SCHAEFFLER

9M

Mobility for tomorrow

Interim Financial Report as at September 30, 2018

Leading into the future

Schaeffler Group at a glance

	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.

Highlights 9M 2018

Solid revenue growth for the first nine months of 2018

Revenue at **EUR 10.7 bn**
(up 5.1% at constant currency)

Earnings quality declining

EBIT margin before special items **10.7%**
(prior year: 11.4%)

Free cash flow affected by earnings quality and increase in inventories

Free cash flow before M&A activities at **EUR 127 m**
(prior year: EUR 247 m)

Net income at EUR 766 m (prior year: EUR 791 m)

Earnings per common non-voting share at **EUR 1.16**
(prior year: EUR 1.19)

Schaeffler on the capital markets

Recent events

Schaeffler acquires drive-by-wire technology

On August 06, 2018, the Schaeffler Group signed a master agreement with Roland Arnold, Arnold Verwaltungs GmbH, and Paravan GmbH for the formation of a joint venture. The objective of the joint venture, which is named Schaeffler Paravan Technologie GmbH & Co. KG and has commenced operations on October 01, 2018, is the further development of Paravan's SPACE DRIVE drive-by-wire technology and the development and sale of mobility systems. As part of the transaction, the joint venture has acquired Paravan's SPACE DRIVE technology. Schaeffler Technologies AG & Co. KG has a 90% stake in the new company.

2018 full-year guidance adjusted

On October 30, 2018, the company adjusted its 2018 full-year guidance for the Schaeffler Group. According to the adjusted guidance, Schaeffler is now forecasting revenue growth of 4 to 5%, excluding the impact of currency translation, an EBIT margin before special items of 9.5 to 10.5%, and free cash flow before inflows and outflows for M&A activities of approx. EUR 300 m for the full year 2018. Against the backdrop of increasing market volatility in the global automotive business (WLTP, trade conflicts), the adjustment of the full year 2018 Group guidance is mainly triggered by a further deterioration of market conditions in the company's Automotive OEM business in China. Furthermore, the weaker-than-expected third-quarter revenue trend in the Automotive Aftermarket division contributed to the guidance adjustment. For the Automotive OEM division, Schaeffler is now forecasting revenue growth of 3.5 to 4.5%, excluding the impact of currency translation, and an EBIT margin before special items of 8 to 8.5%. The Group's Automotive Aftermarket division is expected to generate revenue growth – excluding the impact of currency translation – of 1.5 to 2.5% and an EBIT margin before special items of 17 to 17.5%. The Industrial division is forecasting its revenue to grow by 8 to 9%, excluding the impact of currency translation, on the back of positive performance. Based on current projections, the Industrial division's EBIT margin before special items is expected to be in the 10.5 to 11% range.

Schaeffler invests EUR 60 m in Bühl location

As part of its future program "Agenda 4 plus One", Schaeffler is enhancing its location in Bühl. This project will see the construction of a state-of-the-art development building and new headquarters for the company's Automotive OEM division.
At the same time, the integrated automotive and industrial supplier will boost its activities in the field of electric mobility worldwide. 350 new jobs, primarily in the field of electric mobility, are expected to be created over the next few years. The company will invest a total of approx. EUR 60 m in this location.

One Schaeffler India

On March 20, 2018, the shareholders and creditors of Schaeffler India Limited consented to the merger of the two unlisted entities, INA Bearings India Private Limited and LuK India Private Limited, with Schaeffler India Limited. The transaction has since been approved by the Indian authorities and has become effective as at October 22, 2018, by way of a filing with the Indian commercial register. Now that the merger has been completed, the Schaeffler Group has only one subsidiary, the listed company Schaeffler India Limited, in India. The transaction increased Schaeffler AG's indirect interest in Schaeffler India Limited from approx. 51% to approx. 74%. This transaction has simplified the previous structure, reduced complexity, and created a strong Schaeffler entity in India in order to better realize the potential for growth in India.

Standard & Poor's rating raised to investment grade

On August 30, 2018, Standard & Poor's upgraded its rating to BBB- (outlook: stable), which positions Schaeffler as investment grade at all three major rating agencies.

EUR 5.0 bn debt issuance program established

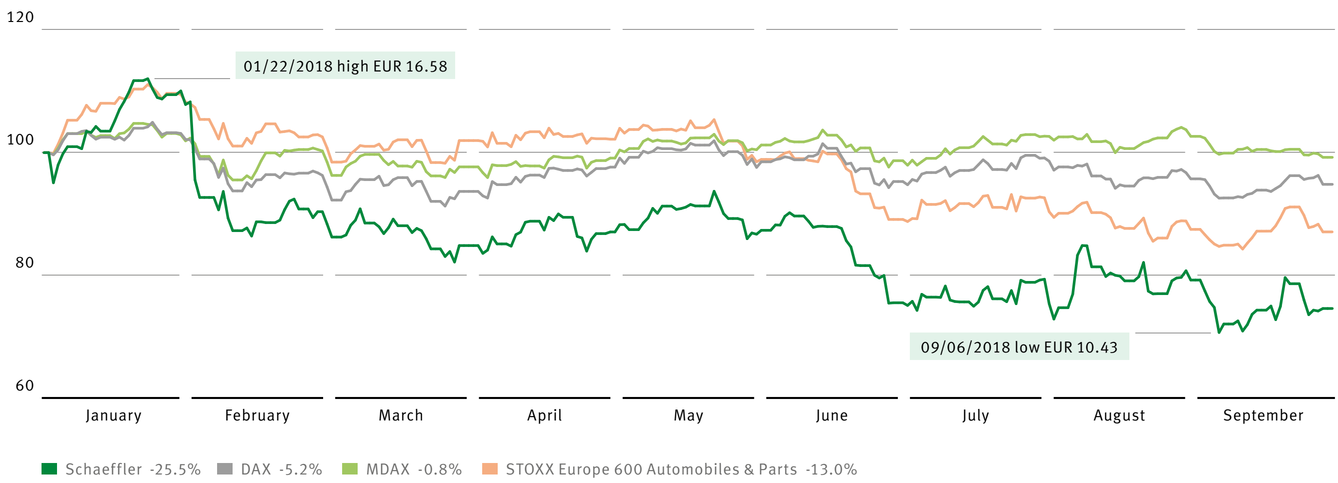
The Schaeffler Group established a EUR 5.0 bn debt issuance program on September 28, 2018. The debt issuance program provides Schaeffler with a flexible platform for obtaining funding from the debt capital markets in the future.

Third Capital Markets Day in Berlin

Schaeffler AG's third Capital Markets Day was held in Berlin on September 20, 2018. Its main focus was on the presentations by the CEOs of the three divisions, with the Automotive Aftermarket division, newly independent since the beginning of the year, presenting itself for the first time. The presentations focused on issues such as E-Mobility, chassis systems, and Industry 4.0. A total of 38 analysts and investors attended the Capital Markets Day.

Schaeffler share price trend 2018

in percent (12/31/2017 = 100)



Source: Bloomberg (closing prices).

Contract with CEO Klaus Rosenfeld extended

At its meeting on October 05, 2018, the Supervisory Board of Schaeffler AG decided to extend the contract with Klaus Rosenfeld, the Chief Executive Officer of Schaeffler AG, for a further five years to June 30, 2024.

Capital market trends

In early 2018, the global capital markets were largely characterized by speculation regarding future interest rate policy, especially that of the Fed and the ECB, rising geopolitical tensions, increasing trade protectionism, and emerging concerns about inflation. Political uncertainty continued to rise during the second quarter due to the international trade conflict, resulting in highly volatile financial markets. This volatility persisted in the third quarter, fueled by a slowdown in the Chinese economy. While solid economic data and high rates of growth in corporate profits resulted in an upward trend in the North American equities markets during the third quarter, Europe experienced a declining trend due to the international trade conflict and uncertainty around Brexit, as well as the direction of fiscal policy in Italy.

In this context, trends in the global equities markets were mixed in the first nine months of 2018. While the Euro STOXX 50 dropped by 3.0%, the Dow Jones Industrial Average rose by 7.0% to a new all-time high of 26,744 points on September 21, 2018. The Nikkei 225 index gained 6.0% in value. The Deutsche Aktienindex (DAX) declined by 5.2% in the first nine months of 2018 to a level of 12,247 points as at September 30, 2018.

Schaeffler shares

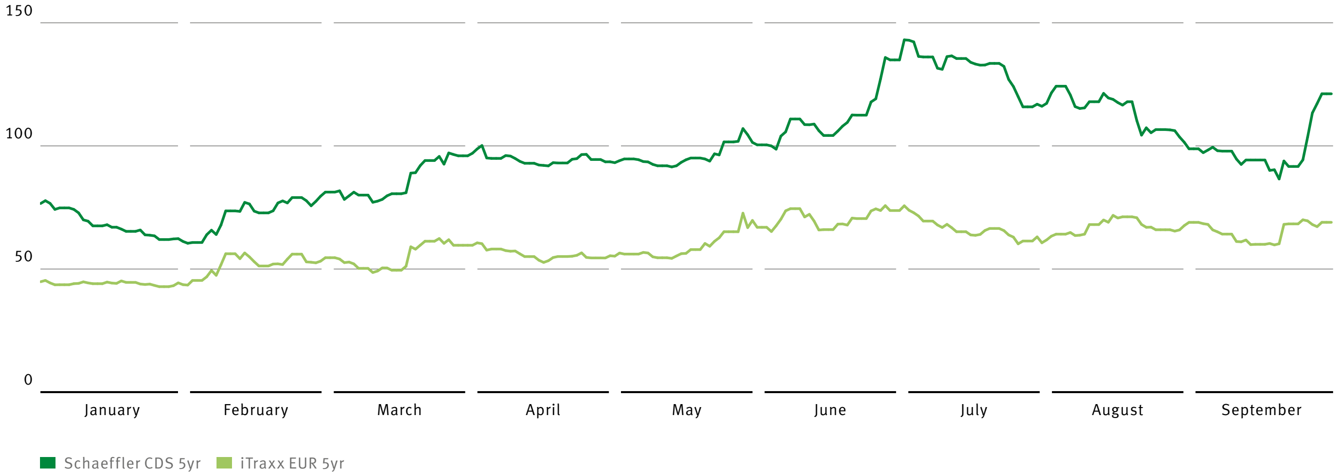
On September 30, 2018, the common non-voting shares of Schaeffler AG were quoted at EUR 11.01, 25.5% less than on December 31, 2017. This performance fell short of that of the benchmark indexes DAX (-5.2% compared to December 31, 2017) and MDAX (-0.8%) as well as that of the STOXX Europe 600 Automobiles & Parts sector index (-13.0%) during the reporting period. This underperformance was largely related to the publication of key figures for 2017 and of the outlook for 2018 on February 01, 2018. The outlook was affected, among other things, by additional investments made to accelerate the implementation of the company's program for the future, the "Agenda 4 plus One", which is designed to help strengthen the profitability of the

Schaeffler share performance (ISIN: DE000SHA0159)

	1st nine months	
	2018	**2017**
Schaeffler share price 09/30 (in €) [1]	11.01	13.65
Average trading volume (in units)	1,005,907	862,936
DAX 09/30 [1]	12,247	12,829
MDAX 09/30 [1]	25,998	25,994
STOXX Europe 600 Automobiles & Parts 09/30 [1]	535	594
Average number of shares (in million units)		
• Common shares	500	500
• Common non-voting shares	166	166
Earnings per share (in €)		
• Common shares	1.15	1.18
• Common non-voting shares	1.16	1.19

[1] Source: Bloomberg (closing prices).

Credit default swap (CDS) price trend 2018
in basis points



Source: Bloomberg (closing prices).

Schaeffler Group's operations for the long term. The public debate regarding stricter exhaust and emissions laws, the persistent international trade conflicts, and a decline in automobile production in Europe and China put additional pressure on shares during the second and third quarters, particularly those of the automotive sector.

Since September 24, 2018, Schaeffler's shares are no longer listed in the STOXX Europe 600 industry index or the corresponding STOXX Europe 600 Automobiles & Parts sector index.

Schaeffler AG's share price reached its high on January 22, 2018 (EUR 16.58), and its low on September 06, 2018 (EUR 10.43). The daily trading volume averaged 1,005,907 shares in the first nine months of 2018 (prior year: 862,936). The free float amounted to approx. 24.9% as at September 30, 2018.

As at October 30, 2018, the company was covered by analysts representing a total of 20 banks, with nine of these banks issuing a recommendation of either buy or overweight on Schaeffler AG's common non-voting shares. Their average upside target was EUR 13,75.

Schaeffler bonds and ratings

The Schaeffler Group had four series of bonds outstanding as at September 30, 2018, three of them denominated in EUR and one in USD. All of the bonds were issued by Schaeffler Finance B.V., Barneveld, the Netherlands.

More on the bonds on page 26 et seq.

Prices of the two callable EUR bond series maturing in 2020 and 2022 mainly trended laterally close to their contractual redemption price during the first nine months of 2018. The USD bond series maturing in 2023 that has been callable since May 15, 2018, initially lost significant ground since the beginning of the year due to rising interest rates in the U.S. and reached a low in mid-July 2018. Its price has risen again since then and was close to its contractual redemption price at the end of the third quarter of 2018. The price of the EUR bond series maturing in 2025 declined slightly during the first nine months of 2018.

The premiums for Schaeffler AG five-year credit default swaps increased from 76 basis points as at December 31, 2017, to 121 basis points as at September 30, 2018. The benchmark index iTraxx Europe rose by 24 basis points over the same period.

On August 30, 2018, rating agency Standard & Poor's upgraded its rating for Schaeffler AG to BBB- (investment grade) with a stable outlook. The upgrade positions Schaeffler AG as investment grade at all three rating agencies – Fitch, Moody's, and Standard & Poor's. The following summary shows the three rating agencies' ratings as at September 30:

Schaeffler Group ratings
as at September, 30

	2018	2017	2018	2017
		Company		Bonds
Rating agency		Rating/Outlook		Rating
Fitch	BBB-/stable	BBB-/stable	BBB-	BBB-
Moody's	Baa3/stable	Baa3/stable	Baa3	Baa3
Standard & Poor's	BBB-/stable	BB+/positive	BBB-	BB+

See back cover for financial calendar

Contents

Special items
In order to facilitate a transparent evaluation of the company's results of operations, the Schaeffler Group reports EBIT, EBITDA, net income, debt to EBITDA ratio, ROCE, and Schaeffler Value Added before special items (= adjusted).

Impact of currency translation/constant currency
Revenue figures at constant currency, i.e. excluding the impact of currency translation, are calculated by translating revenue using the same exchange rate for both the current and the prior year or comparison reporting period.

References
Content of websites referenced in the group interim management report merely provides further information and is not part of the group interim management report.

Rounding differences may occur.

Disclaimer in respect of forward-looking statements
This group interim management report contains forward-looking statements that are based on the Board of Managing Directors' current estimation and expectations at the time of the creation of this report. Such statements refer to future developments, future periods, or, for example, they are designated by terms such as “estimate”, “forecast”, “intend”, “predict”, “plan”, “assume”, or “expect”. By their nature, forward-looking statements are subject to risks and uncertainties. A variety of these risks and uncertainties are determined by factors not subject to the influence of the Schaeffler Group, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies, and the actions of government regulators. If these or other risks or uncertainties occur, or if assumptions underlying statements prove incorrect, then actual results may be materially different from those (explicitly or implicitly) described. Schaeffler AG does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this group interim management report.

