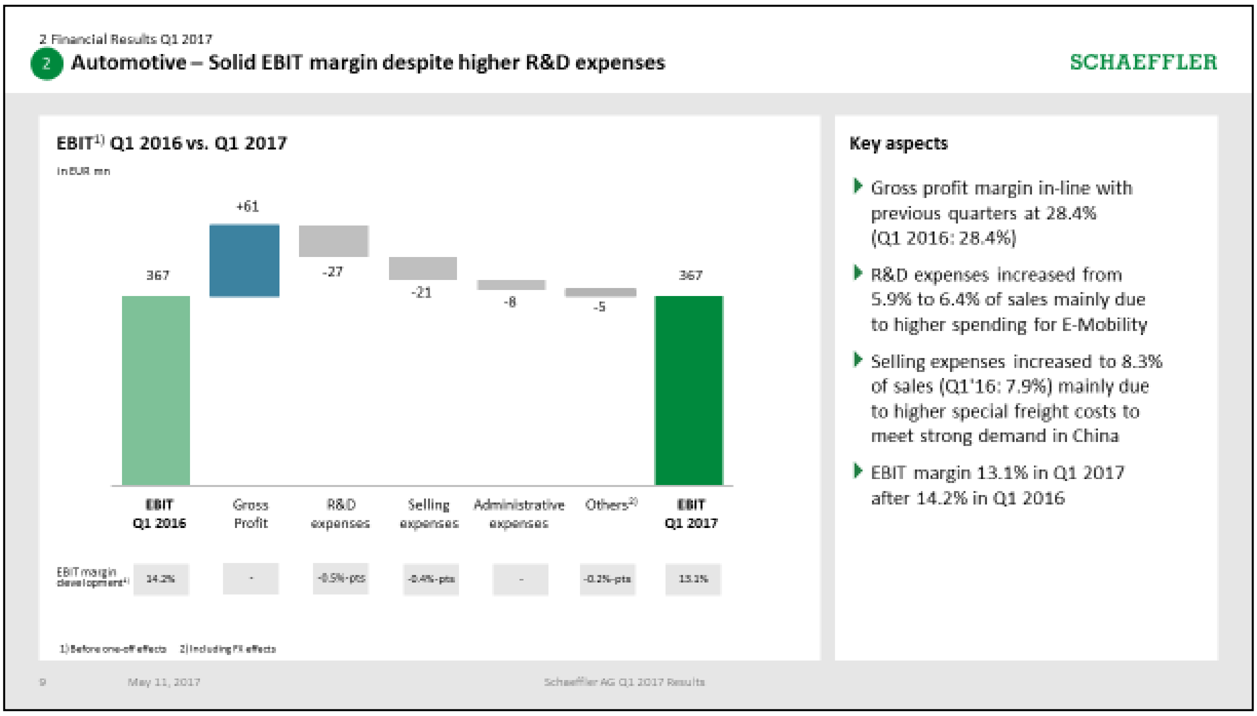
If you think about the outperformance that is on page number 8; that is slightly below our target. It is 2.8%.

We all know that the first quarter 2017 was an unexpectedly strong quarter. We all know that it has two more working days than in the previous year, and all know that the market was, from my point of view, exceptionally strong.

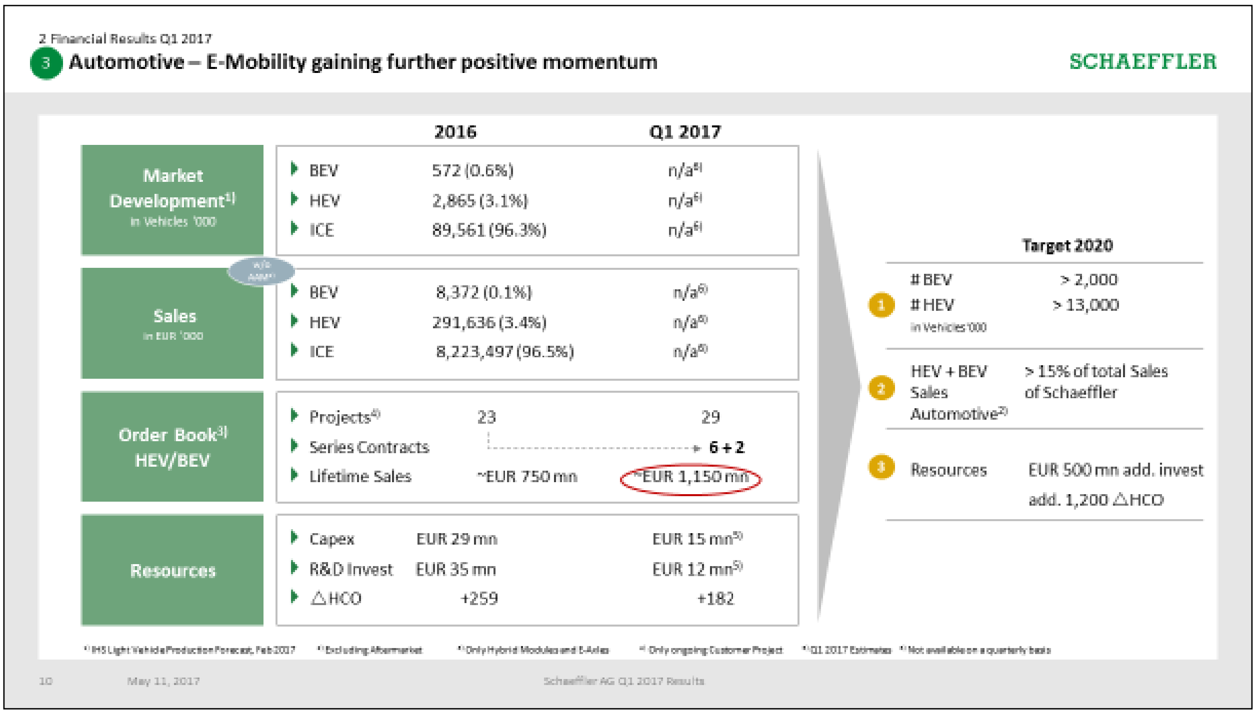
You see on the left-hand bottom side of the chart the development of this outperformance. You remember that we said that there are some phased out effects that will also play a role in Q1. I consistently said, yes, the 4% is the target, and the 4% remains the target. We are confident that we can achieve this. We assume that for the rest of the year we will not see 4% market growth. We would rather go down to 1.5 to 2%. There is some slightly more positive expectations for production volume growth. For us that means that we are confident as we speak that there is a high probability that we will achieve the outperformance target of 4%.

Outperformance is, as you know, not a new pattern, largely driven by the growth in China at the moment, but also from the Americas in Asia Pacific. We will see how that makes changes. What is positive here is that all the divisions contribute to the growth.

And once again, Automotive Aftermarket is one of the key growth drivers. So the clear message here is, yes, the first quarter in terms of outperformance was not 4%. It was 2.8%. It is the number that we expected. It is also the number that we indicated to you at the beginning of the year. But we are confident and expect a 4% outperformance for the rest of the year.

