

Schaeffler on the capital markets

1.1 Events 2016

Following Schaeffler AG's listing on October 09, 2015, in which an initial 11 % of share capital were placed, Schaeffler AG has expanded and bolstered its presence on the capital markets with several transactions and measures.

Free float increased to 25 %

On April 05, 2016, IHO Beteiligungs GmbH (until September 28, 2016: Schaeffler Verwaltungs GmbH) placed 94.4 million common non-voting Schaeffler AG shares in an accelerated bookbuild. Since this transaction was completed, 166 million common non-voting shares representing 100 % common non-voting share capital are widely held. The free float amounts to approximately 25 % of Schaeffler AG's total common and common non-voting share capital.

First annual general meeting passes resolution on special dividend

Schaeffler AG's first annual general meeting since the listing, which was held on April 22, 2016, passed a resolution to pay a dividend of EUR 0.34 per common share and EUR 0.35 per common non-voting share to Schaeffler AG's shareholders for 2015. This represents a dividend of 28.9 % of net income attributable to shareholders before special items. In addition, the company paid a special dividend of EUR 0.15 per common share and per common non-voting share for 2015.

Advanced to MDAX

Deutsche Börse included Schaeffler AG in its MDAX index effective June 20, 2016. Thus, the Schaeffler shares meet not only the high transparency requirements of the Prime Standard, but also the size criteria regarding market capitalization and liquidity that are relevant for inclusion in this index.

Schaeffler AG's first capital markets day

At its first capital markets day since its successful listing in October 2015, which was held on July 20, 2016, Schaeffler AG presented its plans for growth and its financial ambitions for the coming years. The group stated that it plans to grow its revenue – excluding the impact of currency translation and external growth – by an average of 4 to 6 % per year by 2020. The targeted EBIT margin of 12 to 13 % before special items is aimed at maintaining the company's high earnings quality. On this basis, the Schaeffler Group intends to achieve free cash flow of approximately EUR 900 m in 2020.

Debt reduced significantly and investment grade rating obtained

In connection with the successful refinancing transaction completed at the level of IHO Holding, a group of holding companies owned indirectly by the Schaeffler family, rating agency Moody's upgraded Schaeffler AG's company rating to Baa3 (investment grade) on September 07, 2016. Schaeffler AG received approximately EUR 1.7 bn when its loan receivable from IHO Holding was prepaid in connection with the refinancing transaction. As a result, Schaeffler AG has achieved its objective of reducing its debt to EBITDA ratio (net debt in relation to EBITDA before special items) to less than 1.5x by 2018 two years ahead of schedule.

Advanced to STOXX Europe 600

STOXX Ltd., a subsidiary of Deutsche Börse AG, has included Schaeffler AG in its STOXX Europe 600 index. As a result, Schaeffler AG has also become part of the European STOXX Europe 600 Automobiles & Parts sector index. These changes became effective as of the start of trading on September 19, 2016.

Capital structure improved further

Having optimized its bank debt in July and August 2016 and fully redeemed a bond issue with a principal of EUR 600 m, a coupon of 4.25 %, and an original maturity of 2018, Schaeffler AG redeemed three further bond series in full in October 2016. On October 07, 2016, Schaeffler AG initially redeemed one bond series with a principal of USD 850 m, a coupon of 4.75 %, and an original maturity of 2021. On October 13, 2016, the company then redeemed another two bond series with a principal of EUR 500 m each, a coupon of 3.25 % and 2.75 %, respectively, and an original maturity of 2019. The redemption was funded using the proceeds of the repayment of the loan receivable from IHO Holding referred to above.

Strategy “Mobility for tomorrow” and Financial Ambitions 2020

On November 09, 2016, Schaeffler AG presented its strategy “Mobility for tomorrow” to the public; the strategy was developed over the course of 2016 and was approved by the Board of Managing Directors and the Supervisory Board. The presentation of the strategy also included Schaeffler AG’s first set of multi-year targets, known as Financial Ambitions 2020. Based on the operating targets approved back in the summer – average revenue growth excluding the impact of currency translation and external growth of 4 to 6 % p.a., an EBIT margin of 12 to 13 % before special items, and free cash flow excluding external growth of approximately EUR 900 m in 2020 – Schaeffler AG aims to generate earnings per share of EUR 2.00 in 2020. The deleveraging target achieved ahead of schedule has been replaced with a gearing ratio (net debt to equity) to be improved to below 75 % by 2020. In addition, Schaeffler AG intends to pay out dividends amounting to 30 to 40 % of net income to its shareholders in the future (previously 25 to 35 %).