Navigation aid
Further detail elsewhere in the report
Further detail online

1. Report on the economic position

1.1 Economic environment

Global economic growth remained robust overall in the first nine months of 2018, despite increasing international trade conflicts. Preliminary estimates indicate that the global gross domestic product[1] rose by 3.8% compared to the prior year (Oxford Economics, October 2018). The most recent indicators, however, point to an emerging slowdown of the economy toward the end of the reporting period.

The disappointing economic performance of the euro region overall during the first half of 2018 was mainly driven by slowing growth in exports. Initial estimates indicate that, during the third quarter of 2018 as well, the overall economic momentum fell short of the level seen in the strong second half of 2017. Following a weaker-than-expected start to the year in the U.S., economic activity there expanded significantly in the second quarter of 2018 due to the stimulation provided by the country's most recent tax reform, among other things. Based on preliminary data, the economy also gathered momentum during the last quarter of the reporting period. In Japan, economic activity declined noticeably early in the year in light of weakening private consumption. Once the economy had recovered, heavy rainstorms and an earthquake hampered the economy once more in the third quarter of 2018. The Chinese economy proved stronger than expected in the initial months of the year. However, this momentum gradually slowed over the course of the second quarter of 2018, a trend that current assessments show to have strengthened somewhat during the third quarter of 2018.

Against this background, the Schaeffler Group's regions developed as follows: Gross domestic product in the Europe region rose by 3.7%, largely driven by the 7.8% growth rate in India, which is also part of the Europe region. The Americas region reported growth of 2.2%, while economic output in the Greater China region increased by 6.4%. Gross domestic product in the Asia/Pacific region rose by 3.2%.

In the **currency markets**, the euro was up against the U.S. dollar and the Chinese renminbi compared to the prior year period. On average, the euro was valued at USD 1.20 and CNY 7.78, respectively, during the reporting period (prior year: USD 1.11 and CNY 7.57, respectively; Bloomberg).

Please refer to the condensed notes to the consolidated financial statements on page 41 for further details on foreign currency translation

Preliminary estimates put global **automobile production**, measured as the number of vehicles up to six tons in weight produced, for the reporting period at 0.8% above the prior year level (IHS Markit, October 2018), with declines in the first and third quarters of 2018 more than offset by noticeable growth in the second quarter of the reporting period. In the Europe region, automobile production rose by 1.8%. Growth in the first and particularly the second quarter of 2018 was followed by a decline in the final quarter of the reporting period. Germany experienced a noticeable contraction during the reporting period, primarily due to production delays in the third quarter as a result of the introduction of the new emissions testing methodology WLTP. In contrast, India, in particular, reported considerable growth, as did countries such as Russia and France. Automobile production in the Americas region was 0.1% below the prior year level since growth in the third quarter followed a contraction during the first half of the year. Automobile production in Brazil rose significantly while Mexico reported only moderate growth. The U.S.,

[1] For gross domestic product and industrial production, quarterly data is available only for selected, representative countries. Furthermore, for the first nine months of 2018, only preliminary projections are available for gross domestic product as well as for automobile and industrial production.

on the other hand, experienced a slight decline, while Canada saw a pronounced contraction. Automobile production in the Greater China region rose by 1.8%, with a decline in the first and particularly the third quarter of 2018 more than offset by considerable growth in the second quarter of 2018. While the high second-quarter growth rate is mainly due to the weak prior year quarter, the contraction in the third quarter is attributable, among other things, to subdued consumer sentiment given the trade conflict with the U.S. and stricter lending practices. Automobile production in the Asia/Pacific region was 1.3% below the prior year level. While Thailand experienced considerable growth, automobile production in both Japan and particularly South Korea fell short of the level achieved in the prior year.

Data on the development of the **vehicle population and the average vehicle age** during the first nine months of 2018 is not available. Based on current IHS Markit forecasts (August 2018), full-year growth in global vehicle population will be slightly lower in 2018 compared to 2017, with the average vehicle age remaining nearly unchanged (prior year: 3.8% or 9.7 years, IHS Markit August 2018).

Based on preliminary estimates, global **industrial production**, measured as gross value added based on constant prices and exchange rates, expanded by 3.7% during the reporting period (Oxford Economics, September 2018). Similar to the trend in each region of the Schaeffler Group, the third-quarter growth rate was less than that for the first two quarters of the reporting period. The Europe region saw a 3.4% increase in industrial production, with the strongest growth reported by India. In Germany, above-average growth early in the year was followed by lower growth rates in the second and particularly the third quarter. Growth in industrial production in the Americas region amounted to 3.6%, mainly driven by the above-average growth rate in the U.S. The Greater China region saw its industrial production grow by 6.1%. Industrial production in the Asia/Pacific region rose 2.2% above the prior year level. While Japan also reported this growth rate, South Korea's growth was below the regional average.

In the **procurement markets**, average prices for commodities and input materials significant to the Schaeffler Group nearly consistently exceeded the level of the prior year period by a significant margin during the reporting period (Bloomberg; IHS Markit; EIA). However, trends during the reporting period were mixed. The crude oil price closed higher at September 30, 2018, than at the beginning of the year. In most of the Schaeffler Group's relevant procurement regions, prices for hot- and cold-rolled steel rose over the course of the reporting period as well, while the price of aluminum and copper declined overall over the course of the period. Commodity market price trends affect the Schaeffler Group's costs to varying degrees and in some instances with some delay, depending on the terms of the relevant supplier contracts.

1.2 Course of business

Results of operations – first nine months 2018

The Schaeffler Group's **revenue** increased by 2.2% to EUR 10,714 m (prior year: EUR 10,480 m) during the reporting period. The adverse impact of currency translation due to the significant rise in the euro had a considerable unfavorable effect on the revenue trend. Excluding the impact of currency translation, the Schaeffler Group generated 5.1% in additional revenue. The divisional trends in the third quarter of 2018 were mixed, in line with the relevant market conditions.

The Industrial division continued its favorable revenue trend in the third quarter as well, and reported additional revenue totaling a considerable 9.8%, excluding the impact of currency translation, during the reporting period. The Automotive OEM division was operating in a persistently challenging environment in the third quarter of 2018, especially in the Europe and Greater China regions. While in Europe the introduction of the new emissions testing methodology WLTP resulted in production delays, in China, factors including subdued consumer sentiment given the trade conflict with the U.S. and stricter lending practices led to market-driven lower demand in the third quarter of 2018. During the first nine months of 2018, the Automotive OEM division generated revenue growth of 4.3% excluding the impact of currency translation, thus accelerating its above-market growth in a challenging environment. In the Automotive Aftermarket division, revenue declined in the third quarter, primarily due to strong growth in the Europe region in the prior year quarter. The division's revenue growth excluding the impact of currency translation of 1.3% fell short of the prior year growth rate due to a decline in demand from several major customers.

The Schaeffler Group's earnings before financial result and income taxes (EBIT) for the reporting period was EUR 1,149 m (prior year: EUR 1,209 m). Its EBIT margin amounted to 10.7% (prior year: 11.5%). EBIT for the reporting period was adversely affected by special items of EUR 1 m (prior year: income of EUR 13 m). EBIT before special items declined to EUR 1,150 m (prior year: EUR 1,196 m). Despite the, in part, difficult market conditions, the group's **EBIT margin** before special items amounted to 10.7% (prior year: 11.4%). While the Industrial division's margin improved to 11.8% (prior year: 8.7%), the margins of the Automotive OEM and Automotive Aftermarket divisions declined to 8.8% (prior year: 10.7%) and 18.3% (prior year: 19.4%), respectively.

Free cash flow before cash in- and outflows for M&A activities was at EUR 127 m in the first nine months of 2018, EUR 120 m below the prior year amount of EUR 247 m, primarily due to the earnings quality and the higher amount of capital tied up in inventories. Capital expenditures on property, plant and equipment and intangible assets of EUR 857 m were slightly below the prior year level (prior year: EUR 873 m).

Schaeffler Value Added before special items **(SVA)** for the reporting period amounted to EUR 721 m (prior year: EUR 829 m), representing a return on capital employed before special items **(ROCE)** of 18.8% (prior year: 20.5%). Along with weaker earnings in the Automotive OEM and Aftermarket divisions, the decline was also the result of an increase in average capital employed.

Major events – first nine months 2018

First quarter 2018

At its meeting on March 02, 2018, the Supervisory Board of Schaeffler AG appointed Andreas Schick (previously Regional CEO Asia/Pacific) to become member of the Board of Managing Directors of Schaeffler AG as of April 01, 2018. Andreas Schick is taking over the role as Chief Operating Officer of Schaeffler AG from Oliver Jung, who left Schaeffler AG as of March 31, 2018. Also at that meeting, the contract of Corinna Schittenhelm, Chief Human Resources Officer, was extended for a term of five years ending on December 31, 2023. Helmut Bode will replace Andreas Schick as Regional CEO Asia/Pacific and was appointed to the Executive Board effective April 01, 2018.

Second quarter 2018

On April 16, 2018, the company's Board of Managing Directors, Works Council and the IG Metall trade union signed a Future Accord. The parties' intention in signing the Accord was to jointly and collaboratively manage and drive the ongoing development and transformation of the Schaeffler Group – with particular regard to the three key future trends of E-Mobility, Industry 4.0, and Digitalization – in the interests of the company and of its employees. Under the Future Accord, the Schaeffler Group will make available a EUR 50 m innovation fund over a period of five years. The purpose of the fund is to foster innovation and thereby to actively harness the great innovative capacity of Schaeffler's employees and to achieve sustainable value creation.

Schaeffler AG's annual general meeting, which was held on April 20, 2018, passed a resolution to pay a dividend of EUR 0.54 (prior year: EUR 0.49) per common share and EUR 0.55 (prior year: EUR 0.50) per common non-voting share to Schaeffler AG's shareholders for 2017.

On May 07, 2018, the company announced that the Board of Managing Directors of Schaeffler AG has decided, with the approval of the Supervisory Board's executive committee, to disband the company's "Bearing & Components Technologies" (BCT) unit, which had previously acted as an internal supplier. Under this reorganization, the plants previously assigned to BCT and the Operations function will be integrated into the Automotive OEM and Industrial divisions. The reorganization is designed to eliminate duplicate structures and leverage further efficiencies. As a first step toward implementing the change, the BCT organization has been transferred to a starting organization effective July 01, 2018, that will be replaced by the target organization to be implemented effective January 01, 2019. A restructuring provision of EUR 22 m has been recognized for this first step of the implementation.

Third quarter 2018

On August 06, 2018, the Schaeffler Group signed a master agreement with Roland Arnold, Arnold Verwaltungs GmbH, and Paravan GmbH for the formation of a joint venture. The objective of the joint venture, which is named Schaeffler Paravan Technologie GmbH & Co. KG and has commenced operations on October 01, 2018, is the further development of Paravan's SPACE DRIVE drive-by-wire technology and the development and sale of mobility systems. As part of the transaction, the joint venture has acquired Paravan's SPACE DRIVE technology. Schaeffler Technologies AG & Co. KG has a 90% stake in the new company.

As part of its future program "Agenda 4 plus One", Schaeffler is enhancing its location in Bühl. This project will see the construction of a state-of-the-art development building and new headquarters for the company's Automotive OEM division. At the same time, the integrated automotive and industrial supplier will boost its activities in the field of electric mobility worldwide. 350 new jobs, primarily in the field of electric mobility, are expected to be created over the next few years. The company will invest a total of approx. EUR 60 m in this location.

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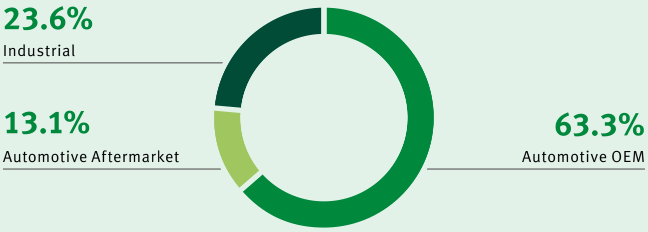
Schaeffler Group

Revenue EUR 10,714 m



EBIT margin before special items 10.7%

Revenue up 5.1% at constant currency // Revenue growth at plus 3.7% at constant currency in Q3: Industrial division maintains dynamic growth; lower demand in the Automotive OEM division; Automotive Aftermarket division revenue declining // EBIT margin before special items at 10.7% // Earnings per common non-voting share at EUR 1.16 (prior year: EUR 1.19) // 2018 guidance reduced: revenue growth 4–5% at constant currency; EBIT margin before special items 9.5–10.5%

Schaeffler Group earnings No. 001

	1st nine months			3rd quarter		
in € millions	2018	2017	Change in %	2018	2017	Change in %
Revenue	**10,714**	**10,480**	**2.2**	**3,521**	**3,434**	**2.5**
• at constant currency			5.1			3.7
Revenue by division						
Automotive OEM	6,778	6,666	1.7	2,191	2,138	2.5
• at constant currency			4.3			3.2
Automotive Aftermarket	1,401	1,434	-2.3	476	506	-5.9
• at constant currency			1.3			-3.0
Industrial	2,535	2,380	6.5	854	790	8.1
• at constant currency			9.8			9.4
Revenue by region [1]						
Europe	5,531	5,424	2.0	1,771	1,760	0.6
• at constant currency			3.1			1.5
Americas	2,146	2,225	-3.6	733	702	4.4
• at constant currency			4.3			7.6
Greater China	1,927	1,735	11.1	643	610	5.4
• at constant currency			14.3			6.6
Asia/Pacific	1,110	1,096	1.3	374	362	3.3
• at constant currency			4.1			2.5
Cost of sales	-7,847	-7,563	3.8	-2,587	-2,470	4.7
Gross profit	**2,867**	**2,917**	**-1.7**	**934**	**964**	**-3.1**
• in % of revenue	26.8	27.8	-	26.5	28.1	-
Research and development expenses	-653	-637	2.5	-209	-209	0.0
Selling and administrative expenses	-1,102	-1,052	4.8	-367	-337	8.9
Earnings before financial result and income taxes (EBIT)	**1,149**	**1,209**	**-5.0**	**376**	**416**	**-9.6**
• in % of revenue	10.7	11.5	-	10.7	12.1	-
Special items [2]	1	-13	-	-21	0	-
EBIT before special items	**1,150**	**1,196**	**-3.8**	**355**	**416**	**-14.7**
• in % of revenue	10.7	11.4	-	10.1	12.1	-
Financial result	-106	-104	1.9	-24	-1	› 100
Income taxes	-266	-301	-11.6	-91	-105	-13.3
Net income [3]	766	791	-3.2	257	306	-16.0
Earnings per common non-voting share (basic/diluted, in €)	1.16	1.19	-2.5	0.39	0.46	-15.2

Prior year information presented based on 2018 segment structure.
[1] By market view (customer location).
[2] Please refer to pp. 22 et seq. for the definition of special items.
[3] Attributable to shareholders of the parent company.