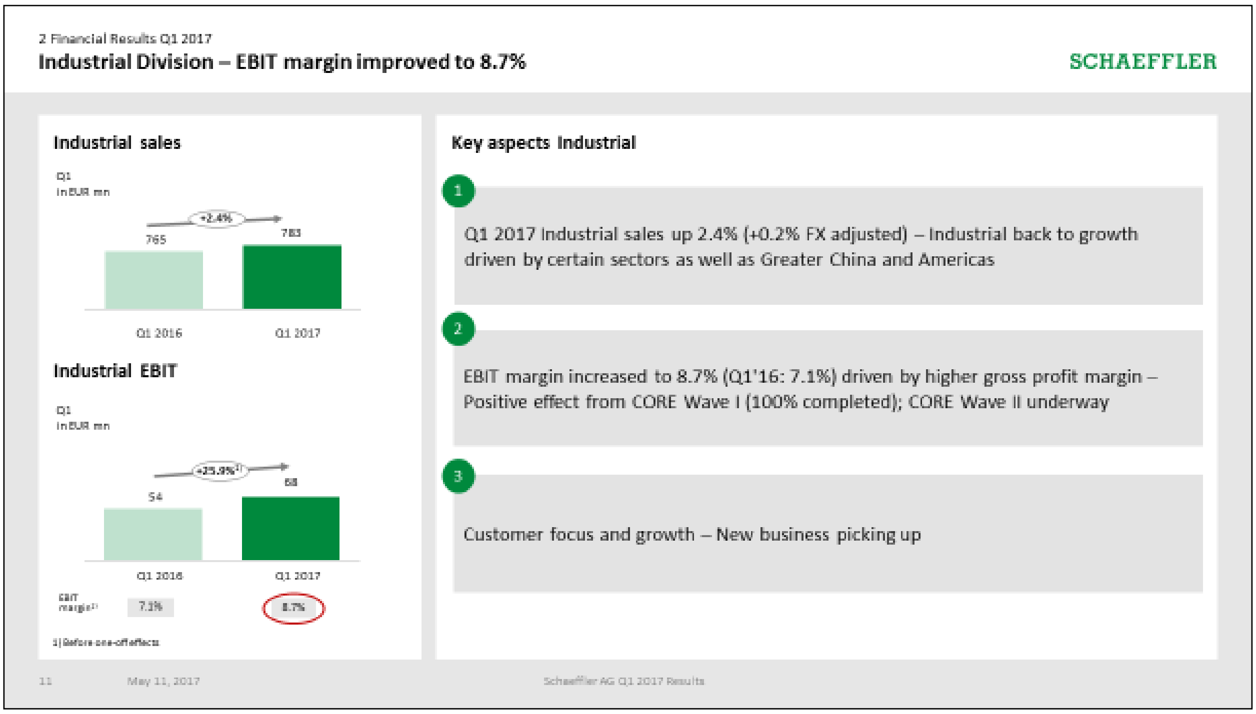


In terms of margin, 9%: I explained the major impacts. We have given you here the bridge that you know also from our interim reports. What you clearly see here is R&D expenses rising, selling expenses rising. That is where you see the higher special freight cost from the stronger demand in China than expected.



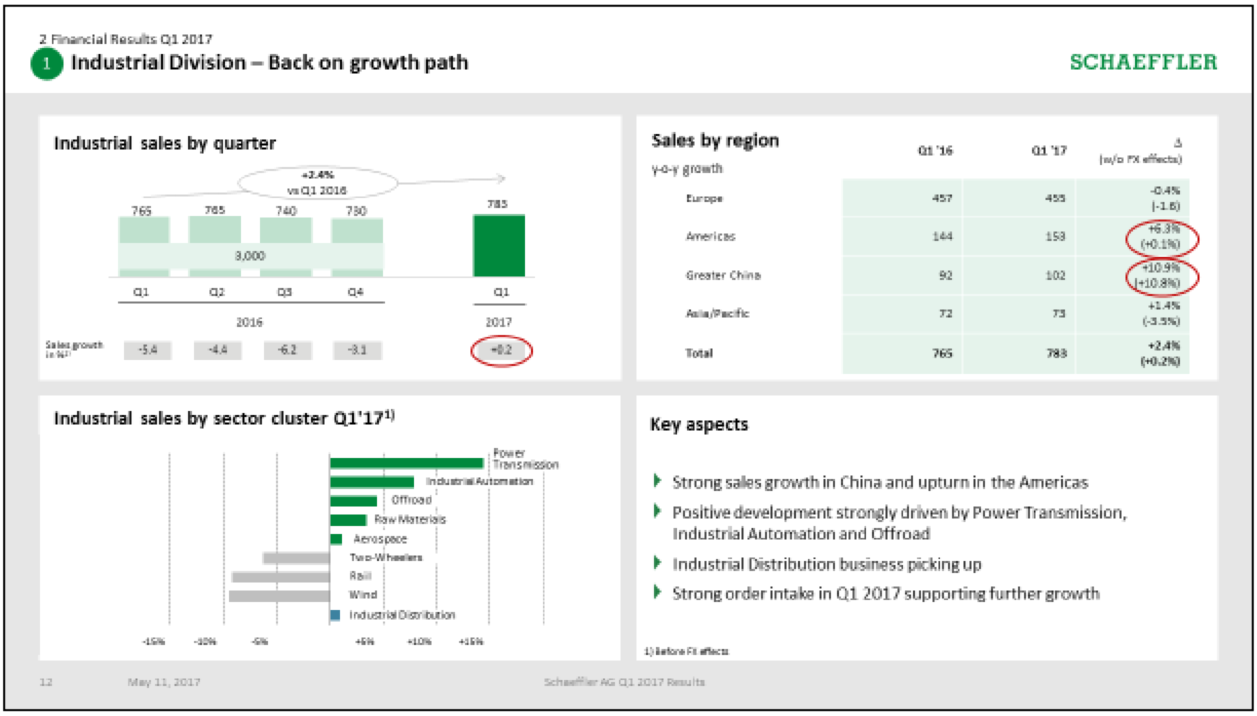
In terms of E-Mobility, the more strategic concern; we can report that we have gained two new serious *[IR note: series]* contracts in the area of hybrid modules and E-Axles that will and have increased the expected lifetime sales quite significantly from 750 to end of last year to 1.15 billion as a 50% increase and with the more and more interest coming in, also from the increased number of projects also on the e-club side we see more attractions. So that is clearly a positive development. We are continuing to invest in this area. You see that the capex spent in the first quarter was €15 million compared to €30 million for the full-year last year. We are also including our R&D invest: 182 new people on board. That is also clearly inline with target. So also here we are on the right track and delivering what we promised.

On Q1 numbers in terms of Market Development and Sales, we told you that this something that we, for the time being, cannot provide on a quarterly basis. I do hope that we may be able to share with you these numbers in the Capital Markets Day - maybe for the first half. In general, the split has not really changed in terms of best half and ICE.

