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Press and IR release

Sales grow despite difficult market conditions, margin decrease

- Revenue grows 5.1 percent at constant currency in the first nine months
- EBIT margin before special items for the same period at 10.7 percent (prior year: 11.4 percent)
- Performance declines in both Automotive divisions, Industrial division business remains strong
- Free cash flow before in- and outflows for M&A activities of 127 million euros below prior year (247 million euros)
- Increased focus on discipline regarding cost and capital

HERZOGENAURACH, *November 7, 2018*. Global automotive and industrial supplier Schaeffler presented its interim report for the first nine months of 2018 today. The Schaeffler Group's revenue for the reporting period amounted to approximately 10.7 billion euros (prior year: approximately 10.5 billion euros). At constant currency, revenue increased by 5.1 percent during the period, 3.7 percent in the third quarter. As was the case for the first half of 2018, all three divisions and all four regions contributed to the group's revenue growth at constant currency during the first nine months, with the Greater China region once more reporting the largest revenue constant currency growth rate of 14.3 percent.

The Schaeffler Group generated earnings before financial result and income taxes (EBIT) before special items of 1,150 million euros (prior year: 1,196 million euros) in the first nine months. This represents an EBIT margin before special items of 10.7 percent (prior year: 11.4 percent). EBIT before special items for the third quarter was 355 million euros (prior year: 416 million euros), representing an EBIT margin before special items of 10.1 percent (prior year: 12.1 percent).

Net income attributable to shareholders for the reporting period was 766 million euros, nearly on par with the prior year level (of 791 million euros). Earnings per common non-voting share were 1.16 euros (prior year: 1.19 euros).

Klaus Rosenfeld, CEO of Schaeffler AG, commented on the performance of the business in the first nine months and in the third quarter: "The third quarter has once again demonstrated how important it is for us to be an automotive as well as an industrial supplier. While our Automotive OEM business is affected by the weak market trend in China, our Industrial business continued to do well during the third quarter. This division grew its revenue grew faster than the market and generated an EBIT margin before special items of 12.1 percent."

Automotive OEM revenue growth less dynamic due to market conditions

The Automotive OEM division generated approximately 6.8 billion euros (prior year: approximately 6.7 billion euros) in revenue during the reporting period. At constant currency, revenue increased by 4.3 percent compared to the prior year, a growth rate 3.5 percentage points above the 0.8 percent average growth in production volumes of passenger cars and light commercial vehicles for the reporting period. Following the encouraging revenue trend in the first six months, the Automotive OEM division reported less dynamic revenue growth of 3.2 percent in the third quarter due to the persistently challenging environment in the automotive sector. In the third quarter, which saw global automobile production decline by 2 percent, outperformance amounted to 5.2 percentage points.

The lower growth rate was mainly attributable to weaker demand in the Europe and Greater China regions. In Europe, this weaker demand was mainly due to production delays resulting from the changeover to the new WLTP emissions standard, while China felt the effect of consumer restraint due to the trade conflict with the U.S. and stricter lending practices. All four of the Automotive OEM division's business divisions contributed to its revenue growth on a nine months basis, with the E-Mobility business division once more reporting the highest revenue growth rate at constant currency, 13.6 percent. Despite the less dynamic growth of the Automotive OEM division's revenue in the Greater China region in the third quarter, this region still showed the highest growth rate of 9.5 percent, followed by 5.7 percent in the Americas region, 2.4 percent in Asia/Pacific, and 2.2 percent in Europe.

The division generated 596 million euros (prior year: 712 million euros) in EBIT before special items in the first nine months, bringing the EBIT margin before special items for the same period to 8.8 percent, less than the prior year margin of 10.7 percent. The decrease was primarily attributable to ramp-up costs, project delays in China, increased production costs – due to factors including increased raw materials prices – and the impact of the revenue mix. According to the latest full-year guidance for 2018 issued October 30, 2018, the division aims to achieve constant currency revenue growth of 3.5 to 4.5 percent (previously: 4.5 to 5.5 percent) and an EBIT margin before special items of 8 to 8.5 percent (previously: 8.5 to 9.5 percent).