Business portfolio adjusted

On November 21, 2016, Schaeffler Schweiz GmbH in Romanshorn, a wholly-owned subsidiary of Schaeffler AG, sold its fine blanking activities to owner-operated Swiss Güntensperger Group. The fine blanking activities generated revenue of approximately CHF 50 m last year. This strategic decision was made to focus the Schaeffler Group on its core areas of expertise.

On December 20, 2016, Schaeffler entered into a purchase agreement with SEMIKRON International GmbH to acquire 51 % of the shares in Compact Dynamics GmbH, a manufacturer of high-performance electric motors. At the same time, Schaeffler and SEMIKRON agreed to cooperate on developing power electronics systems and integrating power electronics components. The acquisition and collaboration expand Schaeffler’s expertise in the field of electric motors and power electronics for developing and manufacturing electric drives.

On December 22, 2016, Schaeffler sold its cylinder head manufacturer Schaeffler Motorenelemente AG & Co. KG in Magdeburg to the Weber Group. The company specializes in the mechanical processing of cylinder heads and other complex housings for the automotive industry, which are not an integral part of the Schaeffler Group’s core business. The company generated approximately EUR 42 m in revenue in 2015. The transaction enabled Schaeffler to free up resources in order to invest in the key future-oriented fields that are part of its strategy “Mobility for tomorrow”.

Analyst coverage expanded

The company’s coverage by analysts expanded significantly in 2016. While only five analysts were regularly publishing updates on the company in company-specific research reports or more in-depth industry research reports, this number had risen to 13 by year-end. As two more analysts began tracking the company in early 2017, the company was covered by analysts representing a total of 15 banks as at February 20, 2017. Eight of these banks issued a recommendation of either buy or overweight on Schaeffler AG’s common non-voting shares. Their average upside target was EUR 15.57.

1.2 Capital market trends

In early 2016, the global capital markets were characterized by sluggish economic data from China and an oil price that continued to drop. The referendum in the United Kingdom on remaining in the EU and the election campaign in the U.S. also contributed to the turbulence in the capital markets during the year. In addition, the Fed raised its benchmark interest rate for the first time in a year. As a result, exchange rates remained volatile. The oil price rose considerably over the course of the year, driven by the decisions of the OPEC countries to curtail production volumes.

As global equities markets rallied significantly during the last quarter, they showed a positive trend overall in 2016. While the Euro STOXX 50 was up slightly by 0.7 %, the Dow Jones Industrial gained 13.4 % on the back of the robust economy in the U.S., rising to a new all-time high. The Nikkei 225 also rose slightly by 0.4 %.

The Deutsche Aktienindex (DAX) was up 6.9 % in 2016. The first quarter was marked by high volatility, driving the DAX to a low of 8,753 points in early February. The main reason was a further decline in the oil price, triggered by concerns about the Chinese economy and its potential impact on the global economy. The equities markets began to recover around the middle of the first quarter; nevertheless, the DAX was initially unable to sustain a level above 10,000 points.

During the second quarter of 2016, the German leading share index recovered to 10,436 points by April 21, the high for the first half of the year. However, the DAX slumped again following the British Brexit referendum, reaching another low of 9,269 points on June 27, 2016 from which it only recovered to a minimal degree by the end of the second quarter.

In early July 2016, the DAX started to make a rapid comeback and reached 10,753 points on September 07. Better than expected economic data, particularly from Germany and the U.S., had a calming effect on prices. Based on this, the DAX settled at a closing level of 10,511 points on September 30.

The equities markets continued to recover during the fourth quarter of 2016; the DAX reached its year-to-date closing high of 10,761 points on October 24, 2016. Overall, the impact of the U.S. election on November 08, 2016 on the global equities markets was considerably better than expected. For instance, the DAX, the leading share index, dropped to 10,259 in the run-up to the election only to rise to its annual high of 11,481 in a fulminant rally after the election, closing out the year at this level.

The MDAX increased by 6.8 % in 2016, while the European sector index, the STOXX Europe 600 Automobiles & Parts, lost 3.9 % as the automotive sector is very sensitive to the economy and due to the debate on E-mobility.