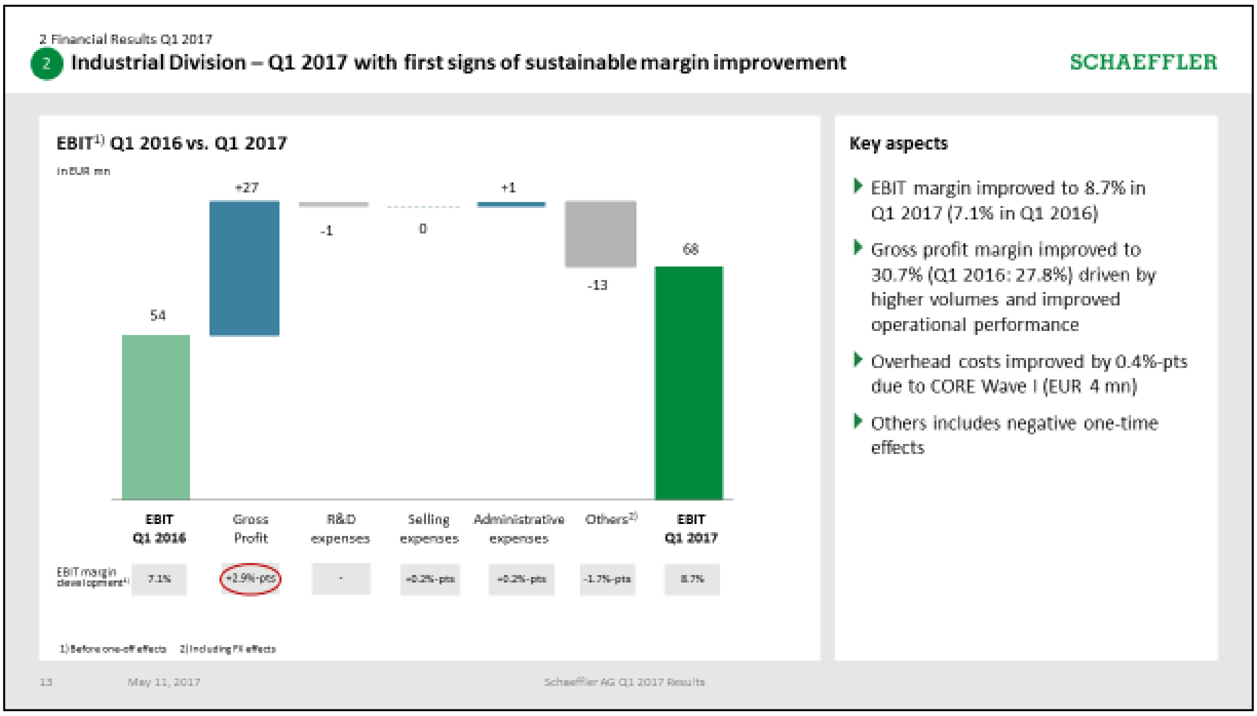


Page number 11, in terms of the Industrial division. Industrial sales are up 2.4%. The key regional growth drivers are Greater China and the Americas. On the margin, I already said that it is up to 8.7%. We see positive effects from CORE Wave 1: 100% completed now with all the pipeline had fully identified, all contracts signed and well progressing in terms of the financial impact: CORE Wave 2 is on the way. We explained to you in the four year call that this a WAVE that has seven different subprojects. Some of them are running well. Some of them, where we still see some headwinds; but overall we are working on this with significant cover. I do believe that also this WAVE will come to a successful conclusion. But it is early days: we still need a little bit more time to execute what we promised.

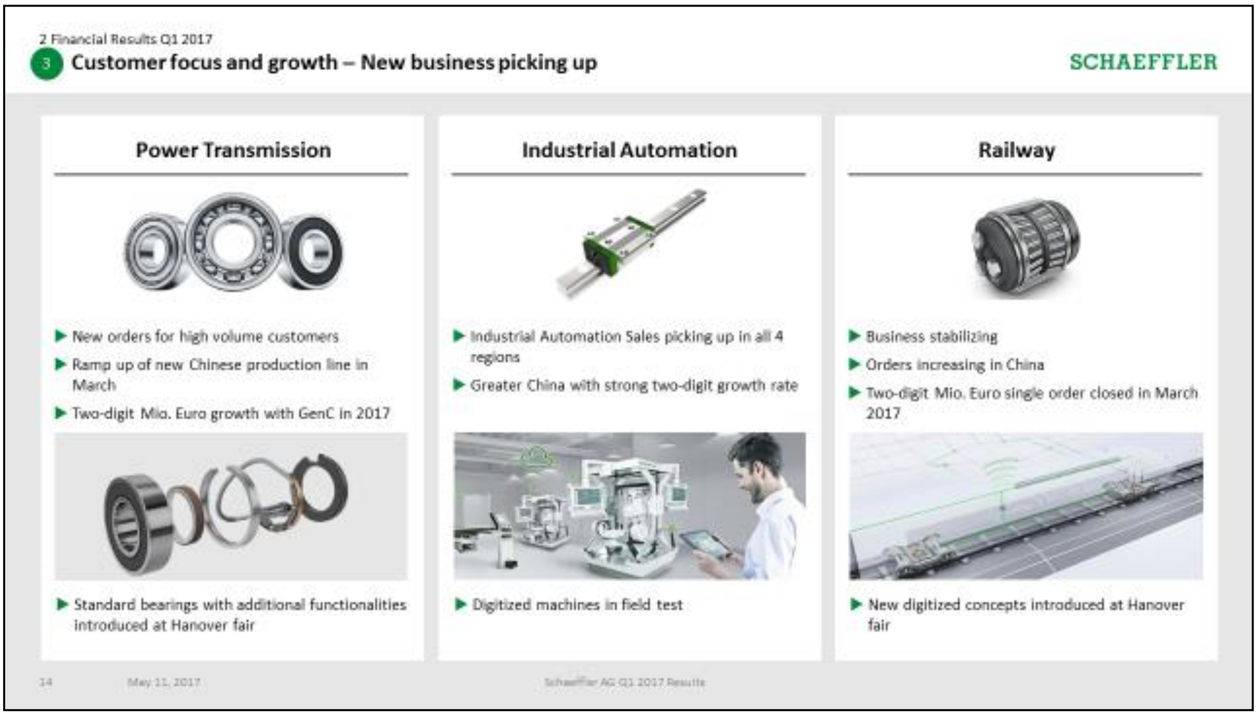
In terms of customer focus and growth, we can clearly say that the new business is picking up, but before, let me go to the numbers.



