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Business Breakfast: Russia
Practice Report Schaeffler

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Hamburg November 14, 2018

Schaeffler in global facts – Strong starting point

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Strong customer base with approx.
11,800
customers

Strong organic growth
5% p.a.
Ø Sales growth 2006-2017

Nearly
2,400
patents filed in 2017

72 plants
18 R&D centers

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Far more than
10,000
different products

More than 170 locations in **50** countries

1.1 m
tons of processed steel p.a.

High quality of results
11.3%
EBIT margin in 2017[1)]

More than
92,000
employees worldwide [2)]

[1)] Before one-off effects
[2)] As at June 30, 2018

Customer proximity – global plants and R&D centers

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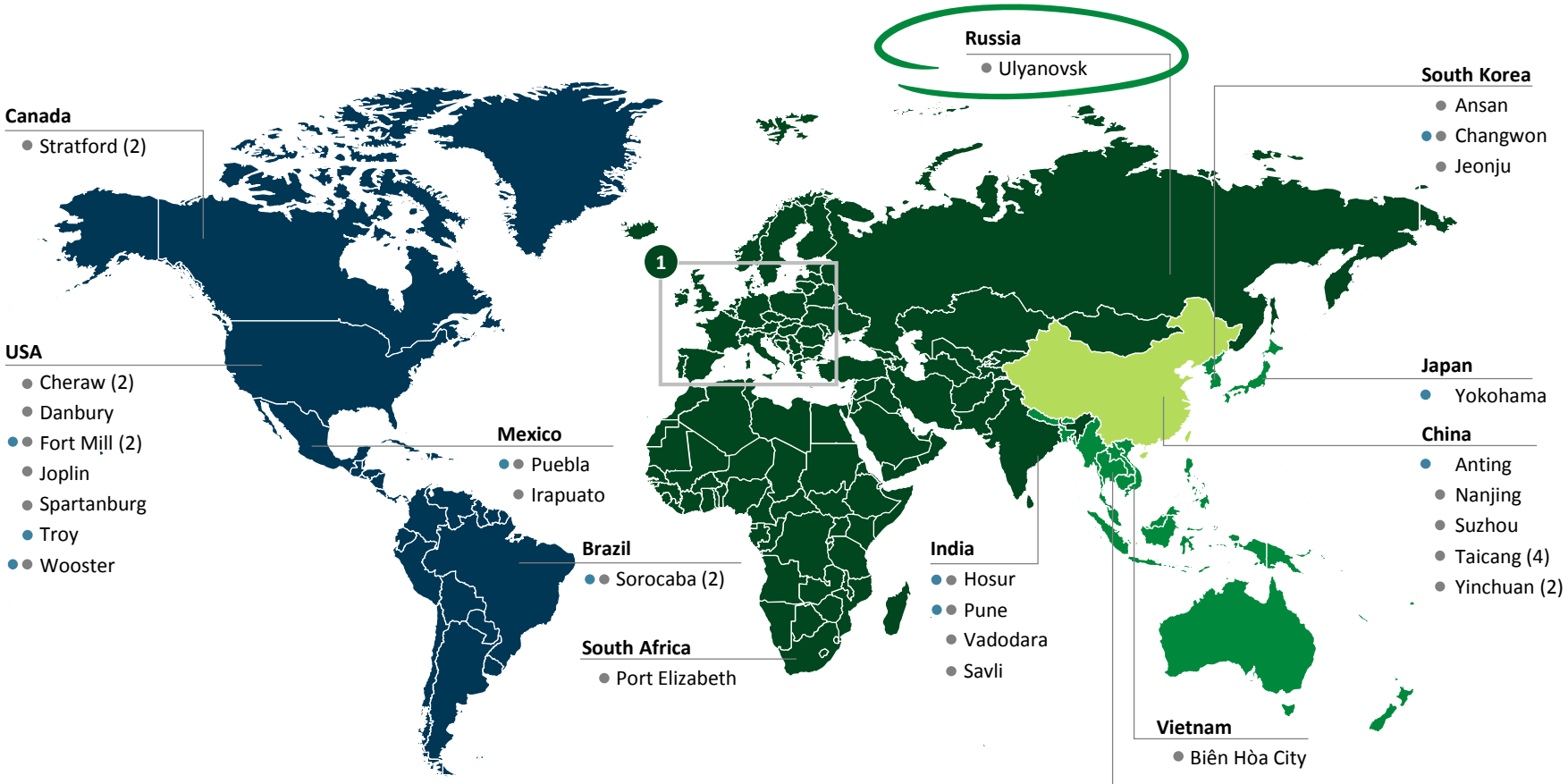

Regions [1]	Europe	Americas	Greater China	Asia/Pacific
R&D centers	10	5	1	2
Plants	45	14	8	5

[1] The regions represent the regional structure of the Schaeffler Group.