The corporate bond market was flat overall in 2016. The iTraxx CrossOver (5 year maturity), an indicator of credit risk in the European high yield market, closed at 288 basis points on December 31, 2016 compared to 314 basis points on December 31, 2015. The lowest premium was charged in December 2016 (284 basis points), when the DAX was also at its all-time high and demand for risky assets was particularly strong. The highest premium, on the other hand, was charged in mid-February (487 basis points), paralleling the negative trend of the DAX. The iTraxx Europe (5 year maturity), an indicator of credit risk in the European investment grade market, was also marked by volatility during the year. Having reached a high of 126 basis points in mid-February and a low of 65 basis points in early September, it closed at 72 basis points on December 31, 2016 (December 31, 2015: 77 basis points), approximately returning to its level at the beginning of the year.

1.3 Schaeffler shares

Schaeffler AG's common non-voting shares were listed on the stock exchange on October 09, 2015. A total of 166 million common non-voting shares are listed for trading. All common non-voting shares have been widely held by national and international investors since April 05, 2016.

Schaeffler shares – overview

Schaeffler AG's share capital consists of a total of 666 million shares, including 500 million common shares held by IHO Verwaltungs GmbH (until September 27, 2016: Schaeffler Verwaltung Zwei GmbH) that are not listed on the stock exchange. 166 million common non-voting bearer shares are widely held. Thus, the free float amounts to approximately 24.9 % of Schaeffler AG's total common and common non-voting share capital.

Schaeffler AG intends to pay a dividend of 30 to 40 % of consolidated net income before special items to its shareholders in the future. Both common and common non-voting shares carry dividend rights. Common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per share.

The Board of Managing Directors and the Supervisory Board will propose a dividend for 2016 of EUR 0.49 per common share and EUR 0.50 per common non-voting share to the annual general meeting. This represents a dividend of 34.1 % of net income attributable to shareholders before special items.

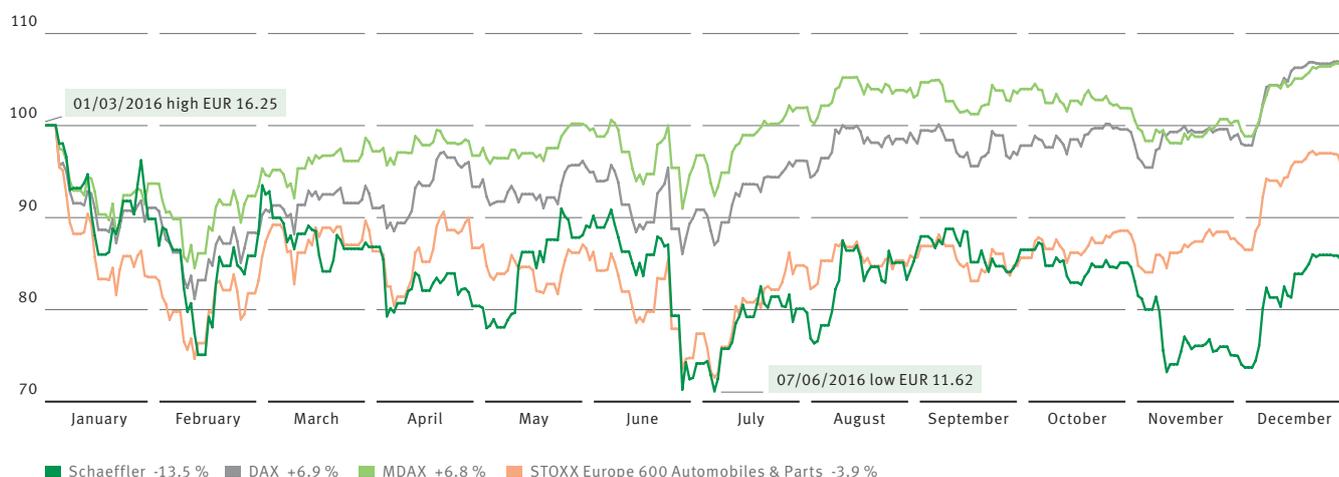
Schaeffler shares – base data

ISIN	DE000SHA0159
German securities identification number (WKN)	SHA015
Stock symbol	SHA
German stock exchange	Frankfurt Stock Exchange (Prime Standard)
Index	MDAX
Share type	Common non-voting
Number of common non-voting shares as at December 31, 2016	166,000,000
Free float	100 % ¹⁾

¹⁾ Approximately 24.9 % of total share capital of 666 million common and common non-voting shares (consisting of 500 million common shares and 166 million common non-voting shares).