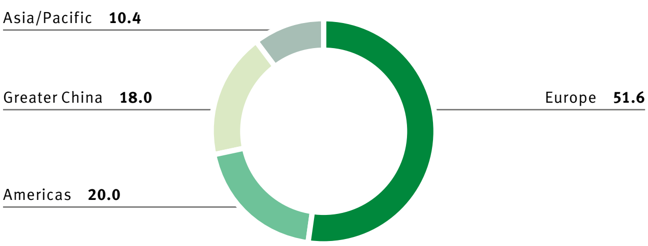
1.3 Earnings

Schaeffler Group earnings

Until December 31, 2017, the Schaeffler Group divided its business into the two divisions Automotive and Industrial. In order to make the company even more customer-oriented in a fast-changing market and competitive environment, the Automotive Aftermarket was separated from the Automotive division of Schaeffler AG and set up as a stand-alone division with its own CEO as of January 01, 2018. As a consequence, the Schaeffler Group has been dividing its business into three divisions – Automotive OEM, Automotive Aftermarket, and Industrial – since January 01, 2018.

The Schaeffler Group's revenue increased by 2.2% to EUR 10,714 m (prior year: EUR 10,480 m) during the reporting period with a considerable adverse impact of currency translation on the revenue trend. Excluding the impact of currency translation, revenue rose by 5.1%. Revenue continued to grow during the third quarter of 2018, albeit with less momentum. While the Industrial division was able to maintain its dynamic growth in the third quarter 2018 and grew by a total of 9.8% during the reporting period, the Automotive OEM division reported market-driven lower demand in the Europe and Greater China regions. Excluding the impact of currency translation, the Automotive OEM division grew by a total of 4.3% during the first nine months of 2018. In the Automotive Aftermarket division, revenue declined in the third quarter, primarily due to strong growth in the Europe region in the prior year quarter. This division's revenue growth for the reporting period amounted to 1.3%, excluding the impact of currency translation.

Schaeffler Group revenue by region No. 002
in percent by market view



Revenue in the Europe region was up 2.0% (+3.1% at constant currency). In the Americas region, revenue declined by 3.6% (+4.3% at constant currency) due to the considerable adverse impact of currency translation. The revenue trend in the Greater China region remained encouraging despite less dynamic growth in the third quarter of 2018, with revenue increasing by 11.1% during the first nine months of 2018, despite an adverse impact of currency translation (+14.3% at constant currency). Revenue in the Asia/Pacific region was up only slightly due to the adverse impact of currency translation, rising by 1.3% (+4.1% at constant currency).

Cost of sales increased by EUR 284 m or 3.8% to EUR 7,847 m (prior year: EUR 7,563 m) during the reporting period. Gross profit declined by EUR 50 m or 1.7% to EUR 2,867 m (prior year: EUR 2,917 m) with a corresponding drop in gross margin by one percentage point to 26.8% (prior year: 27.8%). The decline was mainly attributable to the disproportionately increase in production costs due, among other things, to higher raw materials prices, the impact of currency translation, and the delayed ramp-up of a few major projects in the Automotive OEM division. In addition, the initial application of the new financial reporting standard, IFRS 15, during the reporting period has resulted in, among other things, a change in the presentation of certain development services, as the new standard requires them to be classified within gross margin. This change in presentation had an adverse effect on the margin trend compared to the prior year, but decreased research and development expenses in return.

Functional costs rose by EUR 66 m, or 3.9%, to EUR 1,755 m (prior year: EUR 1,689 m), growing to 16.4% of revenue (prior year: 16.1%). The factors contributing to this growth included an increase in research and development expenses by EUR 16 m or 2.5% to EUR 653 m (prior year: EUR 637 m), representing an R&D ratio of 6.1% (prior year: 6.1%) of revenue. Selling and administrative expenses rose EUR 50 m or 4.8% to EUR 1,102 m (prior year: EUR 1,052 m), primarily due to significantly expanded business in the Greater China region.

EBIT amounted to EUR 1,149 m during the reporting period (prior year: EUR 1,209 m) and the EBIT margin was 10.7% (prior year: 11.5%). EBIT for the reporting period was adversely affected by special items totaling EUR 1 m (prior year: income of EUR 13 m). This included EUR 22 m representing restructuring expenses related to the integration of the internal supplier, “Bearing & Components Technologies”. Income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities had an offsetting effect on EBIT of EUR 21 m. The prior year period included income from the reversal of a provision for legal cases that increased EBIT by EUR 13 m. During the reporting period, EBIT before special items declined by EUR 46 m or 3.8% to EUR 1,150 m (prior year: EUR 1,196 m). The group's EBIT margin before special items of 10.7% (prior year: 11.4%) was below the prior year level. The decline in gross margin described above – due, inter alia, to the adverse impact of currency translation – and higher functional costs was partially offset by gains on foreign currency transactions, among other things.

The Schaeffler Group's financial result amounted to EUR -106 m in the first nine months of 2018 (prior year: EUR -104 m).

Schaeffler Group financial result No. 003

	1st nine months	
in € millions	**2018**	**2017**
Interest expense on financial debt [1]	-74	-99
Gains and losses on derivatives and foreign exchange	-2	-11
Fair value changes on embedded derivatives	-14	32
Interest income and expense on pensions and partial retirement obligations	-30	-29
Other	14	3
Total	**-106**	**-104**

[1] Incl. amortization of transaction costs and prepayment penalties.

Interest expense on financial debt amounted to EUR 74 m in the reporting period (prior year: EUR 99 m). The decrease in interest expense was largely due to the reduction in financial debt compared to the prior year. In addition, the prior year included a prepayment penalty of EUR 13 m and EUR 5 m in deferred transaction costs derecognized. The existing Facilities Agreement was extended until 2023 on August 31, 2018.

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to EUR 2 m (prior year: EUR 11 m). These included the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross-currency swaps.

Changes in the fair value of embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 14 m (prior year: gains of EUR 32 m).

Income tax expense for the reporting period amounted to EUR 266 m (prior year: EUR 301 m), representing an effective tax rate of 25.5% (prior year: 27.2%). The decrease in the effective tax rate compared to the prior year was primarily attributable to one-time items arising from taxes related to prior years and shifts between the various country-specific tax burdens of German and foreign companies.

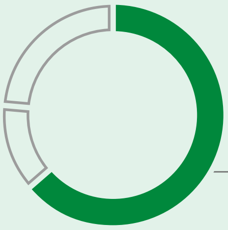
Net income attributable to shareholders of the parent company for the reporting period was EUR 766 m (prior year: EUR 791 m).

Basic and diluted earnings per common share decreased to EUR 1.15 in the first nine months of 2018 (prior year: EUR 1.18). Basic and diluted earnings per common non-voting share amounted to EUR 1.16 (prior year: EUR 1.19). The number of shares used to calculate earnings per common share and earnings per common non-voting share was 500 million (prior year: 500 million) and 166 million (prior year: 166 million), respectively.

Automotive OEM division

Revenue EUR 6,778 m

EBIT margin before special items 8.8%



63.3%
of group revenue

Revenue up 4.3% at constant currency // Revenue growth at plus 3.2% at constant currency in Q3 – lower demand in the Europe and Greater China regions // Earnings quality below prior year – affected by increased raw materials prices and adverse impact of currency translation and revenue mix // Markets remain highly volatile – outlook 2018 reduced: revenue growth 3.5–4.5% at constant currency; EBIT margin before special items 8–8.5%

Automotive OEM division earnings No. 004

	1st nine months			3rd quarter		
in € millions	2018	2017	Change in %	2018	2017	Change in %
Revenue	**6,778**	**6,666**	**1.7**	**2,191**	**2,138**	**2.5**
• at constant currency			4.3			3.2
Revenue by business division						
Engine Systems BD	2,113	2,067	2.2	691	669	3.3
• at constant currency			5.2			4.1
Transmission Systems BD	3,148	3,117	1.0	996	992	0.4
• at constant currency			3.9			1.2
E-Mobility BD	349	311	12.2	128	103	24.3
• at constant currency			13.6			25.3
Chassis Systems BD	1,168	1,171	-0.3	376	374	0.5
• at constant currency			2.0			1.3
Revenue by region 1)						
Europe	3,052	3,010	1.4	947	939	0.9
• at constant currency			2.2			1.6
Americas	1,455	1,475	-1.4	494	457	8.1
• at constant currency			5.7			9.9
Greater China	1,433	1,342	6.8	473	466	1.5
• at constant currency			9.5			2.5
Asia/Pacific	838	839	-0.1	277	276	0.4
• at constant currency			2.4			-0.7
Cost of sales	-5,180	-4,961	4.4	-1,685	-1,591	5.9
Gross profit	**1,598**	**1,705**	**-6.3**	**506**	**547**	**-7.5**
• in % of revenue	23.6	25.6	-	23.1	25.6	-
Research and development expenses	-527	-516	2.1	-169	-170	-0.6
Selling and administrative expenses	-494	-464	6.5	-164	-147	11.6
EBIT	**599**	**725**	**-17.4**	**185**	**229**	**-19.2**
• in % of revenue	8.8	10.9	-	8.4	10.7	-
Special items 2)	-3	-13	-76.9	-13	0	› 100
EBIT before special items	**596**	**712**	**-16.3**	**172**	**229**	**-24.9**
• in % of revenue	8.8	10.7	-	7.9	10.7	-

Prior year information presented based on 2018 segment structure.
1) By market view (customer location).
2) Please refer to pp. 22 et seq. for the definition of special items.

Automotive OEM division earnings

The Automotive division, which existed until December 31, 2017, organized its business into the four business divisions (BD) Engine Systems, Transmission Systems, Chassis Systems, as well as Automotive Aftermarket. Since the Automotive Aftermarket BD was set up as the third division effective January 01, 2018, the Automotive OEM business has been organized in the Automotive OEM division. In addition, the new E-Mobility BD was created within the Automotive OEM division, also effective January 01, 2018. On this basis, the new Automotive OEM division is subdivided into the four BDs Engine Systems, Transmission Systems, E-Mobility, and Chassis Systems.

Automotive OEM division revenue increased by 1.7% to EUR 6,778 m (prior year: EUR 6,666 m) in the first nine months of 2018. Excluding the impact of currency translation, revenue for the reporting period was up 4.3%, once more exceeding global production volumes for passenger cars and light commercial vehicles, which rose by 0.8% during the reporting period. Following the encouraging revenue trend in the first half of 2018, market conditions resulted in the Automotive OEM division reporting less dynamic revenue growth of 3.2%, excluding the impact of currency translation, for the third quarter of 2018 due to the persistently challenging environment in the automotive sector, with automobile production declining by 2.0%. This trend was driven by lower growth in demand in the Europe and Greater China regions. While the cooling in Europe was mainly driven by production delays attributable to the changeover to the new WLTP certification, the decline in Greater China was primarily the result of subdued consumer sentiment given the trade conflict with the U.S. and stricter lending practices.

Revenue for the Europe region was up 1.4% (+2.2% at constant currency), while the region's vehicle production grew by 1.8% during the reporting period. In the Americas region, revenue declined by 1.4% (+5.7% at constant currency) due to the adverse impact of currency translation. Regional automobile production there was nearly flat with prior year (-0.1%). The Greater China region continued to expand its revenue, generating 6.8% (+9.5% at constant currency) in additional revenue, while that region's vehicle production rose by 1.8%. In the Asia/Pacific region, revenue was flat with prior year (-0.1%; +2.4% at constant currency) compared to a 1.3% decrease in regional vehicle production for the reporting period.

The **Engine Systems BD** reported a 2.2% increase in revenue during the period. Excluding the impact of currency translation, revenue was up 5.2%. The increase was primarily driven by the innovative thermal management module.

Transmission Systems BD revenue rose slightly by 1.0% (+3.9% at constant currency). The growth in revenue excluding the impact of currency translation was driven especially by higher volumes of components for automated transmissions, such as torque converters, which rose even further in the third quarter 2018.

The new **E-Mobility BD** combines all components and system solutions for hybrid and purely battery-electric vehicles. The product portfolio includes hybrid modules, primary components for continuously variable transmissions (CVTs), electric axles, hydrostatic clutch actuators, and electric wheel hub motors. The E-Mobility BD increased its revenue for the reporting period by a total of 12.2% (+13.6% at constant currency).

The **Chassis Systems BD** reported revenue nearly unchanged from the prior year level (-0.3%). Excluding the impact of currency translation, however, revenue rose by 2.0%, primarily on the back of higher volumes in the wheel bearings, chassis actuators, and ball screw drives product groups.

Automotive OEM division cost of sales increased by EUR 219 m or 4.4% to EUR 5,180 m (prior year: EUR 4,961 m) in the first nine months of 2018. Gross profit declined by EUR 107 m or 6.3% to EUR 1,598 m (prior year: EUR 1,705 m). As a result, the division's gross margin fell by 2.0 percentage points to 23.6% (prior year: 25.6%), due especially to the adverse impact of currency translation and a disproportionately increase in production costs, attributable to higher raw materials prices, among other things, as well as the impact of the revenue mix. Additionally, the delayed ramp-up of a few major projects (primarily in China) resulted in project-related fixed costs combined with reduced revenue growth adversely affecting the margin. In addition, the initial application of the new financial reporting standard, IFRS 15, during the reporting period has resulted in, among other things, a change in the presentation of certain development services, as the new standard requires them to be classified within gross margin. This change in presentation had an adverse effect on the margin trend compared to the prior year, but decreased research and development expenses in return.

Functional costs increased by EUR 41 m or 4.2% to EUR 1,021 m (prior year: EUR 980 m), rising to 15.1% of revenue (prior year: 14.7%). During the reporting period, research and development expenses grew by 2.1% to EUR 527 m (prior year: EUR 516 m), representing 7.8% of revenue (prior year: 7.7%). Selling and administrative expenses of EUR 494 m were 6.5% higher than in the prior year (prior year: EUR 464 m), due to, inter alia, significantly expanded business in the Greater China region during the reporting period.

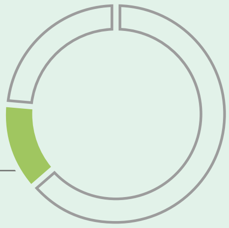
Automotive OEM division EBIT of EUR 599 m (prior year: EUR 725 m) and the EBIT margin of 8.8% (prior year: 10.9%) were below the prior year level. The share of special items recognized by the Automotive OEM division during the reporting period increased EBIT by a total of EUR 3 m. This included EUR 10 m representing restructuring expenses related to the integration of the internal supplier, "Bearing & Components Technologies". Income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities had an offsetting effect on EBIT of EUR 13 m. The prior year period included income from the reversal of a provision for legal cases that had increased EBIT by EUR 13 m. Based on that, EBIT before special items declined to EUR 596 m (prior year: EUR 712 m) and the EBIT margin before special items to 8.8% (prior year: 10.7%), primarily due to the lower gross margin. Gains on foreign currency transactions had a compensating effect on the adverse impact of currency translation on gross profit.