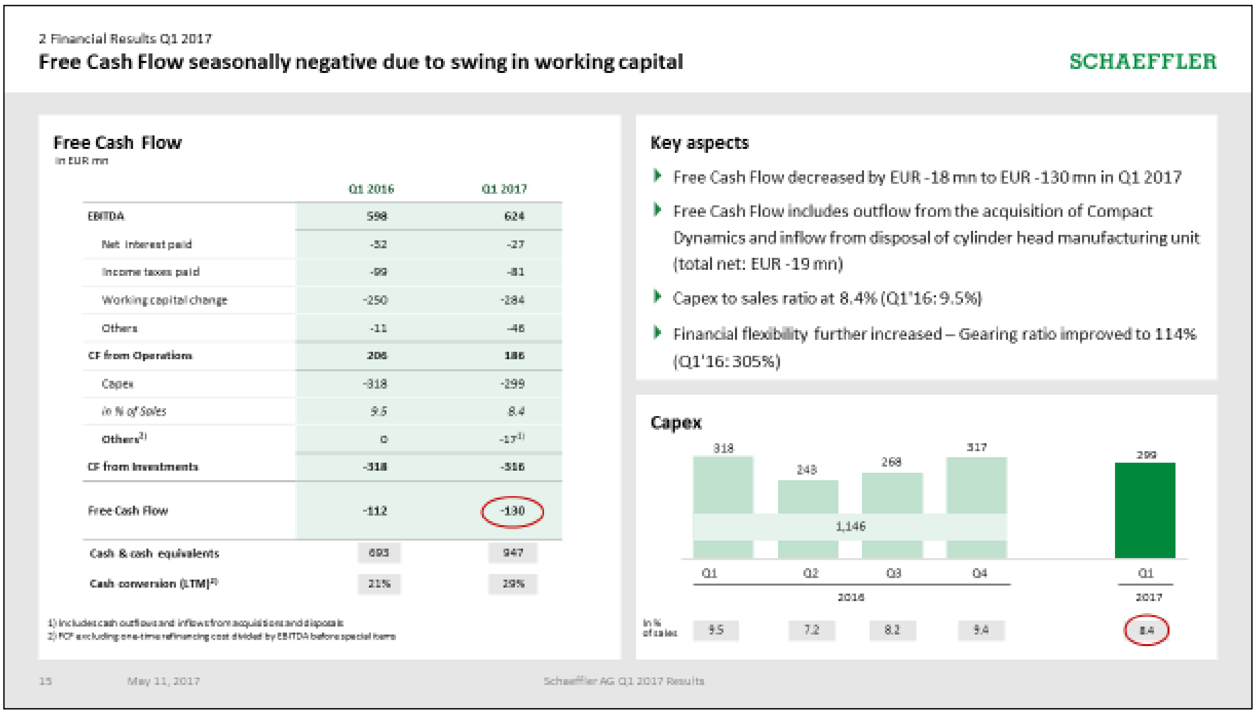
Industrial sales, on the next side, by region, you see America is up, and you see Greater China up. Europe is still sluggish and Asia/Pacific not really meaningful in terms of size. What is interesting is that the sector-mix has some change. Those sectors that were growing last year are now the ones that are not growing at the moment: Wind, Rail and Two-Wheelers. On the other hand, sectors where we have some better gross profit margin, like Industrial Automation, Raw Materials or Others are improving. That clearly also helps going forward. In terms of the Industrial Distribution, it is picking up. We are not really satisfied with the development there. So there is some room for improvement at that end. That is one of the areas where, as far as I can see that, SKF is doing better. But don't forget SKF is not the only competitor; there are also others. When you look to their performance, I think we are at last showing that we are catching up step-by-step. Order intake is good. We also here have said that we will share with you more order intake details in our Capital Markets Day in the summer.



You see the same bridge for Automotives for Industrial. You see the strong improvement of gross profit, but on the other hand some other impacts. On the other side there is to some extent negative one-time effects that come from currencies, as I explained. The counter-balance for that is also to some extent within the gross profit. So we need to be a little bit careful in looking at the composition here. What is from my point of view the most important is that we continue to deliver on our cost improvement from WAVE 1 and 2. As I said, WAVE 1 is done and WAVE 2 is under work.



To the growth side, the new business is definitely picking up. We had a strong Hanover Fair. Three examples. We are not going to go into more detail, but these are exactly - the first two ones the sectors had, where we see good support from the market. Power Transmission has to do with our GenC, where we are making good progress; Industrial Automation, as you see here, is very much linked to our linear business as well. It has clearly the impact also from the digitalisation, where we are one of the key competitors to SKF that can deliver these solutions as exemplified also by the Hanover Fair.



Let’s go to the next page: free cash flow. As I said, these are negative: €-130 million. Cash conversion improved to the previous year quarter, if you base it off an EBITDA number, on the last 12 months. You see the composition slightly changed, a little less cash flow from operations because of a slightly higher working capital number in the first quarter - a bigger swing that will come down during the rest of the year - so nothing dramatic. On the other side, you see that we have cash outflow because of some one-off impacts with respect to the payments for the settlement of the claims but also with respect to reducing the provisions for headcount reductions. So on the cash flow side we are happy with that result for the time being, where capex is in line with our plan, 8.4%. Gearing ratio improves, also being driven by the strong equity increase.

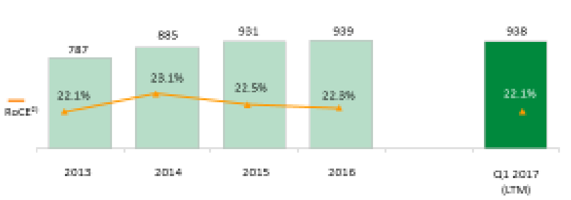
2 Financial Results Q1 2017

Net income Q1 2017 EUR 279 mn – EPS increased by 10.5%

SCHAEFFLER

Net income[1)]

Schaeffler Value Added[2)]



Key aspects

- Net income increased to EUR 279 mn (+10.3% vs. Q1'16)
- Increase of net income driven in particular by improved financial result and higher EBIT
- EPS increased by 10.5% to EUR 0.42 (Q1'16: EUR 0.38)

1) Attributable to the shareholders of the parent company 2) Before one-off effects

Last but not least, net income due to the better financial result: we are 10% up compared to the previous year quarter and Schaeffler Value Added is positive.

3 Outlook

Guidance confirmed – On track to achieve 2017 targets

SCHAEFFLER

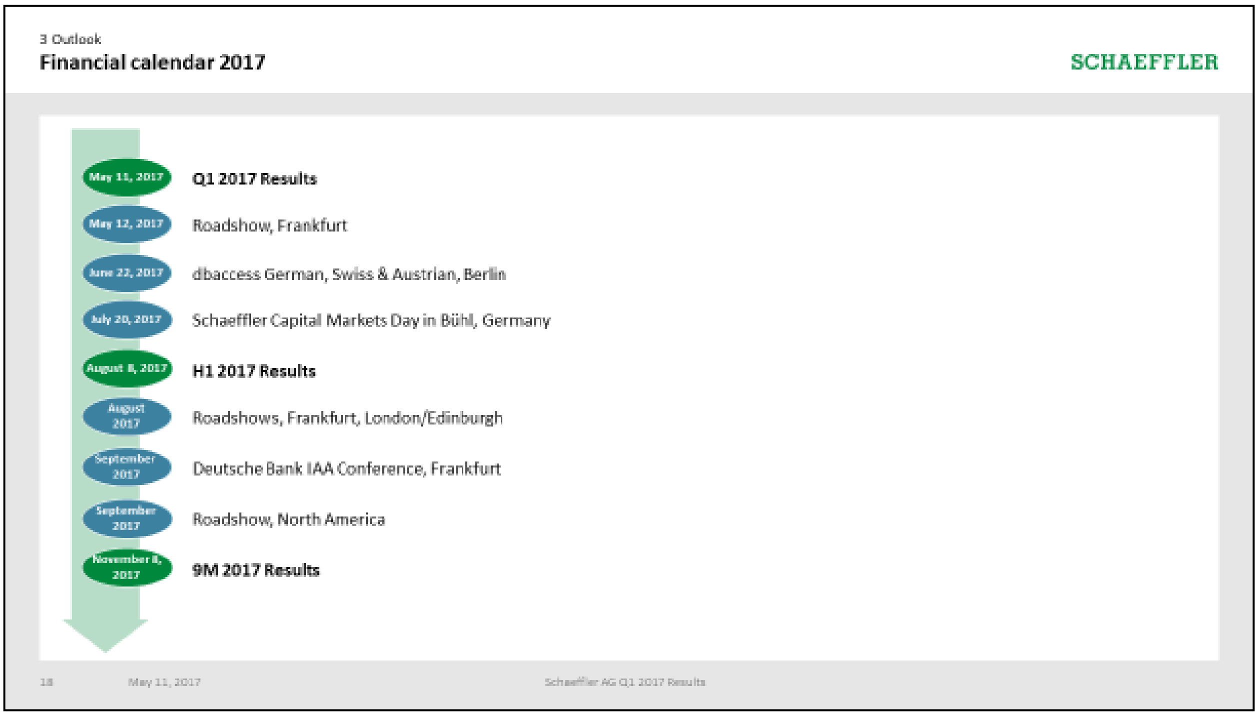
	Q1 2017	Guidance 2017	
Sales growth	+5.4% FX-adjusted	+4-5% FX-adjusted	✓
EBIT margin	12.2% of sales before one-off effects	12-13% of sales before one-off effects	✓
Free Cash Flow	EUR -130 mn	~ EUR 600 mn	[✓]