Schaeffler share price trend 2016

in percent (12/31/2015 = 100)



Source: Bloomberg.

Performance of Schaeffler shares

Schaeffler shares dropped approximately 14 % in 2016, a weaker performance than that of the benchmark indexes, the MDAX and the STOXX Europe 600 Automobiles & Parts. The primary reason was that share prices of automotive suppliers with a large proportion of products for internal combustion engines suffered as a result of the extensive debate on E-mobility.

On March 31, 2016, the common non-voting shares of Schaeffler AG were quoted at EUR 14.13, 13.0 % less than on December 31, 2015. This trend was approximately in line with that of the European STOXX Europe 600 Automobiles & Parts sector index which came under significant pressure as a result of the drop in the oil price and the sluggish economic data from China (-11.2 % compared to December 31, 2015). The share price reached its high on January 05 (EUR 15.94) and its low on February 12 (EUR 12.25).

On June 30, 2016, the common non-voting shares of Schaeffler AG were quoted at EUR 11.85, 16.1 % less than on March 31, 2016. Schaeffler shares did not escape the once more below-average trend in the STOXX Europe 600 Automobiles & Parts compared to the DAX and the MDAX (-15.5 % compared to March 31, 2016). The dire mood in the capital markets was due in particular to the British Brexit referendum, which led capital market participants to expect the economy to weaken. The Schaeffler share price reached its high on May 24, 2016 (EUR 14.80) and its low on June 27, 2016 (EUR 11.65).

On September 30, 2016, the common non-voting shares of Schaeffler AG were quoted at EUR 14.08, 18.8 % higher than on June 30, 2016. Thus, Schaeffler shares fared somewhat better than the STOXX Europe 600 Automobiles & Parts (+14.3 %) and considerably better than the DAX and the MDAX (+8.6 %/+8.8 %, all compared to June 30, 2016). The recovery in the third quarter was mainly driven by the improving general capital market sentiment and the weak performance of the automotive supply sector in the previous quarters. The share price reached its high on September 09, 2016 (EUR 14.45) and its low on July 06, 2016 (EUR 11.62).