1 In Europe

Germany
- Bühl
- Eltmann
- Gunzenhausen
- Hamm/Sieg
- Herzogenaurach
- Hirschaid
- Höchstadt
- Homburg (3)
- Ingolstadt
- Kaltennordheim
- Lahr
- Luckenwalde
- Morbach
- Schweinfurt (2)
- Steinhagen
- Suhl
- Unna
- Wuppertal

Austria
- Berndorf-St. Veit

France
- Calais
- Chevilly
- Haguenau (2)

United Kingdom
- Llanelli
- Plymouth
- Sheffield

Italy
- Momo

Portugal
- Caldas da Rainha

Spain
- Elgoibar

Hungary
- Debrecen
- Szombathely

Romania
- Braşov

Slovakia
- Kysucké Nové Mesto
- Skalica

Czech Republic
- Lanškroun
- Svitavy

The development of the Schaeffler Group in Russia – Important milestones

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1992
Opening of the FAG Rep Office in Moscow

1996
Opening of the LuK Rep. Office in Moscow

2009
Sales in Roubles started

2014
Opening of the plant in Ulyanovsk

Local Footprint

- Moscow: Russland-Hub and warehouse
- Ulyanowsk: Production plant with over 100 employees.
- Rep. offices: St. Petersburg, Lipezk, Krasnodar, Togliatti, Kazan, Ekaterinburg, Nowosibirsk, Irkutsk
- **Over 200 employees in Russia**

Sankt-Petersburg
Moscow
Ekaterinburg
Kasan
Lipezk
Ulyanovsk
Togliatti
Novosibirsk
Irkutsk

1995
Opening of INA Rep. Office in Moscow

2006
Integration of LuK, INA, FAG as Schaeffler Russland

2013
Opening of the Schaeffler Warehouse in Moscow Area

2017
Opening of the new office of Schaeffler Russland in the House of German Economy

There is SCHAEFFLER inside! – reference projects in Russia

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Industrial Projects

Moscow Central Ring waggons

Siemens Desiro „Lastochka“

Bridge in St. Petersburg

Drilling rig „Arctica“

Automotive Projects

Project „Cortège“

Lada Vesta

Gazelle Next

Doing business in Russia: facts and overview

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Economic and political environment

- Russia's economy is growing moderately
- The US sanctions are influencing the economy and making it more difficult to finance new projects
- Although German-Russian trade rose by 20 percent in 2017
- German companies supply machinery and equipment and localize their production
- Ruble devaluation makes imports from more expensive

Automotive OEMs increase their production footprint in Russia

- Automobile production plant in Kaliningrad region
- Construction 2018-2021

- Automobile assembly plant near Moscow
- Investment $ 250 mn
- Construction until 2019

- Automobile production plant in Kaluga region
- Production since 2007

- Engine plant in St. Petersburg region
- Investment € 351 mn
- Construction will start 2018

Market trends

- **Automotive**: Strong vehicle production volume growth over last 2 years; Automotive OEMs increase their production footprint in Russia
- **E-Mobility**: Development of electric and hybrid vehicles is progressing
- **Localization**: Russian government is motivating companies to increase localization rate, creation of special economic zones
- **Digitalization/smart cities**: St. Petersburg is digitizing urban transport, energy supply, construction and administration. Siemens plays a leading role.
- **Wind**: State subsidized from 3.6 GW to 2024
- **Rail**: Increase production to 800 locomotives, 450 passenger and 42,000 freight cars
- **Eurasian Economic Union** forms industrial network
- **Russian governmental modernization program 2018-2024:** Investment of 83 bn EUR; 11 federal projects of modernization and reconstruction of infrastructure (rail, transport, sea ports, power and energy)

Example Russian Automotive industry: positive trends

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- The strategic goal is to **increase the local share of components** by 2025 70-75% for passenger cars and 75-85% for commercial vehicles. Above all, suppliers are looking for suppliers for the areas of engine, transmission and electronic components for vehicle architecture.
- Sales of new passenger cars and light commercial vehicles in Russia **increased by 12% in 2017** to 1,595,737 vehicles; production increased by 21% to 1,355,000. The market leader is the GAZ Group, ahead of UAZ and Volkswagen.
- Russia's car market is expected to **grow by 11%** to 1.64 million cars **in 2018**. Forecast: In 2022 2.22 million cars will be sold.
- **Volkswagen Group** increased car production in Russia 2017 by 14%
- **BMW** plans to build a factory for **CKD assembly** in the Kaliningrad area in 2018 and plans to invest to produce its 3 Series, 5 Series, 7 Series and X Series for the Russian market entirely locally with **local components**. In October 2017 BMW opened its largest Russian logistics center for spare parts in the Moscow region.
- **Daimler** is building a factory in the Moscow region for the production of off-road vehicles and sedans of the G and E class. Daimler is currently looking **for automotive parts suppliers**. From 2019, the first vehicles to roll off the line.
- **Hyundai Motor** plans to launch an engine plant in St. Petersburg in 2021.
- **AvtoVAZ**, part of Renault-Nissan-Mitsubishi Alliance has grown by 15% in 2017 – above the market; growth in the range of 15-20% is expected by AvtoVAZ again in 2018; **AvtoVAZ** plans to open a new plant in Kazakhstan by 2021
- **PSA Group** plans to build an engine plant in Kaluga