2017 Guidance confirmed

Market assumptions

- Automotive: Global Light Vehicle production growth of around 1.5%
- Industrial: Low single-digit growth in global Industrial production

In terms of guidance, last page, before we come to the Q&A, we confirm our guidance. Sales growth is 4-5%, the margin 12-13% and free cash flow EUR 600 mn.



That is what I can share with you. We will spend a little bit of time before the Capital Markets Day on the 20th of July on the road and are looking forward to seeing you and sharing more information with you. Thank you very much.

Christoph Beumelburg

Thank you Klaus. We now jump immediately into the Q&A. Operator, you will explain the procedure, please.

Q&A Session

Question: Kai Müller, Bank of America/Merrill Lynch

Thank you very much for your time. Just two questions from my side then. First of all, on the organic growth, what we see now Automotive 7.0%, Industrial 0.2%. I think given that we had the selling day effect in Industrial and the production growth was very strong, what was maybe holding that back a little bit, and how do you see this phasing towards the back end of the year - maybe especially on the organic growth in the Industrial division, given that it was flattish. You show in your chart actually quite a lot of your sub-segments improving. What were those drivers there - in line also how it feeds through to your bottom-line, given your margins were very strong. So should we see an improvement on the margins in line as your organic improves?

Second point on the Automotive outperformance. You were somewhat undershooting a little bit your 4% target that you have reset out at the beginning of the year. How do we see that phasing, especially in light that many of your peers are talking about production, lower production growth in Q2? Will it be completely offset of that, and do you see that improvement towards the back-end of the year?

Answer: Klaus Rosenfeld

Ok, Kai, thank you very much. Let me start with the second question. We have always said that the 4% is not a quarterly target; it is an annual target. Also those of you have that we have met and the analysts that we have spoken to, also with the Q1 results, we said that it is focused then for the full year. Why is that? Because the market fluctuates in terms of the production volume. You saw this in China. This may be also driven by incentives or buying behaviour or whatsoever. But we are expecting at the moment from the market growth, production volume growth - and that is probably in line with what you hear with others - exceptional first quarter will not be repeated in the second, third or fourth quarter.

On the other hand, we don’t see that our growth is sort of exceptionally higher in the first quarter than what we expect for the rest of the year. I can once again only say that we are expecting that for the full year that we will meet based on a market that wont grow, production-volume-wise somewhere around 2% that we will be able to grow the auto business by 6%. That should give us something around 4% outperformance for the rest of the year. That number is now a question how you think about the market. When I look at IHS numbers and look at the light vehicle production growth, I see a weaker second quarter - what is obvious, because March had two more working days in most of the countries that we are working in. So I think that Q2 will be a market production growth number that is maybe in the 1% range. On Q3 it may go up, and in Q4 it may go down a little bit. That is what is going to drive this differential to the market. For us, we think that over the next quarters, the 7% is ambitious, because it had a lot of impact from China. But overall, we think we will for the full-year make the 6%. So growth for us will probably not be in the second quarter 7%, but for the full year, once again, I would like to confirm that the 6% is doable. It is supported by orders. It is supported by a good mix. You saw that all our divisions contributed to this. That is also what is driving this. There is some catch up - the fact that we always shared with you from phase-outs. Therefore, I think what we said to you and what we are now delivering is very consistent with the guidance we gave you.

In terms of the organic growth in Industrial, also there I would like to say we were always a little bit more cautious than others and said that is a year where we expect on FX-adjusted basis, a return to growth. We will not rocket towards the end of the end. I think it will be a gradual improvement with some sectors some up, some sectors going down. You saw exactly this. When you look at the US, there were a lot of positive momentum at the beginning of the year on industrial growth in the US. That is calming down at the moment. So I am more cautious on this. There maybe a little bit of impact on price. The market leader has already started to increase price; that is not in our numbers at the moment. I do think that if we manage to grow our Industrial business on a FX-adjusted basis, somewhere in the direction of, let’s say, 1% +/-, then that is the right number. Once again, that is then the basis for optimising our margin. The margin optimisation will come from continuously delivering on the cost side, improving the mix, and going for the growth opportunities that help us to improve EBIT. That is the logic here. I cannot give you a phasing there, but I am a little bit more cautious for the rest of the year. I think if a full-year is where I said, that is the basis that we should build our expectations on.

The first most important thing for us is improving the margin and getting back on track with the 10-11%. I can assure you that we are working as hard as we can on that.

Question: Victoria Greer, Morgan Stanley

Good morning. I just want to talk about the Auto margin, please. You have been clear about what was holding out back for Q1. Like to the China freight costs, for example, I get (? 26:02) through the year. So that is maybe a little helpful for the margin and the rest of the quarters. What about R&D? Do you see that increased R&D remaining for the full year? How should you be thinking about Auto margin for the remaining quarters and for the full year?

Answer: Klaus Rosenfeld

Well, on the Auto margin I said, as a guidance in the range 13-14%. We explained the exceptional things for last year. We expect that the Auto margin will come down. China freight costs will not be repeated and R&D spent may be a little bit lower than in the first quarter. That is once again a phasing impact, but I would expect a margin that is rather in the second lower part of the bend than in the upper end. That is what we said. R&D costs in the first quarter was now 6.4%. That is clearly a number that is not a bad indicator for the rest of the year. It could fluctuate a little bit at how this expands over the next three quarters. But something in that range is what we always said. It is going to go up. It will not reach 7%, but it will be above 6% - somewhere, as I said, 6.5% is probably to be on the safe side. That is driven, as we always said, by the continued investment into E-Mobility. You see that we are delivering there on our plans. It is something that all the others see as well, and therefore it is the investment into the future.

Yes, we have to pay a little price here on the margin. But what is critical here for us is that we get these right strategic initiatives in place to be sure that we get our fair share on the E-Mobility side. There, I think, we are moving very much in the right direction.

To give you some more light on the decline of the margin for Automotive in the first quarter: there is some negative currency impact included, accounting for around 0.5 percentage points. We believe that in the course of the year, as this negative impact compared to last year, will kind of phase out.