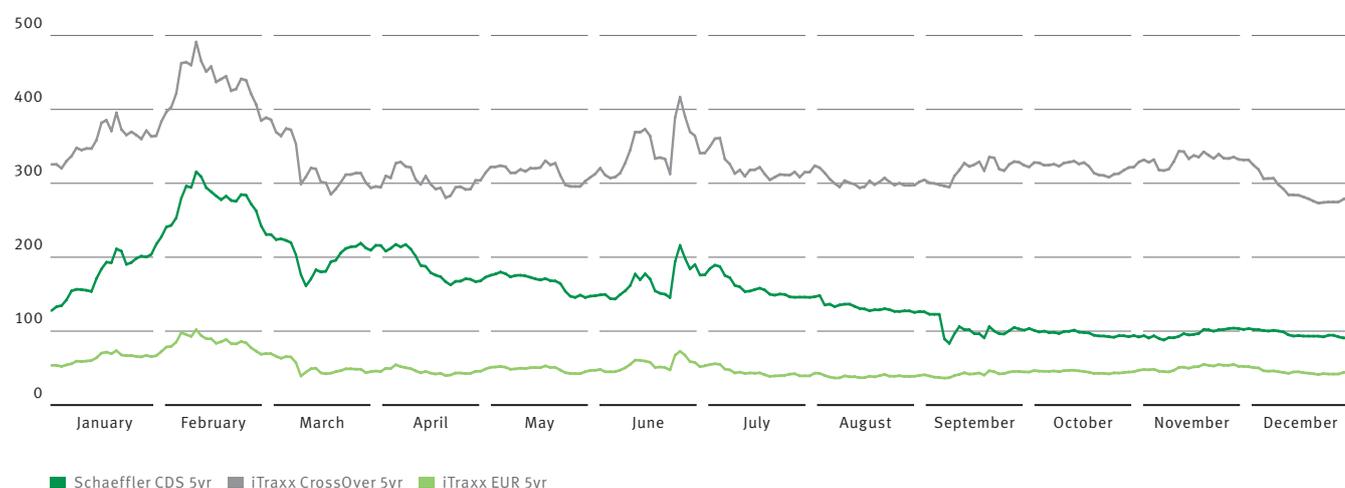
Schaeffler share performance

in €	2016	2015
Share price at year-end	14.06	16.25
Share price (high)	16.25	17.05
Share price (low)	11.62	11.92
Average number of shares		
• Common shares	500,000,000	500,000,000
• Common non-voting shares	166,000,000	115,912,329
Earnings per share ¹⁾		
• Common shares	1.29	0.88
• Common non-voting shares	1.30	1.28
Proposed dividend per share		
• Common shares	0.49	0.34
• Common non-voting shares	0.50	0.35
Proposed special dividend per share		
• Common share and common non-voting shares	-	0.15

¹⁾ Earnings per share were calculated in accordance with IAS 33.

Credit default swap (CDS) price trend 2016

in percent



Source: Bloomberg.

On December 31, 2016, the common non-voting shares of Schaeffler AG were quoted at EUR 14.06, approximately in line with its September 30 level, lagging considerably behind automotive sector equities in the last quarter (+12.0 % compared to September 30). Especially the capital markets' overly high expectations with respect to the quarterly report published on November 09 played a role here, as did the particularly extensive uncertainty in the capital markets regarding future changes within the automotive sector toward electric mobility. The share price reached its high on October 05, 2016 (EUR 14.21) and its low on November 10, 2016 (EUR 11.95).

On December 31, 2016, Schaeffler AG's shares were up 6.9 % from their closing price on October 09, 2015 (EUR 13.15), Schaeffler's first day of trading, performing slightly better than the relevant benchmark index, the STOXX Europe 600 Automobiles & Parts (+5.7 %).

1.4 Schaeffler bonds and rating

The Schaeffler Group took advantage of the favorable financing environment in 2016 to enter into a new EUR 2.3 bn Facilities Agreement. The Facilities Agreement was signed in 2016 and

consists of a EUR 1.0 bn term loan and a EUR 1.3 bn revolving credit facility. The funds were used to repay the two institutional term loans of EUR 165 m and USD 280 m, and to fully redeem a bond series with a principal of EUR 600 m. In October, the company redeemed another two EUR bond series with a principal of EUR 500 m each as well as one USD bond series with a principal of USD 850 m. The funds for these redemptions were largely obtained from IHO Holding as prepayment in full of a loan receivable of approximately EUR 1.7 bn.

Schaeffler bonds – overview

As a result of the above transactions, the Schaeffler Group had five series of bonds outstanding as at December 31, 2016, three of them denominated in EUR and two in USD. All of the bonds were issued by Schaeffler Finance B.V., Barneveld, Netherlands.

The Schaeffler Group had the following bonds outstanding at December 31, 2016:

Schaeffler Group bonds

ISIN	Currency	Face value in millions	Coupon	Maturity	Price in % ¹⁾ 12/31/2016	Price in % ¹⁾ 12/31/2015
XS1212469966	EUR	400	2.50 %	05/15/2020	102.30	100.98
US806261AJ29	USD	700	4.25 %	05/15/2021	102.44	99.94
XS1067864022	EUR	500	3.50 %	05/15/2022	102.96	102.35
US806261AM57	USD	600	4.75 %	05/15/2023	101.75	98.94
XS1212470972	EUR	600	3.25 %	05/15/2025	106.72	97.52

¹⁾ Source: Bloomberg.

Performance of Schaeffler bonds

Bond prices largely experienced considerable upward trends in 2016. All five bond series' prices increased slightly, reducing the effective yield. The encouraging price trend was due not only to the general market trend, but also to further improvements in Schaeffler AG's capital structure and the rating upgrades by rating agencies Standard & Poor's and Moody's. Premiums for Schaeffler AG 5-year credit default swaps decreased from 150 basis points at December 31, 2015 to 117 basis points as at December 31, 2016, outperforming the benchmark indexes iTraxx CrossOver and iTraxx Europe.

Schaeffler's rating

Rating agency Standard & Poor's upgraded the Schaeffler AG company rating to BB with a stable outlook on April 28, 2016. The rating for the secured bonds was raised to BB and the rating for the unsecured bonds to B+ at the same time.