Automotive Aftermarket division

Revenue EUR 1,401 m

EBIT margin before special items 18.3%

13.1%
of group revenue



Revenue growth of 1.3% at constant currency // Revenue for Q3 down 3.0% at constant currency – largely due to strong prior year quarter in the Europe region // China business maintains highly dynamic growth // Revenue trend weaker than expected – outlook 2018 reduced: revenue growth 1.5–2.5% at constant currency; EBIT margin before special items 17–17.5%

Automotive Aftermarket division earnings No. 005

	1st nine months			3rd quarter		
in € millions	2018	2017	Change in %	2018	2017	Change in %
Revenue	**1,401**	**1,434**	**-2.3**	**476**	**506**	**-5.9**
• at constant currency			1.3			-3.0
Revenue by region [1]						
Europe	1,054	1,047	0.7	355	375	-5.3
• at constant currency			1.9			-4.3
Americas	251	310	-19.0	89	106	-16.0
• at constant currency			-8.0			-6.3
Greater China	58	43	34.9	19	14	35.7
• at constant currency			39.0			37.3
Asia/Pacific	38	34	11.8	13	11	18.2
• at constant currency			16.0			16.3
Cost of sales	-907	-914	-0.8	-311	-313	-0.6
Gross profit	**494**	**520**	**-5.0**	**165**	**193**	**-14.5**
• in % of revenue	35.3	36.3	-	34.7	38.1	-
Research and development expenses	-22	-21	4.8	-7	-7	0.0
Selling and administrative expenses	-227	-213	6.6	-78	-69	13.0
EBIT	**259**	**278**	**-6.8**	**83**	**117**	**-29.1**
• in % of revenue	18.5	19.4	-	17.4	23.1	-
Special items [2]	-3	0	> 100	-3	0	> 100
EBIT before special items	**256**	**278**	**-7.9**	**80**	**117**	**-31.6**
• in % of revenue	18.3	19.4	-	16.8	23.1	-

Prior year information presented based on 2018 segment structure.
1) By market view (customer location).
2) Please refer to pp. 22 et seq. for the definition of special items.

Automotive Aftermarket division earnings

Effective January 01, 2018, the former Automotive Aftermarket business division was set up as a third stand-alone division of the Schaeffler Group with its own CEO. This step reflects the increased significance of the Automotive Aftermarket business to the Schaeffler Group. The management model of the new division follows a regional approach based on the Europe, Americas, Greater China, and Asia/Pacific regions. Within each region and the related subregions, the division uses two distribution channels to sell its products and services: the Original Equipment Service (OES) and the open (independent) market, known as the Independent Aftermarket (IAM). The OES comprises the automobile manufacturers' spare parts business, that is, supplying original spare parts and services to branded repair shops, i.e. those that are authorized by automobile manufacturers. IAM, on the other hand, supplies independent repair shops that are not tied to any one vehicle brand with spare parts and services via the various distribution levels.

The Automotive Aftermarket division's revenue decreased by 2.3% to EUR 1,401 m (prior year: EUR 1,434 m) in the first nine months of 2018 as a result of the adverse impact of currency translation. Excluding the impact of currency translation, revenue was up 1.3%. Following a solid first half of 2018, the Automotive Aftermarket division reported a drop in revenue for the third quarter of 2018 compared to the prior year period. The reasons for this drop were region-specific.

Revenue in the **Europe region** for the reporting period was up 0.7% (+1.9% at constant currency). Following the encouraging revenue trend in the first half of 2018, revenue for the third quarter of 2018 declined, excluding the impact of currency translation. This was largely the result of strong growth in the prior year quarter, which included the non-recurring impact of reducing the level of customers' back orders from the second quarter of 2017.

The **Americas region** reported considerably lower revenue for the reporting period, 19.0% less than the high prior year level – a revenue trend that was affected by a substantial adverse impact of currency translation. Excluding the impact of currency translation, revenue fell by 8.0%, due especially to non-recurring additional requirements of an OES customer in the prior year period.

The division continued to make good headway in developing its Chinese market. The **Greater China region** generated revenue growth of 34.9% (+39.0% at constant currency), with reasons including higher OES customers' requirements.

In the **Asia/Pacific region**, revenue rose by 11.8%. Excluding the impact of currency translation, the region reported 16.0% in additional revenue, with a positive impact coming from growth in Independent Aftermarket revenue in the Southeast Asia subregion as well as from increased requirements of OES customers.

Automotive Aftermarket division cost of sales fell by EUR 7 m or 0.8% to EUR 907 m (prior year: EUR 914 m). Gross profit of EUR 494 m was below the prior year level (prior year: EUR 520 m) and gross margin declined by one percentage point to 35.3% (prior year: 36.3%), primarily since the adverse impact of pricing and currency translation was not fully offset by the favorable impact of economies of scale and the revenue mix.

Functional costs rose by EUR 15 m or 6.4% to EUR 249 m (prior year: EUR 234 m), growing to a total of 17.8% of revenue (prior year: 16.3%). Among other things, the increase is due to stepped-up selling and logistics activities.

EBIT for the first nine months of 2018 amounted to EUR 259 m (prior year: EUR 278 m) and the EBIT margin was 18.5% (prior year: 19.4%). EBIT for the reporting period included the share of special items recognized by the Automotive Aftermarket division consisting of EUR 3 m in income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities. Based on that, EBIT before special items decreased to EUR 256 m (prior year: EUR 278 m), and the EBIT margin before special items fell to 18.3% (prior year: 19.4%). Along with the drop in gross profit, the margin was adversely affected by, among other things, higher functional costs. Gains on foreign currency transactions and non-operating one-time items had a compensating effect on the adverse impact of currency translation on gross profit.

Industrial division

Revenue EUR 2,535 m

23.6%
of group revenue

EBIT margin before special items 11.8%

Revenue up 9.8% at constant currency – strong revenue growth continued in Q3 // Revenue growth in all regions // Double-digit growth rates in the railway, raw materials, power transmission, and offroad sector clusters // EBIT margin increased over prior year, mainly due to economies of scale // Program “CORE” cost and efficiency measures proving effective for the long term // Outlook 2018 for revenue growth raised on the back of positive performance: revenue growth 8–9% at constant currency; EBIT margin before special items 10.5–11%

Industrial division earnings No. 006

	1st nine months			3rd quarter		
in € millions	2018	2017	Change in %	2018	2017	Change in %
Revenue	**2,535**	**2,380**	**6.5**	**854**	**790**	**8.1**
• at constant currency			9.8			9.4
Revenue by region [1)]						
Europe	1,425	1,367	4.2	469	446	5.2
• at constant currency			6.0			6.3
Americas	440	440	0.0	150	139	7.9
• at constant currency			8.0			10.1
Greater China	436	350	24.6	151	130	16.2
• at constant currency			29.4			17.6
Asia/Pacific	234	223	4.9	84	75	12.0
• at constant currency			8.7			12.4
Cost of sales	-1,760	-1,688	4.3	-591	-566	4.4
Gross profit	**775**	**692**	**12.0**	**263**	**224**	**17.4**
• in % of revenue	30.6	29.1	-	30.8	28.4	-
Research and development expenses	-104	-100	4.0	-33	-32	3.1
Selling and administrative expenses	-381	-375	1.6	-125	-121	3.3
EBIT	**291**	**206**	**41.3**	**108**	**70**	**54.3**
• in % of revenue	11.5	8.7	-	12.6	8.9	-
Special items [2)]	7	0	› 100	-5	0	› 100
EBIT before special items	**298**	**206**	**44.7**	**103**	**70**	**47.1**
• in % of revenue	11.8	8.7	-	12.1	8.9	-

Prior year information presented based on 2018 segment structure.
[1)] By market view (customer location).
[2)] Please refer to pp. 22 et seq. for the definition of special items.

Industrial division earnings

The Industrial division continued its growth trend from the first half of 2018 with an encouraging third quarter of 2018. Total revenue for the first nine months increased by 6.5% to EUR 2,535 m (prior year: EUR 2,380 m). Excluding the impact of currency translation, revenue was up 9.8%. The increase was primarily driven by Industrial Distribution. The raw materials, power transmission, railway, and offroad sector clusters generated double-digit revenue growth and also contributed to the considerable increase in revenue.

The Industrial business is primarily managed based on regions. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets; trends varied across these markets in the first nine months of 2018.

Revenue in the **Europe region** expanded by 4.2% (+6.0% at constant currency) during the reporting period. This growth was primarily due to higher sales in Industrial Distribution. The railway and two-wheelers sector clusters grew their revenue at double-digit rates, excluding the impact of currency translation. Revenue also rose, excluding the impact of currency translation, in the offroad, power transmission, industrial automation, and raw materials sector clusters, while the aerospace sector cluster reported a slight revenue decline. Revenue dropped considerably in the wind sector cluster.

Americas region revenue for the reporting period was exactly flat with prior year due to the adverse impact of currency translation. Excluding the impact of currency translation, the region's revenue grew by 8.0%. This growth was largely driven by the power transmission, raw materials, and aerospace sector clusters as well as by Industrial Distribution. The industrial automation, offroad, two-wheelers, and railway sector clusters generated revenue growth as well, excluding the impact of currency translation, while the wind sector cluster experienced a considerable decline in demand.

In the **Greater China region**, revenue rose by 24.6% (+29.4% at constant currency). All sector clusters as well as Industrial Distribution generated double-digit revenue growth, excluding the impact of currency translation. Particularly the considerable increase in volumes in the raw materials and wind sector clusters contributed to this region's growth, with the power transmission, railway, offroad, and industrial automation sector clusters and Industrial Distribution also considerably increasing their revenue.

In the **Asia/Pacific region**, revenue increased by 4.9%. Excluding the impact of currency translation, the region generated 8.7% in additional revenue due to higher volumes. Industrial Distribution as well as all sector clusters except for power transmission and raw materials grew their revenue, with the Industrial Distribution and the offroad sector cluster acting as the main drivers of the region's revenue growth.

Industrial division cost of sales rose by EUR 72 m or 4.3% to EUR 1,760 m (prior year: EUR 1,688 m). Gross profit increased by EUR 83 m or 12.0% to EUR 775 m (prior year: EUR 692 m). The division's gross margin improved by 1.5 percentage points to 30.6% (prior year: 29.1%), primarily since economies of scale outweighed the adverse impact of currency translation and inflation-related cost increases. Favorable one-time items also contributed to improvement in the gross margin.

Functional costs for the reporting period of EUR 485 m were EUR 10 m or 2.1% above the prior year level (prior year: EUR 475 m). The cost reduction measures under the program "CORE" almost fully offset cost increases, particularly in personnel expenses, which, among other things, had a favorable effect on the relative functional cost structure. Functional costs as a percentage of revenue fell to 19.1% (prior year: 20.0%). Research and development expenses amounted to EUR 104 m (prior year: EUR 100 m), and selling and administrative expenses were EUR 381 m (prior year: EUR 375 m).

EBIT for the first nine months of 2018 amounted to EUR 291 m (prior year: EUR 206 m) and the EBIT margin was 11.5% (prior year: 8.7%). EBIT for the reporting period was affected by special items totaling EUR 7 m. This included EUR 12 m representing the share of restructuring expenses related to the integration of the internal supplier, "Bearing & Components Technologies", that was recognized by the Industrial division. Income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities had an offsetting effect on EBIT of EUR 5 m, representing the share recognized by the Industrial division. The Industrial division increased its EBIT before special items to EUR 298 m (prior year: EUR 206 m). The division's EBIT margin before special items improved by 3.1 percentage points to 11.8% (prior year: 8.7%). Along with the higher gross profit, the improved margin was mainly attributable to non-operating one-time items and the improvements in the functional cost structure as a result of the program "CORE". Progress in implementing the measures of the second wave and the – now full – potential of the measures of the first wave of the program "CORE" are proving effective. In addition, gains on foreign currency transactions had a compensating effect on the adverse impact of currency translation on gross profit.

Performance indicators and special items

Please refer to pp. 30 et seq. and page 61 of the Schaeffler Group's annual report 2017 for a detailed discussion of performance indicators and special items

The information on the Schaeffler Group's earnings, net assets, and financial position is based on the requirements of International Financial Reporting Standards (IFRS) and, where applicable, German commercial law and German Accounting Standards (GAS).

In addition to the disclosures required by these standards, the Schaeffler Group also discloses certain performance indicators that are not defined in the relevant financial reporting standards. The company presents these measures in accordance with the Guidelines on Alternative Performance measures issued by the European Securities and Markets Authority, ESMA. Therefore, these indicators should be considered supplementary information. They are designed to provide comparability over time and across sectors and are calculated by making certain adjustments to, or calculating ratios between, line items contained in the income statement, statement of financial position, or statement of cash flows prepared in accordance with applicable financial reporting standards. These performance indicators include, among others, EBIT, earnings before financial result, income taxes, depreciation, amortization, and impairment losses (EBITDA), the net debt to EBITDA ratio, ROCE, and SVA.

In order to make the evaluation of the company's results of operations as transparent as possible, the Schaeffler Group reports the indicators described above before special items (= adjusted). Special items are items that the Board of Managing Directors considers to render the financial indicators less meaningful for evaluating the sustainability of the Schaeffler Group's profitability due to their nature, frequency, and/or size. Net income attributable to shareholders of the parent company before special items in EBIT is also presented in order to facilitate calculating the dividend payout ratio. Special items are categorized as legal cases, restructuring, and other.

In addition to presenting special items, the company also aims to make the evaluation of the company's results of operations as transparent as possible by presenting its revenue figures excluding the impact of currency translation. Revenue figures at constant currency, i.e. excluding the impact of currency translation, are calculated by translating functional currency revenue using the same exchange rate for both the current and the prior year or comparison reporting period. Starting in 2018, the company also reports free cash flow (FCF) before cash in- and outflows for M&A activities. M&A activities consist of acquisitions and disposals of companies and business units. To facilitate evaluation of the cash conversion cycle, the company determines the FCF conversion ratio, which represents the ratio of FCF before cash in- and outflows for M&A activities to EBITDA before special items.

Reconciliation

No. 007

	1st nine months		1st nine months		1st nine months		1st nine months	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Income statement (in € millions)		Total		Automotive OEM		Automotive Aftermarket		Industrial
EBIT	**1,149**	**1,209**	**599**	**725**	**259**	**278**	**291**	**206**
• in % of revenue	10.7	11.5	8.8	10.9	18.5	19.4	11.5	8.7
Special items	**1**	**-13**	**-3**	**-13**	**-3**	**0**	**7**	**0**
• Legal cases	-21	-13	-13	-13	-3	0	-5	0
• Restructuring	22	0	10	0	0	0	12	0
• Other	0	0	0	0	0	0	0	0
EBIT before special items	**1,150**	**1,196**	**596**	**712**	**256**	**278**	**298**	**206**
• in % of revenue	10.7	11.4	8.8	10.7	18.3	19.4	11.8	8.7
Net income [1]	**766**	**791**						
Special items	**1**	**-13**						
• Legal cases	-21	-13						
• Restructuring	22	0						
• Other	0	0						
– Tax effect [2]	0	4						
Net income before special items [1]	**767**	**782**						
Statement of financial position (in € millions)	**09/30/2018**	**12/31/2017**						
Net financial debt	2,644	2,370						
/ EBITDA LTM	2,269	2,295						
Net financial debt to EBITDA ratio	**1.2**	**1.0**						
Net financial debt	2,644	2,370						
/ EBITDA before special items LTM	2,339	2,351						
Net financial debt to EBITDA ratio before special items	**1.1**	**1.0**						
		1st nine months						
Statement of cash flows (in € millions)	**2018**	**2017**						
EBITDA	**1,754**	**1,780**						
Special items	**1**	**-13**						
• Legal cases	-21	-13						
• Restructuring	22	0						
• Other	0	0						
EBITDA before special items	**1,755**	**1,767**						
Free cash flow (FCF)	**126**	**244**						
-/+ Cash in- and outflows for M&A activities	1	3						
Free cash flow before cash in- and outflows for M&A activities	**127**	**247**						
Free cash flow before cash in- and outflows for M&A activities LTM	395	501						
/ EBITDA before special items LTM	2,339	2,387						
FCF conversion ratio (in %)	**16.9**	**21.0**						
Value-based management (in € millions)								
EBIT LTM	1,468	1,489						
/ Average capital employed	8,165	7,914						
ROCE (in %)	**18.0**	**18.8**						
EBIT before special items LTM	1,538	1,620						
/ Average capital employed	8,165	7,914						
ROCE before special items (in %)	**18.8**	**20.5**						
EBIT LTM	1,468	1,489						
– Cost of capital	817	791						
Schaeffler Value Added (SVA)	**651**	**698**						
EBIT before special items LTM	1,538	1,620						
– Cost of capital	817	791						
SVA before special items	**721**	**829**						

LTM = based on the last twelve months.
[1] Attributable to shareholders of the parent company.
[2] Based on the group's effective tax rate for the relevant year.