Question: Henning Cosman, HSBC

Yes, hi, thank you. You mentioned the progress in the electric mobility. It is great that you have these two new contracts. I don't know if you can maybe elaborate a little bit on them and remind us also what the 29 projects mean? If I am remembering this correctly that is over and above the 8 that you have now? So that is further potential of 29. I am sure that you are not going to talk exactly about how far advanced they are - but maybe a little bit about the two new ones, if they are in the same ballpark in terms of content per car - the ones you told us about before - maybe just a little bit more detail there. That would be great.

Then the second question, please: On the Industrial side you did mention the one-off effects that are included in the gross profit. Can you please indicate what a clean underlying margin would have been in Q1 and then how you see this checking up in the rest of the year? I think operating leverage is pretty strong in this first quarter. So when that growth is coming through now as you have indicated and then also into next year, does that now mean that we are very well on track towards the 10-11% margin target? Thank you.

Answer: Klaus Rosenfeld

Ok, let me first say something on the one-offs. We have agreed that we are reporting one-offs, when they fall under a certain sort of logic. That is that it has to be above a certain number, and it has to be related to restructuring cases or to some sort of legal cases. We are not there to give more information about single one-offs here ad there. On the Industrial side, you have things where you have a quarter, where you build a little bit of a provision for a warranty case. In certain quarters you release a little bit, but that is normal course of business. In the situation we have here, again, there are no reported one-off effects that we can talk about. We are just trying to explain a little bit why things shift. Let's be clear: We cannot give, and we will not give, more information in terms of clean underlying. It will confuse the market even further, and therefore I should say: Lets stay where we are. It is 12.2%. There are some one-offs in terms of non-recurring in every quarter, back and forth, where we just explained a little bit about the currency things. But the margin that we reported 12.2% is without any impact from restructuring cases and without any impact from legal cases, about €10 million. I would like to stay there, because otherwise we get in a situation, in an outcome with not only an adjusted EBIT but a clean underlying EBIT. That, with all due respect, would be a disclosure that is also unusual compared to others. Once again, it is 12.2%. We gave you the main impact, and I kindly request that we stay with that logic.

In terms of the underlying contracts: Yes, two more serious *[IR note: series]* contracts. One is a German contract; the other one is a large China contract that we have signed during the China, Shanghai motor show. You see that is probably the most important number. These contracts drove the lifetime Sales, expected lifetime sales up by more than 50%. The large volume comes out of China again. So, if you all compare with me that China will be the lead market for the E-Mobility, it shows once again that we are very well positioned there.

In terms of the new projects, the 8 are included in the 29. They don't include any E-Clutch. So there, as you see, not only the signed contract that comes on top, but also for others. They, once again, relate to different jurisdictions. There is also more interest on the US on this. But we will report according to the schedule in the coming quarters, to give you more guidance that we are building a good book of business in this new business area.

And then to your third question: On top of the 8, there is this E-Clutch business. The E-Clutch business is outside the order book of HEV and BV. It is a business that we think about as an automated transmission. So it is now a transmission business and here, that's what I said during the call, we have also an increasing number of customer projects - these are now 8 projects. Two of the serious *[IR note: series]* contracts have been signed already. That is what we reported. So no more serious *[IR note: series]* contracts on the E-Clutch side, but more customer projects. Once again, it is a type of (? 33:55) that our customers obviously think very highly about. So, again, we feel comfortable. That is the key message that on the E-Mobility side we are making progress.

Question: Michael Raab, Kepler Cheuvreux

Hi, morning everybody. It appears to me that apparently in China that you are encountering stronger business than you originally anticipated, which obviously is good for logistic companies. But the question is: Given the margin impact that you have suffered from this phenomenon in the first quarter, how are you going to deal with that going forward? Will you continue to encounter beyond the short term, additional logistic costs, or are you intending to spice up your local capacities which are apparently are short of demand?

Answer: Klaus Rosenfeld

Michael it is a very good question, and thank you for that thought. What I can say here at the moment is: Yes, in a short-term bottleneck situation you always have the choice to say: we are not going to do the business, or we are going to incur some costs. As Victoria said, these costs should not be extrapolated into the future on that scale. The fact that we are seeing more and more demand from China, clearly leads to a discussion internally about localisation. We shared with you already during the full-year presentation that we are at the moment increasing production capacity in China with a new plant somewhere in the western part of China. But you are absolutely right. The world is shifting faster sometimes than we think; therefore we visiting these localisation plants is clearly something that is part of our strategic dialogue that happens in the summer but nothing where I can report you decisions at the moment. But I concur with you: stress in the supply chain can be extraordinary, by an accident or something like this, or it can be a sign for a need for better localisation. Clearly, we are thinking about this and working on this.

Question: Michael Raab, Kepler Cheuvreux

We could argue that you have a sort of luxury problem here, right? That is my interpretation anyway. Awesome thanks.

Answer: Klaus Rosenfeld

We think long term, ladies and gentlemen, and therefore yes, this quarter clearly had some impact, as we indicated to you - but long-term I think it is obvious, also from those of you that heard about the China motor show that China will be a very important driver. We think that we are very well positioned there for future growth.

Question: Florian Treisch, Main First

Yes, hi everybody. I have two questions. The first is on the Automotive side. If I look at your recent outperformance or the recent quarters, it came off, you said, the underlying market is growing rather fast. Your outperformance is rather small or even negative. So the market is not growing fast. Your outperformance is bigger here. Is there a particular reason for that, some kind of production set up, or a special reason?

The second question is on Industrial. If I look at these 0.2% reported organic growth. I assume pricing was still negative in Q1? So your volume growth was probably between 1-2%. We already see a rather substantial impact on the growth margin *[IR note: gross margin]* here. So assuming that your key competitor SKF will see at least some of these price increases being sticky, I would argue that either you are seeing strong volume growth, which would also be possible for growth margin *[IR note: gross margin]*, or you are also in a position to increase prices, which is also positive. So why are you rather cautious when it comes, to say, 8.7% is only a starting point for the full year? Thank you.

Answer: Klaus Rosenfeld

Look, I am a little bit more cautious here, because we have seen quarters, when you go back where this fluctuated pretty strongly. We all know that we are going with later than SKF has done it through a phase where we need to adjust our cost space. A quarter is a quarter. What counts is sustainable improvement of the margin and in a business that is shifting pretty fast between sectors here and there, and where there are swings that you need to work on, I think it is proven to say: lets not extrapolate one quarter but lets rather look at: Are we going to do the things properly and making sure that we sustainably improve the margin? Therefore, yes, there is some optimism here that we are on the right track, but I want to see the cost improvement measures brought through. That is still under work. So, with the impact that I just mentioned, I think we should be confident … that we are gaining more confidence that the 10-11% will be achievable. You remember the discussion we had at the time, the full-year, with the 7%, that was a disappointment. Now at the first quarter they point in the right direction. Let's see what the second quarter will bring. For me it is important that we meet the 10-11 threshold in 2018. Against the market that is still volatile, it is not a market that points only in one direction in terms of growth. Therefore, lets make sure that we get our things done, and in doing the right improvement measures.

That is what I can say at the moment. I am confident that we will achieve what we have promised, but step-by-step. In terms of the outperformance of the Auto side, we have given you on page number eight the quarterly outperformance. You clearly see the effect that we indicated that there was a (? 39:55) *[IR note: loss]* of two important contracts on the Auto side that hit us in Q2, brought it down to Q3, where the market was pretty strong with 6.8%; also Q4 was strong. Now the market is coming down a little bit. We are catching up with the 2.8%. Lets see where end up in the second quarter. Again, also here, the only things I can say is: As far I see what comes in in terms of new orders, as far as the information I get from our business people, we think for this year, this 4%, based on a market assumption on 1.5-2% should be achievable.