Automotive Aftermarket revenue drops temporarily in the third quarter

Following a solid first six months overall, the Automotive Aftermarket division reported a drop in revenue for the third quarter compared to the prior year quarter. At constant currency, revenue declined by 3.0 percent. Based on the first nine months of 2018, the division expanded its revenue by 1.3 percent at constant currency, generating 1,401 million euros in revenue (prior year: 1,434 million

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euros). The decrease in third-quarter revenue was primarily attributable to strong growth in the Europe and Americas regions in the prior year quarter. As was the case for the first six months, the Greater China (39.0 percent) and Asia/Pacific (16.0 percent) regions reported the strongest constant currency revenue growth for the first nine months, followed by Europe (1.9 percent). Revenue in the Americas region on an adjusted basis declined (by 8 percent) due to non-recurring additional requirements of an Original Equipment Services (OES) customer in the prior year period.

The Automotive Aftermarket division's EBIT before special items for the first nine months amounted to 256 million euros (prior year: 278 million euros). Based on this EBIT, the EBIT margin before special items was 18.3 percent (prior year: 19.4 percent). Reasons for the decline from prior year include temporarily higher costs of selling and logistics activities. Based on the adjusted full-year guidance issued October 30, 2018, the group now expects revenue growth for the Automotive Aftermarket division of 1.5 to 2.5 percent (previously: 3 to 4 percent) at constant currency and an EBIT margin before special items of 17 to 17.5 percent (previously: 16.5 to 17.5 percent) in 2018.

Performance of Industrial business remains encouraging in the third quarter
During the third quarter, the Industrial division significantly increased its revenue to 854 million euros (prior year: 790 million euros), which represents an increase of 9.4 percent at constant currency. This increase brought revenue for the first nine months of 2018 to approximately 2.5 billion euros (prior year: approximately 2.4 billion euros). At constant currency, revenue growth for the reporting period amounted to 9.8 percent and was primarily driven by Industrial Distribution. The double-digit constant currency revenue growth rates generated by the raw materials, power transmission, railway, and offroad sector clusters contributed considerably to the higher revenue as well. Like all of the sectors, all of the regions increased their revenue, as well. The largest growth rate at constant currency was reported by the Greater China region (29.4 percent), ahead of Asia/Pacific (8.7 percent), Americas (8 percent), and Europe (6 percent).

The Industrial division generated 298 million euros (prior year: 206 million euros) in EBIT before special items for the first nine months, representing an EBIT margin before special items of 11.8 percent (prior year: 8.7 percent). The improved margin is attributable to the favorable impact of economies of scale as well as to efficiency gains and cost savings resulting from the program "CORE". On October 30, 2018, the Schaeffler Group confirmed its full-year guidance for the Industrial division's constant currency revenue growth for 2018, which it had raised on September 19, 2018, of 8 to 9 percent. The target for the EBIT margin before special items of 10 to 11 percent has now been refined to 10.5 to 11 percent.

Positive free cash flow in the third quarter

At 201 million euros (prior year: 333 million euros), free cash flow before in and outflows for M&A activities for the third quarter was positive. For the first nine months, it amounted to 127 million euros, falling short of the prior year level (247 million euros), primarily due to lower earnings quality and the higher amount of capital tied up in inventories. Capital expenditures (capex) on property, plant and equipment and intangible assets for the first nine months of 857 million euros were slightly below the prior year level (873 million euros), representing a capex ratio of 8 percent of revenue (prior year: 8.3 percent).

Dietmar Heinrich, CFO of Schaeffler AG, said: "We are aiming to maintain a capex ratio of approximately 8 percent as at year-end as well. For this purpose, we will manage our capital expenditures restrictively in the fourth quarter. In combination with the reduction of inventory levels, this will have a favorable effect on free cash flow".

Net financial debt as at September 30, 2018, increased by 274 million euros to 2,644 million euros, lowering the gearing ratio, i.e. the ratio of net financial debt to shareholders' equity, to 91 percent (December 31, 2017: 93 percent). As at September 30, 2018, the Schaeffler Group had total assets of approximately 12.3 billion euros (prior year: approximately 11.5 billion euros) and employed a workforce of 92,836 (prior year: 89,359), an increase of approximately 3.9 percent.

Based on the adjusted full-year guidance issued October 30, 2018, the Schaeffler Group now anticipates revenue growth of 4 to 5 percent (previously 5 to 6 percent) at constant currency, an EBIT margin before special items of 9.5 to 10.5 percent (previously 10.5 to 11.5 percent), and free cash flow before cash in- and outflows for M&A activities of approximately 300 million euros (previously approximately 450 million euros).

"The situation of the global automotive industry has deteriorated further over the past seven weeks, particularly in China and also in Europe. Against this backdrop, and although our Industrial business enables us to partially offset this deterioration, it is essential that we manage our business as proactively and carefully as possible and align our resources with the changing market environment. Discipline regarding cost and capital is what counts now", stated Klaus Rosenfeld.