1.4 Financial position

Cash flow and liquidity

Cash flow No. 008

	1st nine months			3rd quarter		
in € millions	**2018**	**2017**	Change in %	**2018**	**2017**	Change in %
Cash flows from operating activities	983	1,116	-11.9	463	610	-24.1
Cash used in investing activities	-857	-872	-1.7	-261	-277	-5.8
Free cash flow	**126**	**244**	**-48.4**	**202**	**333**	**-39.3**
Cash used in financing activities	-77	-567	-86.4	30	1	> 100
Net increase/decrease in cash and cash equivalents	**49**	**-323**	**-**	**232**	**334**	**-30.5**
Effects of foreign exchange rate changes on cash and cash equivalents	-16	-29	-44.8	-8	-14	-42.9
Cash and cash equivalents as at beginning of period	698	1,071	-34.8	507	399	27.1
Cash and cash equivalents as at September 30	**731**	**719**	**1.7**	**731**	**719**	**1.7**

Cash flows from operating activities declined by EUR 133 m to EUR 983 m (prior year: EUR 1,116 m) in the first nine months of 2018 compared to the prior year, due to weaker earnings in 2018, among other things. Higher income tax payments as well as a special contribution to the U.S. pension fund affected cash flows from operating activities as well. At EUR 342 m, net cash outflows related to the expansion of working capital were flat with prior year (prior year: EUR 340 m), with the increase in trade payables and the comparatively smaller increase in trade receivables partially offsetting the considerably larger increase in inventories. Sales of receivables resulted in a cash inflow of EUR 47 m (prior year: EUR 54 m). The working capital ratio, defined as working capital as a percentage of revenue, was 18.1% (prior year: 19.5%).

Capital expenditures on property, plant and equipment and intangible assets (capex) of EUR 857 m were below the prior year amount of EUR 873 m. The first nine months of 2018 included net cash outflows for M&A activities of EUR 1 m (prior year: EUR 3 m).

These developments resulted in free cash flow of EUR 126 m (prior year: EUR 244 m) for the first nine months of 2018. Excluding net cash outflows for M&A activities, **free cash flow** amounted to EUR 127 m (prior year: EUR 247 m). The free cash flow conversion ratio, defined as the ratio of free cash flow before cash in- and outflows for M&A activities to EBITDA before special items, was 16.9% (prior year: 21.0%).

EUR 77 m (prior year: EUR 567 m) in cash was used in **financing activities** during the reporting period. EUR 361 m of the EUR 363 m in dividends paid during the second quarter of 2018 represented the dividends paid to Schaeffler AG's shareholders. Cash of EUR 235 m was provided by utilizing a portion of the Revolving Credit Facility and obtaining a short-term loan. An additional EUR 50 m was drawn under the loan agreement obtained to finance long-term logistics projects.

Cash and cash equivalents increased by EUR 33 m to EUR 731 m as at September 30, 2018 (December 31, 2017: EUR 698 m).

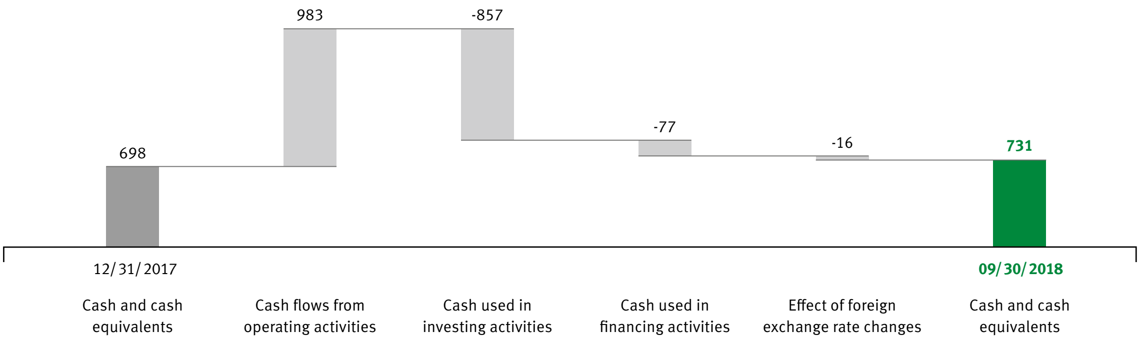
As at September 30, 2018, cash and cash equivalents consisted primarily of bank balances. EUR 361 m (December 31, 2017: EUR 293 m) of this amount related to countries with foreign exchange restrictions and other legal restrictions. In addition, the Schaeffler Group has a Revolving Credit Facility of EUR 1.3 bn (December 31, 2017: EUR 1.3 bn), of which EUR 160 m was drawn as at September 30, 2018. Additionally, EUR 19 m of the Revolving Credit Facility was utilized as at September 30, 2018 (December 31, 2017: EUR 12 m), primarily in the form of letters of credit.

Capital expenditures

Investing in intangible assets and property, plant and equipment is key to driving the Schaeffler Group's growth. Capital expenditures (capex) on property, plant and equipment and intangible assets for the first nine months of 2018 of EUR 857 m were below the prior year level (prior year: EUR 873 m). Capital expenditures amounted to 8.0% (prior year: 8.3%) of revenue (capex ratio).

Changew in cash and cash equivalents No. 009

in € millions



Total additions to intangible assets and property, plant and equipment amounted to EUR 806 m (prior year: EUR 832 m). Approx. 80% of these additions related to the Automotive OEM division, approx. 2% to the Automotive Aftermarket division, and approx. 18% to the Industrial division.

By far the largest share of total capital expenditures related to the Europe (EUR 498 m; prior year: EUR 529 m) and Greater China regions (EUR 211 m; prior year: EUR 190 m). In both of these regions, the company made targeted investments in expanding capacity and to realize new product ramp-ups of future electrified drive concepts in the Automotive OEM division. The Industrial division invested mainly in expanding capacity and in measures aimed at reducing shifts. A further share of capital expenditures made in the Europe region related to the state-of-the-art integrated assembly and packaging center of the Automotive Aftermarket division, the "Aftermarket Kitting Operation" (AKO). The AKO, an initiative under the program for the future, the "Agenda 4 plus One", is designed to further optimize Automotive Aftermarket processes and generate sustained improvements in delivery quality.

Financial debt

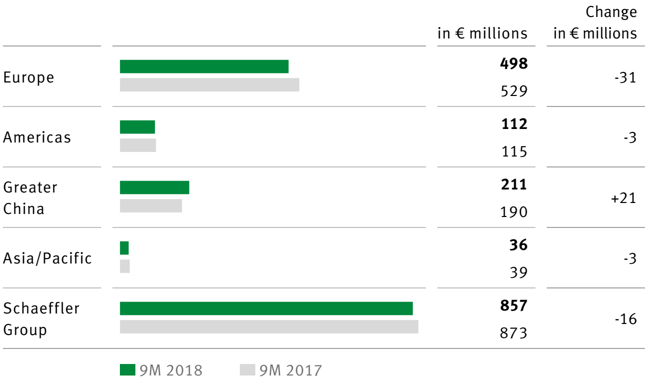
The group's net financial debt increased by EUR 274 m to EUR 2,644 m as at September 30, 2018 (December 31, 2017: EUR 2,370 m), largely due to the utilization of credit facilities.

The debt to EBITDA ratio, defined as the ratio of net financial debt to EBITDA, amounted to 1.2 as at September 30, 2018 (December 31, 2017: 1.0). The net debt to EBITDA ratio before special items was 1.1 (December 31, 2017: 1.0).

The gearing ratio, defined as the ratio of net financial debt to shareholders' equity including non-controlling interests, decreased to 91.0% as at September 30, 2018 (December 31, 2017: 93.0%).

On August 30, 2018, rating agency Standard & Poor's raised its company rating for the Schaeffler Group from BB+ (outlook: positive) to BBB- (outlook: stable). As a result of this upgrade, the Schaeffler Group now holds investment grade ratings by all three major rating agencies – Standard & Poor's, Moody's, and Fitch.

Capital expenditures by region (capex) No. 010



Regions reflect the regional structure of the Schaeffler Group.

Net financial debt No. 011

in € millions	09/30/2018	12/31/2017	Change in %
Bonds	2,012	1,994	0.9
Facilities Agreement	1,146	983	16.6
Capital investment loan	139	89	56.2
Other financial debt	78	2	> 100
Total financial debt	**3,375**	**3,068**	**10.0**
Cash and cash equivalents	731	698	4.7
Net financial debt	**2,644**	**2,370**	**11.6**

Standard & Poor's upgraded the rating for the outstanding bonds issued by Schaeffler Finance B.V. to BBB- as well.

On August 31, 2018, the Schaeffler Group signed an amendment to its EUR 2.3 bn Facilities Agreement (consisting of a EUR 1 bn term loan and a EUR 1.3 bn Revolving Credit Facility). The amendment extends the maturity by two years to September 30, 2023, and initially does not change the facilities or terms and conditions. Meeting certain conditions will automatically trigger a further amendment, resulting in, among other things, improved terms and conditions, enhanced operational and financial flexibility, as well as an increase in the Revolving Credit Facility from EUR 1.3 bn to EUR 1.5 bn. The conditions required to be met for this amendment to become effective include a reduction in the term loan from EUR 1 bn to EUR 500 m.

In addition, an amendment to the EUR 250 m capital investment loan was signed on August 31, 2018, as well. Meeting the same conditions as under the EUR 2.3 bn Facilities Agreement will enhance the operational and financial flexibility to the same extent.

As a result of the rating upgrade by Standard & Poor's, Schaeffler was able to have the remaining in rem security under both the EUR 2.3 bn Facilities Agreement and the outstanding bonds issued by Schaeffler Finance B.V. released on September 15, 2018.

On September 28, 2018, Schaeffler AG established a EUR 5 bn debt issuance program. The corresponding base prospectus was approved by the Luxemburg regulator, Commission de Surveillance du Secteur Financier (CSSF). The debt issuance program provides Schaeffler with a flexible platform for obtaining funding from the debt capital markets in the future.

As at September 30, 2018, a total of EUR 140 m (December 31, 2017: EUR 90 m) was drawn under the capital investment loan obtained to finance the long-term logistics projects. The total amount drawn under the Revolving Credit Facility as at September 30, 2018, was EUR 160 m (December 31, 2017: EUR 0 m).

The Schaeffler Group had the following syndicated loans outstanding at September 30, 2018:

Schaeffler Group syndicated loans No. 012

Tranche	Currency	Principal in millions 09/30/2018	Principal in millions 12/31/2017	Carrying amount in € millions 09/30/2018	Carrying amount in € millions 12/31/2017	Coupon 09/30/2018	Coupon 12/31/2017	Maturity
Term Loan	EUR	1,000	1,000	993	991	Euribor[1) + 1.20%	Euribor[1) + 1.20%	09/30/2023
Revolving Credit Facility[2)	EUR	1,300	1,300	153	-8	Euribor[1) + 0.80%	Euribor[1) + 0.80%	09/30/2023
Capital investment loan[3)	EUR	250	250	139	89	Euribor[1) + 1.00%	Euribor[1) + 1.00%	12/15/2022
Total				**1,285**	**1,072**			

1) Euribor floor of 0.00 %.
2) EUR 179 m were drawn down as at September 30, 2018 (December 31, 2017: EUR 12 m), including EUR 19 m in the form of ancillary facilities such as letters of credit.
3) EUR 140 m were drawn down as at September 30, 2018 (December 31, 2017: EUR 90 m).

In addition, the Schaeffler Group had further lines of credit in the equivalent of approx. EUR 134 m (December 31, 2017: approx. EUR 154 m), primarily in the U.S. and China. Approx. EUR 115 m of these facilities were unutilized as at September 30, 2018 (December 31, 2017: approx. EUR 111 m). The company had an additional short-term loan payable of EUR 75 m as at September 30, 2018 (December 31, 2017: EUR 0 m).

The following bonds issued by Schaeffler Finance B.V., Barneveld, the Netherlands, were outstanding as at September 30, 2018. All bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange.

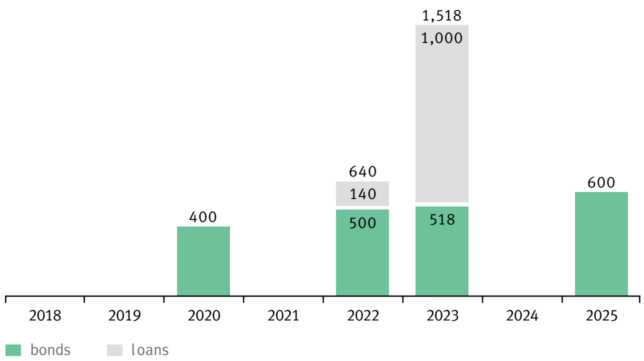
Schaeffler Group bonds No. 013

ISIN	Currency	Principal in millions 09/30/2018	Principal in millions 12/31/2017	Carrying amount in € millions 09/30/2018	Carrying amount in € millions 12/31/2017	Coupon	Maturity
XS1212469966	EUR	400	400	399	398	2.50%	05/15/2020
XS1067864022	EUR	500	500	499	498	3.50%	05/15/2022
US806261AM57	USD	600	600	518	502	4.75%	05/15/2023
XS1212470972	EUR	600	600	596	596	3.25%	05/15/2025
Total				**2,012**	**1,994**		

The company's maturity profile, which consists of the term loan, the capital investment loan, and the bonds issued by Schaeffler Finance B.V., Barneveld, the Netherlands, was as follows as at September 30, 2018:

Maturity profile No. 014

Principal outstanding as at September 30, 2018, in € millions



1.5 Net assets and capital structure

The Schaeffler Group's **total assets** increased by EUR 782 m or 6.8% to EUR 12,319 m as at September 30, 2018 (December 31, 2017: EUR 11,537 m).

Consolidated statement of financial position (abbreviated) No. 015

in € millions	09/30/2018	12/31/2017	Change in %
ASSETS			
Total non-current assets	6,429	6,178	4.1
Total current assets	5,890	5,359	9.9
Total assets	**12,319**	**11,537**	**6.8**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Total shareholders' equity	2,907	2,548	14.1
Total non-current liabilities	5,703	5,676	0.5
Total current liabilities	3,709	3,313	12.0
Total shareholders' equity and liabilities	**12,319**	**11,537**	**6.8**

Non-current assets rose by EUR 251 m to EUR 6,429 m as at September 30, 2018 (December 31, 2017: EUR 6,178 m), primarily due to an increase in property, plant and equipment of EUR 192 m. In addition, deferred tax assets were up EUR 32 m. Furthermore, the initial application of IFRS 9 has increased other investments by EUR 24 m.

Current assets expanded by EUR 531 m to EUR 5,890 m (December 31, 2017: EUR 5,359 m) during the first nine months of 2018, mainly due to increases in inventories and trade receivables. As at September 30, 2018, trade receivables with a carrying amount of EUR 168 m (December 31, 2017: EUR 123 m) net of retained default risks had been sold under an ABCP program (asset-backed commercial paper). Furthermore, the initial application of IFRS 15 has increased contract assets by EUR 43 m (December 31, 2017: EUR 0 m). Other assets and cash and cash equivalents rose as well (see "Cash flow and liquidity", page 24).