Answer: Dr. Ulrich Hauck

I would like to add a little. Looking at our Industrial business, we benefitted in the first quarter, not only from a volume but also from a positive mix effect. Some of these sector clusters, where we are more profitable grew nicely or grew a little bit. There were others, where we were less profitable, shrunk. This is kind of the opposite development than we have had last year. Giving one additional information with regards to the Auto: if you are looking at the outperformance it is not so much the production that is important for us; but the phase-out or the ramping up of new contracts. As was indicated: (? 41:25) our growth from new contracts is heavily geared towards the second-half of the year and that is the reason why we believe that our outperformance will increase going forward.

Question: Julian Radlinger, UBS

Yes, hello, gentlemen. Two questions from my side. Question one: looking at your EBIT bridge on Automotive. Could you please give us some more colour on two additional factors that I think we haven't discussed too much up to now? Number one: Raw Materials. If you could just give us an absolute impact or a margin impact in Q1 and how you expect that to phase over the rest of the year? Number two: the effect from the Aftermarket outperformance over the OE business. I would expect that particularly the Aftermarket outperformance to impact EBIT margin positively in Q1. You have exclusively mentioned recently that Aftermarket outperforming was a driver of the strong Auto margin last year. What was that impact this year in Q1?

Question number two. If I heard correctly, you said earlier that your outperformance in Q1 was slightly worse than you had expected, partly because production growth was stronger than expected. You also said that you continued to target 4% outperformance in 2017, partly because in the remainder of the year, production growth will be lower than in Q1. So please help me out if I am missing something, but that sounds to me that if you organic growth in Automotive is somewhat independent of production growth, which I would very much assume that it isn't. If you could just please elaborate on that as well. Thank you.

Answer: Klaus Rosenfeld

That is exactly what Ulrich just said. Certainly if you expect that they are just growing with the market, and you are not increasing your content to vehicle through a new contract, then your observation is correct. But we have always said that we are increasing our content to vehicle, and that leads to the effect that we just said. If you then think about what happened, as we said, in the year 2016: if you over-proportionally lose because certain contracts, where you have high content to vehicle are not extended or phasing out, then that is the impact that we are suffering at the moment from. So I don't see where this is a contradiction. It is a function of market growth, in terms of volume in production, but also a function: are you growing with the right platforms, and are you growing with those platforms that have a higher content to vehicle. So I think that is hopefully an explanation. Again, we are not sharing that on every customer, but that is what is happening.

In terms of Automotive Aftermarket, yes, that is a good observation that is continuing with a good growth in terms of repaired solutions or OES business. Part of that growth is certainly also eating up—as part of the profit that comes from there that would support the mix is eaten up by margins that are lower because of the steel prices that are increasing. So that is part of the gross profit equation here. Steel prices are increasing. We have always said this. The impact in terms of the phasing is probably not fully in at the moment in the first quarter. So there is something—we need to see how that evolves.

But again, there are positive effects from a good and better than expected growth in the Automotive Aftermarket business. There are, in terms of the margin, some negative effects on the OEM side, when it comes to transmission systems and the engine.

Does that make sense?

Question: Julian Radlinger, UBS

Yes, absolutely. I was just hoping that you could give us just a little bit more colour on whether the raw mat is going to increase in Q2 or Q4 versus Q1.

Answer: Klaus Rosenfeld

Well, again, let's give us another quarter here. It seems that this is increasing. But we have not finalised all the contract work, and therefore I would like to stay with the more cautious explanation that I gave.

Question: Edoardo Spina, Exane BNP Paribas

Good morning. Thank you very much for letting me ask one question in two parts. The first part is about: If you can remind us about the current cooperation projects or any synergies that you have with (? 46:27) *[IR note: Continental]*. Of course, in Automotive. The second part of the question is whether we should think and expect that these synergies and cooperation will increase or decrease in the future. But actually the question is whether you are thinking about this relationship or if the discussion is off the table? Thank you.

Answer: Klaus Rosenfeld

Well, that it is a more strategic question. There is absolutely nothing new to report here. We have always said that we are following certain projects that make sense for Conti and for us to work together. We have also said that if there is competition, we cannot work together. When you are alluding to their (? 47:08) *[IR note: strategic]* review, I am the wrong partner to talk to. You have to talk to the Conti guys, what they are proposing there. It has nothing to do with our strategy. Again, it is a project-by-project basis cooperation what makes sense for both companies, but it is not a strategic question that may be behind your question. So, nothing new here to report. The cooperation as such, is not a big driver of our results. What drives our results, also for the future, is our stand-alone E-Mobility strategy.

Question: Raghav Gupta-Chaudhary, Citi

Hi guys, thanks for taking my questions. I will try two. The first one on the European performance on the Automotive division. It is obviously in terms of the growth rate, it is slow relative to Americas and China and also underperforming light vehicle production. That is in the quarter. I am trying to understand whether or not this relates to the phasing of projects that you mentioned. If not, I guess, how confident are you in that growth rate to accelerate from here, and what we can expect - Europe is the largest region in Automotive?

Secondly on China. Your obviously very strong growth rates continue to strengthen there. How much of that is new customers and therefore kind of taking market share with new customers - and how much is that - are you selling more or your own content to your existent customers? I am trying to get an idea of volume and price in China but also your market share development there. Thank you.

Answer: Klaus Rosenfeld

Let’s take the first one. As I said, we have just been in the China motor show. We have a very solid market position there compared also to our European and other suppliers. The Chinese don’t have this supplier, system competence that we can offer. That actually leads to an effect that we are increasing our share not with the local OEMS quite dramatically. In Q1 2016 it was somewhere around 30%. If I remember the number correctly, it has increased to something like 36-37%. So the demand in China is clearly driven by the local OEMS, but also don’t forget the international OEMS like EW, BMW, all of them, are now sort of showing their hands and explaining their plans, how they want to get a fair share of the growing, and increasing growing, E-Mobility market there. It is not only that the local OEMs but it is also the international OEMs that are driving this growth. But we think it is healthy that our share with the local OEMs is increasing.

In terms of the European situation, yes, you are right: Our performance there was not what it should have been. There is no one reason for it. We see different developments in the different categories of businesses. Overall the market mix may not have been in our favour. What we saw is - to give you one indication - that our transmission business in Europe was under-proportionate. That has to do to some extent with phasing out of the (? 51:13 CBT) *[IR note: CVT]* contracts. But that is an area where we also need to do a little bit more research on what is happening. Once again, it is not a simultaneous, 100% synchronised relationship between a quarter growth in production volume and a quarter sales in our area. It can be quite different. We had an opposite with Engine; so we were growing with Engine over-proportionally, but that didn't change the relation. So two of the business divisions were not in line with market. One was (? 51:44) *[IR note: Engine]* and one was Transmission. The other ones compensate a little bit for this; so it is a mix bag of things, where I cannot give you the one reason that explains the underperformance shown in Europe as exemplified on page eight.

Question: Raghav Gupta-Chaudhary, Citi

But your expectation for that growth would be for that to accelerate, or?