On July 20, 2016, rating agency Moody's upgraded the unsecured bond rating to Ba3.

On September 07, 2016, rating agency Moody's upgraded Schaeffler AG's company rating to Baa3 (investment grade) with a stable outlook. At the same time, Moody's upgraded the issuance ratings of Schaeffler Finance B.V., Barneveld, Netherlands, from Ba2 to Baa3 for secured bonds and from Ba3 to Baa3 for the unsecured bond series.

Rating agency Standard & Poor's upgraded the Schaeffler AG company rating to BB+ with a stable outlook on September 21, 2016. At the same time, the issuance ratings of Schaeffler Finance B.V., Barneveld, Netherlands, improved from BB to BB+ for the secured bonds and from B+ to BB- for the unsecured bond series.

The ratings of the only series of unsecured bonds has been withdrawn since the unsecured bonds were redeemed in full on October 13, 2016.

The following summary shows the two rating agencies' ratings for the Schaeffler Group:

Schaeffler Group rating

Rating agency	12/31/2016		
	Rating	Outlook	Bonds Rating
Standard & Poor's	BB+	stable	BB+
Moody's	Baa3	stable	Baa3

1.5 Investor relations

Schaeffler AG maintains open lines of communication on a continuous basis with share- and bond holders as well as with all other capital market participants. For instance, the company has been presenting and discussing its quarterly and annual results via conference calls for several years. In addition, it regularly holds roadshows in key European financial centers as well as in the U.S.

In 2016, the Board of Managing Directors and the Investor Relations team participated in a total of 14 investor conferences in New York, London, Paris, and Amsterdam. In addition, six road shows were held in Frankfurt, London, and in the U.S.

The activities of Schaeffler's Investor Relations department also include maintaining regular contact with analysts covering the company and with investors. Moreover, Schaeffler offers guided plant tours and management discussions at the various Schaeffler locations to interested investors and analysts. In 2016, seven such tours and discussions were requested.

The company was covered by analysts representing a total of 15 banks as at February 20, 2017. Eight of these banks issued a recommendation of either buy or overweight on Schaeffler AG's common non-voting shares. Their average upside target was EUR 15.57.

Analyst opinions for Schaeffler AG shares ¹⁾

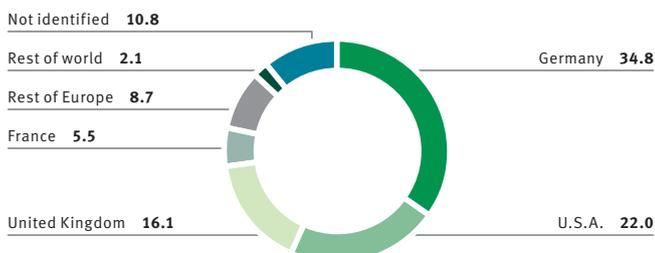
Bank	Recommendation	Price target in €
Bankhaus Metzler	Hold	13.50
Berenberg Bank	Hold	13.00
BoA Merrill Lynch	Buy	17.00
Citigroup	Neutral	15.00
Deutsche Bank	Buy	18.00
Exane BNP Paribas	Outperform	15.50
HSBC	Buy	18.00
J.P. Morgan Cazenove	Underperform	13.00
Jefferies	Buy	16.00
Kepler Cheuvreux	Buy	18.00
MainFirst Bank	Outperform	17.00
Morgan Stanley	Equal-weight	15.50
NordLB	Hold	13.00
quirin Bank AG	Buy	17.00
UBS	Neutral	14.00

¹⁾ Recommendations up to February 20, 2017.

1.6 Geographic distribution of free float 2016

Geographic distribution of free float

in percent, as at December 31, 2016



The distribution of the Schaeffler shares' free float as at December 31, 2016 was determined using a shareholder identification survey (Share ID). The identification rate was approximately 89 %, i.e. out of the 166 million shares that are widely held, the survey was able to attribute 148.1 million shares to institutional or private investors. 131.3 million shares were held by approximately 185 institutional investors in 20 countries. Approximately 11.5 million shares were included in the trading portfolios of mainly U.S. Banks as at the reporting date. At year-end, approximately 3 % or 5.3 million shares were held by private shareholders, mainly in Germany.

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 See back cover for financial calendar.