Shareholders' equity including non-controlling interests rose by EUR 359 m to EUR 2,907 m as at September 30, 2018 (December 31, 2017: EUR 2,548 m), mainly due to net income of EUR 777 m which was partially offset by EUR 361 m in dividends paid to Schaeffler AG's shareholders. IFRS 9 and IFRS 15, the new financial reporting standards applicable effective in 2018, increased other reserves by EUR 23 m. The impact of translating the net assets of foreign group companies and of cash flow hedges reduced accumulated other comprehensive income and, therefore, shareholders' equity. The equity ratio was 23.6% as at September 30, 2018 (December 31, 2017: 22.1%).

Non-current liabilities rose by EUR 27 m to EUR 5,703 m as at September 30, 2018 (December 31, 2017: EUR 5,676 m). The increase was mainly attributable to the utilization of an additional EUR 50 m of the capital investment loan, partially offset by a reduction in non-current provisions.

Current liabilities increased by EUR 396 m to EUR 3,709 m as at September 30, 2018 (December 31, 2017: EUR 3,313 m). The increase was primarily caused by EUR 160 m in drawings under the Revolving Credit Facility and a short-term loan of EUR 75 m. In addition, higher trade payables, balances of accrued vacation and overtime accounts, and other financial liabilities also contributed to the higher current liabilities. The initial recognition of EUR 21 m (December 31, 2017: EUR 0 m) in contract liabilities in accordance with IFRS 15 increased current liabilities as well.

2. Supplementary report

At its meeting on October 05, 2018, the Supervisory Board of Schaeffler AG decided to extend the contract with Klaus Rosenfeld, the Chief Executive Officer of Schaeffler AG, for a further five years to June 30, 2024.

On October 29, 2018, Schaeffler AG's Board of Managing Directors decided to reorganize its UK busniess activities as part of the "Global Footprint" initiative of the "Agenda 4 plus One" excellence program. Subject to statutory consultations with elected representatives for all employees, it is proposed to consolidate the logistics centers in Sutton Coldfield and Hereford at the Hereford location and to close the production locations Llanelli and Plymouth in the medium term. These locations' production will be moved to existing locations in other countries. The Sheffield location – the Schaeffler Group's largest location in the United Kingdom in terms of revenue and number of employees – will be retained. The proposals are designed to generate synergies and increase efficiency.

On October 30, 2018, the company adjusted its 2018 full-year guidance for the Schaeffler Group. According to the adjusted guidance, Schaeffler is now forecasting revenue growth of 4 to 5%, excluding the impact of currency translation, an EBIT margin before special items of 9.5 to 10.5%, and free cash flow before inflows and outflows for M&A activities of approx. EUR 300 m for the full year 2018. Against the backdrop of increasing market volatility in the global automotive business (WLTP, trade conflicts), the adjustment of the full year 2018 Group guidance is mainly triggered by a further deterioration of market conditions in the company's Automotive OEM business in China. Furthermore, the weaker-than-expected third-quarter revenue trend in the Automotive Aftermarket division contributed to the guidance adjustment. For the Automotive OEM division, Schaeffler is now forecasting revenue growth of 3.5 to 4.5%, excluding the impact of currency translation, and an EBIT margin before special items of 8 to 8.5%. The Group's Automotive Aftermarket division is expected to generate revenue growth – excluding the impact of currency translation – of 1.5 to 2.5% and an EBIT margin before special items of 17 to 17.5%. The Industrial division is forecasting its revenue to grow by 8 to 9%, excluding the impact of currency translation, on the back of positive performance. Based on current projections, the Industrial division's EBIT margin before special items is expected to be in the 10.5 to 11% range.

No other material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after September 30, 2018.

3. Report on opportunities and risks

Please refer to pp. 71 et seq. of the Schaeffler Group's annual report 2017 for a discussion of the Schaeffler Group's risk management system and potential opportunities and risks. The statements made in the annual report 2017 regarding the opportunities and risks are largely unchanged. However, especially for the Automotive OEM division, demand-related risks have become manifest due to global vehicle production falling short of previous expectations (particularly in the regional Chinese market and, due to political circumstances, in Europe).

The Schaeffler Group's risks are limited, both individually and in combination with other risks, and do not jeopardize the continued existence of the company.

4. Report on expected developments

4.1 Expected economic and sales market trends

The International Monetary Fund (October 2018) currently expects the global economy to grow by 3.7% this year. Oxford Economics (October 2018) currently anticipates the same growth rate. In light of these forecasts, the Schaeffler Group now expects global economic growth for 2018 to be comparable to that of the prior year (prior year: 3.7%).

Please refer to the discussion in the 2017 annual report regarding risks potentially affecting the development of the global economy.

In light of unfavorable trends in the Europe and Greater China regions, the Schaeffler Group now anticipates that automobile production will grow by approx. 0.5% in 2018 (previously: approx. 2%). The vehicle population is still expected to grow slightly less than in the prior year by the Schaeffler Group, with the average vehicle age remaining nearly unchanged (prior year: 3.8% and 9.7 years, respectively). The Schaeffler Group continues to expect industrial production to grow at a rate similar to the prior year's (prior year: 3.5%).

4.2 Schaeffler Group outlook

On October 30, 2018, the company adjusted its 2018 full-year guidance for the Schaeffler Group.

According to the adjusted guidance, Schaeffler is now forecasting revenue growth of 4 to 5%, excluding the impact of currency translation, an EBIT margin before special items of 9.5 to 10.5%, and free cash flow before inflows and outflows for M&A activities of approx. EUR 300 m for the full year 2018.

Outlook 2018 – group No. 016

	Outlook 2018		Actual 9M 2018
	issued 02/19/2018	issued 10/30/2018	
Schaeffler Group			
Revenue growth [1]	5–6%	4–5%	5.1%
EBIT margin before special items [2]	10.5–11.5%	9.5–10.5%	10.7%
Free cash flow [3]	EUR ~ 450 m	EUR ~ 300 m	EUR 127 m

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 22 et seq. for the definition of special items.
[3] Before cash in- and outflows for M&A activities.

Outlook 2018 – divisions No. 017

	Outlook 2018 issued 02/19/2018	Outlook 2018 issued 10/30/2018	Actual 9M 2018
Automotive OEM			
Revenue growth [1]	6–7%	3.5–4.5%	4.3%
EBIT margin before special items [2]	9.5–10.5%	8–8.5%	8.8%
Automotive Aftermarket			
Revenue growth [1]	3–4%	1.5–2.5%	1.3%
EBIT margin before special items [2]	16.5–17.5%	17–17.5%	18.3%
Industrial			
Revenue growth [1]	3–4%	8–9%	9.8%
EBIT margin before special items [2]	9–10%	10.5–11%	11.8%

[1] Compared to prior year; excluding the impact of currency translation.
[2] Please refer to pp. 22 et seq. for the definition of special items.

Against the backdrop of increasing market volatility in the global automotive business (WLTP, trade conflicts), the adjustment of the full year 2018 Group guidance is mainly triggered by a further deterioration of market conditions in the company's Automotive OEM business in China. Furthermore, the weaker-than-expected third-quarter revenue trend in the Automotive Aftermarket division contributed to the guidance adjustment.

For the Automotive OEM division, Schaeffler is now forecasting revenue growth of 3.5 to 4.5%, excluding the impact of currency translation, and an EBIT margin before special items of 8 to 8.5%. The Group's Automotive Aftermarket division is expected to generate revenue growth – excluding the impact of currency translation – of 1.5 to 2.5% and an EBIT margin before special items of 17 to 17.5%. The Industrial division is forecasting its revenue to grow by 8 to 9%, excluding the impact of currency translation, on the back of positive performance. Based on current projections, the Industrial division's EBIT margin before special items is expected to be in the 10.5 to 11% range.

Herzogenaurach, October 30, 2018

The Board of Managing Directors

Consolidated income statement

No. 018

in € millions	1st nine months 2018	1st nine months 2017 [1]	Change in %	3rd quarter 2018	3rd quarter 2017 [1]	Change in %
Revenue	10,714	10,480	2.2	3,521	3,434	2.5
Cost of sales	-7,847	-7,563	3.8	-2,587	-2,470	4.7
Gross profit	**2,867**	**2,917**	**-1.7**	**934**	**964**	**-3.1**
Research and development expenses	-653	-637	2.5	-209	-209	0.0
Selling expenses	-749	-719	4.2	-249	-234	6.4
Administrative expenses	-353	-333	6.0	-118	-103	14.6
Other income	78	47	66.0	25	5	> 100
Other expenses	-41	-66	-37.9	-7	-7	0.0
Earnings before financial result and income taxes (EBIT)	**1,149**	**1,209**	**-5.0**	**376**	**416**	**-9.6**
Financial income	41	125	-67.2	20	38	-47.4
Financial expenses	-147	-229	-35.8	-44	-39	12.8
Financial result	**-106**	**-104**	**1.9**	**-24**	**-1**	**> 100**
Earnings before income taxes	**1,043**	**1,105**	**-5.6**	**352**	**415**	**-15.2**
Income taxes	-266	-301	-11.6	-91	-105	-13.3
Net income	**777**	**804**	**-3.4**	**261**	**310**	**-15.8**
Attributable to shareholders of the parent company	766	791	-3.2	257	306	-16.0
Attributable to non-controlling interests	11	13	-15.4	4	4	0.0
Earnings per common share (basic/diluted, in €)	1.15	1.18	-2.5	0.39	0.46	-15.2
Earnings per common non-voting share (basic/diluted, in €)	1.16	1.19	-2.5	0.39	0.46	-15.2

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See “Basis of preparation” in the condensed notes to the consolidated interim financial statements for further details.

Consolidated statement of comprehensive income

No. 019

	1st nine months						3rd quarter					
	2018			2017 [1]			2018			2017 [1]		
in € millions	before taxes	taxes	after taxes	before taxes	taxes	after taxes	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Net income	**1,043**	**-266**	**777**	**1,105**	**-301**	**804**	**352**	**-91**	**261**	**415**	**-105**	**310**
Foreign currency translation differences for foreign operations	-52	0	-52	-270	0	-270	-44	0	-44	-94	0	-94
Net change from hedges of net investments in foreign operations	-6	2	-4	31	-9	22	-1	0	-1	6	-2	4
Effective portion of changes in fair value of cash flow hedges	-45	12	-33	89	-26	63	20	-6	14	5	-3	2
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**-103**	**14**	**-89**	**-150**	**-35**	**-185**	**-25**	**-6**	**-31**	**-83**	**-5**	**-88**
Remeasurement of net defined benefit liability	13	-2	11	157	-42	115	38	-11	27	12	-1	11
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**13**	**-2**	**11**	**157**	**-42**	**115**	**38**	**-11**	**27**	**12**	**-1**	**11**
Total other comprehensive income (loss)	**-90**	**12**	**-78**	**7**	**-77**	**-70**	**13**	**-17**	**-4**	**-71**	**-6**	**-77**
Total comprehensive income (loss)	**953**	**-254**	**699**	**1,112**	**-378**	**734**	**365**	**-108**	**257**	**344**	**-111**	**233**
Total comprehensive income (loss) attributable to shareholders of the parent company	946	-248	698	1,101	-372	729	365	-106	259	343	-109	234
Total comprehensive income (loss) attributable to non-controlling interests	7	-6	1	11	-6	5	0	-2	-2	1	-2	-1

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.

Consolidated statement of financial position

No. 020

in € millions	09/30/2018	12/31/2017 [1]	09/30/2017 [1]	Change in %
ASSETS				
Intangible assets	628	636	629	-1.3
Property, plant and equipment	5,057	4,865	4,625	3.9
Other financial assets	131	114	165	14.9
Other assets	89	71	66	25.4
Deferred tax assets	524	492	492	6.5
Total non-current assets	**6,429**	**6,178**	**5,977**	**4.1**
Inventories	2,355	2,017	2,061	16.8
Contract assets	43	0	0	-
Trade receivables	2,241	2,192	2,323	2.2
Other financial assets	136	111	96	22.5
Other assets	290	236	254	22.9
Income tax receivables	94	102	106	-7.8
Cash and cash equivalents	731	698	719	4.7
Assets held for sale	0	3	0	-100
Total current assets	**5,890**	**5,359**	**5,559**	**9.9**
Total assets	**12,319**	**11,537**	**11,536**	**6.8**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital	666	666	666	0.0
Capital reserves	2,348	2,348	2,348	0.0
Other reserves	677	249	60	> 100
Accumulated other comprehensive income (loss)	-890	-822	-775	8.3
Equity attributable to shareholders of the parent company	**2,801**	**2,441**	**2,299**	**14.7**
Non-controlling interests	106	107	102	-0.9
Total shareholders' equity	**2,907**	**2,548**	**2,401**	**14.1**
Provisions for pensions and similar obligations	2,140	2,124	2,083	0.8
Provisions	143	173	88	-17.3
Financial debt	3,137	3,066	2,985	2.3
Contract liabilities	2	0	0	-
Income tax payables	145	153	145	-5.2
Other financial liabilities	9	24	33	-62.5
Other liabilities	2	7	5	-71.4
Deferred tax liabilities	125	129	164	-3.1
Total non-current liabilities	**5,703**	**5,676**	**5,503**	**0.5**
Provisions	220	233	281	-5.6
Financial debt	238	2	354	> 100
Contract liabilities	21	0	0	-
Trade payables	1,924	1,867	1,651	3.1
Income tax payables	154	162	210	-4.9
Other financial liabilities	729	682	720	6.9
Other liabilities	423	367	416	15.3
Total current liabilities	**3,709**	**3,313**	**3,632**	**12.0**
Total shareholders' equity and liabilities	**12,319**	**11,537**	**11,536**	**6.8**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See “Basis of preparation” in the condensed notes to the consolidated interim financial statements for further details.

Consolidated statement of cash flows

No. 021

	1st nine months			3rd quarter		
in € millions	2018	2017 [1)]	Change in %	2018	2017 [1)]	Change in %
Operating activities						
EBIT	1,149	1,209	-5.0	376	416	-9.6
Interest paid	-79	-106	-25.5	-35	-29	20.7
Interest received	8	7	14.3	3	3	0.0
Income taxes paid	-284	-247	15.0	-90	-66	36.4
Depreciation, amortization, and impairment losses	605	571	6.0	208	189	10.1
(Gains) losses on disposal of assets	-1	1	-	1	0	-
Changes in:						
• Inventories	-352	-242	45.5	-72	-81	-11.1
• Trade receivables [2)]	-109	-203	-46.3	71	-29	-
• Trade payables	119	105	13.3	20	67	-70.1
• Provisions for pensions and similar obligations	-3	37	-	10	11	-9.1
• Other assets, liabilities, and provisions	-70	-16	> 100	-29	129	-
Cash flows from operating activities	**983**	**1,116**	**-11.9**	**463**	**610**	**-24.1**
Investing activities						
Proceeds from disposals of property, plant and equipment	2	4	-50.0	0	1	-100
Capital expenditures on intangible assets	-8	-19	-57.9	-3	-5	-40.0
Capital expenditures on property, plant and equipment	-849	-854	-0.6	-259	-274	-5.5
Acquisition of subsidiaries	-2	-23	-91.3	0	0	0.0
Proceeds from disposal of subsidiaries	1	20	-95.0	1	0	-
Other investing activities	-1	0	-	0	1	-100
Cash used in investing activities	**-857**	**-872**	**-1.7**	**-261**	**-277**	**-5.8**
Financing activities						
Dividends paid to shareholders and non-controlling interests	-363	-330	10.0	0	0	0.0
Receipts from loans	288	351	-17.9	30	1	> 100
Repayments of loans [3)]	-2	-588	-99.7	0	0	0.0
Cash used in financing activities	**-77**	**-567**	**-86.4**	**30**	**1**	**> 100**
Net increase/decrease in cash and cash equivalents	**49**	**-323**	**-**	**232**	**334**	**-30.5**
Effects of foreign exchange rate changes on cash and cash equivalents	-16	-29	-44.8	-8	-14	-42.9
Cash and cash equivalents as at beginning of period	698	1,071	-34.8	507	399	27.1
Cash and cash equivalents as at September 30	**731**	**719**	**1.7**	**731**	**719**	**1.7**

[1)] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
[2)] The receivable sale program resulted in a cash inflow of EUR 47 m (prior year: EUR 54 m) that is included in cash flows from operating activities.
[3)] The prior year includes EUR 38 m in cash inflows from cross-currency derivatives terminated early in connection with the redemption of the USD bonds.