Answer: Klaus Rosenfeld

These are quarterly numbers. We have always said that the outperformance arch is coming out of China and to some extent also out of the Americas. Let's see where the second quarter goes to. I do also think that if you think about Europe and think about the market growth there, the 6.5% was also pretty strong. It was over-proportionate compared to all the previous quarters. So, yes, in general, we should at least grow with the market in Europe - maybe even a little bit bigger to contribute to the 4%. But the over-proportionate outperformance will be driven by China.

Question: Raghav Gupta-Chaudhary, Citi

Ok. Can I ask one quick question on your guidance? On the free cash flow, the €600 million, is that excluding M&A?

Answer: Klaus Rosenfeld

Yes, it is excluding M&A. That is what we always said in our guidance discussion that excludes M&A. So if you think there about the free cash flow that you have and deduct a little bit of free cash flow for the acquisition, and if you take the Q1 2016 as a benchmark, I think we are well on track to achieve this, when you think about the seasonal phasing of our free cash flow.

Question: Lars Brorson, Barclays

Thanks. Just on your comments around Industrial Distribution, you made a couple of references to your performance relative to SKF. As you know, we structured their contracts with their industrial distributors in order to smoothen the seasonality of their business. That might have benefitted them a bit in Q1. I was more interested in your comments on pricing. Is it just said that as SKF and maybe more generally your sole competitors have benefitted in Q1 from a distributor pre-buy, ahead of this price increases announced for Q2. Maybe just for you, might you see that in Q2? And more generally, can you help us a little bit with what actions you are taking on prices there?

Answer: Klaus Rosenfeld

Again, I am not sure whether you followed the full year results presentation. We were asked about price increases. We know that competitors have increased prices, and we have been a little bit, sort of cautious on this side. So I cannot see that there is a pre-buying impact in our numbers. We were watching the market at the moment. We were analysing our options. I do think that there is potential to increase price - but again, as part of an overall assessment of how the market is going.

Question: Lars Brorson, Barclays

Did I hear it right that you said that your US Industrial Distribution business saw a strong positive moment at the beginning of the year, but you have seen that momentum slow down?

Answer: Klaus Rosenfeld

That is not on the distribution business as a whole that is on the complete Industrial business. More in general, in terms of the market: the market was expected—there was a more positive expectation on the industrial growth in the United States as it is at the moment, from my point of view. Don't forget: In the United States, we are more a niche player in terms of certain sectors. We are not offering the full spectrum that we are offering in Europe. We have good visibility in what we are seeing there, and there is for us a good growth in the Industrial Distribution business, but it is not the full spectrum that we see here in Europe. It is quite natural, because there are others competitors, like (? 55:44) and also SKF is pretty strong. We see a good development in the United States, also in the Industrial Distribution side in the first quarter for our more focused business. In general, I said, when I think about the first quarter, there was a more positive expectation. That has calmed down a little bit in terms of industrial growth in the United States as a whole. That is what I said.

Question: Jose Asumendi, JP Morgan

Just one question, please. I am very much looking forward to get the order number at the Capital Markets Day. I think there is a point of debate with investors, that I think differentiate Schaeffler with the rest of the suppliers. So I think that would be very interesting to get.

The only question I have: We saw the answers from their side, from Conti related to Powertrain, how they want to run specific divisions within Powertrain more in a cash base, cash mode over the coming years. Very specifically, the comment they gave that they want: Conti thinks that they are going to be launching the last engine platform by

2023. So what are your thoughts around that? Do you agree with that view? Probably? Or do you disagree? Then second question maybe—what does this mean for your business and your planning going forward?

Answer: Klaus Rosenfeld

Ok. We have given you, I think, at a very early time—end of last year—our scenarios for how the world of Powertrain and the new Powertrain solutions will develop. And will gave status that into 2030 we think that 70% *[IR note: 30%]* of the cars will be electrified and 70% of the cars will still have a combustion engine. You all know that we are geared towards the classical mechanical Powertrain business. But we have shared with you—and you saw this in the presentation as a follow-up—that we will transform our product offering and balance sort of the potential we have in further optimising the combustion engine with the move into E-Mobility. That is our challenge, and that is why we are sharing with you this detailed information. We have no plans, when you think about Delphi to put sort of our train business in a separate legal entity. We have also now plans to sort of change anything that we told you. There is no Powertrain review on our side. The plans we all have is delivering on what we promised in terms of the targets that you saw for E-Mobility. We also strongly believe that the combustion engine has a future. It is a misconception that that is going to fall away. We think that with our mechanical competence that more and more begins a system's competence. Think about the little acquisition we did; think about the new contracts we have. You will see that the customers very much welcome this sort of system's competence from our side.

We will come out with a changed mix of business, where E-Mobility plays a more important role in the future. It is not a question of 2018 or 2019. These kinds of things have a significant lead-time. What we now need to prepare for the future than then happens in the next decade, somewhere between 2020 and 2030, I am not going to speculate on any changes: when is the last engine to be built with a combustion engine. I think that goes much too far. We have a responsible plan - we have a large responsibility here towards our customers to follow what they need. I can tell you and ensure you that we follow what they want. We adjust to the speed that they ask from us. But, all of this needs to be doable, and all of this requires very proper work in terms of quality, making sure that the product's safety works. That is a long-term perspective and nothing that works with quarterly announcements or with any new numbers where people speculate about Powertrain falling completely away. That is not what we think. It is a mix question. We are very well on track to achieve our goals on the E-Mobility side.

Question: Malte Schmidt, Bankhaus Lampe

Yes, thank you gentlemen for taking my question. I am really sorry to come back to the China freight cost topic. But I was a little surprised to hear that you expect this not to last through the years. I just wanted to clarify if I understood this correctly. Because, if you say that you expect this to kind of normalise in the course of the year, this kind of means to me that you either expect to meet demand by your own sources, or you would expect that growth in the course of the year would kind of go back to the lower rate. So maybe just a little clarification.

Answer: Klaus Rosenfeld

Let me explain to that. We normally have in our orders indications from our big customers what they want. We know where we produce our parts. We know that we are not fully 100% localised in China. When we have an annual demand and all of the sudden Chinese customers say: We need much more. Then we sometimes get to limits of our supply chain. So it is not a question of that the overall demand has completely changed. It is a question of the timing of the demand and what customers want in what quarter. When you follow the Chinese market closely, you saw that there was clearly a heated market in the first quarter, because people are expecting that certain (? 1:01:39) *[IR note: incentives]* go away. There were these two more days. There were other factors that supported this. When you read the reports you also see that there is a concern that the Chinese producers producing on stock and that this could also lead to some set-back in the quarters. These kinds of things, these timing things, can lead to those issues that are, as we said, non-recurring. I don't think that the pace that we have seen in the first quarter in terms of demand, timing, profile from China, will continue in the second, third or the fourth quarter. That is why I said: We do believe that the one-off, or the non-recurring supply chain cost or special freight cost should go down in the quarter to three and four.

Christoph Beumelburg

Ok, I think that concludes our call for today, as Klaus will be on the road, or at a couple of conferences, on the next couple of weeks. We have set our Capital Markets Day now for July 20. We have decided to do it in Germany this time around. So you will get a “save the date” very soon for that. We look forward to seeing you all there. Thanks for joining the conference call. Good-bye.