Key success in growing markets: technology. 3 Examples

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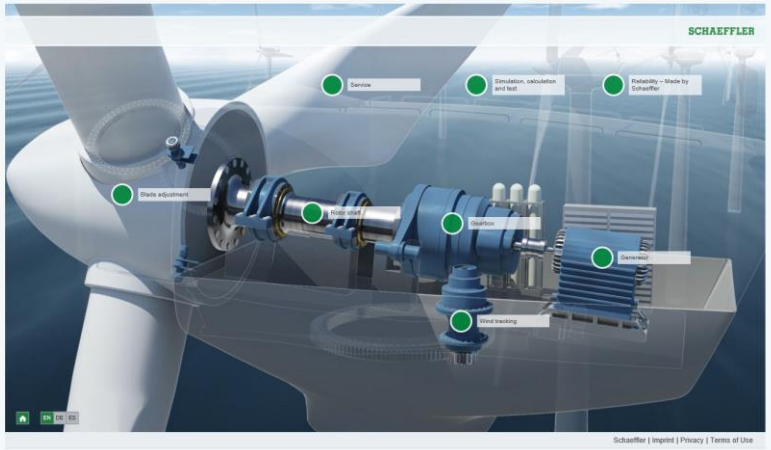
Schaeffler Mobility concepts and e-mobility

- Schaeffler Mover
- Schaeffler Bio Hybrid
- E-Mobility

- Link

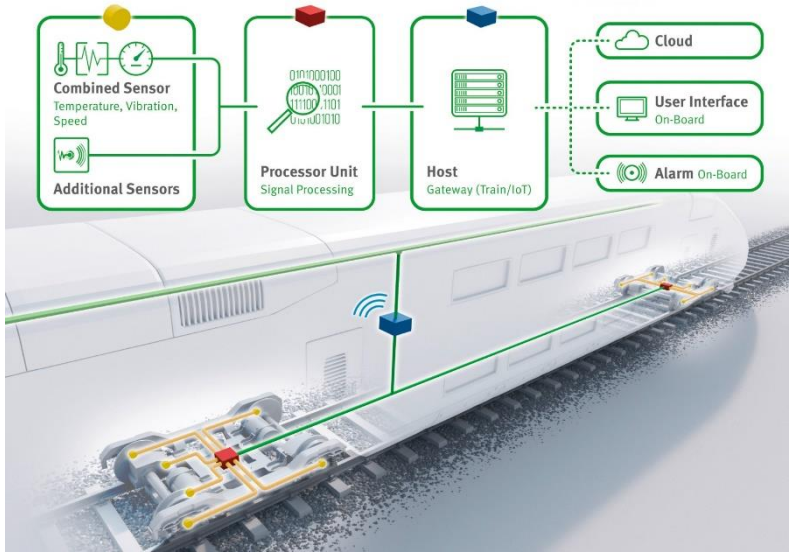
Windpower



Link

- New technology
- Service solution
- Condition monitoring

Railway digitalized condition monitoring



- Schaeffler supports its customers
- throughout all levels of digital value creation
- from the sensor to the cloud.

Doing business in Russia: key success factors

Cooperation with the Russian Goverment and public institutions

- Factory in Ulyanovsk opened in 2014, localization is the key
- Schaeffler produces clutches and shifting systems for the automotive industry and does reconditioning of the industrial bearings
- Excellent cooperation with the government of Ulyanovsk which is supporting Schaeffler by bringing in new projects to Ulyanovsk, incl. subsidies, infrastructure, lobbying at federal level
- Industrial assembly agreement with the Ministry of Economy to support Schaeffler (local content) 2017/2018
- Signing of a roadmap together with the German-Russian Chamber of Commerce and the Agency for the Promotion of Small and Medium-sized Enterprises at the St. Petersburg Economic Forum
- Schaeffler brought in 2018 as the co-initiator of “Potsdamer Begegnungen” together 60 high-ranking representatives from the fields of business, politics, science, and culture in Berlin
- Memorandum of Understanding with Russian Direct Investment Fund signed in October 2018