Consolidated statement of changes in equity

No. 022

	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss)				Equity attributable to shareholders[1]	Non-controlling interests	Total
in € millions				Translation reserve	Hedging reserve	Defined benefit plan remeasurement reserve	Total			
Balance as at January 01, 2017[2]	**666**	**2,348**	**-404**	**-27**	**-35**	**-651**	**-713**	**1,897**	**100**	**1,997**
Net income			791					791	13	804
Other comprehensive income (loss)				-240	63	115	-62	-62	-8	-70
Total comprehensive income (loss)			**791**	**-240**	**63**	**115**	**-62**	**729**	**5**	**734**
Dividends			-328					-328	-2	-330
Transactions with non-controlling interests			1					1	-1	0
Total amount of transactions with shareholders			**-327**					**-327**	**-3**	**-330**
Balance as at September 30, 2017[2]	**666**	**2,348**	**60**	**-267**	**28**	**-536**	**-775**	**2,299**	**102**	**2,401**
Balance as at January 01, 2018 before IFRS 9 and IFRS 15 adjustments[2]	**666**	**2,348**	**249**	**-267**	**15**	**-570**	**-822**	**2,441**	**107**	**2,548**
Adjustments IFRS 9			27					27		27
Adjustments IFRS 15			-4					-4		-4
Balance as at January 01, 2018	**666**	**2,348**	**272**	**-267**	**15**	**-570**	**-822**	**2,464**	**107**	**2,571**
Net income			766					766	11	777
Other comprehensive income (loss)				-46	-33	11	-68	-68	-10	-78
Total comprehensive income (loss)			**766**	**-46**	**-33**	**11**	**-68**	**698**	**1**	**699**
Dividends			-361					-361	-2	-363
Total amount of transactions with shareholders			**-361**					**-361**	**-2**	**-363**
Balance as at September 30, 2018	**666**	**2,348**	**677**	**-313**	**-18**	**-559**	**-890**	**2,801**	**106**	**2,907**

[1] Equity attributable to shareholders of the parent company.
[2] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.

Consolidated segment information

(Part of the condensed notes to the consolidated interim financial statements)

No. 023

	1st nine months		1st nine months		1st nine months		1st nine months	
	2018	**2017 1) 2)**	**2018**	**2017 1) 2)**	**2018**	**2017 1) 2)**	**2018**	**2017 1)**
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
Revenue	6,778	6,666	1,401	1,434	2,535	2,380	10,714	10,480
EBIT	599	725	259	278	291	206	1,149	1,209
• in % of revenue	8.8	10.9	18.5	19.4	11.5	8.7	10.7	11.5
EBIT before special items 3)	596	712	256	278	298	206	1,150	1,196
• in % of revenue	8.8	10.7	18.3	19.4	11.8	8.7	10.7	11.4
Depreciation, amortization, and impairment losses	-468	-431	-5	-4	-132	-136	-605	-571
Working capital 4) 5)	1,230	1,342	447	487	995	904	2,672	2,733
Additions to intangible assets and property, plant and equipment	642	661	20	9	144	162	806	832

	3rd quarter		3rd quarter		3rd quarter		3rd quarter	
	2018	**2017 1) 2)**	**2018**	**2017 1) 2)**	**2018**	**2017 1) 2)**	**2018**	**2017 1)**
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
Revenue	2,191	2,138	476	506	854	790	3,521	3,434
EBIT	185	229	83	117	108	70	376	416
• in % of revenue	8.4	10.7	17.4	23.1	12.6	8.9	10.7	12.1
EBIT before special items 3)	172	229	80	117	103	70	355	416
• in % of revenue	7.9	10.7	16.8	23.1	12.1	8.9	10.1	12.1
Depreciation, amortization, and impairment losses	-161	-144	-2	-1	-45	-44	-208	-189
Working capital 4) 5)	1,230	1,342	447	487	995	904	2,672	2,733
Additions to intangible assets and property, plant and equipment	236	228	-2	6	54	60	288	294

Prior year information presented based on 2018 segment structure.

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.

2) Prior year amounts are based on a retrospective change in segment structure. See "Segment information" in the condensed notes to the consolidated interim financial statements for further details.

3) EBIT before special items for legal cases, restructuring, and other. See "Segment information" in the condensed notes to the consolidated interim financial statements for further details.

4) Inventories plus trade receivables less trade payables.

5) Amounts as at September 30.

Condensed notes to the consolidated interim financial statements

Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. The company was founded on April 19, 1982, and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated interim financial statements of Schaeffler AG as at September 30, 2018, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as "Schaeffler Group"). The Schaeffler Group is a global automotive and industrial supplier.

Basis of preparation

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union and effective at the end of the reporting period and in accordance with the Interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated interim financial statements of Schaeffler AG, Herzogenaurach, for the reporting period ended September 30, 2018, have been compiled in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". They do not include all information necessary for a complete set of consolidated financial statements.

The accounting policies used in these consolidated interim financial statements are largely based on the accounting policies used in the 2017 consolidated financial statements, where the latter are discussed in detail. Except for the amendments to and new requirements of IFRS effective starting in 2018, these accounting policies have been applied consistently in these consolidated interim financial statements. Please see the discussion on IFRS 16 Leases, which is applicable effective January 01, 2019, in the notes to the consolidated financial statements contained in the 2017 annual report for information on the impact this standard's initial application is expected to have. To date, the ongoing implementation project has not led to any significant changes to the assessment set out in that discussion.

In compiling financial statements in accordance with IFRS, management exercises judgment in making estimates and assumptions. Such estimates and judgments are unchanged from the matters described in the consolidated financial statements of the Schaeffler Group as at and for the year ended December 31, 2017. The only change relates to the assumptions regarding the discount rate used to measure the company's pension obligations. These assumptions were adjusted to reflect current market trends. The adjustment has led to a decrease in pension obligations and an increase in shareholders' equity. Please refer to "Provisions for pensions and similar obligations" below for more detailed information.

Processes and systems of group companies ensure appropriate recognition of income and expenses on the accrual basis. Due to the nature of the Schaeffler Group's business, the comparability of its consolidated interim financial statements is not significantly affected by seasonality.

Income taxes were determined based on best estimate.

As amounts (in EUR m) and percentages have been rounded, rounding differences may occur.

The effects of applying IFRS 9 and IFRS 15 effective January 01, 2018, which are discussed below, have resulted in a change in accounting policy. The Schaeffler Group has chosen the modified retrospective transition approach for both IFRS 9 and IFRS 15.

IFRS 9

Classification and measurement of financial assets

Classification and measurement of the part of the portfolio of trade receivables that is available for sale under the ABCP program (asset-backed commercial paper) has changed from the previous measurement base, amortized cost (AC), to measurement at fair value through profit or loss (FVTPL). Investments previously measured at amortized cost under the exception allowed by IAS 39 because their fair value was not reliably determinable are now accounted for at fair value through other comprehensive income (FVOCI).

Impairment model for financial assets

IFRS 9 has also introduced a new impairment model for financial assets accounted for at amortized cost. The standard has replaced the previous incurred loss model with an expected loss model.

Hedge accounting

In accordance with the option provided for hedge accounting in the transition requirements of IFRS 9, the Schaeffler Group will continue to apply the hedge accounting requirements of IAS 39 and intends to initially apply IFRS 9 at a later date, i.e. after January 01, 2018.

Financial instruments by class and category in accordance with IFRS 7.8 [1)] No. 024

		09/30/2018	01/01/2018		12/31/2017
in € millions	Category IFRS 7.8 per IFRS 9	Carrying amount	Carrying amount	Category IFRS 7.8 per IAS 39	Carrying amount
Financial assets, by class					
Trade receivables [1)]	Amortized cost	2,163	2,131	LaR	2,127
Trade receivables – ABCP program [2)]	FVTPL	78	65	LaR	65
Other financial assets					
• Investments in associates [3)]	n.a.	2	3	n.a.	3
• Other investments [1)]	FVOCI	38	41	AfS	17
• Marketable securities	FVTPL	19	16	AfS	16
• Derivatives designated as hedging instruments	n.a.	39	58	n.a.	58
• Derivatives not designated as hedging instruments	FVTPL	79	85	HfT	85
• Miscellaneous other financial assets	Amortized cost	90	46	LaR	46
Cash and cash equivalents	Amortized cost	731	698	LaR	698
Financial liabilities, by class					
Financial debt	FLAC	3,375	3,068	FLAC	3,068
Trade payables	FLAC	1,924	1,867	FLAC	1,867
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	29	11	n.a.	11
• Derivatives not designated as hedging instruments	FVTPL	36	25	HfT	25
• Miscellaneous other financial liabilities	FLAC	673	670	FLAC	670
Summary by category					
Financial assets at amortized cost (Amortized cost)		2,984	2,875	LaR	2,936
Financial assets at fair value through profit or loss (FVTPL)		176	166	HfT	85
Financial assets (equity instruments) at fair value through other comprehensive income (FVOCI)		38	41	AfS	33
Financial liabilities at amortized cost (FLAC)		5,972	5,605	FLAC	5,605
Financial liabilities at fair value through profit or loss (FVTPL)		36	25	HfT	25

1) The change in measurement basis as a result of IFRS 9 affects trade receivables and other investments.
2) The reclassification under IFRS 9 relates to trade receivables that are available for sale under the ABCP program.
3) Equity-accounted investees.

Initial application of these changes has increased the Schaeffler Group's other reserves as at January 01, 2018, by EUR 27 m.

The carrying amounts of financial instruments by class of the consolidated statement of financial position and by category per IFRS 9 can be reconciled to the categories previously used under IAS 39 as set out in table No. 024 on the previous page.

IFRS 15

Customer tools

The new requirements regarding customers obtaining control have resulted in changes regarding tools for initial series production as at January 01, 2018. Under the new requirements, certain contracts regarding tools for initial series production result in a separate performance obligation vis-à-vis the customer, therefore requiring the Schaeffler Group to recognize revenue when the customer obtains control. The related costs incurred are expensed as cost of sales when revenue is recognized.

Development services

Since January 01, 2018, revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. This consideration is recognized as revenue when the customer obtains control of the completed development services. The related expenses are expensed as cost of sales when revenue is recognized.

Customer-specific products

Since January 01, 2018, revenue is recognized over time for products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin.

Initial application of these changes has decreased the Schaeffler Group's other reserves as at January 01, 2018, by EUR 4 m.

The following summaries provide an overview of the impact of IFRS 15 on the consolidated interim financial statements as at September 30, 2018.

IFRS 15 – impact on consolidated statement of financial position No. 025

in € millions	09/30/2018	Impact IFRS 15	09/30/2018 before applying IFRS 15
ASSETS			
Property, plant and equipment	5,057	0	5,057
• Customer tools		0	
Deferred tax assets	524	1	523
Non-current assets	**6,429**	**1**	**6,428**
Inventories	2,355	-8	2,363
• Customer tools		0	
• Development services		21	
• Customer-specific products		-29	
Contract assets	43	43	0
• Customer-specific products		43	
Current assets	**5,890**	**35**	**5,855**
Total assets	**12,319**	**36**	**12,283**
SHAREHOLDERS' EQUITY AND LIABILITIES			
• Other reserves	677	9	668
Shareholders' equity	**2,907**	**9**	**2,898**
Contract liabilities	2	2	0
• Development services		2	
Deferred tax liabilities	125	4	121
Non-current liabilities	**5,703**	**6**	**5,697**
Contract liabilities	21	21	0
• Development services		21	
Current liabilities	**3,709**	**21**	**3,688**
Total shareholders' equity and liabilities	**12,319**	**36**	**12,283**

IFRS 15 – impact on consolidated income statement No. 026

in € millions	1st nine months 2018	Impact IFRS 15	1st nine months 2018 before applying IFRS 15
Revenue	10,714	53	10,661
Cost of sales	-7,847	-71	-7,776
Gross profit	**2,867**	**-18**	**2,885**
Research and development expenses	-653	36	-689
EBIT	**1,149**	**18**	**1,131**
Income taxes	-266	-5	-261
Net income	**777**	**13**	**764**
Earnings per common share (basic/diluted, in €)	1.15	0.02	1.13
Earnings per common non-voting share (basic/diluted, in €)	1.16	0.02	1.14

Foreign currency translation

The exchange rates between the group's most significant currencies and the euro are as follows:

Selected foreign exchange rates No. 027

Currencies		09/30/2018	12/31/2017	09/30/2017	1st nine months 2018	1st nine months 2017
1 € in				Closing rates		Average rates
CNY	China	7.97	7.80	7.86	7.78	7.57
INR	India	83.92	76.61	77.05	80.22	72.60
KRW	South Korea	1,285.75	1,279.61	1,349.90	1,303.58	1,267.00
MXN	Mexico	21.78	23.66	21.44	22.74	21.00
USD	U.S.	1.16	1.20	1.18	1.20	1.11

Scope of consolidation

The consolidated financial statements of Schaeffler AG as at September 30, 2018, cover, in addition to Schaeffler AG, 154 subsidiaries (December 31, 2017: 151); 51 entities are domiciled in Germany (December 31, 2017: 50) and 103 in other countries (December 31, 2017: 101).

The companies acquired in 2017, autinity systems GmbH and afr-consulting GmbH (now Schaeffler Digital Solutions GmbH), were consolidated for the first time effective January 01, 2018. The impact of these companies on the Schaeffler Group's net assets, financial position, and earnings is insignificant. The remaining changes in the scope of consolidation were the result of additions in the form of newly founded companies and eliminations of companies following their merger with another group company.

In the consolidated financial statements as at September 30, 2018, four (December 31, 2017: five) investments (including two joint ventures; December 31, 2017: two) are accounted for at equity.