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Schaeffler Group at a glance (Interim report 3. Quarter 2018)

	1st nine months			
Income statement (in € millions)	**2018**	**2017**		Change
Revenue	10,714	10,480	2.2	%
• at constant currency			5.1	%
EBIT	1,149	1,209	-5.0	%
• in % of revenue	10.7	11.5	-0.8	%-pts.
EBIT before special items [1]	1,150	1,196	-3.8	%
• in % of revenue	10.7	11.4	-0.7	%-pts.
Net income [2]	766	791	-3.2	%
Earnings per common non-voting share (basic/diluted, in €)	1.16	1.19	-2.5	%
Statement of financial position (in € millions)	**09/30/2018**	**12/31/2017**		Change
Total assets	12,319	11,537	6.8	%
Shareholders' equity [3]	2,907	2,548	359	€ millions
• in % of total assets	23.6	22.1	1.5	%-pts.
Net financial debt	2,644	2,370	11.6	%
• Net financial debt to EBITDA ratio before special items [1][4]	1.1	1.0		
• Gearing ratio (Net financial debt to shareholders' equity [3], in %)	91.0	93.0	-2.0	%-pts.
	1st nine months			
Statement of cash flows (in € millions)	**2018**	**2017**		Change
EBITDA	1,754	1,780	-1.5	%
Cash flows from operating activities	983	1,116	-133	€ millions
Capital expenditures (capex) [5]	857	873	-16	€ millions
• in % of revenue (capex ratio)	8.0	8.3	-0.3	%-pts.
Free cash flow (FCF) before cash in- and outflows for M&A activities	127	247	-120	€ millions
• FCF conversion ratio (ratio of FCF before cash in- and outflows for M&A activities to EBITDA, in %) [1][4]	16.9	21.0	-4.1	%-pts.
Value-based management				Change
ROCE before special items (in %) [1][4]	18.8	20.5	-1.7	%-pts.
Schaeffler Value Added before special items (in € millions) [1][4]	721	829	-13.0	%
Employees	**09/30/2018**	**12/31/2017**		Change
Headcount	92,836	90,151	3.0	%

	1st nine months			
Automotive OEM division [6] (in € millions)	**2018**	**2017**		Change
Revenue	6,778	6,666	1.7	%
• at constant currency			4.3	%
EBIT	599	725	-17.4	%
• in % of revenue	8.8	10.9	-2.1	%-pts.
EBIT before special items [1]	596	712	-16.3	%
• in % of revenue	8.8	10.7	-1.9	%-pts.
Automotive Aftermarket division [6] (in € millions)				Change
Revenue	1,401	1,434	-2.3	%
• at constant currency			1.3	%
EBIT	259	278	-6.8	%
• in % of revenue	18.5	19.4	-0.9	%-pts.
EBIT before special items [1]	256	278	-7.9	%
• in % of revenue	18.3	19.4	-1.1	%-pts.
Industrial division [6] (in € millions)				Change
Revenue	2,535	2,380	6.5	%
• at constant currency			9.8	%
EBIT	291	206	41.3	%
• in % of revenue	11.5	8.7	2.8	%-pts.
EBIT before special items [1]	298	206	44.7	%
• in % of revenue	11.8	8.7	3.1	%-pts.

[1] Please refer to pp. 22 et seq. for the definition of special items.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] Based on the last twelve months.
[5] Capital expenditures on intangible assets and property, plant and equipment.
[6] Prior year information presented based on 2018 segment structure.

Forward-looking statements and projections

Certain statements in this press release are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial consequences of the plans and events described herein. No one undertakes any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should not place any undue reliance on forward-looking statements which speak only as of the date of this press release. Statements contained in this press release regarding past trends or events should not be taken as representation that such trends or events will continue in the future. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Schaeffler, or persons acting on its behalf, may issue.

About Schaeffler

The Schaeffler Group is a global automotive and industrial supplier. Top quality, outstanding technology, and exceptionally innovative spirit form the basis for the continued success of the company. By delivering high-precision components and systems in engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications, the Schaeffler Group is already shaping "Mobility for tomorrow" to a significant degree. The technology company generated sales of approximately EUR 14 billion in 2017. With more than 92,000 employees, Schaeffler is one of the world's largest family companies and, with approximately 170 locations in over 50 countries, has a worldwide network of manufacturing locations, research and development facilities, and sales companies.

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