Revenue

Revenue from contracts with customers can be analyzed by category and segment as follows:

IFRS 15 – analysis of revenue by category No. 028

	1st nine months 2018	1st nine months 2017 1)	1st nine months 2018	1st nine months 2017 1)	1st nine months 2018	1st nine months 2017 1)	1st nine months 2018	1st nine months 2017 1)
in € millions		Automotive OEM		Automotive Aftermarket		Industrial		Total
Revenue by type								
• Revenue from the sale of goods	6,647	6,571	1,400	1,432	2,504	2,352	10,551	10,355
• Other revenue	131	95	1	2	31	28	163	125
Total	**6,778**	**6,666**	**1,401**	**1,434**	**2,535**	**2,380**	**10,714**	**10,480**
Revenue by region 2)								
• Europe	3,052	3,010	1,054	1,047	1,425	1,367	5,531	5,424
• Americas	1,455	1,475	251	310	440	440	2,146	2,225
• Greater China	1,433	1,342	58	43	436	350	1,927	1,735
• Asia/Pacific	838	839	38	34	234	223	1,110	1,096
Total	**6,778**	**6,666**	**1,401**	**1,434**	**2,535**	**2,380**	**10,714**	**10,480**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
2) By market (customer location).

Current and non-current financial debt

Financial debt (current/non-current) No. 029

			09/30/2018			12/31/2017
in € millions	Due in up to 1 year	Due in more than 1 year	Total	Due in up to 1 year	Due in more than 1 year	Total
Bonds	0	2,012	2,012	0	1,994	1,994
Facilities Agreement	160	986	1,146	0	983	983
Capital investment loan	0	139	139	0	89	89
Other financial debt	78	0	78	2	0	2
Financial debt	**238**	**3,137**	**3,375**	**2**	**3,066**	**3,068**

The increase in financial debt compared to December 31, 2017, consisted primarily of EUR 160 m drawn under the Revolving Credit Facility, a new short-term loan of EUR 75 m, and an additional EUR 50 m drawn under the capital investment loan.

Provisions for pensions and similar obligations

Interest rate levels as at September 30, 2018, have increased slightly compared to December 31, 2017. As a result, the Schaeffler Group has adjusted the discount rate used to value its key pension plans as at the reporting date. The Schaeffler Group's average discount rate as at September 30, 2018, amounted to 2.22% (December 31, 2017: 2.20%). The resulting remeasurement of the company's obligations under defined benefit pension plans resulted in actuarial gains of EUR 13 m as at September 30, 2018, which were recognized in the consolidated statement of comprehensive income and are reported under accumulated other comprehensive income net of deferred taxes.

Provisions

The company has accrued EUR 22 m in restructuring expenses under current provisions in connection with a first step taken to reorganize the "Bearing & Components Technologies" unit (BCT) and integrate it into the Automotive OEM and Industrial divisions. BCT previously acted as an internal supplier.

On July 25, 2018, the relevant authorities completed their investigation of a compliance case for which the Schaeffler Group had previously recognized a provision. EUR 21 m of this provision has been reversed to profit or loss.

Trade receivables

Trade receivables amounted to EUR 2,241 m as at September 30, 2018 (December 31, 2017: EUR 2,192 m), including trade receivables with a face value of EUR 168 m that had been sold under an ABCP program (December 31, 2017: EUR 123 m).

Financial instruments

The carrying amounts of trade receivables (except for those available for sale under the ABCP program), miscellaneous other financial assets and cash and cash equivalents, trade payables, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments.

Other investments included minority investments (shares in incorporated companies and cooperatives of less than 20%) for which fair value was determined using an EBIT multiple methodology. Since these equity instruments are classified as at fair value through other comprehensive income, any changes in fair value are not reclassified to the consolidated income statement. The company is currently not planning to sell these investments. Marketable securities consist almost entirely of financial instruments in the form of investment fund units without fixed maturities. These are measured at fair value through profit or loss.

The fair values of financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes to the consolidated financial statements were determined using the following valuation methods and inputs:

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities as well as bonds payable included in financial debt.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period, as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Embedded derivatives are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates (CDS rates). Minority investments are measured using an EBIT multiple methodology.

  The fair value of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The Schaeffler Group does not have any financial instruments in this level.

The company reviews its financial instruments at the end of each reporting period for any required transfers between fair value levels. No transfers between levels were made during the reporting period.

The carrying amounts and fair values of financial instruments per IFRS 7.25-30 are summarized by class of the consolidated statement of financial position below.

Disclosure of fair value of financial instruments in accordance with IFRS 7.25-30 No. 030

		09/30/2018		12/31/2017 [1]		09/30/2017 [1]	
in € millions	Level per IFRS 13	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class							
Trade receivables		2,163	2,163	2,127	2,127	2,323	2,323
Trade receivables – ABCP program	2	78	78	65	65	0	0
Other financial assets							
• Investments in associates		2	-	3	-	3	-
• Other investments	2	38	38	17	-	14	-
• Marketable securities	1	19	19	16	16	17	17
• Derivatives designated as hedging instruments	2	39	39	58	58	77	77
• Derivatives not designated as hedging instruments	2	79	79	85	85	120	120
• Miscellaneous other financial assets		90	90	46	46	30	30
Cash and cash equivalents		731	731	698	698	719	719
Financial liabilities, by class							
Financial debt	1, 2 [2]	3,375	3,445	3,068	3,165	3,339	3,440
Trade payables		1,924	1,924	1,867	1,867	1,651	1,651
Other financial liabilities							
• Derivatives designated as hedging instruments	2	29	29	11	11	9	9
• Derivatives not designated as hedging instruments	2	36	36	25	25	32	32
• Miscellaneous other financial liabilities		673	673	670	670	712	712

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.

[2] Level 1: EUR 2,067 m (December 31, 2017: EUR 2,071 m; September 30, 2017: EUR 2,084 m);
Level 2: EUR 1,378 m (December 31, 2017: EUR 1,094 m; September 30, 2017: EUR 1,356 m).

Contingent liabilities and other obligations

The statements made in the annual report 2017 with respect to contingent liabilities are largely unchanged.

Open commitments under fixed contracts to purchase property, plant and equipment amounted to EUR 631 m as at September 30, 2018 (December 31, 2017: EUR 451 m).

Segment information

In accordance with IFRS 8, the Schaeffler Group reports segment information under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler AG Board of Managing Directors.

Effective January 01, 2018, the Automotive Aftermarket was separated from the Automotive division of Schaeffler AG and set up as a third stand-alone division with its own CEO. As a consequence, the Schaeffler Group has been dividing its business into three segments – Automotive OEM division, Automotive Aftermarket division, and Industrial division – since January 01, 2018.

The allocation of customers to the three segments and the allocation of indirect expenses are reviewed annually and adjusted. To ensure that the information on the Automotive OEM division, Automotive Aftermarket division, and Industrial division segments is comparable, prior year information was presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

Segment information has been adjusted to reflect a change in internal reports.

Reconciliation to earnings before income taxes No. 031

	1st nine months	
in € millions	2018	2017 1) 2)
EBIT Automotive OEM	599	725
EBIT Automotive Aftermarket	259	278
EBIT Industrial	291	206
EBIT	**1,149**	**1,209**
Financial result	-106	-104
Earnings before income taxes	**1,043**	**1,105**

Prior year information presented based on 2018 segment structure.
1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
2) Prior year amounts are based on a retrospective change in segment structure.

In order to make the evaluation of the company's results of operations as transparent as possible, the Schaeffler Group reports EBIT before special items (=adjusted). Special items are items which the Board of Managing Directors considers to render this indicator less meaningful due to their nature, frequency, and/or size. Special items are categorized as legal cases, restructuring, and other.

Reconciliation EBIT to EBIT before special items No. 032

	1st nine months		1st nine months		1st nine months		1st nine months	
	2018	2017 1) 2)	2018	2017 1) 2)	2018	2017 1) 2)	2018	2017 1)
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
EBIT	**599**	**725**	**259**	**278**	**291**	**206**	**1,149**	**1,209**
• in % of revenue	8.8	10.9	18.5	19.4	11.5	8.7	10.7	11.5
Special items	**-3**	**-13**	**-3**	**0**	**7**	**0**	**1**	**-13**
• Legal cases	-13	-13	-3	0	-5	0	-21	-13
• Restructuring	10	0	0	0	12	0	22	0
• Other	0	0	0	0	0	0	0	0
EBIT before special items	**596**	**712**	**256**	**278**	**298**	**206**	**1,150**	**1,196**
• in % of revenue	8.8	10.7	18.3	19.4	11.8	8.7	10.7	11.4

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 01, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
2) Prior year amounts are based on a retrospective change in segment structure.

Related parties

The extent of transactions with related persons and entities remained largely unchanged compared to the 2017 consolidated financial statements.

On April 20, 2018, the Schaeffler AG annual general meeting passed a resolution to pay a total dividend of EUR 361 m in respect of 2017 (prior year: EUR 328 m), consisting of EUR 270 m (prior year: EUR 245 m) on the common shares held by IHO Verwaltungs GmbH and EUR 91 m (prior year: EUR 83 m) on the common non-voting shares.

Transactions with associated companies and joint ventures in the first nine months of 2018 were insignificant.

Events after the reporting period

At its meeting on October 05, 2018, the Supervisory Board of Schaeffler AG decided to extend the contract with Klaus Rosenfeld, the Chief Executive Officer of Schaeffler AG, for a further five years to June 30, 2024.

On October 29, 2018, Schaeffler AG's Board of Managing Directors decided to reorganize its UK busniess activities as part of the "Global Footprint" initiative of the "Agenda 4 plus One" excellence program. Subject to statutory consultations with elected representatives for all employees, it is proposed to consolidate the logistics centers in Sutton Coldfield and Hereford at the Hereford location and to close the production locations Llanelli and Plymouth in the medium term. These locations' production will be moved to existing locations in other countries. The Sheffield location – the Schaeffler Group's largest location in the United Kingdom in terms of revenue and number of employees – will be retained. The proposals are designed to generate synergies and increase efficiency.

On October 30, 2018, the company adjusted its 2018 full-year guidance for the Schaeffler Group. According to the adjusted guidance, Schaeffler is now forecasting revenue growth of 4 to 5%, excluding the impact of currency translation, an EBIT margin before special items of 9.5 to 10.5%, and free cash flow before inflows and outflows for M&A activities of approx. EUR 300 m for the full year 2018. Against the backdrop of increasing market volatility in the global automotive business (WLTP, trade conflicts), the adjustment of the full year 2018 Group guidance is mainly triggered by a further deterioration of market conditions in the company's Automotive OEM business in China. Furthermore, the weaker-than-expected third-quarter revenue trend in the Automotive Aftermarket division contributed to the guidance adjustment. For the Automotive OEM division, Schaeffler is now forecasting revenue growth of 3.5 to 4.5%, excluding the impact of currency translation, and an EBIT margin before special items of 8 to 8.5%. The Group's Automotive Aftermarket division is expected to generate revenue growth – excluding the impact of currency translation – of 1.5 to 2.5% and an EBIT margin before special items of 17 to 17.5%. The Industrial division is forecasting its revenue to grow by 8 to 9%, excluding the impact of currency translation, on the back of positive performance. Based on current projections, the Industrial division's EBIT margin before special items is expected to be in the 10.5 to 11% range.

No other material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after September 30, 2018.

Herzogenaurach, October 30, 2018

The Board of Managing Directors

List of figures

Summary – 1st quarter 2017 to 3rd quarter 2018

	2017				2018		
Income statement (in € millions)	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter
Revenue	3,574	3,472	3,434	3,541	3,551	3,642	3,521
EBIT	435	358	416	319	391	382	376
• in % of revenue	12.2	10.3	12.1	9.0	11.0	10.5	10.7
EBIT before special items [1]	435	345	416	388	391	404	355
• in % of revenue	12.2	9.9	12.1	11.0	11.0	11.1	10.1
Net income [2]	279	206	306	189	240	269	257
Earnings per common non-voting share (basic/diluted, in €)	0.42	0.31	0.46	0.29	0.36	0.41	0.39
Statement of financial position (in € millions)							
Total assets	11,941	11,120	11,536	11,537	11,855	12,002	12,319
Shareholders' equity [3]	2,400	2,168	2,401	2,548	2,742	2,657	2,907
• in % of total assets	20.1	19.5	20.8	22.1	23.1	22.1	23.6
Net financial debt	2,742	2,956	2,620	2,370	2,439	2,833	2,644
• Net financial debt to EBITDA ratio before special items [1] [4]	1.1	1.2	1.1	1.0	1.1	1.2	1.1
• Gearing ratio (Net financial debt to shareholders' equity [3], in %)	114.3	136.3	109.1	93.0	88.9	106.6	91.0
Statement of cash flows (in € millions)							
EBITDA	624	551	605	515	587	583	584
Cash flows from operating activities	186	320	610	662	237	283	463
Capital expenditures (capex) [5]	299	295	279	400	306	289	262
• in % of revenue (capex ratio)	8.4	8.5	8.1	11.3	8.6	7.9	7.4
Free cash flow (FCF) before cash in- and outflows for M&A activities	-111	25	333	268	-69	-5	201
• FCF conversion ratio (ratio of FCF before cash in- and outflows for M&A activities to EBITDA, in %) [1] [4]	29.8	18.1	21.0	21.9	24.1	22.1	16.9
Value-based management							
ROCE before special items (in %) [1] [4]	22.1	20.7	20.5	19.9	19.3	19.8	18.8
Schaeffler Value Added before special items (in € millions) [1] [4]	938	837	829	787	743	792	721
Employees							
Headcount (at end of reporting period)	87,341	87,937	89,359	90,151	91,414	92,198	92,836

	2017				2018		
Automotive OEM division [6] (in € millions)	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter
Revenue	2,308	2,220	2,138	2,325	2,279	2,308	2,191
EBIT	275	221	229	226	217	197	185
• in % of revenue	11.9	10.0	10.7	9.7	9.5	8.5	8.4
EBIT before special items [1]	275	208	229	261	217	207	172
• in % of revenue	11.9	9.4	10.7	11.2	9.5	9.0	7.9
Automotive Aftermarket division [6] (in € millions)							
Revenue	484	444	506	446	446	479	476
EBIT	93	68	117	55	80	96	83
• in % of revenue	19.2	15.3	23.1	12.3	17.9	20.0	17.4
EBIT before special items [1]	93	68	117	80	80	96	80
• in % of revenue	19.2	15.3	23.1	17.9	17.9	20.0	16.8
Industrial division [6] (in € millions)							
Revenue	782	808	790	770	826	855	854
EBIT	67	69	70	38	94	89	108
• in % of revenue	8.6	8.5	8.9	4.9	11.4	10.4	12.6
EBIT before special items [1]	67	69	70	47	94	101	103
• in % of revenue	8.6	8.5	8.9	6.1	11.4	11.8	12.1

[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.

Financial calendar

November 07, 2018

Publication of results for the first nine months 2018

March 06, 2019

Publication of annual results 2018

May 08, 2019

Publication of results for the first three months 2019

All information is subject to correction and
may be changed at short notice.

Imprint

Published by
Schaeffler AG, Industriestr. 1-3,
91074 Herzogenaurach, Germany

Responsible for content
Corporate Accounting, Schaeffler AG

Design and layout
Publicis Pixelpark, Erlangen

Printed by
Eberl Print GmbH, Immenstadt/Allgäu

Printed on FSC®-certified paper. By using FSC® paper we are actively supporting the preservation of our forests, promoting plant and wildlife protection, and are taking a stand against the exploitation of human beings in the forestry industry.

Date of publication
Wednesday, November 07, 2018

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You can find up-to-date news about Schaeffler on our website at www.schaeffler.com/ir. You can also download all documents from this site.

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Paper from responsible sources
FSC® C002727
www.fsc.org

carbon neutral
natureOffice.com | DE-141-716522
print production

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